

**BEXAR COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 10**

Windcrest, Texas

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015



BAKER TILLY

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ANNUAL FINANCIAL REPORT
OF THE
BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

For the Years Ended December 31, 2016 and 2015

President	Dan Reese
Vice-President	John Fagin
Treasurer	Ronnie Merriman
Secretary	Eugenia Snead
Director	Sue Alexander
General Manager	David Wallace

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Bexar County Water Control and Improvement District No. 10, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Bexar County Water Control and Improvement District No. 10'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.

Auditors' Responsibility

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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Bexar County Water Control and Improvement District No. 10'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 Bexar County Water Control and Improvement District No. 10'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 statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bexar County Water Control and Improvement District No. 10 as of December 31, 2016, 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.

To the Board of Directors
Bexar County Water Control and Improvement District No. 10

Prior Period Financial Statements

The financial statements of Bexar County Water Control and Improvement District No. 10 as of December 31, 2015 were audited by other auditors whose report dated April 21, 2016, expressed an unmodified opinion on those statements which included an emphasis-of-matter paragraph describing the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective January 1, 2015.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 36 and 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information included on pages 33, 34, 35, 38, 39 and 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

To the Board of Directors
Bexar County Water Control and Improvement District No. 10

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated April 28, 2017, on our consideration of the 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* in considering the Bexar County Water Control and Improvement District No. 10's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Austin, Texas
April 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015

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, 2016 and 2015. 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 in 2012. 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 System by the TCEQ in 2011. 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 receive the recognition from our peers.

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 position and in the statement of revenues, expenses, and changes in net position.

The statement of net position presents all of the District's assets, deferred outflows, liabilities and deferred inflows, with the difference being reported as net position. Over time, increases or decreases in net position 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 position reports how the District's net position changed during the most recent calendar year. All changes in net position 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.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015

FINANCIAL HIGHLIGHTS

2016

- > The assets and deferred outflows of resources of the District exceed its liabilities and deferred inflows of resources by \$8,084,198 (net position) for the fiscal year reported. This is a decrease of \$336,447 from the prior year.
- > Total net position is comprised of the following:
 1. Net investment in capital assets in the amount of \$6,992,301 includes all property and equipment owned by the District, net of accumulated depreciation.
 2. Unrestricted net position of \$1,091,897 represents the portion available to fund the District's operations.
- > Operating revenues decreased by \$8,242, a decrease of (0.4%) from calendar year 2015. Revenue was lower due to the extended drought the region was experiencing as well as critical period rates discouraging customers to use high volumes.
- > Operating expenses increased by \$355,024 an increase of 17.5% from calendar year 2015. The bulk of this increase was due to personnel costs and benefits incurred by the District.

2015

- > The assets and deferred outflows of resources of the District exceed its liabilities and deferred inflows of resources by \$8,420,645 (net position) for the fiscal year reported. This is an increase of \$27,796 before the restatement of beginning net position, in comparison to the prior year.
- > Governmental Accounting Standards Board Statement (GASB) No. 68 *"Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27,"* went into effect for the 2015 fiscal year. The major effects of the implementation are as follows:
 1. An increase of net position of \$3,495 as a prior period restatement, reflecting the effect of the new standard to the District's December 31, 2015 net position;
 2. An increase to noncurrent liabilities of \$12,062 to record the net pension liability;
 3. An increase to deferred outflows of resources of \$34,025; and
 4. A decrease to pension expense of \$18,468.
- > Total net position is comprised of the following:
 1. Net investment in capital assets in the amount of \$6,512,148 includes all property and equipment owned by the District, net of accumulated depreciation.
 2. Unrestricted net position of \$1,908,497 represents the portion available to fund the District's operations.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

FINANCIAL HIGHLIGHTS (cont.)

2015 (cont.)

- > Operating revenues decreased by \$34,282, a decrease of (1.65%) from calendar year 2014. Revenue was lower due to the extended drought the region was experiencing as well as critical period rates discouraging customers to use high volumes.
- > Operating expenses increased by \$170,310 an increase of 9.18% from calendar year 2014. The bulk of this increase was due to professional fees and personnel costs incurred by the District.

FINANCIAL ANALYSIS

The District's net position at calendar year end is \$8,084,198. This is a \$336,447 decrease over last year's net position of \$8,420,645. The following table provides a summary of the District's net position at December 31, 2016:

Summary of Net Position

	Business-type Activities			2016-2015 Amount Change	Percent Change
	2016	2015	2014		
Current and Other Assets	\$ 1,574,064	\$ 2,051,537	\$ 1,994,913	\$ (477,473)	(23.27)%
Capital Assets	6,992,301	6,512,148	6,568,419	480,153	7.37
Total Assets	<u>8,566,365</u>	<u>8,563,685</u>	<u>8,563,332</u>	<u>2,680</u>	0.03
Deferred Outflows of Resources	69,704	34,025	-	35,679	104.86
Current Liabilities	199,303	156,325	162,949	42,978	27.49
Noncurrent Liabilities	30,848	20,740	11,030	10,108	48.74
Total Liabilities	<u>230,151</u>	<u>177,065</u>	<u>173,979</u>	<u>53,086</u>	29.98
Deferred Inflows of Resources	321,720	-	-	321,720	100
Net Position					
Net Investment in Capital Assets	6,992,301	6,512,148	6,568,419	480,153	7.37
Unrestricted	<u>1,091,897</u>	<u>1,908,497</u>	<u>1,820,935</u>	<u>(816,600)</u>	(42.79)
Total Net Position	<u>\$ 8,084,198</u>	<u>\$ 8,420,645</u>	<u>\$ 8,389,354</u>	<u>\$ (336,447)</u>	(4.00)%

See accompanying independent auditors' report.

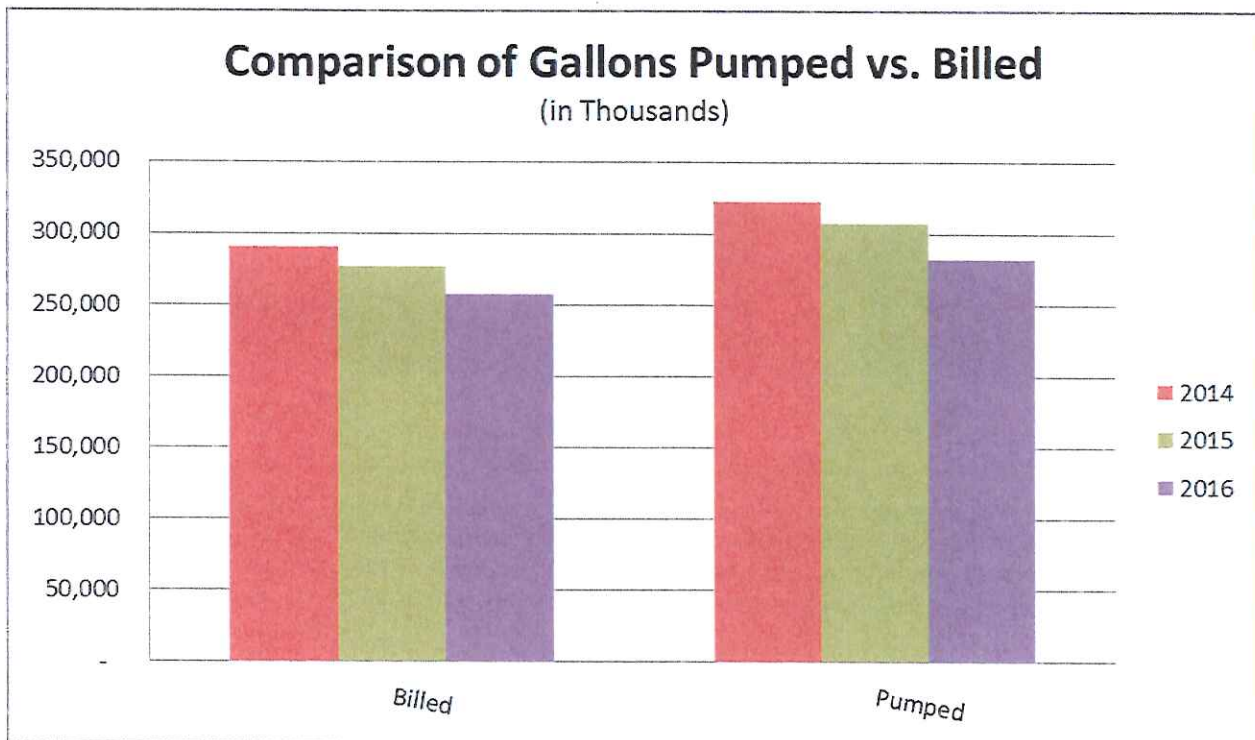
BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015

FINANCIAL ANALYSIS (cont.)

2016 saw above average rainfall, which lifted the drought. The aquifer rose from 667 feet at the end of 2015 to 685 at the end of 2016. This resulted in a decrease in water consumption resulting in lower revenues than expected.

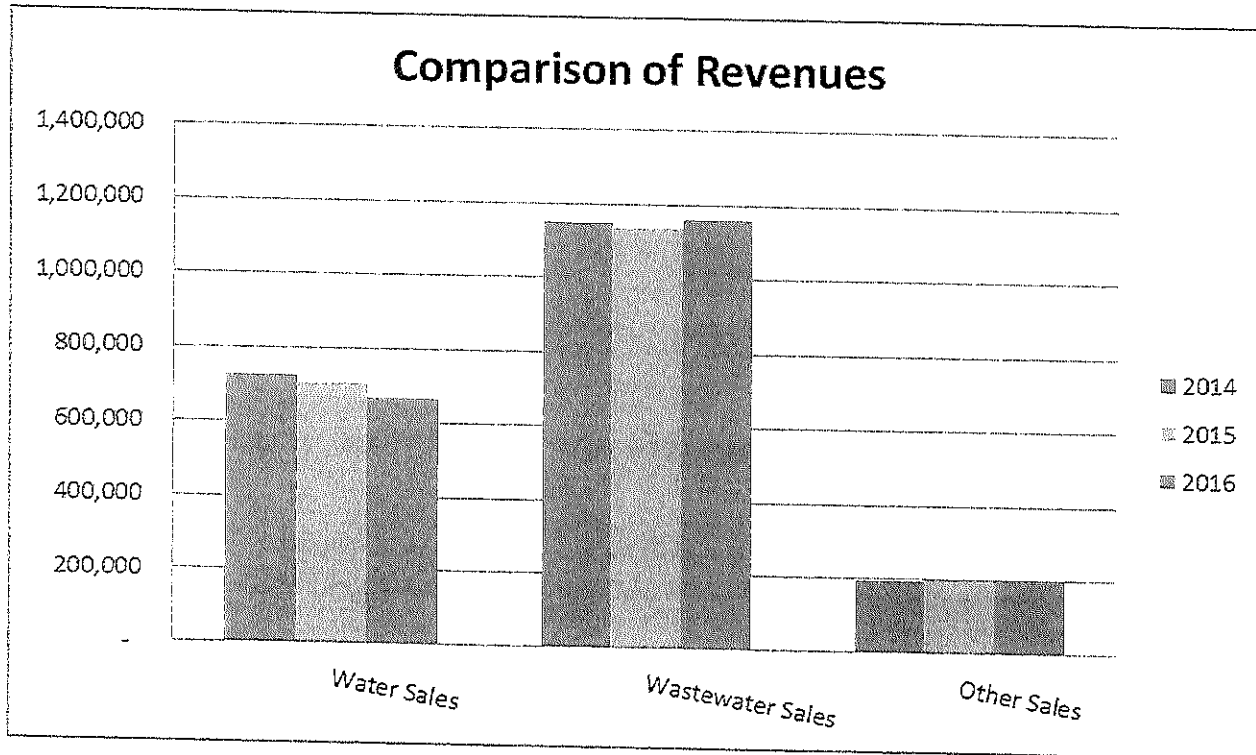
2015 marked the fifth year of a drought that began in 2011. Although the region had near average rainfall in 2015, it was concentrated in a few heavy events followed by long dry spells. Recharge to the Edwards Aquifer and runoff into the area's rivers, lakes and streams was minimal, at best. The Aquifer fell to Stage II levels before recovering to normal levels for one (1) month.



BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2016 and 2015

FINANCIAL ANALYSIS (cont.)



Although revenues fell short of budget in 2016, the District's rate structure ensures that its financial objectives are achieved. With only modest rate adjustments the District will be able to meet its objectives of creating enough revenue to ensure day-to-day operations are adequately funded, charge premium rates high enough to discourage waste, and generate enough revenue to meet its long term strategic objectives

While on the subject of rates, it should be noted that annual rate adjustments, while unpopular, should be recognized as a necessary evil. The cost of providing service is on the rise on all fronts. Personnel costs grow with seniority of staff (cost of living, longevity, promotions, insurance, etc), equipment cost (purchase and maintenance) go up, regulatory expenses creep up, utility costs go up because of their increased cost of doing business. The list is endless. In some areas such as fuel and metals, the changes can be explosive. Failing to systematically pursue rate increases usually results in financial uncertainty for the entity with the result it has to impose a large, and consequently very unpopular, rate increase. Or succumb to rate payer pressure to reduce the increase, thereby worsening the financial problem. It has been and remains this District's policy to pass along rate increases as expenses rise. However, not all is doom and gloom; the customers of this District still enjoy the lowest rates in the region and are only about one-half what its nearest competitor, the San Antonio Water System, charges. The Edwards Aquifer Authority (EAA) Fees were adjusted to meet requirements.

Investment returns in 2016 and 2015 were low. The weighted return was low on the District's \$1.25 million invested in certificates of deposit in 2015 so the District reduced their investments to \$517,127 in 2016. The only redeeming factor was that inflation remained low 1.3% for the year. The District's options are limited by the State's public investment rules.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015

FINANCIAL ANALYSIS (cont.)

Summary of Changes in Net Position

	Business-type Activities			2016-2015 Amount Change	Percent Change
	2016	2015	2014		
Revenues					
Charges for services	\$ 2,029,639	\$ 2,037,881	\$ 2,072,163	\$ (8,242)	(0.40)%
Expenses					
Operating expenses	2,380,210	2,025,186	1,854,876	355,024	17.53
Other Revenues (Expenses)					
Investment income	14,124	15,101	16,324	(977)	(6.47)
Change in Net Position	(336,447)	27,796	233,611	(364,243)	(1,310)
Beginning Net Position	8,420,645	8,389,354	8,155,743	31,291	0.37
Restatement of Net Position	-	3,495	-	(3,495)	(100)
Beginning Net Position, as Restated	8,420,645	8,392,849	8,155,743	27,796	0.33
ENDING NET POSITION	\$ 8,084,198	\$ 8,420,645	\$ 8,389,354	\$ (336,447)	(4.00)%

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

2016

For the calendar year ended December 31, 2016, the District has an overall positive fund balance of \$8,084,198. Of this year-end total \$1,091,897 is unrestricted, indicating availability for continuing service requirements. This year's increase in decrease net position was \$336,447.

2015

For the calendar year ended December 31, 2015, the District has an overall positive fund balance of \$8,420,645. Of this year-end total \$1,908,497 is unrestricted, indicating availability for continuing service requirements. This year's increase in overall net position was \$31,291.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015

CAPITAL ASSETS

2016

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2016, was \$6,992,301. The total increase in this net investment was 7.37%. See Note 3 (on Pages 19-20) for additional information about changes in capital assets during the calendar year.

In 2016, the Board authorized the purchase of new property for District offices. Large commercial meters were replaced through the Board approved project. The District's continued the infrastructure replacement project into 2016. The project included replacing 2,775 feet of water main including 3 new connections, numerous fire hydrants and valves. Essentially all infrastructure replacement was completed by the end of the year and only cleanup and demobilization remained. While all bills were not paid at the end of the year, the cost of the project will be nearly \$640,000 when completed.

2015

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2015, was \$6,512,148. The total decrease in this net investment was 0.86%. See Note 3 (on Pages 19-20) for additional information about changes in capital assets during the calendar year.

In 2015, the Board approved an infrastructure project to rehabilitate 4,325 feet of water mains and 5,326 feet of wastewater mains in the central area of the District. The project included replacing 160 water and wastewater connection, numerous fire hydrants and valves and included four street crossings. Essentially all infrastructure replacement was completed by the end of the year and only cleanup and demobilization remained. While all bills were not paid at the end of the year, the cost of the project will be nearly \$800,000 when completed.

Capital Assets Net of Accumulated Depreciation

	Business-type Activities			2016-2015 Amount Change	Percent Change
	2016	2015	2014		
Non-depreciable assets					
Land	\$ 227,565	\$ 227,565	\$ 227,565	\$ -	0%
Water rights	2,091,790	2,091,790	2,091,790	-	0
Construction in progress	-	-	619,874	-	0
Depreciable Assets (Net)					
Gathering and distribution systems	4,556,752	4,148,147	3,558,229	408,605	9.85
Equipment	116,194	44,646	70,961	71,548	160.25
Totals	<u>\$ 6,992,301</u>	<u>\$ 6,512,148</u>	<u>\$ 6,568,419</u>	<u>\$ 480,153</u>	7.37%

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015

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 \$5.47 million on system upgrades and acquisitions. In 2013/2014 alone, we spent \$1.32 million on capital additions and improvements. Our Capital Improvement Plan calls for us to continue dedicating at least \$300,000 per year to those efforts. 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, TX 78239 or call 210 655 2888.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

STATEMENTS OF NET POSITION - WATER AND WASTEWATER
 PROPRIETARY FUND

As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 832,515	\$ 588,187
Investments	517,127	1,257,368
Accounts receivable	162,285	150,649
Inventory	29,400	21,602
Cash and cash equivalents - restricted assets	<u>32,737</u>	<u>33,731</u>
Total Current Assets	<u>1,574,064</u>	<u>2,051,537</u>
NONCURRENT ASSETS		
Capital Assets		
Land	227,565	227,565
Water rights	2,091,790	2,091,790
Gathering and distribution systems	10,092,848	9,454,528
Equipment	358,639	271,801
Less: Accumulated depreciation	<u>(5,778,541)</u>	<u>(5,533,536)</u>
Total Noncurrent Assets	<u>6,992,301</u>	<u>6,512,148</u>
Total Assets	<u>8,566,365</u>	<u>8,563,685</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - TCDRS	<u>69,704</u>	<u>34,025</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	144,188	85,464
Accrued compensated absences	-	2,893
Accrued expenses	<u>22,378</u>	<u>34,237</u>
Total Current Liabilities	<u>166,566</u>	<u>122,594</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	<u>32,737</u>	<u>33,731</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	15,277	8,678
Net pension liability	<u>15,571</u>	<u>12,062</u>
Total Noncurrent Liabilities	<u>30,848</u>	<u>20,740</u>
Total Liabilities	<u>230,151</u>	<u>177,065</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - TCDRS	<u>321,720</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	6,992,301	6,512,148
Unrestricted	<u>1,091,897</u>	<u>1,908,497</u>
TOTAL NET POSITION	<u>\$ 8,084,198</u>	<u>\$ 8,420,645</u>

See accompanying notes to financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION WATER AND WASTEWATER - PROPRIETARY FUND For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Charges for Services		
Water sales	\$ 667,621	\$ 704,726
Wastewater services	1,159,556	1,134,508
Other fees and assessments	<u>202,462</u>	<u>198,647</u>
Total Operating Revenues	<u>2,029,639</u>	<u>2,037,881</u>
OPERATING EXPENSES		
Personnel and benefits	766,088	383,117
Professional fees	189,150	252,921
Contractual services	132,209	132,492
Wastewater services	716,873	677,846
Repairs and maintenance	130,465	129,467
Utilities	68,371	74,072
Other supplies and expenses	115,329	135,324
Depreciation	<u>261,725</u>	<u>239,947</u>
Total Operating Expenses	<u>2,380,210</u>	<u>2,025,186</u>
Operating Income (Loss)	(350,571)	12,695
NONOPERATING REVENUES		
Interest income	<u>14,124</u>	<u>15,101</u>
Change in Net Position	<u>(336,447)</u>	<u>27,796</u>
NET POSITION - Beginning of Year	8,420,645	8,389,354
Restatement of net position	<u>-</u>	<u>3,495</u>
NET POSITION - Beginning of Year, as Restated	<u>8,420,645</u>	<u>8,392,849</u>
NET POSITION - END OF YEAR	<u>\$ 8,084,198</u>	<u>\$ 8,420,645</u>

See accompanying notes to financial statements.

**BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10
STATEMENTS OF NET POSITION - WATER AND WASTEWATER**

STATEMENTS OF CASH FLOWS - WATER AND WASTEWATER
PROPRIETARY FUND

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 2,002,639	\$ 2,041,566
Paid for personnel services	(480,349)	(435,928)
Paid to suppliers for goods and services	<u>(1,324,967)</u>	<u>(1,378,216)</u>
Net Cash Flows From Operating Activities	<u>197,323</u>	<u>227,422</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(708,355)</u>	<u>(183,676)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	14,124	15,101
Purchase of investments	(105,649)	(10,766)
Sale of investments	<u>845,891</u>	<u>-</u>
Net Cash Flows From Capital and Related Financing Activities	<u>754,366</u>	<u>4,335</u>
Net Change in Cash and Cash Equivalents	243,334	48,081
CASH AND CASH EQUIVALENTS -- Beginning of Year	<u>621,918</u>	<u>573,837</u>
CASH AND CASH EQUIVALENTS -- END OF YEAR	<u>\$ 865,252</u>	<u>\$ 621,918</u>
Cash and cash equivalents	\$ 832,515	\$ 588,187
Cash and cash equivalents - restricted	<u>32,737</u>	<u>33,731</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 865,252</u>	<u>\$ 621,918</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (350,571)	\$ 12,695
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities		
Depreciation	261,725	239,947
Changes to Assets and Liabilities		
Accounts receivable	(11,636)	791
Inventory	(7,798)	1,432
Accounts payable	25,200	22,474
Customer deposits	(994)	2,894
Accrued expenses	(14,752)	(31,207)
Accrued compensated absences	6,599	(3,136)
Net pension liability - TCDRS	<u>289,550</u>	<u>(18,468)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 197,323</u>	<u>\$ 227,422</u>

See accompanying notes to financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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 49 of the Texas Water Code.

The creation of the District was confirmed by the electorate of the District 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 financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the District are described below.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements of the District are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, in June 2012 and November 2013, respectively. These statements establish accounting and financial reporting standards for the accounting and reporting to the District's cost-sharing multiple employer pension plan. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employer*. The District adopted these statements effective January 1, 2015. The cumulative impact of implementation is shown in Note 6.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

For purposes of the statement of cash flows, cash, and cash equivalents have original maturities of three months or less from the date of acquisition.

The District may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas (the Act). 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.

The District has adopted an investment policy. That policy follows the state statute for allowable investments. For the years ended December 31, 2016 and 2015, the District invested strictly in certificates of deposit and investment pools. The Investment pool is recorded at amortized cost without any limitations or restrictions on withdrawals.

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.

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.

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.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Capital Assets (cont.)

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 acquisition 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.

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

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Accrued Expenses

Accrued expenses consists of accrued assessments and benefit related liabilities.

Customer Deposits

This account represents amounts received from new or delinquent customers. Deposits are refunded to the customer or credited to the customer's account after 12 months of good payment history or upon termination of services. The District does not pay interest on deposits. The corresponding cash is shown as restricted for customer deposits.

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.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Pension Plan

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

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

REVENUES AND EXPENSES

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the districts are charges for water and wastewater services. Operating expenses for the District 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.

Charges for Services

Billings are rendered and recorded monthly based on metered usage. The District does not accrue revenues beyond billing dates.

Current water rates were approved by the board effective November 19, 2015.

Current wastewater rates were approved by the board effective January 1, 2016.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73* Statement No. 83, *Certain Asset Retirement Obligations* and Statement No. 84, *Fiduciary Activities*. When they become effective, application of these standards may restate portions of these financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 – CASH AND INVESTMENTS

	Carrying Value		Risks
	2016	2015	
Checking and Savings	\$ 375,872	\$ 621,918	Custodial credit
TexPool Investment Pool	289,380	288,342	Credit
Certificates of Deposit	717,127	969,026	Custodial credit
Totals	<u>\$ 1,382,379</u>	<u>\$ 1,879,286</u>	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Deposits in credit unions are insured by the National Credit Union Administration in the amount of \$250,000 for all share draft accounts and \$250,000 for all share certificate and regular share accounts as of December 31, 2016 and 2015.

CUSTODIAL CREDIT RISK

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.

The District's amount of bank balance as of December 31, 2016 and 2015 was \$452,769 and \$686,563, respectively. In addition, the utility has collateral or depository insurance agreements in the amount of \$938,719 \$974,720 at December 31, 2016 and 2015. No amounts were exposed to custodial credit as of December 31, 2016 and 2015.

CREDIT RISK

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, 2016 and 2015, the District's pooled investments were rated "AAA" by Standard and Poor's.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 – CAPITAL ASSETS

A summary of capital assets at December 31, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land and easements	\$ 227,565	\$ -	\$ -	\$ 227,565
Construction in progress	-	741,877	(741,877)	-
Water rights	2,091,790	-	-	2,091,790
Total Capital Assets, Not Being Depreciated	<u>2,319,355</u>	<u>741,877</u>	<u>(741,877)</u>	<u>2,319,355</u>
Capital assets being depreciated				
Gathering and distribution systems	9,454,528	638,320	-	10,092,848
Equipment	271,801	103,557	(16,719)	358,639
Total Capital Assets Being Depreciated	<u>9,726,329</u>	<u>741,877</u>	<u>(16,719)</u>	<u>10,451,487</u>
Less: Accumulated Depreciation for				
Gathering and distribution systems	(5,306,381)	(229,715)	-	(5,536,096)
Equipment	(227,155)	(32,009)	16,719	(242,445)
Total Accumulated Depreciation	<u>(5,533,536)</u>	<u>(261,724)</u>	<u>16,719</u>	<u>(5,778,541)</u>
Net Capital Assets Being Depreciated	<u>4,192,793</u>	<u>480,153</u>	<u>-</u>	<u>4,672,946</u>
Net Capital Assets	<u>\$ 6,512,148</u>	<u>\$ 1,222,030</u>	<u>\$ (741,877)</u>	<u>\$ 6,992,301</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 – CAPITAL ASSETS (cont.)

A summary of capital assets at December 31, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land and easements	\$ 227,565	\$ -	\$ -	\$ 227,565
Construction in progress	619,874	170,784	(790,658)	-
Water rights	2,091,790	-	-	2,091,790
Total Capital Assets, Not Being Depreciated	<u>2,939,229</u>	<u>170,784</u>	<u>(790,658)</u>	<u>2,319,355</u>
Capital assets being depreciated				
Gathering and distribution systems	8,650,978	803,550	-	9,454,528
Equipment	271,801	-	-	271,801
Total Capital Assets Being Depreciated	<u>8,922,779</u>	<u>803,550</u>	<u>-</u>	<u>9,726,329</u>
Less: Accumulated Depreciation for				
Gathering and distribution systems	(5,092,749)	(213,632)	-	(5,306,381)
Equipment	(200,840)	(26,315)	-	(227,155)
Total Accumulated Depreciation	<u>(5,293,589)</u>	<u>(239,947)</u>	<u>-</u>	<u>(5,533,536)</u>
Net Capital Assets Being Depreciated	<u>3,629,190</u>	<u>563,603</u>	<u>-</u>	<u>4,192,793</u>
Net Capital Assets	<u>\$ 6,568,419</u>	<u>\$ 734,387</u>	<u>\$ (790,658)</u>	<u>\$ 6,512,148</u>

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM

PLAN DESCRIPTION

The District 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 656 nontraditional defined benefit pension plans. TCDRS in aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent comprehensive annual financial report for TCDRS can be found at the following link, www.tcdrs.org.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

BENEFITS PROVIDED

All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The plan provides retirement, disability and survivor benefits. TCDRS is a savings-based plan. For the District's plan, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 100%) and is then converted to an annuity. There are no automatic COLAs. Each year, the District may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.

Employees Covered by Benefit Terms

At the valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/14</u>	<u>12/31/15</u>
Inactive employees or beneficiaries currently receiving benefits	6	4
Inactive employees entitled to but not yet receiving benefits	1	1
Active employees	<u>7</u>	<u>7</u>
Total	<u><u>14</u></u>	<u><u>12</u></u>

CONTRIBUTIONS

The contributions rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employees gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. 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.

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 contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The District contributed using the actuarially determined rate of 7.0% and 7.7% for the 2016 and 2015 calendar year, respectively. The employee contribution rates are set by the District and are 7% for 2016 and 2015.

NET PENSION LIABILITY

The District's Net Pension Liability (NPL) was measured as of December 31, 2015 and 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The December 31, 2015 actuarial valuation is the most recent valuation.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (cont.)

Actuarial Valuation Information

The Total Pension Liability in the December 31, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Valuation Dates:	December 31, 2015 and 2014
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percentage of Payroll, Closed
Amortization Period:	9.5 Years
Asset Valuation Method:	5 Year Smoothed Value
Actuarial Assumptions:	
Investment Return* (includes administrative expenses)	8.1%
Projected Salary Increase*	4.9
Inflation	3.0
Cost-of-Living Adjustments	0.0

* Includes inflation at the stated rate.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee. Mortality rates for active members were based on gender-distinct RP2000 Active Employee Mortality Table with a projection scale AA, a two year set-forward for males, and a four-year set-back for females. Mortality rates for retirees, beneficiaries, and non-active members were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with the projection scale AA, with a one year set-forward for males and no age adjustment for females. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with the projection scale AA, no age adjustment for males, and a two year set-forward for females.

The long-term expected rate of return on pension plan investments is 8.1%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS's investment consultants and are based on January 2016 information for a 7-10 year time horizon.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (cont.)

Actuarial Valuation Information (cont.)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return (Expected Minus Inflation)</u>
U.S. Equities	14.5%	5.45%
Private Equity	14.0%	8.45%
Global Equities	1.5%	5.75%
International Equities – Developed	10.0%	5.45%
International Equities – Emerging	8.0%	6.45%
Investment-Grade Bonds	3.0%	1.00%
High-Yield Bonds	3.0%	5.10%
Opportunistic Credit	2.0%	5.09%
Direct Lending	5.0%	6.40%
Distressed Debt	3.0%	8.10%
REIT Equities	3.0%	4.00%
Master Limited Partnerships (MLPs)	3.0%	6.80%
Private Real Estate Partnerships	5.0%	6.90%
Hedge Funds	25.0%	5.25%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (cont.)

Changes in the Net Pension Liability

	<u>Total Pension Liability (a)</u>	<u>Increase (Decrease) Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
Balance at December 31, 2014	\$ 944,383	\$ 932,321	\$ 12,062
Changes for the year:			
Service cost	30,781	-	30,781
Interest on total pension liability	72,720	-	72,720
Effect of plan changes	(6,513)	-	(6,513)
Effect of economic/demographic gains or losses	(375,340)	-	(375,340)
Effect of assumptions changes or inputs	4,411	-	4,411
Refund of contributions	(9,170)	(9,170)	-
Benefit payments	(114,574)	(114,574)	-
Administrative expense	-	(519)	519
Member contributions	-	21,751	(21,751)
Net investment income	-	18,197	(18,197)
Employer contributions	-	23,915	(23,915)
Other	-	(340,794)	340,794
Net Changes	<u>(397,685)</u>	<u>(401,194)</u>	<u>3,509</u>
Balance at December 31, 2015	<u>\$ 546,698</u>	<u>\$ 531,127</u>	<u>\$ 15,571</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (cont.)

Changes in the Net Pension Liability (cont.)

	<u>Total Pension Liability</u> (a)	<u>Increase (Decrease) Plan Fiduciary Net Position</u> (b)	<u>Net Pension Liability</u> (a) – (b)
Balance at December 31, 2013	\$ 947,494	\$ 928,944	\$ 18,550
Changes for the year:			
Service cost	29,315	-	29,315
Interest on total pension liability	73,641	-	73,641
Effect of economic/demographic gains or losses	1,464	-	1,464
Refund of contributions	(17,639)	(17,639)	-
Benefit payments	(89,892)	(89,892)	-
Administrative expense	-	(716)	716
Member contributions	-	19,759	(19,759)
Net investment income	-	62,536	(62,536)
Employer contributions	-	22,045	(22,045)
Other	-	7,284	(7,284)
Net Changes	<u>(3,111)</u>	<u>3,377</u>	<u>(6,488)</u>
Balance at December 31, 2014	<u>\$ 944,383</u>	<u>\$ 932,321</u>	<u>\$ 12,062</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the District, calculated using the discount rate of 8.1%, as well as what the District’s net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	<u>1% Decrease in Discount Rate</u> (7.1%)	<u>Discount Rate</u> (8.1%)	<u>1% Increase in Discount Rate</u> (9.1%)
December 31, 2015			
Total pension liability	\$ 624,458	\$ 546,698	\$ 482,410
Fiduciary net position	<u>531,127</u>	<u>531,127</u>	<u>531,127</u>
District’s Net Pension Liability (Asset)	<u>\$ 93,331</u>	<u>\$ 15,571</u>	<u>\$ (48,717)</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (cont.)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate (cont.)

December 31, 2014	1% Decrease in Discount Rate <u>(7.1%)</u>	Discount Rate <u>(8.1%)</u>	1% Increase in Discount Rate <u>(9.1%)</u>
Total pension liability	\$ 1,049,370	\$ 944,383	\$ 857,165
Fiduciary net position	<u>932,321</u>	<u>932,321</u>	<u>932,321</u>
District’s Net Pension Liability (Asset)	<u>\$ 117,049</u>	<u>\$ 12,062</u>	<u>\$ (75,156)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.org.

PENSION EXPENSE

For the years ended December 31, 2016 and 2015, the District recognized pension expense of \$314,873 and \$5,477, respectively.

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO PENSIONS

At December 31, 2016, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 321,720	\$ 976
Changes in actuarial assumptions	-	3,781
Differences between projected and actual investment earnings	-	39,594
Contributions subsequent to the measurement date	<u>-</u>	<u>25,353</u>
Totals	<u>\$ 321,720</u>	<u>\$ 69,704</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO PENSIONS (cont.)

At December 31, 2015, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 1,220
Differences between projected and actual investment earnings	8,860
Contributions subsequent to the measurement date	<u>23,945</u>
Totals	<u>\$ 34,025</u>

The following table presents the future amortization of deferred outflows and deferred inflows of resources, excluding the balance attributable to the employer’s contribution to the plan in the current calendar year and subsequent to the net pension liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of the calendar year are recognized fully as adjustments to the net pension liability in the subsequent calendar year.

Year Ended December 31,	
2016	\$ (42,294)
2017	(42,294)
2018	(42,294)
2019	(44,509)
2020	(52,989)
Thereafter	<u>(52,989)</u>
Total	<u>\$ (277,369)</u>

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. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 – RESTATEMENT OF NET POSITION

During the fiscal year 2015, the District adopted GASB issued Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. With the adoptions of this standard, the District is required to recognize their specific pension amounts, which include net pension liability (NPL), deferred outflows of resources, and pension expense. Adoption of GASB Statement No. 68 required a prior period adjustment of \$3,495. The restated net position for the District is \$8,392,849 for the year ended December 31, 2014.

NOTE 7 – SUBSEQUENT EVENTS

The District evaluated subsequent events through April 28, 2017, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

RATE ADJUSTMENT

The District increased Wastewater rates effective January 19, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS LAST TEN YEARS * (UNAUDITED)

	2015	2014
TOTAL PENSION LIABILITY		
Service cost	\$ 30,781	\$ 29,315
Interest on the total pension liability	72,720	73,641
Effect of plan changes	(6,513)	-
Effect of assumption changes	4,411	-
Effect of economic/demographic (gains) or losses	(375,340)	1,464
Benefit payments/refunds of contributions	(123,744)	(107,531)
Net Change in Total Pension Liability	(397,685)	(3,111)
TOTAL PENSION LIABILITY - Beginning	944,383	947,494
TOTAL PENSION LIABILITY - ENDING (a)	\$ 546,698	\$ 944,383
FIDUCIARY NET POSITION		
Employer contributions	\$ 23,915	\$ 22,045
Member contributions	21,751	19,759
Investment income, net of investment expenses	18,197	62,536
Benefit payments/refunds of contributions	(123,744)	(107,531)
Administrative expense	(519)	(716)
Other	(340,794)	7,284
Net Change in Plan Fiduciary Net Position	(401,194)	3,377
PLAN FIDUCIARY NET POSITION - Beginning	932,321	928,944
PLAN FIDUCIARY NET POSITION - ENDING (b)	\$ 531,127	\$ 932,321
NET PENSION LIABILITY (a) - (b)	\$ 15,571	\$ 12,062
PLAN FIDUCIARY NET PENSION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	97.15%	98.72%
COVERED EMPLOYEE PAYROLL	\$ 310,729	\$ 282,271
NET PENSION LIABILITY AS A PERCENTAGE OF TOTAL COVERED EMPLOYEE PAYROLL	5.01%	4.27%

* GASB Statement No. 68 requires 10 years of data to be provided in this schedule. This is the second year of implementation of GASB Statement No. 68. The District will develop and present this schedule prospectively.

See accompanying notes to the required supplementary information.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

SCHEDULE OF EMPLOYER CONTRIBUTIONS LAST TEN FISCAL YEARS* (UNAUDITED)

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2016	\$ 25,353	\$ 25,353	\$ -	\$ 363,109	7.0%
2015	23,895	23,915	(20)	310,729	7.7%

* GASB Statement No. 68 requires ten fiscal years of data to be provided in this schedule. This is the second year of implementation of GASB Statement No. 68. The District will develop and present the schedule prospectively.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2016
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	9.5 Years (based on contribution rate calculated in 12/31/2015)
Asset Valuation Method	5 Year Smoothed Market
Inflation	3.00%
Salary Increases	3.5% to 4.9% Including Inflation
Investment Rate of Return	8.01%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

Other Information:

There were no benefit changes during the year.

TEXAS SUPPLEMENTARY INFORMATION
AND OTHER INFORMATION

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

BUDGETARY COMPARISON SCHEDULE - PROPRIETARY FUND
For the Year Ended December 31, 2016

	Actual	Original Budget	Variance Positive (Negative)
REVENUES			
Charges for water service	\$ 667,621	\$ 766,307	\$ (98,686)
Charges for sewer service	1,159,556	1,260,319	(100,763)
Property taxes	-	-	-
Tap connection and inspection fees	-	-	-
Investment earnings	-	-	-
Penalties and interest	14,124	15,000	(876)
Other	-	-	-
Total Revenues	<u>202,462</u>	<u>209,550</u>	<u>(7,088)</u>
	<u>2,043,763</u>	<u>2,251,176</u>	<u>(207,413)</u>
EXPENDITURES/EXPENSES			
Service Operations			
Salaries, benefits, and payroll taxes*	766,088	453,810	(312,278)
Wastewater service	716,873	776,742	59,869
Repairs and maintenance	130,465	170,327	39,862
Professional fees	189,150	150,000	(39,150)
Contracted services	132,209	129,402	(2,807)
Utilities	68,371	76,083	7,712
Other supplies and expenses	115,329	107,812	(7,517)
Depreciation	261,725	250,000	(11,725)
Capital Outlay	-	-	-
Total Expenditures/Expenses	<u>2,380,210</u>	<u>2,114,176</u>	<u>(266,034)</u>
Excess (deficiency) of revenues over expenditures	(336,447)	137,000	(473,447)
OTHER FINANCING SOURCES (USES)			
Transfers - internal activities	-	-	-
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(336,447)	137,000	(473,447)
FUND BALANCE - Beginning of Year	<u>8,420,645</u>	<u>8,420,645</u>	-
FUND BALANCE - END OF YEAR	<u>\$ 8,084,198</u>	<u>\$ 8,557,645</u>	<u>\$ (473,447)</u>

*Includes the noncash changes in deferred outflow & inflow from GASB 68 of \$289,550.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-1. SERVICES AND RATES
For the Year Ended December 31, 2016

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

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input type="checkbox"/> Participates in joint venture, regional system, and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other (specify): _____		

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per ccf Over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 5.30	-	N	\$ 0.83	0 TO 5
				\$ 0.94	6 TO 15
				\$ 1.91	16 TO 25
				\$ 2.76	26 TO 30
				\$ 5.30	31 TO 40
				\$ 8.48	41 TO 50
				\$ 9.54	51 TO 60
				\$ 10.60	61 TO 70
				\$ 12.72	71 TO unlimited
WASTEWATER:	\$ 12.16	-	N	\$ 2.85	0 TO 5
				\$ 3.54	6 to unlimited
SURCHARGE:	\$ -	-	N	\$ -	___ to ___

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 16.97 Wastewater \$ 54.73

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-1. SERVICES AND RATES
For the Year Ended December 31, 2016

b. Water and Wastewater Retail Connections

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	
<3/4"	1,990	1,978	x 1.0	1,978
1"	461	461	x 2.5	1,152.50
1-1/2"	17	17	x 5.0	85
2"	45	44	x 8.0	352
3"	2	2	x 15.0	30
4"	-	-	x 25.0	
6"	-	-	x 50.0	
8"	-	-	x 80.0	
10"	-	-	x 115.0	
Total Water	2,515	2,502		3,598
Total Wastewater	2,452	2,441	x 1.0	2,441

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system:	282,128	Water Accountability Ratio: (Gallons billed / Gallons pumped)
Gallons billed to customers:	257,664	

4. Standby Fees (authorized only under TWC Section 49.231):
The District does not levy Standby fees. - Section Not Applicable

5. Location of District - No changes from prior year.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-2. ENTERPRISE FUND EXPENSES
For the Year Ended December 31, 2016

	<u>2016</u>
PERSONNEL EXPENSES (INCLUDING BENEFITS)*	\$ 766,088
PROFESSIONAL FEES	
Auditing	15,637
Legal	110,967
Engineering	29,031
Financial advisor	-
Other professional fees	33,515
PURCHASED SERVICES FOR RESALE	
Bulk water and wastewater service purchases	716,873
CONTRACTED SERVICES	132,209
UTILITIES	68,371
REPAIRS AND MAINTENANCE	130,465
ADMINISTRATIVE EXPENDITURES	
Directors' fees	10,410
Office supplies	15,128
Insurance	18,892
Other administrative expenditures	70,899
CAPITAL OUTLAY	
Capitalized assets	-
Expenses not capitalized	-
TAP CONNECTION EXPENSES	-
SOLID WASTE DISPOSAL	-
FIRE FIGHTING	-
PARKS AND RECREATION	-
OTHER EXPENSES	<u>261,725</u>
TOTAL EXPENSES	<u>\$ 2,380,210</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
For the Year Ended December 31, 2016

	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>	<u>Accrued Interest Receivable at End of Year</u>
TexPool	1516-1111-000	0.10%	N/A	\$ 289,380	\$ -
Fellowship Federal Credit Union - Certificate of Deposit	7003-313	1.00%	1/16/2017	50,000	-
Fellowship Federal Credit Union - Certificate of Deposit	7003-315	1.00%	2/1/2017	50,000	-
Security Service Federal Credit Union - Certificate of Deposit	45556807080	1.24%	12/1/2021	117,006	-
Security Service Federal Credit Union - Certificate of Deposit	45556807081	2.37%	2/3/2017	100,000	-
San Antonio Federal Credit Union - Certificate of Deposit	17256942-0010	1.50%	12/1/2019	124,415	-
San Antonio Federal Credit Union - Certificate of Deposit	17256942-0012	1.88%	2/20/2018	53,733	-
Randolph Brooks Federal Credit Union - Certificate of Deposit	581851	1.02%	12/11/2017	108,649	-
Firstmark Credit Union - Certificate of Deposit	604820-48	2.08%	12/16/2020	113,324	-
TOTALS				<u>\$ 1,006,507</u>	<u>\$ -</u>

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BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES - FIVE YEARS

	Amount			
	2016	2015	2014	2013
OPERATING REVENUES				
Water sales	\$ 667,621	\$ 704,726	\$ 725,934	\$ 697,999
Wastewater service charges	1,159,556	1,134,508	1,150,056	1,137,505
Tap connections and other revenue	202,462	198,647	196,173	219,225
Total Operating Revenues	<u>2,029,639</u>	<u>2,037,881</u>	<u>2,072,163</u>	<u>2,054,729</u>
OPERATING EXPENSES				
Personnel services	766,088	383,117	385,215	374,899
Professional fees	189,150	252,921	107,325	16,072
Contractual services	132,209	132,492	132,279	155,758
Wastewater services	716,873	677,846	702,681	702,249
Repairs and maintenance	130,465	129,467	98,073	89,735
Utilities	68,371	74,072	76,730	67,943
Other supplies and expenses	115,329	135,324	133,089	132,003
Depreciation	261,725	239,947	219,484	212,840
Total Operating Expenses	<u>2,380,210</u>	<u>2,025,186</u>	<u>1,854,876</u>	<u>1,751,499</u>
Operating Income (Loss)	<u>(350,571)</u>	<u>12,695</u>	<u>217,287</u>	<u>303,230</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	14,124	15,101	16,324	18,078
Other	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>14,124</u>	<u>15,101</u>	<u>16,324</u>	<u>18,078</u>
NET INCOME	<u>\$ (336,447)</u>	<u>\$ 27,796</u>	<u>\$ 233,611</u>	<u>\$ 321,308</u>
Average Annual Unpaid Bond Principal and Interest	\$ -	\$ -	\$ -	\$ -
Net Income Before Interest Expense and Fiscal Fees	(336,447)	27,796	233,611	321,308
Coverage (Net Income as Adjusted Divided by Annual Debt Service Requirement)	N/A	N/A	N/A	N/A
Number of Water Customers at End of Year	2,462	2,313	2,459	2,451
Number of Sewer Customers at End of Year	2,402	2,298	2,409	2,392
Total Amount of Water Billed to Customers (in 1,000 of Gallons)	257,664	276,886	290,638	283,072

Amount	Percent of Fund Total Revenues				
	2016	2015	2014	2013	2012
\$ 661,124	32.89 %	34.58 %	35.03 %	34.25 %	32.44 %
956,972	57.13	55.67	55.50	55.82	46.96
214,001	9.98	9.75	9.47	10.76	10.50
<u>1,832,097</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.83</u>	<u>89.90</u>
337,907	32.19	18.80	18.90	18.40	16.58
59,690	7.95	12.41	5.27	0.79	2.93
158,916	5.55	6.50	6.49	7.64	7.80
591,037	30.12	33.26	34.48	34.46	29.00
118,573	5.48	6.35	4.81	4.40	5.82
65,281	2.87	3.63	3.77	3.33	3.20
110,728	4.85	6.64	6.53	6.48	5.43
233,969	11.00	11.77	10.77	10.44	11.48
<u>1,676,101</u>	<u>100.01</u>	<u>99.38</u>	<u>91.02</u>	<u>85.94</u>	<u>82.24</u>
155,996	(0.01)	0.62	10.49	14.76	8.51
17,231	0.70	0.74	0.80	0.89	0.85
-	-	-	-	-	-
<u>17,231</u>	<u>0.70</u>	<u>0.74</u>	<u>0.80</u>	<u>0.89</u>	<u>0.85</u>
\$ <u>173,227</u>	<u>0.69 %</u>	<u>1.36 %</u>	<u>11.27 %</u>	<u>15.64 %</u>	<u>9.46 %</u>

\$ -

173,227

N/A

2,463

2,405

295,042

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS For the Year Ended December 31, 2016

Complete District Mailing Address: 8601 Midcrown
Windcrest, 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, 2016	Expense Reimbursements December 31, 2016	Title at Year End
<u>BOARD MEMBERS</u>				
Dan Reese	01/15 - 11/20	\$ 2,060	\$ -	- President
John Fagin	11/14 - 11/18	2,080		- Vice President
Eugenia Snead	11/14 - 11/18	2,080		- Secretary
Gale Scheibler	11/16 - 11/20	380		Treasurer
Sue Alexander	11/14 - 11/18	1,970		- Director
Ronnie Merriman	12/15 - 11/16	1,840		- Treasurer
<u>KEY ADMINISTRATIVE PERSONNEL</u>				
David Wallace	5/15 - Present	77,950	2,755	General Manager
<u>CONSULTANTS</u>				
ABIP, P.C.	2012 - 2016	10,500		- Independent
Baker Tilly	2016	5,137		- Certified Public Accountants
Langley & Banack	2014	110,967		- Attorney
Stoufer & Associates	2016	3,300		- Appraisers
Mark T White & Associates	2016	1,200		- Structural Engineer
JTK Consulting Engineers	2016	4,410		- Design Engineer
Helmke & Associates, LLC	2016	11,924		- Architect
L.K Travis & Associates	2016	12,681		- Architect
Sunbelt Engineering (Donald R. Frazor, P.E.)*	1971	86,263		- District Project Engineer

*\$57,232 of fees paid in current year are included in current year capital asset additions.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

**N1. ANNUAL FILING AFFIDAVIT
December 31, 2016**

THE STATE OF TEXAS §

COUNTY OF BEXAR §

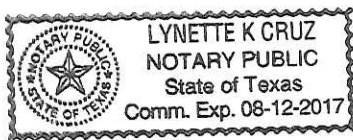
I, Daniel J. Reese of the BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10 hereby swear, or affirm that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 18th day of May, 2017 its annual audit report for the fiscal year or period ended December 31, 2016, and that copies of the annual audit report have been filed in the District office, located at Windcrest, 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: May 18, 2017

Daniel J. Reese

Sworn to and subscribed to before me this 18th day of May, 2017.



(Signature of Notary)

Lynette K. Cruz

(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

Independent Auditors' Report

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

We have audited, 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, the financial statements of Bexar County Water Control and Improvement District No. 10 (District) as of and for the year ended December 31, 2016, and have issued our report thereon dated April 28, 2017.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 controls such that there is a reasonable possibility that a material misstatement of the entity'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. We consider the deficiencies described below to be material weaknesses.

2016-001: INTERNAL CONTROL OVER FINANCIAL REPORTING

Criteria

AU-C section 265 requires auditors to report a material weakness if the District is not able to prepare its financial statements or has material adjusting journal entries.

To the Board of Directors
Bexar County Water Control and Improvement District No. 10

2016-001: INTERNAL CONTROL OVER FINANCIAL REPORTING (cont.)

Condition

The auditors proposed and the District posted material adjusting journal entries in addition to the auditors who prepared the annual financial statements.

Cause / Effect

Due to staffing and financial limitations, the District chose to contract with the auditors to prepare the annual financial statements. As a result, the District's financial records may be materially misstated before the annual audit is completed. In addition, the annual financial statements are not available to the District until they are completed by the auditors.

Recommendation

The board needs to be aware of this condition. As a practical matter, the cost of adding staff to prepare financial statements is not feasible.

Management Response

The board will continue to utilize the services of our audit firm to prepare the financial statements due to our limited staff size.

2016-002: INTERNAL CONTROLS - SEGREGATION OF DUTIES AND KEY CONTROLS

Criteria

AU-C section 265 requires auditors to communicate circumstances that were determined to be significant deficiencies or material weaknesses in the District's structure of internal control.

Condition

A properly designed system of internal control includes adequate staffing as well as policies and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to the District's assets or accounting records, and to achieve a higher likelihood that errors or irregularities in the District's accounting processes would be discovered by your staff in a timely manner.

At this time, due to staffing and financial limitations, the proper internal controls are not in place to achieve adequate segregation of duties.

There are also key controls, which are listed below, that are not currently in place at the District related to significant transaction cycles. These key controls are important in reducing the risk of errors or irregularities in the District's accounting processes.

- > Persons processing accounts payable should be separate from those ordering or receiving goods or services.
- > Persons processing payroll should be independent of other personnel duties and restricted from access to the payroll account.
- > There is no formal review of new rates entered into the billing system other than the person updating the rates.
- > The general ledger software is not secure and does not leave an audit trail for changed or deleted transactions.

To the Board of Directors
Bexar County Water Control and Improvement District No. 10

- > There are no monthly reconciliations prepared and reviewed for security deposits, accounts payable, accrued liabilities and payroll.

2016-002: INTERNAL CONTROLS - SEGREGATION OF DUTIES AND KEY CONTROLS (cont.)

Cause / Effect

Due to staffing and financial limitations, certain controls are not easily implemented by the District. Errors or irregularities could occur as part of these financial processes that may not be discovered by District staff.

Recommendation

The board needs to be aware of this condition. As a practical matter, the cost of adding staff or upgrading the general ledger to eliminate segregation of duties is not feasible. We do recommend that the District establish formal reconciliations and reviews, if feasible.

Management Response

We will continue to incorporate enhancements to internal controls when practical, but acknowledge that our staff size precludes us from segregation of duties in many accounting functions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the District 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*. We noted certain matters that we reported to management of the District in a separate letter dated April 28, 2017.

Management's Response to the Findings

The District's written responses to the material weaknesses identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 an 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.

Baker Tilly Virchow Krause, LLP

Austin, Texas
April 28, 2017

**BEXAR COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 10**

Windcrest, Texas

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended December 31, 2016

**BEXAR COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 10**

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OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the district board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the district concerning:

- a. The district's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of October-December, and sometimes early January. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS AND
INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR
SIGNIFICANT DEFICIENCIES**

OPERATING RESULTS

The district's 2016 operating loss is \$350,600 compared to an operating income of \$12,700 in 2015. Operating revenues decreased \$8,200 from the prior year due to a decrease in usage for water, which was offset with an increase in wastewater rates. Operating expenses increased \$355,000, due to an increase of pension expense of \$315,000, an increase health insurance costs, wastewater treatment and depreciation expenses.

CURRENT YEAR COMMENTS

PROCESS CONTROL IMPROVEMENTS

As part of the audit, we review the presence of key internal control improvements during our understanding of the entity and review of key business cycles. During the 2016 audit, we noted several areas where the district can improve internal controls. We recommend the district implement the following controls, if feasible:

- > Persons processing accounts payable should be separate from those ordering or receiving goods or services.
- > Persons processing payroll should be independent of other personnel duties and restricted from access to the payroll account.
- > A formal review of new rates entered into the billing system other than the person updating the rates should be implemented and documented.
- > Monthly reconciliations should be prepared for security deposits, accounts payable, accrued liabilities and payroll.
- > The general ledger software is not secure and does not leave an audit trail for changed or deleted transactions. To help mitigate this risk any manual journal entries, monthly reconciliations and financial statements should be reviewed by someone other than the person preparing them. This review should be documented.
- > Inventory should be counted annually at the end of the year and the cost of the inventory items should reflect the average price of each part accurately on the inventory listing. The annual count should be documented and reviewed by someone other than the person counting the inventory and reconciled to the general ledger.
- > Although the accounts receivable is reconciled in total to the general ledger we noted the aging categories within the aging A/R are not reconciled and some categories have large credit balances. These categories should be reconciled and credit balances investigated.

CONTINUING PROPERTY RECORDS

As part of the audit, we reviewed the district fixed assets continuing property records (CPR). Currently, the records are at a very high summary level with only an amount capitalized by year. It is normal industry standard to break out each project further into classes of assets outline in NARUC chart of accounts for water and sewer assets. In addition, we noted that meters have been historically expensed as purchased, but industry standard is that meters are considered mass units and are capitalized as fixed assets and tracked in CPRs. We also noted as part of this that regular retirements were not recorded in the fixed asset records.

CURRENT YEAR COMMENTS (cont.)

CONTINUING PROPERTY RECORDS (cont.)

We recommend that going forward the district break down each project by the class of asset added for each project such as mains, hydrants, services, etc. As time permits the district could also begin to review historical projects to break them out in the correct asset class. We also recommend the district start looking at the current records to determine if any asset retirements can be made. Having detailed CPRs will make it easier for the district to easily identify assets and quantify retirements.

POLICIES AND PROCEDURES MANUAL

As part of the audit we review the current policies and procedures in place for the district to ensure they are being followed. As part of this review we noted that the policies and procedures could be enhanced by providing more detail and guidance. Some areas we noted that can be improved on are:

- > Billing adjustments – the policy is currently silent on the process of billing adjustments. The process should include a delegation of authority of who is able to approve, up to what dollar amount for each approver and what amounts need board approval.
- > Security deposits – There is no official fee schedule of deposit amounts by customer class to supplement the current policy. This fee schedule should be reviewed and approved regularly by the board.
- > Employee advances – There is a current practice to provide employees advances which is not formalized or documented. This process should be included in the procedures manual so the board is aware there are advances given to employees.
- > Capitalization policy – The district should have a refined capitalization policy that details the types of assets capitalized versus expensed as well as the dollar threshold. This should match the detailed CPRs kept by the district.

OUTSTANDING CHECKLIST

As part of the audit we observed there were many outstanding checks with some dating back to 2012. The district should review these outstanding checks and reissue the checks, if practical. The district should also determine if any of these outstanding checks qualify as unclaimed property per the Texas Property Code Title 6, Unclaimed Property Chapters 72-76 and remit any unclaimed property to the Treasurer or Comptroller office.

INFORMATIONAL POINTS

RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS

Expectations and accountability are at an all-time high and the knowledge required to be an effective board member is substantial. As a benefit to our clients, we have compiled a number of resources dedicated to educating state and local government board members. Go to our Board Governance Resource Center at www.bakertilly.com/board-governance.

INFORMATIONAL POINTS (cont.)

RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS (cont.)

The Resource Center includes the following short informative videos:

1. Government financial statements 101
2. Understanding your government's fraud risk
3. Financial ratios and benchmarks
4. Fund balance and other financial policies
5. Benefits of a fraud risk assessment
6. Understanding utility finances

We encourage you to subscribe to our complimentary newsletter "Government Connection" to stay abreast of the latest issues impacting state and local governments. You can do so by clicking on the "subscribe" button and indicating "State and Local Government" as an area of interest on the subscription form. Also, if you or your board members have suggested topics to feature on our Board Governance webpage or Government Connection newsletter, we invite you to submit your ideas in person or online.

GASB UPDATES

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here are the standards likely to impact you the most in the upcoming year:

- > GASB 73 includes accounting and reporting for pension plans that are not reported in a trust
- > GASB 74 and 75 are Other Post Employment Benefit (OPEB) standards that parallel the recent pension standards
- > GASB 80 clarifies the presentation requirements for some component units
- > GASB 81 provides guidance for accounting for irrevocable split interest agreements

There are two significant GASB projects drawing to conclusion in 2017. While the implementation dates for these are a few years away, both are anticipated to have significant impacts on many government financial statements:

- > Fiduciary Activities
- > Leases

Looking even further ahead, one of the most significant current GASB projects is the financial reporting model reexamination. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements Nos. 37, 41, and No. 46 and Interpretation No. 6. The GASB has indicated that they are revisiting the following major provisions of these standards: management's discussion and analysis, government-wide financial statements, fund financial statements, proprietary fund and business-type activity financial statements, fiduciary fund financial statements, budgetary comparisons, and other issues. The first of a series of Invitations to Comment was issued in December 2016. This Invitation to Comment addresses governmental fund topics.

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

REQUIRED COMMUNICATIONS BY THE AUDITOR WITH THOSE CHARGED WITH GOVERNANCE



Baker Tilly Virchow Krause, LLP
2801 Via Fortuna, Ste 300
Austin, TX 78746-7568
tel 512 975 7280
fax 888 264 9617
bakertilly.com

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

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of Bexar County Water Control and Improvement District No. 10 (district) for the year ended December 31, 2016, and have issued our report thereon dated April 28, 2017. This letter presents communications required by our professional standards.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or board of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of district's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated September 8, 2016.

To the Board of Directors
Bexar County Water Control and Improvement District No. 10

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the district are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the district during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the net pension liability and related deferrals are based on information provided by the Texas County and District Retirement System (TCDRS) as audited by KPMG. We evaluated the key factors and assumptions used to develop the pension asset and related deferrals in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation expense is based on industry standard asset life. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of these adjustments follow this communication.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

To the Board of Directors
Bexar County Water Control and Improvement District No. 10

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the district that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the district for the year ended December 31, 2016, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the district in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the district other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence and list them in bullet form.

- > Financial statement preparation
- > Adjusting journal entries

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the district's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

To the Board of Directors
Bexar County Water Control and Improvement District No. 10

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

RESTRICTION ON USE

This information is intended solely for the use of the board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Veitchau Krause, LLP

Austin, Texas
April 27, 2017

SUMMARY OF CORRECTED FINANCIAL STATEMENT MISSTATEMENTS

Bexar County Water Control and Improvement District No. 10

Year End: December 31, 2016

Adjusting Journal Entries

Date: 1/1/2016 To 12/31/2016

TB. 2

Done By	In-Charge	Manager
Partner	Preissuance	SS 2/26/2017
AR 3/9/2017		

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
A01	12/31/2016	Accounts Payable-Operating	2000 WASF	40. 1			81,582.38		
A01	12/31/2016	Engineering Services	6275 WASF	40. 1		22,101.67			
A01	12/31/2016	Sewer Contract	6600 WASF	40. 1		59,480.71			
To record August SAWs treatment bill.									
A02	12/31/2016	Engineering Services	6275 WASF	H. 1. 1		11,350.00			
A02	12/31/2016	Construction in Progress	7070 WASF	H. 1. 1			8,950.00		
A02	12/31/2016	Building/Office/Maint Fac	7090 WASF	H. 1. 1			2,400.00		
To reverse prior year engineering fees that were recorded in 2015.									
A03	12/31/2016	Temp Holding Acct for Misc Adju	2001 WASF	H. 1. 1			64,321.32		
A03	12/31/2016	Water Storage & Dist System	7020 WASF	H. 1. 1		638,319.65			
A03	12/31/2016	Construction in Progress	7070 WASF	H. 1. 1			573,998.33		
To capitalize water project and record additional retainage and invoice.									
A04	12/31/2016	Engineering Services	6275 WASF	H. 1. 1		40,445.00			
A04	12/31/2016	Miscellaneous Expenses	6340 WASF	H. 1. 1		2,670.40			
A04	12/31/2016	Engineering Fees, Other	7050 WASF	H. 1. 1			4,410.00		
A04	12/31/2016	Building/Office/Maint Fac	7090 WASF	H. 1. 1			38,705.40		
To transfer engineering and architectural fees spent on the proposed new maintenance building to expense since the project was cancelled.									
A05	12/31/2016	Office Supplies	6210 WASF	H. 1. 1		9,603.02			
A05	12/31/2016	Parts and Supplies	6310 WASF	H. 1. 1		9,225.00			
A05	12/31/2016	Construction in Progress	7070 WASF	H. 1. 1			9,225.00		
A05	12/31/2016	Building/Office/Maint Fac	7090 WASF	H. 1. 1			9,603.02		
To expense meters to maintenance and repairs and office furniture to office supplies.									
A06	12/31/2016	Accrued Compensated Absences	2400 WASF	LE. 1			3,707.00		
A06	12/31/2016	Operating Expenses: Payroll Expenses: Salaries	6660 WASF	LE. 1		3,707.00			
To true-up accrued compensation based on outstanding vacation balance as of 12/31.									
A07	12/31/2016	4100	4100 WASF	GL			1,978.95		
A07	12/31/2016	Miscellaneous-All Others	4187 WASF	GL		1,978.95			
To reclassify an offset for parts reimbursement that was recorded twice. Once to expense and once to revenue.									
A08	12/31/2016	Operating Account-IBC	1100 WASF	A. 4. 1		11,872.43			
A08	12/31/2016	Direct Deposit Liabilities	2111 WASF	A. 4. 1			11,872.43		
To reverse the direct deposit liability and the uncleared checks from the operating account. (Need to make this entry then hit these checks in the bank account reconciliation to show they cleared.)									
A09	12/31/2016	Payroll Liabilities	2100 WASF	GL DETAIL		250.00			
A09	12/31/2016	Payroll Advance - Hardin	2158 WASF	GL DETAIL			250.00		
To net deductions from paycheck to advances.									
A10	12/31/2016	Insurance Administrative Fee	2147 WASF	GL		378.00			
A10	12/31/2016	Insurance-General Liability	6181 WASF	GL			378.00		
To clear out an insurance refund received in 2015.									
A11	12/31/2016	4100	4100 WASF	GL			45.85		
A11	12/31/2016	Penalty Payment	4150 WASF	GL		170.02			

5/17/2017

8:39 AM

Bexar County Water Control and Improvement District No. 10

Year End: December 31, 2016

Adjusting Journal Entries

Date: 1/1/2016 To 12/31/2016

TB. 2-1

Done By	In-Charge	Manager
Partner	Preissuance	SS 2/26/2017
AR 3/9/2017		

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
A11	12/31/2016	Adjustments/Credits	6115 WASF	GL			214.00		
A11	12/31/2016	Bad Debts	6440 WASF	GL		89.83			
		To reclassify write-offs and net it with penalties.							
A12	12/31/2016	Miscellaneous-All Others	4187 WASF	GL		9,504.39			
A12	12/31/2016	Parts and Supplies	6310 WASF	GL			9,504.39		
		To reclassify receipts for reimbursement for services to net against expenses.							
A13	12/31/2016	GASB TCDRS Contribution	1800 WASF			1,408.00			
A13	12/31/2016	GASB TCDRS Expected vs Actual	1801 WASF				244.00		
A13	12/31/2016	GASB TCDRS Projected vs Earning	1802 WASF				30,734.00		
A13	12/31/2016	GASB TCDRS Changes in Assumptions	1803 WASF			3,781.00			
A13	12/31/2016	Net Pension Liability - TCDRS	2800 WASF				3,509.00		
A13	12/31/2016	GASB TCDRS Expected vs Actual	2801 WASF				321,720.00		
A13	12/31/2016	Retirement-Company Cont.	6192 WASF			289,550.00			
		To make the annual pension entry.							
A14	12/31/2016	Equipment	7040 WASF	H. 1			16,719.34		
A14	12/31/2016	Accumulated Depreciation	7060 WASF	H. 1		16,719.34			
		To retire GMC 2004 truck sold in 2015 that was fully depreciated.							
A15	12/31/2016	Water Storage & Dist System	7020 WASF	H. 1			17,092.00		
A15	12/31/2016	Sewage Fac & Gathering System	7030 WASF	H. 1		17,092.00			
		To reclassify amounts between water and sewer plant accounts to tie to CPRs.							
A16	12/31/2016	Depreciation	6150 WASF	H. 1		11,724.66			
A16	12/31/2016	Accumulated Depreciation	7060 WASF	H. 1			11,724.66		
		To true up depreciation expense.							
A17	12/31/2016	Parts and Supplies	6310 WASF	F. 1			7,798.00		
A17	12/31/2016	Supplies/Inventory	7045 WASF	F. 1		7,798.00			
		To true-up ending inventory listing.							
A18	12/31/2016	Medical Insurance (Company)	2145 WASF	LE. 1		9,627.00			
A18	12/31/2016	Insurance--Group Health	6182 WASF	LE. 1			9,627.00		
		To reverse an over accrual of January 17 health insurance.							
A19	12/31/2016	Machinery and Equipment	6350 WASF	40. 1			11,696.72		
A19	12/31/2016	Equipment	7040 WASF	40. 1		11,696.72			
		To capitalize a mower and trailer.							
						1,221,276.79	1,221,276.79		
Net Income (Loss)			(336,446.06)						

MANAGEMENT REPRESENTATIONS

April 28, 2017

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Bexar County Water Control and Improvement District No. 10 as of December 31, 2016 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the Bexar County Water Control and Improvement District No. 10 and the respective changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit,

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the utility required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
9. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
10. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. There are no known related parties or related party relationships and transactions of which we are aware.

Other

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.

19. We have a process to track the status of audit findings and recommendations.
20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
22. The district has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
24. There are no:
 - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
 - c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
 - d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
25. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
 - a. Financial statement preparation
 - b. Adjusting journal entries

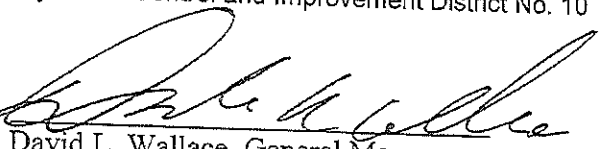
None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
26. The Bexar County Water Control and Improvement District No. 10 has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
27. The Bexar County Water Control and Improvement District No. 10 has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

29. The Bexar County Water Control and Improvement District No. 10 has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
30. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
31. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
32. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
33. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - a. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
34. We assume responsibility for, and agree with, the information provided by the TCDRS as audited by KPMG relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.

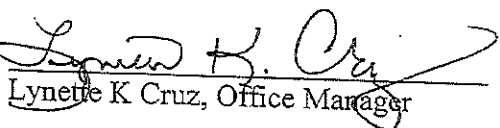
Sincerely,

Bexar County Water Control and Improvement District No. 10

Signed:


David L. Wallace, General Manager

Signed:


Lynette K. Cruz, Office Manager