

**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, 2018 and 2017

ANNUAL FINANCIAL REPORT

OF THE

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

For the Years Ended December 31, 2018 and 2017

President	Sue Alexander
Vice-President	Eugenia Snead
Treasurer	Gale Scheibler
Secretary	Fernando Richards, Jr
Director	Eddie Guerrero
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 years ended December 31, 2018 and 2017, 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 audits. We conducted our audits 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 audits 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, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 35 and 36 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 audits were conducted for the purpose of forming an opinion on the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 21, 2019, 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
March 21, 2019

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, 2018 and 2017

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 years ended December 31, 2018 and 2017. 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 three components: (1) basic financial statements, (2) notes to the financial statements, and (3) required supplementary information.

BASIC FINANCIAL STATEMENTS

The District maintains a single enterprise fund. This fund is presented in the statements of net position, the statements of revenues, expenses, and changes in net position and the statements of cash flows.

The statement of net position presents all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

The statement of cash flows reflects cash receipts and payments for operating, noncapital financing, capital and related financing, and investing activities for the years presented.

NOTES TO THE FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

The accompanying RSI provide historical information on the defined benefit pension plan including changes in net pension liability, annual contributions, and notes to the RSI.

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, 2018 and 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

OTHER INFORMATION

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

FINANCIAL HIGHLIGHTS

2018

- > The assets and deferred outflows of resources of the District exceed its liabilities and deferred inflows of resources by \$8,286,750 (net position) for the fiscal year reported. This is an increase of \$182,573 from the prior year.
- > Total net position is comprised of the following:
 1. Net investment in capital assets in the amount of \$6,632,860 includes all property and equipment owned by the District, net of accumulated depreciation.
 2. Net position restricted for net pension asset in the amount of \$57,285 includes the difference between the pension plan's net position and the actuarially calculated pension liability.
 3. Unrestricted net position of \$1,596,605 represents the portion available to fund the District's operations.
- > Operating revenues increased by \$145,392, an increase of 7.02% from calendar year 2017. Revenue slightly increased primarily due to a 19% increase in water rates.
- > Operating expenses decreased by \$8,824 a decrease of 0.43% from calendar year 2017.

2017

- > The assets and deferred outflows of resources of the District exceed its liabilities and deferred inflows of resources by \$8,104,177 (net position) for the fiscal year reported. This is an increase of \$19,979 from the prior year.
- > Total net position is comprised of the following:
 1. Net investment in capital assets in the amount of \$6,820,540 includes all property and equipment owned by the District, net of accumulated depreciation.
 2. Unrestricted net position of \$1,283,637 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, 2018 and 2017

FINANCIAL HIGHLIGHTS (cont.)

2016 (cont.)

- > Operating revenues increased by \$40,229, an increase of 1.98% from calendar year 2016. Revenue slightly increased primarily due to a 5% increase in water consumption.
- > Operating expenses decreased by \$315,866 a decrease of 13.27% from calendar year 2016. The decrease was primarily due to incurring higher noncash pension expenses in the prior year.

FINANCIAL ANALYSIS

The District's net position at calendar year end is \$8,282,167. This is a \$177,990 increase over last year's net position of \$8,104,177. The following table provides a summary of the District's net position at December 31:

Summary of Net Position

	Business-type Activities			2018-2017 Amount Change	Percent Change
	2018	2017	2016		
Current and Other Assets	\$ 1,915,176	\$ 1,662,665	\$ 1,574,064	\$ 252,511	15.19%
Capital Assets	6,831,649	6,888,197	6,992,301	(56,548)	(0.82)
Total Assets	<u>8,746,825</u>	<u>8,550,862</u>	<u>8,566,365</u>	<u>195,963</u>	2.29
Deferred Outflows of Resources	<u>33,496</u>	<u>64,424</u>	<u>69,704</u>	<u>(30,928)</u>	(48.01)
Current Liabilities	230,598	203,900	199,303	26,698	10.02
Noncurrent Liabilities	16,830	39,109	30,848	(22,279)	(56.97)
Total Liabilities	<u>247,428</u>	<u>243,009</u>	<u>230,151</u>	<u>4,419</u>	1.82
Deferred Inflows of Resources	<u>246,143</u>	<u>268,100</u>	<u>321,720</u>	<u>(21,957)</u>	(8.19)
Net Position					
Net Investment in Capital Assets	6,632,860	6,820,540	6,992,301	(187,680)	(2.75)
Restricted for Net Pension Asset	57,285	-	-	57,285	100
Unrestricted	<u>1,596,605</u>	<u>1,283,637</u>	<u>1,091,897</u>	<u>312,968</u>	24.38
Total Net Position	<u>\$ 8,286,750</u>	<u>\$ 8,104,177</u>	<u>\$ 8,084,198</u>	<u>\$ 182,573</u>	2.25%

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

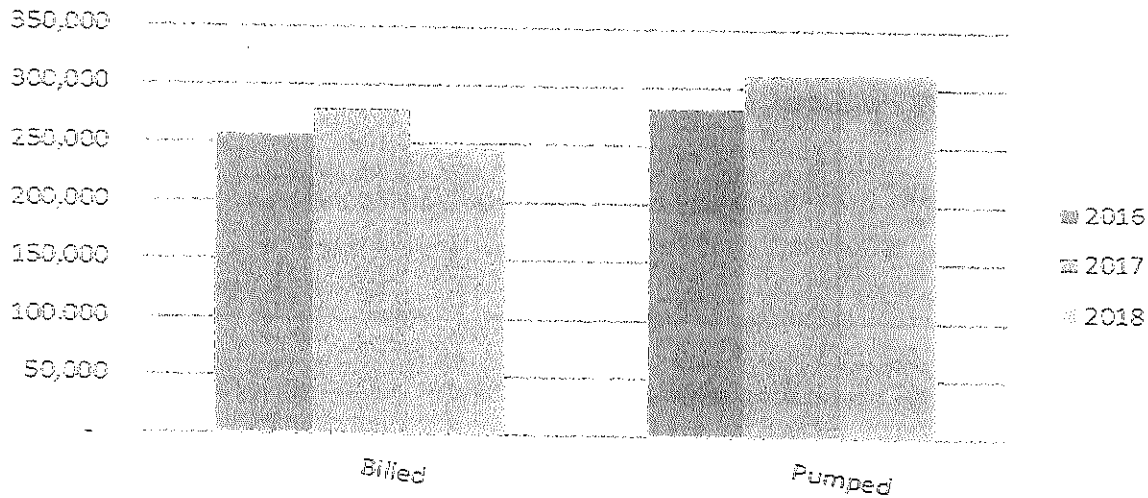
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

FINANCIAL ANALYSIS (cont.)

2018 had significant increased rainfall in the fall as compared to 2017. The aquifer increased its level in 2018 to 686 feet from 667 at the end of 2017. This resulted in a decrease in water consumption offset with a 19% increase in rates for overall increased revenues.

2017 had decreased rainfall as compared to 2016. The aquifer slightly dropped its level in 2017 to 667 feet from 685 at the end of 2016. This resulted in an increase in water consumption and increased revenues.

Comparison of Gallons Pumped vs. Billed
(in Thousands)



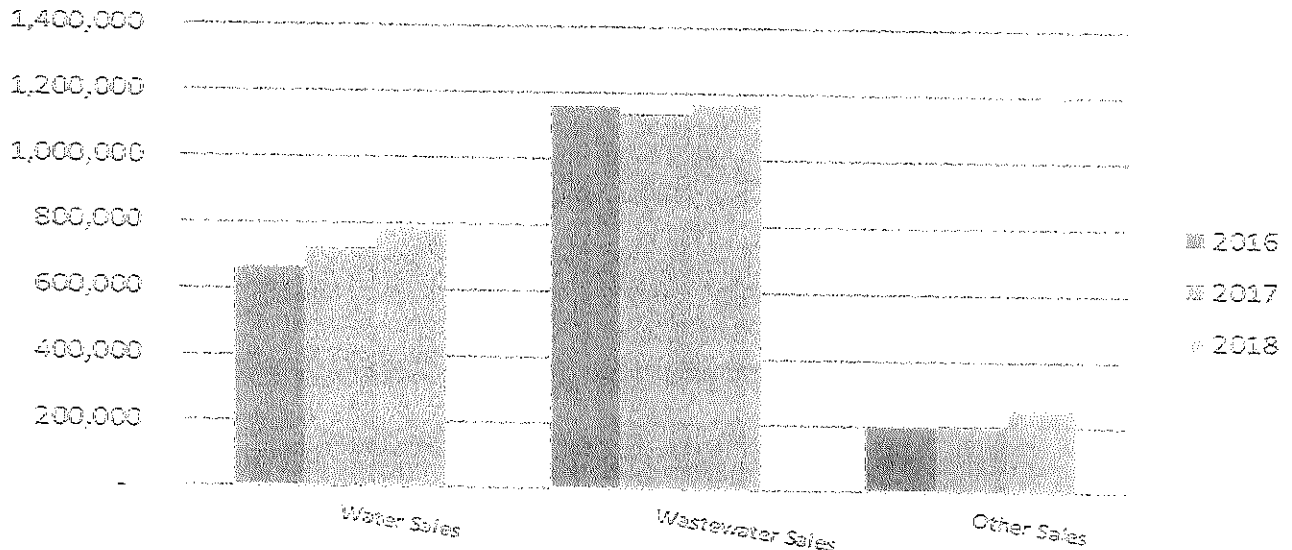
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BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2018 and 2017

FINANCIAL ANALYSIS (cont.)

Comparison of Revenues



Although revenues exceeded budget in 2018, the District's rate structure ensures that its financial objectives are achieved. With only necessary 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 2018 and 2017 were low. The weighted return was low on the District's \$496,736 invested in certificates of deposit in 2017 so the District reduced their investments to \$446,308 in 2018. 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, 2018 and 2017

FINANCIAL ANALYSIS (cont.)

Summary of Changes in Net Position

	Business-type Activities			2018-2017 Amount Change	Percent Change
	2018	2017	2016		
Revenues					
Charges for services	\$ 2,215,260	\$ 2,069,868	\$ 2,029,639	\$ 145,392	7.02%
Expenses					
Operating expenses	2,055,520	2,064,344	2,380,210	(8,824)	(0.43)
Other Revenues (Expenses)					
Gain on sale of property	16,437	-	-	16,437	100
Investment income	25,651	14,455	14,124	11,196	77.45
Debt issuance costs	(19,255)	-	-	(19,255)	(100)
Total Other Revenues	<u>22,833</u>	<u>14,455</u>	<u>14,124</u>	<u>8,378</u>	57.96
Change in Net Position	<u>182,573</u>	<u>19,979</u>	<u>(336,447)</u>	<u>162,594</u>	813.82
Beginning Net Position	<u>8,104,177</u>	<u>8,084,198</u>	<u>8,420,645</u>	<u>19,979</u>	(0.25)
ENDING NET POSITION	<u>\$ 8,286,750</u>	<u>\$ 8,104,177</u>	<u>\$ 8,084,198</u>	<u>\$ 182,573</u>	2.25%

FINANCIAL ANALYSIS OF THE DISTRICT'S OPERATIONS

2018

For the calendar year ended December 31, 2018, the District has an overall positive fund balance of \$8,286,750. Of this year-end total, \$1,596,605 is unrestricted, indicating availability for continuing service requirements. This year's increase in net position was \$182,573.

2017

For the calendar year ended December 31, 2017, the District has an overall positive fund balance of \$8,104,177. Of this year-end total, \$1,283,637 is unrestricted, indicating availability for continuing service requirements. This year's increase in net position was \$19,979.

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, 2018 and 2017

CAPITAL ASSETS

2018

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2018, was \$6,632,860. The total decrease in this net investment was 2.75%. See Note 3 (on Pages 20-21) for additional information about changes in capital assets during the calendar year.

In 2018, the District rebuilt Well #3 and purchased a backhoe. The district also sold the Randolph Boulevard Lot in 2018.

2017

The District's investment in capital assets, net of accumulated depreciation, as of December 31, 2017, was \$6,820,540. The total decrease in this net investment was 2.46%. See Note 3 (on Pages 20-21) for additional information about changes in capital assets during the calendar year.

In 2017, the District completed the 2016 water replacement project and performed the Spanish Moss sewer main replacement of 151 feet of main and 1 manhole. In addition, a new trailer for the Vactor Jetter and new SCADA servers were purchased. Engineering and design began in 2017 for the upcoming 2018- 2020 infrastructure replacement project.

Capital Assets Net of Accumulated Depreciation

	Business-type Activities			2018-2017 Amount Change	Percent Change
	2018	2017	2016		
Nondepreciable assets					
Land	\$ 10,776	\$ 227,565	\$ 227,565	\$ (216,789)	(95)%
Water rights	2,091,790	2,091,790	2,091,790	-	-
Depreciable Assets (Net)					
Gathering and distribution Systems	4,332,312	4,374,888	4,556,752	(42,576)	(1)
Equipment	197,982	126,297	116,194	71,685	56
Totals	\$ 6,632,860	\$ 6,820,540	\$ 6,992,301	\$ (187,680)	(2.75)%

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, 2018 and 2017

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.

See accompanying independent auditors' report.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

STATEMENTS OF NET POSITION - WATER AND WASTEWATER
 PROPRIETARY FUND
 As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,164,805	\$ 1,046,389
Investments	446,308	396,735
Accounts receivable	165,683	160,556
Inventory	25,147	25,147
Other accounts receivable	24,510	-
Cash and cash equivalents - restricted assets	31,438	33,838
Total Current Assets	<u>1,857,891</u>	<u>1,662,665</u>
NONCURRENT ASSETS		
Preliminary survey and investigation	198,789	67,657
Net pension asset	57,285	-
Capital Assets		
Land	10,776	227,565
Water rights	2,091,790	2,091,790
Gathering and distribution systems	10,327,007	10,156,414
Equipment	457,893	403,377
Less: Accumulated depreciation	<u>(6,254,606)</u>	<u>(6,058,606)</u>
Total Noncurrent Assets	<u>6,888,934</u>	<u>6,888,197</u>
Total Assets	<u>8,746,825</u>	<u>8,550,862</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - TCDRS	<u>33,496</u>	<u>64,424</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	166,978	139,935
Accrued expenses	32,182	30,127
Total Current Liabilities	<u>199,160</u>	<u>170,062</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	<u>31,438</u>	<u>33,838</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	16,830	16,830
Net pension liability	-	22,279
Total Noncurrent Liabilities	<u>16,830</u>	<u>39,109</u>
Total Liabilities	<u>247,428</u>	<u>243,009</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - TCDRS	<u>246,143</u>	<u>268,100</u>
NET POSITION		
Net investment in capital assets	6,632,860	6,820,540
Restricted for net pension asset	57,285	-
Unrestricted	<u>1,596,605</u>	<u>1,283,637</u>
TOTAL NET POSITION	<u>\$ 8,286,750</u>	<u>\$ 8,104,177</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Charges for Services		
Water sales	\$ 790,258	\$ 722,438
Wastewater services	1,169,933	1,139,763
Other fees and assessments	<u>255,069</u>	<u>207,667</u>
Total Operating Revenues	<u>2,215,260</u>	<u>2,069,868</u>
OPERATING EXPENSES		
Personnel and benefits	471,155	471,023
Professional fees	80,000	145,542
Contractual services	132,223	134,227
Wastewater services	762,252	731,417
Repairs and maintenance	109,653	120,266
Utilities	85,331	77,065
Other supplies and expenses	130,793	104,738
Depreciation	<u>284,113</u>	<u>280,066</u>
Total Operating Expenses	<u>2,055,520</u>	<u>2,064,344</u>
Operating Income	<u>159,740</u>	<u>5,524</u>
NONOPERATING REVENUES		
Investment income	25,651	14,455
Gain on sale of property	16,437	-
Debt issuance costs	<u>(19,255)</u>	<u>-</u>
Total Non-Operating Expenses	<u>22,833</u>	<u>14,455</u>
Change in Net Position	182,573	19,979
NET POSITION - Beginning of Year	<u>8,104,177</u>	<u>8,084,198</u>
NET POSITION - END OF YEAR	<u>\$ 8,286,750</u>	<u>\$ 8,104,177</u>

See accompanying notes to financial statements.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

STATEMENTS OF CASH FLOWS - WATER AND WASTEWATER PROPRIETARY FUND

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 2,207,733	\$ 2,072,698
Paid for personnel services	(437,249)	(387,035)
Paid to suppliers for goods and services	(1,345,155)	(1,433,000)
Net Cash Flows From Operating Activities	425,329	252,663
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt issuance costs	(19,255)	-
Net proceeds on land sale	75,726	-
Purchase of capital assets	(341,860)	(172,535)
Net Cash Flows From Capital and Related Financing Activities	(285,389)	(172,535)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	25,651	14,455
Purchase of investments	(104,325)	(100,000)
Sale of investments	54,752	220,392
Net Cash Flows From Investing Activities	(23,922)	134,847
Net Change in Cash and Cash Equivalents	116,018	214,975
CASH AND CASH EQUIVALENTS – Beginning of Year	1,080,227	865,252
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 1,196,245	\$ 1,080,227
Cash and cash equivalents	\$ 1,164,805	\$ 1,046,389
Cash and cash equivalents - restricted	31,438	33,838
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,196,243	\$ 1,080,227
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 159,740	\$ 5,524
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities		
Depreciation	284,113	280,066
Changes to Assets and Liabilities		
Accounts receivable	(5,127)	1,729
Inventory	-	4,253
Accounts payable	57,541	(7,680)
Customer deposits	(2,400)	1,101
Accrued expenses	2,055	7,749
Accrued compensated absences	-	1,553
Net pension liability (asset) - TCDRS	(70,593)	(41,632)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 425,329	\$ 252,663

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, 2018 and 2017

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 ("board") 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.

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.

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.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

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

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

Deposits and Investments (cont.)

The District may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas (PFIA). 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, 2018 and 2017, 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.

Preliminary Survey and Investigation

The balance represents initial project engineering costs related to District plant construction. The balance will be capitalized upon commencement of the project.

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, 2018 and 2017

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, 2018 and 2017

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 (TCDRS). For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the TCDRS and additions to/deductions from TCDRS' fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

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 District 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 February 23, 2018.

Current wastewater rates were approved by the board effective March 21, 2018.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. 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, 2018 and 2017

NOTE 2 – CASH AND INVESTMENTS

	Carrying Value		Risks
	2018	2017	
Checking and Savings	\$ 899,004	\$ 688,342	Custodial credit
TexPool Investment Pool	297,239	291,885	Credit
Certificates of Deposit	446,308	496,735	Custodial credit
Totals	\$ 1,642,551	\$ 1,476,962	

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, 2018 and 2017.

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 approves and designates all authorized depository institutions.

The District's total deposits at banks as of December 31, 2018 and 2017 was \$1,346,360 and \$1,252,970, respectively. In addition, the utility has collateral or depository insurance agreements in the amount of \$0 and \$839,350 at December 31, 2018 and 2017, respectively. \$622,726 and \$0 were exposed to custodial credit risk as of December 31, 2018 and 2017, respectively.

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, 2018 and 2017, 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, 2018 and 2017

NOTE 3 – CAPITAL ASSETS

A summary of capital assets at December 31, 2018 is as follows:

	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
Capital assets, not being depreciated				
Land and easements	\$ 227,565	\$ -	\$ (216,789)	\$ 10,776
Construction in progress	-	530,820	(530,820)	-
Water rights	2,091,790	-	-	2,091,790
Total Capital Assets, Not Being Depreciated	<u>2,319,355</u>	<u>530,820</u>	<u>(747,609)</u>	<u>2,102,566</u>
Capital assets being depreciated				
Gathering and distribution systems	10,156,414	204,876	(34,283)	10,327,007
Equipment	403,377	108,346	(53,830)	457,893
Total Capital Assets Being Depreciated	<u>10,559,791</u>	<u>313,222</u>	<u>(88,113)</u>	<u>10,784,900</u>
Less: Accumulated depreciation for				
Gathering and distribution systems	(5,781,526)	(247,452)	34,283	(5,994,695)
Equipment	(277,080)	(36,661)	53,830	(259,911)
Total Accumulated Depreciation	<u>(6,058,606)</u>	<u>(284,113)</u>	<u>88,113</u>	<u>(6,254,606)</u>
Net Capital Assets Being Depreciated	<u>4,501,185</u>	<u>29,109</u>	<u>-</u>	<u>4,530,294</u>
Net Capital Assets	<u>\$ 6,820,540</u>	<u>\$ 559,929</u>	<u>\$ (747,609)</u>	<u>\$ 6,632,860</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 3 – CAPITAL ASSETS (cont.)

A summary of capital assets at December 31, 2017 is as follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and easements	\$ 227,565	\$ -	\$ -	\$ 227,565
Construction in progress	-	57,139	(57,139)	-
Water rights	2,091,790	-	-	2,091,790
Total Capital Assets, Not Being Depreciated	2,319,355	57,139	(57,139)	2,319,355
Capital assets being depreciated				
Gathering and distribution systems	10,092,848	63,566	-	10,156,414
Equipment	358,639	44,738	-	403,377
Total Capital Assets Being Depreciated	10,451,487	108,304	-	10,559,791
Less: Accumulated depreciation for				
Gathering and distribution systems	(5,536,096)	(245,430)	-	(5,781,526)
Equipment	(242,445)	(34,635)	-	(277,080)
Total Accumulated Depreciation	(5,778,541)	(280,065)	-	(6,058,606)
Net Capital Assets Being Depreciated	4,672,946	(171,761)	-	4,501,185
Net Capital Assets	\$ 6,992,301	\$ (114,622)	\$ (57,139)	\$ 6,820,540

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, 2018 and 2017

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

BENEFITS PROVIDED

All full- and part-time nontemporary 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 as of December 31:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	3	1
Active employees	7	7
Total	14	12

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% for the 2018 and 2017 calendar years. The employee contribution rates are set by the District and are 7.0% for the 2018 and 2017 calendar years.

NET PENSION LIABILITY (ASSET)

The District's Net Pension Liability (Asset) (NPL/NPA) recorded as of December 31, 2018 and 2017 was measured as of December 31, 2017 and 2016, respectively, and the Total Pension Liability (Asset) (TPL/TPA) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date. The December 31, 2017 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, 2018 and 2017

NOTE 4 – EMPLOYEES' RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

Actuarial Valuation Information

The Total Pension Liability (Asset) in the December 31, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Valuation Dates:	December 31, 2017 and 2016
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percentage of Payroll, Closed
Amortization Period:	0.0 Years
Asset Valuation Method:	5 Year Smoothed Market
Actuarial Assumptions:	
Investment Return* (includes administrative expenses)	8.00%
Projected Salary Increase*	4.9
Inflation	2.75
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 3.25% (made up of 2.75% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.6% per year for a career employee. Mortality rates for active members were based on gender-distinct RP2014 Active Employee Mortality Table, projected with 110% of the MP-2014 Ultimate scale after 2014. Mortality rates for retirees, beneficiaries, and nonactive members were based on the gender-distinct RP2014 Healthy Annuitant Mortality Table, projected with 110% of the MP-2014 Ultimate scale after 2014. For disabled annuitants, the gender-distinct RP2014 Disabled Annuitant Mortality Table is used, projected with 110% of the MP-2014 Ultimate scale after 2014.

The long-term expected rate of return on pension plan investments is 8.0%. 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 valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET)(cont.)

Actuarial Valuation Information (cont.)

The capital market assumptions and information are provided by TCDRS’s investment consultants, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10-year time horizon.

<u>Asset Class</u>	<u>Target Allocation⁽¹⁾</u>	<u>Geometric Real Rate of Return (Expected Minus Inflation)⁽²⁾</u>
U.S. equities	11.5%	4.55%
Private equity	16.0%	7.55%
Global equities	1.5%	4.85%
International equities – developed	11.0%	4.55%
International equities – emerging	8.0%	5.55%
Investment-grade bonds	3.0%	0.75%
Strategic credit	8.0%	4.12%
Direct lending	10.0%	8.06%
Distressed debt	2.0%	6.30%
REIT equities	2.0%	4.05%
Master Limited Partnerships (MLPs)	3.0%	6.00%
Private real estate partnerships	6.0%	6.25%
Hedge funds	18.0%	4.10%
Total	<u>100.0%</u>	

(1) Target asset allocation adopted at the April 2018 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater’s 2018 capital market assumptions.

Discount Rate

A single discount rate of 8.1% was used to measure the Total Pension Liability (Asset) as of December 31, 2018 and 2017. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses. 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 (Asset).

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at December 31, 2017	\$ 596,451	\$ 574,172	\$ 22,279
Changes for the year:			
Service cost	33,218	-	33,218
Interest on total pension liability	48,396	-	48,396
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(28,615)	-	(28,615)
Effect of assumptions changes or inputs	(355)	-	(355)
Refund of contributions	(42,098)	(42,098)	-
Benefit payments	(23,559)	(23,559)	-
Administrative expense	-	(426)	426
Member contributions	-	23,971	(23,971)
Net investment income	-	83,546	(83,546)
Employer contributions	-	25,340	(25,340)
Other	-	(223)	223
Net Changes	(13,013)	66,551	(77,564)
Balance at December 31, 2018	\$ 583,438	\$ 640,723	\$ (57,285)

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

Changes in the Net Pension Liability (Asset) (cont.)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at December 31, 2016	\$ 546,698	\$ 531,127	\$ 15,571
Changes for the year:			
Service cost	33,858	-	33,858
Interest on total pension liability	44,402	-	44,402
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	2,319	-	2,319
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(7,267)	(7,267)	-
Benefit payments	(23,559)	(23,559)	-
Administrative expense	-	(415)	415
Member contributions	-	23,542	(23,542)
Net investment income	-	38,224	(38,224)
Employer contributions	-	24,887	(24,887)
Other	-	(12,367)	12,367
Net Changes	49,753	43,045	6,708
Balance at December 31, 2017	\$ 596,451	\$ 574,172	\$ 22,279

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:

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
December 31, 2018			
Total pension liability	\$ 654,133	\$ 583,438	\$ 523,066
Fiduciary net position	640,723	640,723	640,723
District’s Net Pension Liability (Asset)	\$ 13,410	\$ (57,285)	\$ (117,657)

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

NET PENSION LIABILITY (ASSET) (cont.)

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

December 31, 2017	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Total pension liability	\$ 679,047	\$ 596,451	\$ 527,868
Fiduciary net position	<u>574,172</u>	<u>574,172</u>	<u>574,172</u>
District’s Net Pension Liability (Asset)	<u>\$ 104,875</u>	<u>\$ 22,279</u>	<u>\$ (46,304)</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, 2018 and 2017, the District recognized pension expense of \$(41,786) and \$(16,622), respectively.

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO PENSIONS

At December 31, 2018, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,034	\$ 237,372
Changes in actuarial assumptions	2,520	284
Differences between projected and actual investment earnings	-	8,487
Contributions subsequent to the measurement date	<u>28,942</u>	<u>-</u>
Totals	<u>\$ 33,496</u>	<u>\$ 246,143</u>

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2018 and 2017

NOTE 4 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

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

At December 31, 2017, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,664	\$ 268,100
Changes in actuarial assumptions	3,151	-
Differences between projected and actual investment earnings	33,134	-
Contributions subsequent to the measurement date	25,475	-
Totals	\$ 64,424	\$ 268,100

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 (asset) 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.

Years Ended December 31,		
2019	\$	(54,246)
2020		(56,461)
2021		(64,942)
2022		(65,940)
Thereafter		-
Total	\$	(241,589)

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, 2018 and 2017

NOTE 6 – SUBSEQUENT EVENTS

The District evaluated subsequent events through March 21, 2019, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

The District approved new water and sewer rates, effective February 23, 2019.

On February 27, 2019, the district issued \$4,950,000 Waterworks and Sewer System Revenue Notes, Series 2019A to finance system improvements. The debt is payable over 24 years and bears a net interest rate of 4%.

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)**

	2018	2017	2016	2015
TOTAL PENSION LIABILITY				
Service cost	\$ 33,218	\$ 33,858	\$ 30,781	\$ 29,315
Interest on the total pension liability	48,396	44,402	72,720	73,641
Effect of plan changes	-	-	(6,513)	-
Effect of assumption changes	(355)	-	4,411	-
Effect of economic/demographic (gains) or losses	(28,615)	2,319	(375,340)	1,464
Benefit payments/refunds of contributions	<u>(65,657)</u>	<u>(30,826)</u>	<u>(123,744)</u>	<u>(107,531)</u>
Net Change in Total Pension Liability	(13,013)	49,753	(397,685)	(3,111)
TOTAL PENSION LIABILITY - Beginning	<u>596,451</u>	<u>546,698</u>	<u>944,383</u>	<u>947,494</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u>\$ 583,438</u>	<u>\$ 596,451</u>	<u>\$ 546,698</u>	<u>\$ 944,383</u>
FIDUCIARY NET POSITION				
Employer contributions	\$ 25,340	\$ 24,887	\$ 23,915	\$ 22,045
Member contributions	23,971	23,542	21,751	19,759
Investment income, net of investment expenses	83,546	38,224	18,197	62,536
Benefit payments/refunds of contributions	(65,657)	(30,826)	(123,744)	(107,531)
Administrative expense	(426)	(415)	(519)	(716)
Other	<u>(223)</u>	<u>(12,367)</u>	<u>(340,794)</u>	<u>7,284</u>
Net Change in Plan Fiduciary Net Position	66,551	43,045	(401,194)	3,377
PLAN FIDUCIARY NET POSITION - Beginning	<u>574,172</u>	<u>531,127</u>	<u>932,321</u>	<u>928,944</u>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>\$ 640,723</u>	<u>\$ 574,172</u>	<u>\$ 531,127</u>	<u>\$ 932,321</u>
NET PENSION LIABILITY (a) - (b)	<u>\$ (57,285)</u>	<u>\$ 22,279</u>	<u>\$ 15,571</u>	<u>\$ 12,062</u>
PLAN FIDUCIARY NET PENSION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	109.82%	96.26%	97.15%	98.72%
COVERED PAYROLL	\$ 342,438	\$ 336,315	\$ 310,729	\$ 282,271
NET PENSION LIABILITY AS A PERCENTAGE OF TOTAL COVERED EMPLOYEE PAYROLL	-16.73%	6.62%	5.01%	4.27%

* GASB Statement No. 68 requires 10 years of data to be provided in this schedule. This is the fourth 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)

Years Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2018	\$ 28,942	\$ 28,942	\$ -	\$ 418,226	6.9%
2017	15,375	25,340	(9,965)	342,438	7.4%
2016	24,887	24,887	-	336,315	7.4%
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 fourth year of implementation of GASB Statement No. 68. The District will develop and present the schedule prospectively.

See accompanying notes to the required supplementary information.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2018 (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	0.0 Years (based on contribution rate calculated in 12/31/2017)
Asset Valuation Method	5 Year Smoothed Market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% Including Inflation
Investment Rate of Return	8.00%, 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	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.

**Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.*

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, 2018

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Charges for water service	\$ 790,258	\$ 712,665	\$ 77,593
Charges for sewer service	1,169,933	1,197,303	(27,370)
Property taxes	-	-	-
Tap connection and inspection fees	-	-	-
Investment earnings	-	-	-
Penalties and interest	42,088	15,000	27,088
Other	-	-	-
Total Revenues	<u>255,069</u>	<u>221,550</u>	<u>33,519</u>
	<u>2,257,348</u>	<u>2,146,518</u>	<u>110,830</u>
EXPENDITURES/EXPENSES			
Service Operations			
Salaries, benefits, and payroll taxes*	471,155	534,556	63,401
Wastewater service	762,252	776,742	14,490
Repairs and maintenance	109,653	167,327	57,674
Professional fees	80,000	60,000	(20,000)
Contracted services	132,223	137,402	5,179
Utilities	85,331	76,083	(9,248)
Other supplies and expenses**	150,048	85,812	(64,236)
Depreciation	284,113	250,000	(34,113)
Capital Outlay	-	-	-
Total Expenditures/Expenses	<u>2,074,775</u>	<u>2,087,922</u>	<u>13,147</u>
Excess (deficiency) of revenues over expenditures	182,573	58,596	123,977
OTHER FINANCING SOURCES (USES)			
Transfers - internal activities	-	-	-
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	182,573	58,596	123,977
FUND BALANCE - Beginning of Year	<u>8,104,177</u>	<u>8,104,177</u>	-
FUND BALANCE - END OF YEAR	<u>\$ 8,286,750</u>	<u>\$ 8,162,773</u>	<u>\$ 123,977</u>

*Includes the noncash changes from GASB 68 of (\$41,786).

**Includes debt issuances costs of \$19,255.

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-1. SERVICES AND RATES
For the Year Ended December 31, 2018

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):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per ccf Over Minimum Use	Usage Levels
WATER:	\$ 7.07	-	N	\$ 0.91	0 TO 1
				\$ 0.97	2 TO 5
				\$ 1.07	6 TO 15
				\$ 2.00	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 unlimited
WASTEWATER:	\$ 13.12	-	N	\$ 2.88	0 TO 5
				\$ 3.57	6 TO unlimited
SURCHARGE:	\$ -	-	N	\$ -	___ TO ___
District employs winter averaging for wastewater usage? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					
Total charges per 10,000 gallons usage:		Water	\$ 20.42	Wastewater	\$ 56.08

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-1. SERVICES AND RATES
For the Year Ended December 31, 2018

b. Water and Wastewater Retail Connections

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	
<3/4"	2,000	1,998	x 1.0	1,998
1"	463	461	x 2.5	1,152.50
1-1/2"	18	18	x 5.0	90
2"	46	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	2,529	2,523	[REDACTED]	3,623
Total Wastewater	2,459	2,458	x 1.0	2,458

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

Gallons pumped into system:	313,574	Water Accountability Ratio: (Gallons billed / Gallons pumped) 78%
Gallons billed to customers:	245,875	

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, 2018

PERSONNEL EXPENSES (INCLUDING BENEFITS)*	\$ 471,155
PROFESSIONAL FEES	
Auditing	10,404
Legal	43,285
Engineering	12,923
Financial advisor	-
Other professional fees	13,388
PURCHASED SERVICES FOR RESALE	
Bulk water and wastewater service purchases	762,252
CONTRACTED SERVICES	132,223
UTILITIES	85,331
REPAIRS AND MAINTENANCE	109,653
ADMINISTRATIVE EXPENDITURES	
Directors' fees	9,920
Office supplies	4,570
Insurance	16,706
Other administrative expenditures	99,597
CAPITAL OUTLAY	
Capitalized assets	-
Expenses not capitalized	-
TAP CONNECTION EXPENSES	-
SOLID WASTE DISPOSAL	-
FIRE FIGHTING	-
PARKS AND RECREATION	-
OTHER EXPENSES	<u>284,113</u>
TOTAL EXPENSES	<u>\$ 2,055,520</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, 2018

	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at Year-End	Accrued Interest Receivable at End of Year
TexPool	1516-1111-000	2.53%	N/A	\$ 297,239	\$ -
Fellowship Federal Credit Union - Certificate of Deposit	7003-313	1.00%	1/16/2019	50,000	-
Fellowship Federal Credit Union - Certificate of Deposit	7003-315	1.00%	2/1/2019	50,000	-
Security Service Federal Credit Union - Certificate of Deposit	45556807081	2.37%	2/3/2022	100,000	-
Credit Human (SACU) Certificate of Deposit	17256942-0010	1.50%	12/1/2019	128,176	-
Firstmark Credit Union - Certificate of Deposit	604820-48	2.08%	12/16/2020	118,132	-
TOTALS				\$ 743,547	\$ -

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

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

	Amount			
	2018	2017	2016	2015
OPERATING REVENUES				
Water sales	\$ 790,258	\$ 722,438	\$ 667,621	\$ 704,726
Wastewater service charges	1,169,933	1,139,763	1,159,556	1,134,508
Tap connections and other revenue	255,069	207,667	202,462	198,647
Total Operating Revenues	<u>2,215,260</u>	<u>2,069,868</u>	<u>2,029,639</u>	<u>2,037,881</u>
OPERATING EXPENSES				
Personnel services	471,155	471,023	766,088	383,117
Professional fees	80,000	145,542	189,150	252,921
Contractual services	132,223	134,227	132,209	132,492
Wastewater services	762,252	731,417	716,873	677,846
Repairs and maintenance	109,653	120,266	130,465	129,467
Utilities	85,331	77,065	68,371	74,072
Other supplies and expenses	130,793	104,738	115,329	135,324
Depreciation	284,113	280,066	261,725	239,947
Total Operating Expenses	<u>2,055,520</u>	<u>2,064,344</u>	<u>2,380,210</u>	<u>2,025,186</u>
Operating Income (Loss)	<u>159,740</u>	<u>5,524</u>	<u>(350,571)</u>	<u>12,695</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	25,651	14,455	14,124	15,101
Other	(2,818)	-	-	-
Total Nonoperating Revenues (Expenses)	<u>22,833</u>	<u>14,455</u>	<u>14,124</u>	<u>15,101</u>
CHANGE IN NET POSITION	<u>\$ 182,573</u>	<u>\$ 19,979</u>	<u>\$ (336,447)</u>	<u>\$ 27,796</u>
Average Annual Unpaid Bond Principal and Interest	\$ -	\$ -	\$ -	\$ -
Net Income (Loss) Before Interest Expense and Fiscal Fees	182,573	19,979	(336,447)	27,796
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	2,484	2,482	2,462	2,313
Number of Sewer Customers at End of Year	2,412	2,413	2,402	2,298
Total Amount of Water Billed to Customers (in 1,000 of Gallons)	245,875	278,672	257,664	276,886

Amount	Percent of Fund Total Revenues					
	2018	2017	2016	2015	2014	
\$ 725,934	35.67 %	34.91 %	32.89 %	34.58 %	35.03 %	
1,150,056	52.82	55.06	57.13	55.67	55.50	
196,173	11.51	10.03	9.98	9.75	9.47	
<u>2,072,163</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	
385,215	21.27	22.76	37.75	18.80	18.90	
107,325	3.61	7.03	9.32	12.41	5.27	
132,279	5.97	6.48	6.51	6.50	6.49	
702,681	34.41	35.34	35.32	33.26	34.48	
98,073	4.95	5.81	6.43	6.35	4.81	
76,730	3.85	3.72	3.37	3.63	3.77	
133,089	5.90	5.06	5.68	6.64	6.53	
219,484	12.83	13.53	12.90	11.77	10.77	
<u>1,854,876</u>	<u>92.79</u>	<u>99.73</u>	<u>117.27</u>	<u>99.38</u>	<u>91.02</u>	
<u>217,287</u>	<u>7.21</u>	<u>0.27</u>	<u>(17.27)</u>	<u>0.62</u>	<u>10.49</u>	
16,324	1.16	0.70	0.70	0.74	0.80	
-	(0.13)	-	-	-	-	
<u>16,324</u>	<u>1.03</u>	<u>0.70</u>	<u>0.70</u>	<u>0.74</u>	<u>0.80</u>	
\$ <u>233,611</u>	<u>8.24 %</u>	<u>0.97 %</u>	<u>(16.57) %</u>	<u>1.36 %</u>	<u>11.27 %</u>	
\$ -						
233,611						
N/A						
2,459						
2,409						
290,638						

BEXAR COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10

TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS For the Year Ended December 31, 2018

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, 2018	Expense Reimbursements December 31, 2018	Title at Year-End
<u>BOARD MEMBERS</u>				
Sue Alexander	11/14 - 11/22	\$ 1,980		President
Eugenia Snead	11/14 - 11/22	1,980		- Vice President
John Fagin	11/14 - 11/22	1,840		- Secretary
Gale Scheibler	11/16 - 11/20	1,980		- Treasurer
Eddie Guerrero	11/18 - 11/21	260		Director
Fernando Richards, Jr	12/17 - 11/20	1,880		- Director
<u>KEY ADMINISTRATIVE PERSONNEL</u>				
David Wallace	5/15 - Present	76,183	3,306	General Manager
<u>CONSULTANTS</u>				
Baker Tilly	2016-2018	10,404		- Accountants
Benson Design	2018	7,675		- IT Consultant
CAPEX Consulting group	2017-2018	5,000		- Rate Consultants
Langley & Banack	2014-2018	83,451		- Attorney
Young Professional Services	2017-2018	151,855		- District Project Engineer

*\$178,385 of fees paid in current year are included in preliminary survey and investigation, capital asset additions and debt

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, 2018, and have issued our report thereon dated March 21, 2019.

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.

2018-001: 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.

2018-001: INTERNAL CONTROL OVER FINANCIAL REPORTING (cont.)

Condition

The auditors proposed and the District posted material adjusting journal entries in addition to the auditors preparing 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 of directors 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 of directors will continue to utilize the services of our audit firm to prepare the financial statements due to our limited staff size.

2018-002: 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.
- > The general ledger software is not secure and does not leave an audit trail for changed or deleted transactions.

2018-002: 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 of directors 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 March 21, 2019.

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 Voichau Krause, LLP

Austin, Texas
March 21, 2019