

**BEXAR METROPOLITAN WATER DISTRICT**  
San Antonio, Texas

Financial Statements with Auditors' Report

Year Ended April 30, 2007

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

FINANCIAL STATEMENTS WITH AUDITORS' REPORT

Year Ended April 30, 2007

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BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

FINANCIAL STATEMENTS WITH AUDITORS' REPORT

Year Ended April 30, 2007

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**Annual Filing Affidavit**

STATE OF TEXAS  
COUNTY OF BEXAR

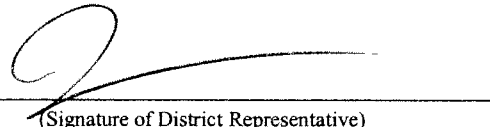
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I, F. Gilbert Olivares of the Bexar Metropolitan Water District hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the 19 day of September, 2007, its annual audit report for the fiscal period ended April 30, 2007 and that copies of the annual audit report have been filed in the District's office, located at 2047 W. Malone, San Antonio, Texas 78225.

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: September 25, 2007

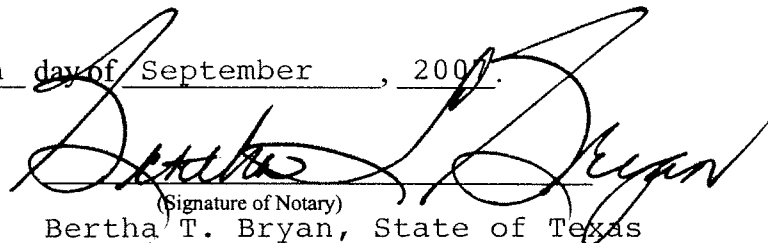
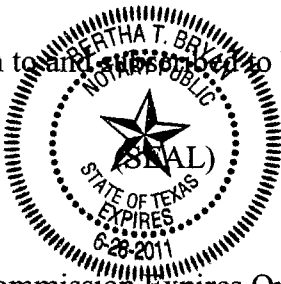
By: \_\_\_\_\_



(Signature of District Representative)

F. Gilbert Olivares, General Manager  
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this 25th day of September, 2007.



(Signature of Notary)  
Bertha T. Bryan, State of Texas

My Commission Expires On: June 28, 2011, \_\_\_\_\_  
Notary Public in the State of Texas.

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

Members of the Audit Committee and  
Board of Directors  
Bexar Metropolitan Water District  
San Antonio, Texas

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund of the Bexar Metropolitan Water District (the District) as of and for the year ended April 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of April 30, 2007, and the changes in its financial position and, where applicable, its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The management's discussion and analysis and the schedule of funding progress identified as required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The image shows a handwritten signature in black ink. The signature is written in a cursive style and appears to consist of two names. The first name starts with a large 'G' and ends with 'A...'. The second name starts with a large 'F' and ends with '...'. The signature is written over a faint, illegible background.

September 4, 2007



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**BEXAR METROPOLITAN WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

The management of the Bexar Metropolitan Water District (the District), provides this narrative overview and analysis of the financial statements and financial activities of the District for the fiscal year ended April 30, 2007.

### **District Overview**

During the 2006-2007 fiscal year, the District began with severe drought conditions in the San Antonio area as well as reduced water levels in the Trinity Aquifer. These two factors led to a chain reaction of events that culminated in the District's implementation of conservation measures more restrictive than those of other local purveyors. The District responded to these events by opening an emergency interconnect with SAWS to provide additional water to the affected area (Stone Oak, Hill Country Village, Hollywood Park). Further, swift action was taken to prevent this situation from materializing in the future. The District has drilled additional Edwards Aquifer wells and it is in the process of engineering two additional storage tanks (one elevated and one ground) that will provide additional capacity to the Hill Country service area. Also, the District has entered into a contract with the Water Exploration Company (WECO). WECO will drill additional Trinity Aquifer wells and deliver the production directly into the portion of the System servicing the Hill Country.

The actions required to address these circumstances, as well as the increased strain on resources and operations, had an unavoidable effect on the financial condition of the District.

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

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

**Government-wide financial statements.** The government-wide financial statements report information about the District, as a whole, using accounting methods similar to those used by private-sector businesses. As a proprietary fund, the District has prepared traditional income statements and balance sheets using private-sector accounting practices under a combination of Financial Accounting Standards Board (FASB) and GASB rules as prescribed in GASB Statement No. 20 for proprietary funds. The reports that the District has prepared are in accordance with the requirements of GASB Statement No. 34 as "business-type activities." Activities such as the District's utility services are considered "business-type" not solely because they resemble those performed by the private sector but because there is an exchange involved between the receiver and provider of the service. For business-type activities, there is frequently a direct relationship between the charge for the service and the service itself. This exchange relationship causes users of financial information to focus on the costs of providing the service, the revenues obtained from the service, and the difference between the two.

**BEXAR METROPOLITAN WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the revenue sources, expenses classifications, and reflects the change in net assets for the fiscal year.

The Statement of Cash Flows reconciles the beginning and ending cash and cash equivalents, as well as demonstrates the sources and uses of funds received and expended.

The government-wide financial statements can be found on pages 11-15 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District only reports a fiduciary fund.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 16-17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 18-50 of this report.

This report also includes required and other supplementary information. The required supplementary information concerning the District's progress in funding its obligations to provide pension benefits to its employees can be found on page 51 of this report. The other supplementary information consists of combining schedules for the operations of the District and the Development Corporation. In addition, other schedules have been included to comply with the Texas Commission on Environmental Quality (TCEQ) requirements.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$74,655,572. Of this amount, \$3,143,798 (Unrestricted Net Assets) may be used to meet the District's ongoing obligations.

**BEXAR METROPOLITAN WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

- The District's total net assets increased by \$157,027 (before capital contributions) at the close of the fiscal year. This increase is primarily attributable to the implementation of a new Water Supply Development Fee. The Water Supply Development Fees are similar to Impact Fees in purpose and in calculation. The need for such fees is rooted in the need to fund alternative water supplies and reduce the demand on the Edwards Aquifer. This new fee contributed \$3,567,741 to the District's operating revenues.
- The District's operating revenues increased by \$2,692,892 (4.4%) to \$64,121,293 compared to the prior year's operating revenues of \$61,428,401.
- The District's ending total assets equaled \$295,556,470, which represents an increase from the prior year of \$11,081,640.
- Regarding debt, the District issued Revenue Refunding Bonds, Series 2006. The bond proceeds were used to advance refund certain outstanding debt obligations. (i) a portion of the District's Series 1998 Refunded Bonds; (ii) a portion of the District's Series 2002 Refunded Bonds; and (iii) all of its outstanding Commercial Paper Notes, in the aggregate principal amount of \$20,000,000.

#### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, total assets exceeded liabilities by \$74,655,572 at the close of the fiscal year. (Table 1)

At the end of the fiscal year, the District had unrestricted cash balances of \$5,698,614 and unrestricted net assets of \$3,143,798. Unrestricted cash balances decreased \$2,442,035 (30%) over the prior year, and unrestricted net assets decreased \$1,322,111 (30%). The change in the unrestricted cash balance is due to an increase in the District's operating expenses.

The District's net asset classification "invested in capital assets net of related debt" increased by \$19,999,203 or 58% to \$54,250,921 during the year. The increase is the result of the acquisition of construction equipment, transportation equipment, as well as the completion of various jobs.

Restricted net assets consist of amounts for debt service, construction, contingencies, and employees' pension benefits. During the year, net assets restricted for debt service decreased by \$923,205 to \$11,679,188. Net assets restricted for construction decreased by \$6,371,293 to \$505,154. Amounts restricted for contingencies increased by \$271,942. Further, net assets have been restricted for employees' pension benefits in the amount of \$229,212, for the overfunding of the pension plan. Overall, restricted net assets decreased by \$6,974,328 to \$17,260,853.

<b>BEXAR METROPOLITAN WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)</b>
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Total net assets increased by \$11,702,764 to \$74,655,572, which is a direct result of capital contributions in the amount of \$11,545,737.

Table 1  
**Bexar Metropolitan Water District's Statement of Net Assets**

April 30,

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Unrestricted Current Assets	\$ 14,759,016	\$ 19,436,846	\$ (4,677,830)	-24.07%
Restricted Assets	21,697,475	21,981,128	(283,653)	-1.29%
Unrestricted Noncurrent Assets	-	481,250	(481,250)	0.00%
Capital Assets (Net)	255,099,459	239,101,224	15,998,235	6.69%
Other Assets	4,000,520	3,474,382	526,138	15.14%
<b>Total Assets</b>	<b><u>\$ 295,556,470</u></b>	<b><u>\$ 284,474,830</u></b>	<b><u>\$ 11,081,640</u></b>	<b><u>3.90%</u></b>
Unrestricted Current Liabilities	\$ 12,131,863	\$ 7,923,993	\$ 4,207,870	53.10%
Current Liabilities Payable from Restricted Assets	9,400,834	8,678,714	722,120	8.32%
Long-term Debt	199,368,201	204,919,315	(5,551,114)	-2.71%
<b>Total Liabilities</b>	<b><u>220,900,898</u></b>	<b><u>221,522,022</u></b>	<b><u>(621,124)</u></b>	<b><u>-0.28%</u></b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	54,250,921	34,251,718	19,999,203	58.39%
Restricted Net Assets				
Restricted for Debt Service	11,679,188	12,602,393	(923,205)	-7.33%
Restricted for Construction	505,154	6,876,447	(6,371,293)	-92.65%
Restricted for Contingencies	4,847,299	4,575,357	271,942	5.94%
Restricted for Employees' Pension Benefits	229,212	180,984	48,228	26.65%
<b>Total Restricted Net Assets</b>	<b><u>17,260,853</u></b>	<b><u>24,235,181</u></b>	<b><u>(6,974,328)</u></b>	<b><u>-28.78%</u></b>
Unrestricted Net Assets	<u>3,143,798</u>	<u>4,465,909</u>	<u>(1,322,111)</u>	<u>-29.60%</u>
<b>Total Net Assets</b>	<b><u>\$ 74,655,572</u></b>	<b><u>\$ 62,952,808</u></b>	<b><u>\$ 11,702,764</u></b>	<b><u>18.59%</u></b>

<b>BEXAR METROPOLITAN WATER DISTRICT  MANAGEMENT'S DISCUSSION AND ANALYSIS  (UNAUDITED)</b>
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Revenues exceeded expenses, which increased net assets by \$11,702,764. Elements of this increase are as follows:

**Table 2  
Bexar Metropolitan Water District's  
Statement of Revenues, Expenses and Changes in Net Assets**

	For the Year Ended April 30,			
	2007	2006	Change	% Variance
<b>Operating Revenues</b>				
Water Sales	\$ 48,223,715	\$ 48,625,696	\$ (401,981)	-1%
Customer Penalties and Fees	2,218,542	1,865,595	352,947	19%
Impact Fees	5,746,887	6,306,783	(559,896)	-9%
Water Development Fees	3,567,741	-	3,567,741	100%
Main and Service Extension Fees	1,543,574	1,612,755	(69,181)	-4%
Collection Fees for Sewer, Garbage and Fire Protection	1,198,839	1,364,405	(165,566)	-12%
Fire Protection	152,518	173,230	(20,712)	-12%
Regulatory Fees	1,469,477	1,479,937	(10,460)	-1%
<b>Total Operating Revenues</b>	<u>64,121,293</u>	<u>61,428,401</u>	<u>2,692,892</u>	<u>4%</u>
<b>Operating Expenses</b>				
Production Expenses	32,116,279	25,961,705	6,154,574	24%
Administrative and General Expenses	13,701,581	9,853,015	3,848,566	39%
Depreciation	9,514,474	9,056,009	458,465	5%
<b>Total Operating Expenses</b>	<u>55,332,334</u>	<u>44,870,729</u>	<u>10,461,605</u>	<u>23%</u>
<b>Operating Income</b>	<u>8,788,959</u>	<u>16,557,672</u>	<u>(7,768,713)</u>	<u>-47%</u>
<b>Non-Operating Revenues (Expenses)</b>				
Grant Revenue	86,043	418,004	(331,961)	-79%
Interest Revenue	1,095,447	774,848	320,599	41%
Bad Debts Recovered	8,472	23,070	(14,598)	-63%
Other Non-operating Revenues	319,778	285,240	34,538	12%
Gain on Sale of Capital Assets	492,964	121,813	371,151	305%
Bond and Other Interest Expense	(10,092,376)	(10,514,504)	422,128	-4%
Amortization of Bond Issuance Costs and Discount	(542,260)	(284,218)	(258,042)	91%
<b>Total Non-Operating (Expenses)</b>	<u>(8,631,932)</u>	<u>(9,175,747)</u>	<u>543,815</u>	<u>-6%</u>
<b>Increase in Net Assets Before Capital Contributions and Special Item</b>	157,027	7,381,925	(7,224,898)	-98%
<b>Capital Contributions Special Item</b>	11,545,737	7,075,540	4,470,197	63%
	<u>-</u>	<u>481,376</u>	<u>(481,376)</u>	<u>-100%</u>
<b>Change in Net Assets</b>	<u>11,702,764</u>	<u>14,938,841</u>	<u>(3,236,077)</u>	<u>-22%</u>
<b>Net Assets - Beginning Balance</b>	<u>62,952,808</u>	<u>48,013,967</u>	<u>14,938,841</u>	<u>31%</u>
<b>Net Assets - Ending Balance</b>	<u>\$ 74,655,572</u>	<u>\$ 62,952,808</u>	<u>\$ 11,702,764</u>	<u>19%</u>

**BEXAR METROPOLITAN WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

The most significant increase in revenues was from the new Water Supply Development fee, which represented \$3,567,741 or 5.5% of total operating revenues. On the other hand, the District's overall operating expenses increased by \$10,461,605 to \$55,332,334. This increase is primarily due to a rise in production expenses of \$6,154,574, which is the result of an increase in expenditures related mostly to main breaks, new water purchase agreements, pumping equipment maintenance, and a rise in the general cost of operation. Further, the District realized an increase in administrative costs by \$3,848,566, which is the result of a rise in expenditures related to salaries, insurance, and professional fees. Consequently, the change in net assets, which includes both operating and non-operating revenues and expenses, decreased \$3,236,077 (22%) to \$11,702,764. Also affecting the change in net assets is a net effect of an increase in capital contributions and a decrease in grant revenue.

### **Capital Asset and Debt Administration**

Capital Assets – The District's capital assets as of April 30, 2007 amounts to \$255,099,459 (net of depreciation). This amount includes land, a water treatment plant, transmission lines, machinery and equipment, capitalized interest, construction in progress, vehicles, software, water diversion rights, and other equipment. The total increase in capital assets during the year was (6.69%) \$15,998,235. This increase is due to capital contributions from developers, the purchase of transportation and construction equipment, as well as the continual improvement in infrastructure.

Major capital asset events on-going during the current fiscal year included the following:

1. U2161C – Echo Mountain Project
2. L3003C – Color Spot: Medio Creek
3. V5178c – Stevens Ranch Well

Other major capital asset projects that began in the current fiscal year and are still in progress are:

1. V6185C – Trinity Well Aquifer Project
2. U6178C – Stevens Ranch – 2.5 million gallon storage tank
3. J6003C – Ventura Subdivision Unit VII

The unexpended portion of construction commitments totaled \$2,250,923. In order to fund these and other capital projects, the District intends to use a combination of operating revenues, short term debt and impact fees.

Additional information on the District's capital assets can be found in Note C of this report.

Debt Administration – During the current fiscal year, as explained above, the District issued Refunding Revenue Bonds, Series 2006. Further, the District did not issue additional commercial paper. Actually, the District's long term debt decreased by \$5,551,114, which is the effect of principal payments made during the fiscal year, savings on the refunding issue and the accretion of interest on capital appreciation bonds.

**BEXAR METROPOLITAN WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

In June 2006, in conjunction with the District's issuance of the Refunding Revenue Bonds, Series 2006, the three major rating agencies, Fitch Ratings, Moody's Investor Services, Inc. and Standard & Poor's Rating Services (S&P) assigned the following underlying ratings:

	Rating
Fitch Ratings	A-
Moody's Investor Services, Inc.	A3
Standard & Poor's Rating Services (S&P)	A

See Note F through I for additional information on the long term debt.

### **Economic Outlook for the Future**

- The approved fiscal year 2007-2008 total operating budget for the District is \$55,546,320, which represents an increase of approximately seventeen percent over the previous year's total operating budget. The approved budget contemplates increases in only basic operating areas such as insurance, personnel, and water treatment & testing to maintain adequate water quality as mandated by the Texas Water Code.
- Net assets are projected to increase by \$138,165.
- The approved fiscal year 2007-2008 capital improvement program budget is \$36,305,000. These expenditures will be funded with a combination of short term debt, impact fees and District operating revenues.

As in the prior year, the District utilized its restructured budget process to incorporate input from not only department directors, but from managers and supervisors who are in touch with the daily operational needs of the District. This budget process has led to a more realistic basis for the budget, which, for the second consecutive year, did not require a rate increase for the District's customers.

### **Request for Information**

This financial report is designed to provide a general overview of the Bexar Metropolitan Water District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to F. Gilbert Olivares, General Manager at Bexar Metropolitan Water District, 2047 W. Malone, San Antonio, Texas 78225.



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## BASIC FINANCIAL STATEMENTS

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## Government-wide Financial Statements

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Statement of Net Assets

April 30, 2007

	Business-Type Activities
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Unrestricted Current Assets</b>	
Cash and Cash Equivalents	\$ 5,698,614
Accounts Receivable:	
District Customers (Net of allowance for uncollectible accounts of \$1,978,149)	5,402,848
Miscellaneous (Net of allowance for uncollectible accounts of \$663,147)	1,405,060
Prepaid Expenses	322,037
Inventory	1,930,457
<b>Total Unrestricted Current Assets</b>	14,759,016
<b>Restricted Current Assets</b>	
Cash and Cash Equivalents	19,340,823
Investments	2,356,652
<b>Total Restricted Current Assets</b>	21,697,475
<b>Total Current Assets</b>	36,456,491
<b>Noncurrent Assets</b>	
<b>Unrestricted Noncurrent Assets</b>	
<b>Capital Assets</b>	
Land	10,616,917
Construction In Progress	20,146,148
Capital Assets Being Depreciated	318,309,000
Less: Accumulated Depreciation	(93,972,606)
<b>Total Capital Assets (Net)</b>	255,099,459
<b>Other Assets</b>	
Unamortized Bond Issuance Costs	3,771,308
Net Pension Asset	229,212
<b>Total Other Assets</b>	4,000,520
<b>Total Noncurrent Assets</b>	259,099,979
<b>Total Assets</b>	\$ 295,556,470

(Continued)

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Statement of Net Assets

April 30, 2007

	Business-Type Activities
<b>LIABILITIES AND EQUITY</b>	
<b>Current Liabilities</b>	
<b>Current Liabilities Payable from Unrestricted Assets</b>	
Accounts Payable	\$ 8,609,081
Sewer and Garbage Collections	1,214,187
Accrued Wages/Payroll Taxes Payable	505,159
Prepaid Customer Accounts	407,316
Current Portion of Long Term Debt	516,645
Security Deposits	71,555
Accrued Vacation	490,926
Insurance Claims Liability	140,937
Deferred Revenue	52,457
Other Accrued Expenses	123,600
<b>Total Unrestricted Current Liabilities</b>	<b>12,131,863</b>
<b>Current Liabilities Payable from Restricted Assets</b>	
Revenue Bonds Payable Within One Year	4,735,000
Accrued Bond Interest Payable	4,665,834
<b>Total Restricted Current Liabilities</b>	<b>9,400,834</b>
<b>Total Current Liabilities</b>	<b>21,532,697</b>
<b>Noncurrent Liabilities</b>	
Noncurrent Portion of Long Term Debt	199,368,201
<b>Total Noncurrent Liabilities</b>	<b>199,368,201</b>
<b>Total Liabilities</b>	<b>220,900,898</b>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	54,250,921
<b>Restricted Net Assets</b>	
Restricted for Debt Service	11,679,188
Restricted for Construction	505,154
Restricted for Contingencies	4,847,299
Restricted for Employees' Pension Benefits	229,212
<b>Total Restricted Net Assets</b>	<b>17,260,853</b>
Unrestricted Net Assets	3,143,798
<b>Total Net Assets</b>	<b>\$ 74,655,572</b>

The accompanying notes to financial statements form an integral part of this statement.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended April 30, 2007

	Business-Type Activities
Operating Revenues	
Water Sales	\$ 48,223,715
Customer Penalties and Fees	2,218,542
Impact Fees	5,746,887
Water Development Fees	3,567,741
Main and Service Extensions	1,543,574
Collection Fees for Sewer, Garbage and Fire Protection	1,198,839
Fire Protection	152,518
Regulatory Fees	1,469,477
Total Operating Revenues	64,121,293
Operating Expenses	
Production Expenses	32,116,279
Administrative and General Expenses	13,701,581
Depreciation	9,514,474
Total Operating Expenses	55,332,334
Operating Income	8,788,959
Non-Operating Revenues (Expenses)	
Grant Revenue	86,043
Interest Earned	1,095,447
Bad Debts Recovered	8,472
Other Non-operating Revenues	319,778
Gain on Disposal of Capital Assets	492,964
Bond and Other Interest Expense	(10,092,376)
Amortization of Bond Issuance Costs and Discount	(542,260)
Total Non-Operating (Expenses)	(8,631,932)
Increase in Net Assets, before Capital Contributions	157,027
Capital Contributions	11,545,737
Change in Net Assets	11,702,764
Net Assets - Beginning Balance	62,952,808
Net Assets - Ending Balance	\$ 74,655,572

The accompanying notes to the financial statements form an integral part of this statement.

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BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Statement of Cash Flows

Year Ended April 30, 2007

	Business-Type Activities
<b>Cash Flows From Operating Activities:</b>	
Cash Received from Customers	\$ 52,244,388
Cash Received from Other Services	13,731,493
Cash Payments to Suppliers for Goods and Services	(28,697,108)
Cash Payments to Employees for Services	(12,680,517)
	24,598,256
<b>Cash Flows From Investing Activities:</b>	
Purchase of Investments	(2,351,768)
Investment Income	1,095,447
	(1,256,321)
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Cash Received from Issuance of Bonds	195,757
Repayments of Bad Debt	8,472
Other Non-operating Revenues	310,139
Proceeds from Sale of Capital Assets	2,035,221
Cash Paid for the Issuance of Bonds	(1,442,920)
Principal Payments-Bonds and Notes	(4,445,000)
Principal Payments-Capital Leases	(669,649)
Principal Payments - Contracts Payable	(7,136)
Purchase of Capital Assets	(15,535,408)
Bond and Other Interest Expense	(8,873,751)
	(28,424,275)
Net Cash (Used) by Capital and Related Financing Activities	(28,424,275)
Net (Decrease) in Cash and Cash Equivalents	(5,082,340)
Cash and Cash Equivalents, Beginning of Year	30,121,777
Cash and Cash Equivalents, End of Year (including \$19,340,823 reported in restricted accounts)	\$ 25,039,437

(Continued)

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Statement of Cash Flows

Year Ended April 30, 2007

	Business-Type Activities
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities	
Operating Income	\$ 8,788,959
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	9,514,474
Credit Losses	1,312,886
(Increase) Decrease In:	
Accounts Receivable-District Customers	617,188
Accounts Receivable-Miscellaneous	541,759
Inventory of Materials and Supplies	(188,225)
Prepaid Expenses	(39,614)
Accounts Receivable-Noncurrent	481,250
Security Deposits	12,985
Net Pension Asset	(48,228)
Increase (Decrease) in:	
Accounts Payable	5,097,567
Sewer and Garbage Collection Payable	(1,081,092)
Accrued Wages/Payroll Taxes	63,381
Prepaid Customer Accounts	161,934
Security Deposits	9,100
Accrued Vacation	79,960
Deferred Revenue	52,457
Due to Bexar County	(61,043)
Insurance Claims Liability	(80,654)
Accrued Expenses - Other	63,212
Accounts Payable-Noncurrent	(700,000)
	(700,000)
<b>Total Cash Provided by Operating Activities</b>	<b>\$ 24,598,256</b>

Noncash Capital and Financing Activities:

- a. The District received contributed capital assets from developers in the amount of \$11,545,737.
- b. Capitalized interest costs totaled \$247,885.
- c. Amortization of bond issuance costs and original issue discounts and premiums totaled \$486,113.

The accompanying notes to financial statements form an integral part of this statement.

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## Fund Financial Statements

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Statement of Fiduciary Net Assets

February 28, 2007

	<u>Retirement Income Plan Pension Trust Fund</u>
<b>ASSETS</b>	
Current Assets	
Accounts Receivable - Employee Contributions	<u>\$ 114,315</u>
Total Current Assets	114,315
Noncurrent Assets	
Investments, at Fair Value:	
Unallocated Separate Accounts	1,990,684
Invested in Insurance Company	1,285,306
Common Trust Funds	<u>7,943,947</u>
Total Noncurrent Assets	<u>11,219,937</u>
Total Assets	<u>11,334,252</u>
<b>NET ASSETS</b>	
Net Assets	
Held in Trust for Pension Benefits	<u>\$ 11,334,252</u>

The accompanying notes to financial statements form an integral part of this statement.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Statement of Changes in Fiduciary Net Assets

Year Ended February 28, 2007

	Retirement Income Plan Pension Trust Fund
<b>Additions:</b>	
Contributions	
Employer	\$ 904,672
Plan Members	444,222
Total Contributions	1,348,894
<b>Investment Earnings</b>	
Net Increase in the Fair Value of Investments	1,335,106
Interest	24,582
Total Investment Earnings	1,359,688
Total Additions	2,708,582
<b>Deductions:</b>	
Benefits Paid to Plan Members	1,683,400
Administrative Expenses	164,048
Total Deductions	1,847,448
Change in Net Assets	861,134
Net Assets - Beginning Balance	10,473,118
Net Assets - Ending Balance	\$ 11,334,252

The accompanying notes to financial statements form an integral part of this statement.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Bexar Metropolitan Water District (the District) is a political subdivision of the State of Texas created in 1945 as a stand alone agency by an Act of the 49<sup>th</sup> Legislature. Duties and functions of the District are in Article 8280-126 VATS, Title 128, Chapter 12. The District was created for the purpose of controlling, distributing and utilizing storm and flood waters of rivers and streams; and to control and regulate the accumulation and disposal of sewage and refuse.

The District's service area consists of approximately 277 square miles in Bexar, Atascosa, Medina, and Comal counties. The principal areas of service are the Southside of San Antonio, the City of Castle Hills, the City of Somerset, the Northeast service area, the Northwest and Texas Research Park area, the Southeast area, the Chaparral service area and the North Central areas which include the cities of Hill Country Village, Hollywood Park, and the Stone Oak subdivision. The District, on a contract basis, collects garbage and sewer revenues for various entities within its service area.

The District is governed by a seven member Board of Directors, elected from representative customer districts and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its Statement No. 14, "*The Financial Reporting Entity*", and is not included in any other governmental reporting entity.

Component Units

GASB Statement No. 14, "*The Financial Reporting Entity*" considers entities with certain characteristics as component units. These characteristics include:

- The District appoints a voting majority of the component unit's governing body
- The component units provide specific financial benefits to the primary government.
- The primary government is financially responsible for the component units.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

These financial statements present the District and its component units, entities which are legally separate from the District, but which were organized exclusively for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the District.

Blended component units, although legally separate entities are, in substance, part of the primary government's operations and thus, data from these units are generally combined with the data of the primary government. The District has three blended component units: Bexar Metropolitan Development Corporation, Bexar Metropolitan Water District Public Facility Corporation, and Bexar Metropolitan Water District Retirement Income Plan (Defined Benefit Pension Plan).

Each blended component unit has an April 30 year-end, with the exception of the Defined Benefit Pension Plan that has a February 28, year-end.

The Bexar Metropolitan Development Corporation was organized in January 1997 for the purpose of furthering the public purpose of the promotion and development of industrial and manufacturing enterprises, including the issuance and payment of the "Bexar Metropolitan Development Corporation Water Facility Contract Revenue Bonds, Series 2003". The Bexar Metropolitan Development Corporation is currently operating a water treatment facility that it leases to the District.

The Bexar Metropolitan Water District Public Facility Corporation was organized in January 1997 to assist the District in financing, refinancing, or providing public facilities. This Corporation has the authority to finance the acquisition of District obligations issued or incurred in accordance with existing law, to provide for the acquisition, construction, rehabilitation, renovation, repair, and the equipping, furnishing and placement in service of public facilities of the District. As of April 30, 2007, the Bexar Metropolitan Water District Public Facility Corporation had not been activated.

The Defined Benefit Pension Plan, established in 1973 is a single-employer sponsored plan. The Plan was established as a defined benefit plan covering all eligible employees. In accordance with GASB standards, the assets of the pension plan are reported in a pension trust fund in the accompanying financial statements. A publicly available financial report that includes the applicable financial statements and required supplementary information may be requested and obtained from the District's offices.



BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

**B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The District operates as an enterprise (proprietary) fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues of the District are charges to customers for providing water. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The financial statements in this report are prepared using the accrual basis of accounting and on the flow of economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). The District applies all applicable GASB pronouncements as well as any FASB statements and interpretations, APB opinions and ARB's issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The lease activity between the District and the Development Corporation is eliminated for financial statement presentation.

Grant funds are considered to be earned when the related program expenditures are incurred. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. Funds expended but not yet received are shown as receivables. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

Impact fees are recognized as a receivable and revenue as soon as the District has established an enforceable legal claim to the resources (typically when a contract is executed). Since these resources are legally restricted to capital acquisition, their effect has been included in Net Assets Restricted for Construction.

The pension trust fund accounts for the activities of the Defined Benefit Pension Plan, which accumulates resources for pension benefit payments to eligible employees.

C. OTHER ACCOUNTING POLICIES

1. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are considered to be cash on hand, demand deposits, money market funds, and investments with a maturity of three months or less from the date of acquisition.

3. Investments

State statutes and the District's investment policies authorize the District to invest (short-term and long-term) in fully secured certificates of deposit, eligible investment pools, U.S. Treasury Obligations, U.S. Agency Issues, high-grade secured commercial paper, banker's acceptances, fully collateralized repurchase agreements and certain stock and bond funds. Generally, short-term investments are stated at cost or amortized cost and long-term investments are reported at fair value. The District records any unrealized gains or losses on the long-term securities as nonoperating revenues.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

Local Governmental Investment Cooperative (LOGIC): LOGIC is a public funds investment pool established pursuant to the Interlocal Cooperation Act and Public Funds Investment Act of Texas. It is governed by an Interlocal contract among participants, by-laws and board oversight of its investment and operating policies. LOGIC operates the portfolio in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. Accordingly, the fair value of the District's position in LOGIC is the same as the value of LOGIC's shares and does not include any unrealized gains and losses.

LOGIC was organized in 1994 in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Texas Public Funds Investment Advisory Act, Chapter 2256 of the Texas Government Code. The Public Funds Investment Act allows eligible local governments, state agencies, and non-profit corporations of the State of Texas to jointly invest their funds in permitted investments. LOGIC's governing body is a three member Board of Directors comprised of government officials or employees. Citigroup Asset Management serves as the sub advisor for the LOGIC program and SWS Capital Corporation, a wholly-owned subsidiary of Southwest Securities Group, Inc., serves as the investment advisor and administrator. Financial information for LOGIC can be obtained by calling 1-800-TX-LOGIC or by requesting it by e-mail at [info@logic.org](mailto:info@logic.org)

Money Market Investments: The District maintains funds in a U.S. Government Money Market Fund and a US Treasury Money Market Fund, which are invested by the District's agent in short-term obligations issued by the U.S. Government, its agencies or instrumentalities and repurchase agreements fully collateralized by these securities. The District reflects these funds as cash and cash equivalents.

Discount Notes: The District purchases various Federal Home Loan Bank (FHLB) discount notes, which were held by The Bank of New York Trust.

#### 4. Inventory

Inventory consists of pipes, supplies, and other items used in the District's construction projects and system maintenance. These inventories are valued using the average cost method and are reported under the consumption method whereby inventory is expensed or capitalized (as a construction cost) when utilized.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

5. Capital Assets

Capital assets, when purchased or constructed, are recorded at cost or estimated historical cost based on the corresponding asset class.

The capital asset accounts include all of the District's assets including public domain ("infrastructure") assets such as drainage systems, which have value only to the District, and assets acquired through capital leases. Assets acquired through contributions; such as, those from land developers, are capitalized and recorded as capital assets and capital contributions (revenue) at estimated fair value at date of donation.

It is the policy of the District to capitalize certain interest costs on revenue bonds and commercial paper associated with newly constructed capital asset additions. The applicable interest costs are reflected in the capitalized value of the assets constructed.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but are charged to operating expense. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets are depreciated and property under capital lease is amortized on the straight-line method using rates estimated to fully depreciate and amortize the costs of the asset group over their estimated useful lives.

The capitalization threshold and estimated useful lives are as follows:

Asset Class	Capitalization Threshold	Estimated Useful Lives
Land and Land Improvements	Capitalize All	NA
Construction in Progress	\$25,000 per project	NA
Utility Plant and Distribution	\$25,000 per project	5- 50 years
Buildings/ Improvements	\$25,000 per project	10-40 years
Water Rights Diversion	Capitalize all	40 years
Equipment	\$5,000 per unit or per system	5-10 years
Communication Equipment	\$5,000 per unit or per system	10 years
Computer Equipment	\$5,000 per unit or per system	5 years
Construction Equipment	\$25,000 per project	5-10 years
Software	\$15,000 per project	5 years
Furniture and Fixtures	\$5,000 per unit or per system	5 years
Vehicles	\$5,000 per unit or per system	5 years
Radio Communication Towers	\$5,000 per unit or per system	40 years

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

6. Compensated Absences

It is the District's policy to permit full time employees to accumulate earned but unused vacation and sick leave benefits. Vacation pay is accrued when incurred and reported as a liability. Employees may accumulate from two to four weeks of vacation pay per year depending on their length of employment. As of April 30, 2007, accrued vacation payable is \$490,926 and is reflected as a short-term liability since it must be used within the following fiscal year. Accumulated sick leave is not payable upon termination and is therefore not recorded as a liability at year-end.

7. Net Assets

Net assets are reported as (1) invested in capital assets net of related debt; (2) restricted for debt service, construction, contingencies, and employees pension benefits, and; (3) unrestricted.

8. Amortization of Bond Related Costs

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method and bonds payable are reported net of the applicable premium/discount. Bond issuance costs and loss on refunding are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

9. Annual Budget

The Board of Directors approves an annual budget each fiscal year, which estimates the amount of funds available from all sources for expenditure by the District during the fiscal year. The annual budget serves as a control device in executing the programs approved therein.

Since the District operates as an enterprise fund, a Budget to Actual schedule is not required to be presented as part of the financial statements. However, a budget to actual schedule is included as supplementary information. The schedule reflects the original and final amended budget and compares the final amended budget to actual revenues and expenses. As reflected in the schedule, at April 30, 2007, expenses exceeded appropriations in the production and administrative and general expenses by \$5,953,855 and \$3,918,751 respectively.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

II. DETAILED NOTES

A. DEPOSITS and INVESTMENTS

Deposits: At April 30, 2007, the carrying amount of the District's cash on deposit was \$332,189 and the bank balance was \$298,107. The District's cash deposits at April 30, 2007 and during the year ended April 30, 2007 were entirely covered by FDIC insurance and/or by pledged collateral held by the District's pledging financial institution, as required by its investment policy and the Public Funds Collateral Act.

Investments: As of April 30, 2007, the District had the following investments:

Investment	Amount	Weighted Average Maturity (Days)	Standard & Poors Rating
LOGIC	\$ 18,011,292	35	AAA
US Government Money Market	4,220,251	25	AAAm
US Treasury Money Market	2,472,915	56	AAAm-
FHLB Discount Notes	<u>2,356,652</u>	1	A-1+
Total	<u>\$ 27,061,110</u>		

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the maturities of investment pools, money market mutual funds, and discount notes to a weighted average maturity of less than ninety (90) days, two (2) years, and three (3) years, respectively.

*Credit Risk.* In accordance with the District's investment policy, investments in investment pools must be rated at least AAA, AAA-m, or its equivalent; and investments in money market mutual funds and discount notes must be rated at least AAA. As of April 30, 2007, the District has exposure to credit risk of \$2,356,652 because the discount notes were rated A-1+, which is below the required rating.

*Concentration of Credit Risk.* The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. The District's investment in money market funds and FHLB Discount Notes represents 25% and 9% of the District's total investment, respectively.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

The following is a reconciliation of deposits and investments from the notes to the statement of net assets:

Deposits and investments consist of the following:

Cash on Hand	\$	2,900
Deposits		332,189
Discount Notes		2,356,652
Money Market Funds		6,693,166
LOGIC		18,011,292
Total	\$	<u>27,396,199</u>

Totals from Statement of Net Assets:

	Total	Cash & Cash Equivalents	Investments
Unrestricted	\$ 5,698,614	\$ 5,698,614	\$ -
Restricted			
Interest and Sinking Funds	11,433,670	11,224,701	208,969
Reserve Funds	2,763,668	2,763,668	-
Construction Fund	505,154	505,154	-
Contingency Fund	6,994,983	4,847,300	2,147,683
	<u>21,697,475</u>	<u>19,340,823</u>	<u>2,356,652</u>
Total	\$ 27,396,199	\$ 25,039,547	\$ 2,356,652

**B. RECEIVABLES**

**1. District Customers**

This account consists of amounts due from customers for water. Included in this amount is \$1,959,172 of unbilled water receivables.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

2. Miscellaneous Receivables

Miscellaneous receivables are comprised of the following:

BMA Water Improvement District	\$	217,676
Lone Star Growers		586,250
Health Insurance Stop Loss		244,930
Service Installations		202,949
Texas Department of Transportation		135,000
County of Bandera		93,332
Dividend Receivable		7,616
NSF Checks		253,432
Repairs		103,715
Fire Hydrants		80,757
Guadalupe Blanco River Authority		46,200
Timberwood Assessment Fees		11,732
Other Miscellaneous Receivables		84,618
Less: Allowance for uncollectible accounts		(663,147)
<b>Total</b>	<b>\$</b>	<b>1,405,060</b>

C. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended April 30, 2007, was as follows:

Asset Class	Beginning Balance May 1, 2006	Additions	Deletions	Ending Balance April 30, 2007
<b>Capital Assets, not subject to depreciation</b>				
Land	\$ 11,544,449	\$ 44,831	\$ (972,363)	\$ 10,616,917
Construction In Progress	8,783,704	11,362,444	-	20,146,148
<b>Total Capital Assets Not Subject to Depreciation</b>	<b>20,328,153</b>	<b>11,407,275</b>	<b>(972,363)</b>	<b>30,763,065</b>
<b>Capital Assets, being depreciated</b>				
Utility Plant and Distribution	267,267,982	13,170,623	(771,717)	279,666,888
Buildings and Improvements	7,673,531	-	-	7,673,531
Equipment	18,492,635	1,964,992	-	20,457,627
Software	1,341,876	26,680	-	1,368,556
Vehicles	3,538,683	499,913	-	4,038,596
Water Rights Diversion	4,200,620	-	-	4,200,620
Furniture and Fixtures	903,182	-	-	903,182
<b>Total Capital Assets Being Depreciated</b>	<b>303,418,509</b>	<b>15,662,208</b>	<b>(771,717)</b>	<b>318,309,000</b>

(Continued)



BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

Asset Class	Beginning Balance May 1, 2006	Additions	Deletions	Ending Balance April 30, 2007
Less Accumulated Depreciation for:				
Utility Plant and Distribution	(64,559,804)	(7,691,409)	187,306	(72,063,907)
Buildings and Improvements	(2,051,865)	(325,898)	-	(2,377,763)
Equipment	(12,468,263)	(938,699)	-	(13,406,962)
Software	(1,231,224)	(111,237)	-	(1,342,461)
Vehicles	(2,561,158)	(340,388)	-	(2,901,546)
Water Rights Diversion	(871,769)	(105,016)	-	(976,785)
Furniture and Fixtures	(901,356)	(1,826)	-	(903,182)
Total Accumulated Depreciation	<u>(84,645,439)</u>	<u>(9,514,473)</u>	<u>187,306</u>	<u>(93,972,606)</u>
Total Capital Assets, Net	<u>\$ 239,101,223</u>	<u>\$ 17,555,010</u>	<u>\$ (1,556,774)</u>	<u>\$ 255,099,459</u>

Depreciation expense for the current year was \$9,514,474.

Capital assets being depreciated with a net book value of \$831,211 are considered idle as of April 30, 2007.

**D. CAPITALIZED INTEREST COSTS**

Interest costs incurred on revenue bonds and commercial paper totaled \$10,228,850 of which \$247,885 was capitalized as part of the cost of the District's construction projects.

**E. OPERATING LEASES**

The District leases a vehicle and several copiers under noncancelable operating leases. Total costs for such leases were \$92,510 for the year ended April 30, 2007. Future minimum lease payments follow:

Year Ending April 30,	Amount
2008	\$ 58,315
2009	24,427
2010	22,256
2011	11,400
2012	4,750
Total	<u>\$ 121,148</u>

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

F. LONG TERM DEBT

1. Capital Leases Payable

The District entered into various lease agreements for financing the acquisition of computer equipment, software, heavy equipment, and vehicles. These lease agreements meet the definition of a capital lease for accounting purposes and, therefore, are recorded at the present value of future minimum lease payments as of the inception date. The terms of the leases are for 3 to 10 years with payments of \$180,708 monthly and \$2,168,456 annually and annual percentage rates from 2.5% to 10.5%. At the end of the respective lease terms, the ownership of the asset transfers to the District or the District has the option to purchase the asset. The leases are included in capital assets in the amounts of \$3,435,809 and \$923,926 in equipment and vehicles, respectively and the related amortization is included in accumulated depreciation in the amount of \$1,803,024 and \$285,501 for equipment and vehicles, respectively.

Future minimum capital lease payments follow:

Year Ending April 30,	Amount
2008	\$ 587,769
2009	512,188
2010	470,630
2011	339,324
2012	218,549
Total Minimum Lease Payments	2,128,440
Less: Amount Representing Interest	(198,562)
Present Value of Future Minimum Lease Payments	\$ 1,929,878

2. Contracts Payable

In 2004, the District entered into an installment contract for the acquisition of a vehicle, which carries an interest rate of 7.50% and provides for monthly installments for a period of 48 months. This agreement has been classified as a contract payable and is recorded at the present value of the future minimum contract payments.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

The vehicle with a cost of \$49,149 is pledged against the contract at which time the District has the option of:

- a. making the final payment due of \$21,550,
- b. refinancing the final payment, or
- c. returning the vehicle to the creditor. The District is to pay the creditor the cost of all repairs to the vehicle that is the result of excess wear.

Historically, the District has exercised its option of returning vehicles and has paid the additional charges since it considers this option to be the most economical method.

Future minimum contract payments as of April 30, 2007 follow:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 7,719	\$ 2,125	\$ 9,844
2009	22,757	435	23,192
Total	<u>\$ 30,476</u>	<u>\$ 2,560</u>	<u>\$ 33,036</u>

3. Commercial Paper Note Program

On July 1, 2002, the Board of Directors approved \$50,000,000 of "Bexar Metropolitan Water District Commercial Paper Notes" that are used to provide funds for the interim financing of a portion of capital improvements to the District and to refinance, renew, or refund the existing notes.

The District has covenanted to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the commercial paper notes.

The borrowings under the Commercial Paper Note Program are equally and ratably secured by and are payable from (1) the proceeds from the sale of the bonds and (2) borrowing under and pursuant to the credit agreement.

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To further support the issuance of the commercial paper notes, the District entered into a letter of credit and reimbursement agreement with Bank of America. Pursuant to the agreement, the Bank is obligated to loan to the District an aggregate amount not to exceed \$55,547,946 for the purpose of paying amounts due under the Commercial Paper Note Program. Any borrowings under the credit agreement is equally and ratably secured by and payable from the above mentioned sources pledged for payment of the Commercial Paper Note Program and from a pledge of the Net Revenues of the District, such pledge being subordinate to the pledge of Net Revenues securing all Senior Lien Obligations.

As of April 30, 2007, the District does not have commercial paper notes outstanding.

4. Revenue Bonds Payable

The District issues revenue bonds to refund other bond issues and or commercial paper notes, provide funds for construction, repair and maintain existing facilities, acquire new systems, and to pay the issuance costs. These bonds constitute special obligations of the District and are secured by revenues from the District's operation.

Revenue bonds payable as of April 30, 2007 consist of the following:

- \$68,030,000 Waterworks System Revenue Bonds, Series 1995 with \$33,555,000 outstanding at the end of the year. Interest rates range from 3.9% to 6.35% and is payable semi-annually on May 1 and November 1 each year.
- \$66,655,403 Waterworks System Revenue Bonds, Series 1998 with \$57,442,217 outstanding at the end of the year. Interest rates range from 3.75% to 5.6% and are payable semi-annually May 1 and November 1 each year.
- \$30,296,424 Water Facility Contract Revenue Bond, Series 1998, with \$24,126,424 outstanding at the end of the year, issued by the Bexar Metropolitan Development Corporation. Interest rates range from 4.05% to 5.5% and are payable semi-annually May 1 and November 1 each year.

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- \$57,700,000 Waterworks System Revenue Refunding Bonds, Series 2002 with \$29,690,000 outstanding at the end of the year. Interest rates range from 3.0% to 5.375% and are payable semi-annually May 1 and November 1 each year.
- \$53,741,387 Waterworks System Revenue Refunding Bonds, Series 2006 with \$53,741,387 outstanding at the end of the year. Interest rates range from 4.25% to 5.0% and are payable semi-annually May 1 and November 1 each year.

The annual debt service requirements for the revenue bonds as of April 30, 2007 are as follows:

Year Ending April 30,	Principal	Interest	Accreted Interest	Total
2008	\$ 4,610,000	\$ 9,234,793	\$ -	\$ 13,844,793
2009	4,820,000	9,033,433	-	13,853,433
2010	5,030,000	8,817,159	-	13,847,159
2011	5,255,000	8,583,613	-	13,838,613
2012	5,505,000	8,332,261	-	13,837,261
2013-2017	28,596,325	37,815,911	2,898,675	69,310,911
2018-2022	33,334,655	30,814,988	5,515,345	69,664,988
2023-2027	43,669,899	19,471,699	6,082,881	69,224,479
2028-2032	30,377,017	13,672,302	13,345,202	57,394,521
2033-2037	23,787,132	6,210,122	8,897,864	38,895,118
2038-2039	13,570,000	686,750	-	14,256,750
	<u>\$ 198,555,028</u>	<u>\$ 152,673,031</u>	<u>\$ 36,739,967</u>	<u>\$ 387,968,026</u>

On June 1, 2006, the District issued \$53,741,387 of Waterworks System Revenue Refunding Bonds, Series 2006 with interest rates of 4.25 – 5 percent to advance refund \$37,085,000, \$23,535,000, and \$20,000,000 of outstanding Waterworks System Revenue Refunding Bonds, Series 1998, 2002, and Commercial Paper Notes, respectively. The refunded bonds and notes, had interest rates between 2.9 – 5.375 percent. The net proceeds of \$55,405,337 (after payment of \$1,018,722 in underwriter's fees and issuance costs plus an additional \$1,442,920 of debt service funds) were used to purchase US government securities. Those investments were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds and notes. As a result, the refunded bonds and notes are considered to be defeased and the liability has been removed from the financial statements. The District advance refunded a portion of the bonds and notes to reduce its total debt service payments over the next 30 years by \$4,769,251 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,263,926.

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In prior years, the District defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account asset and liability for the defeased bonds are not included in the District's financial statements. At April 30, 2007 \$107,785,000 of bonds outstanding is considered defeased, which includes the bonds defeased in the current year.

The District has not defaulted on any principal or interest payments. There are a number of limitations and restrictions contained in the bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at April 30, 2007.

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payments of the calculated liability is due. The District had no arbitrage rebate liability at April 30, 2007.

5. Subordinate Revenue Notes Payable

Subordinate Revenue Notes, Series 1995A with \$1,250,000 outstanding at the end of the year were issued for the purpose of providing funds for acquisitions and construction of additions and improvements to the District. These notes have a zero interest rate.

The annual debt service requirements for the revenue notes payable as of April 30, 2007 are as follows:

Year Ending April 30,	Total
2008	\$ 125,000
2009	125,000
2010	125,000
2011	125,000
2012	125,000
2013-2017	625,000
Total	<u>\$ 1,250,000</u>

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G. BOND REDEMPTIONS

1. The Bexar Metropolitan Water District Waterworks System Revenue Bonds, Series 1995 are subject to mandatory and optional redemption prior to maturity as follows:

Optional Redemption

The Bonds maturing on or after May 1, 2006 are subject to redemption in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2006, or on any date selected by the District, at the redemption prices set forth below plus accrued interest to the date fixed for redemption. If less than all the Bonds are to be redeemed, the District will determine the maturity or maturities and the amounts to be redeemed and will direct the Paying Agent/Registrar to call the Bonds by lot, or portions thereof, within such maturity or maturities, and in such principal amounts for redemption.

<u>Dates</u>	<u>Redemption Prices</u>
May 2, 2007 and thereafter	100%

Mandatory Redemption

The Bonds maturing on May 1, 2009, will be subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2007	\$ 830,000
2008	870,000
2009	915,000

The Bonds maturing on May 1, 2015, will be subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2010	\$ 965,000
2011	1,025,000
2012	1,090,000
2013	1,150,000
2014	1,220,000
2015	1,810,000

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The Bonds maturing on May 1, 2022, will be subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2016	\$ 1,920,000
2017	2,030,000
2018	2,150,000
2019	2,275,000
2020	2,410,000
2021	2,550,000
2022	2,700,000

The Bonds maturing on May 1, 2025, will be subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2023	\$ 2,395,000
2024	2,545,000
2025	2,705,000

2. The Bexar Metropolitan Water District, Waterworks System Revenue Bonds, Series 1998, are subject to mandatory and optional redemption prior to maturity as follows:

**Optional Redemption**

The Bonds maturing on or after May 1, 2009 are subject to redemption in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2008, or on any date selected by the District, at the redemption prices set forth below plus accrued interest to the date fixed for redemption. If less than all the Bonds are to be redeemed, the district will determine the maturity or maturities and the amounts to be redeemed and will direct the Paying Agent/Registrar to call the Bonds by lot, or portions thereof, within such maturity or maturities, and in such principal amounts for redemption.

<u>Dates</u>	<u>Redemption Prices</u>
May 1, 2008 through April 30, 2009	102%
May 1, 2009 through April 30, 2010	101%
May 1, 2010 and thereafter	100%



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Mandatory Redemption

The Current Interest Bonds maturing on May 1, 2022 are subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2019	\$ 2,050,000
2020	2,155,000
2021	2,260,000
2022	2,375,000

The Current Interest Bonds maturing on May 1, 2025 are subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2023	\$ 2,955,000
2024	3,105,000
2025	3,265,000

The Current Interest Bonds maturing on May 1, 2038 are subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2036	\$ 6,305,000
2037	6,620,000
2038	6,950,000

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Capital Appreciation Bonds

The Capital Appreciation Bonds are subject to redemption in whole or in part in principal amounts at maturity of \$5,000 or any integral multiple thereof, on May 1, 2008, or any date selected by the District thereafter at the redemption prices set forth below for the accreted value to the date fixed for redemption. If less than all the Capital Appreciation Bonds are to be redeemed, the District will determine the maturity or maturities and the amounts therewith to be redeemed and will direct the Paying Agent/Registrar to call the Capital Appreciation Bonds by lot, or portions thereof, within such maturity or maturities and in such principal amounts for redemption.

<u>Dates</u>	<u>Redemption Prices</u>
May 1, 2008 through April 30, 2009	103.0%
May 1, 2009 through April 30, 2010	102.5%
May 1, 2010 through April 30, 2011	102.0%
May 1, 2011 through April 30, 2012	101.5%
May 1, 2012 through April 30, 2013	101.0%
May 1, 2013 through April 30, 2014	100.5%
May 1, 2014 and thereafter	100.0%

3. The Bexar Metropolitan Development Corporation, Water Facility Contract Revenue Bonds, Series 1998, are subject to mandatory and optional redemption prior to maturity as follows:

Optional Redemption

The Bonds maturing on or after May 1, 2009 are subject to redemption in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2008, or on any date selected by the District, at the redemption prices set forth below plus accrued interest to the date fixed for redemption. If less than all the Bonds are to be redeemed, the district will determine the maturity or maturities and the amounts to be redeemed and will direct the Paying Agent/Registrar to call the Bonds by lot, or portions thereof, within such maturity or maturities, and in such principal amounts for redemption.

<u>Dates</u>	<u>Redemption Prices</u>
May 1, 2008 through April 30, 2009	102%
May 1, 2009 through April 30, 2010	101%
May 1, 2010 and thereafter	100%

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Mandatory Redemption

The Current Interest Bonds maturing on May 1, 2025, are subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2024	\$ 1,635,000
2025	1,720,000

The Current Interest Bonds maturing on May 1, 2028 are subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2026	\$ 1,805,000
2027	1,895,000
2028	1,990,000

4. The Waterworks System Revenue Refunding Bonds, Series 2002, are subject to mandatory redemption prior to maturity as follows:

Optional Redemption

The Bonds maturing on or after May 1, 2013 are subject to redemption in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on May 1, 2012, or on any date selected by the District thereafter, for a redemption price equal to 100% of their principal amount plus accrued interest to the date fixed for redemptions. If less than all the Bonds are to be redeemed, the district will determine the maturity or maturities and the amounts to be redeemed and will direct the Paying Agent/Registrar to call the Bonds by lot, or portions thereof, within such maturity or maturities, and in such principal amounts for redemption.

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Mandatory Redemption

The Term Bonds maturing on May 1, 2026 are subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2021	\$ 1,825,000
2022	1,915,000
2023	2,010,000
2024	2,110,000
2025	2,215,000
2026	2,325,000

The Term Bonds maturing on May 1, 2032 are subject to mandatory redemption at par plus accrued interest in the following amounts on the following dates:

<u>Redemption Date – May 1</u>	<u>Principal Amount</u>
2027	\$ 2,440,000
2028	2,570,000
2029	2,700,000
2030	2,840,000
2031	2,985,000
2032 (Stated Maturity)	3,135,000

5. The Waterworks System Revenue Refunding Bonds, Series 2006, are subject to mandatory and optional redemption prior to maturity as follows:

Optional Redemption

The Current Interest Bonds stated to mature on or after May 1, 2017 are subject to optional redemption, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2016 or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemptions.

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Mandatory Redemption

The Current Interest Bonds maturing on May 1, 2030 are subject to mandatory redemption in part prior to maturity at the price of par plus accrued interest to the mandatory redemption date on the dates and in the principal amounts as follows:

<u>Redemption Date – May1</u>	<u>Principal Amount</u>
2027	\$ 1,460,000
2028	1,300,000
2029	1,330,000
2030	1,365,000

The Current Interest Bonds maturing on May 1, 2032 are subject to mandatory redemption in part prior to maturity at the price of par plus accrued interest to the mandatory redemption date on the dates and in the principal amounts as follows:

<u>Redemption Date – May1</u>	<u>Principal Amount</u>
2031	\$ 2,855,000
2032	2,985,000

The Current Interest Bonds maturing on May 1, 2035 are subject to mandatory redemption in part prior to maturity at the price of par plus accrued interest to the mandatory redemption date on the dates and in the principal amounts as follows:

<u>Redemption Date – May1</u>	<u>Principal Amount</u>
2033	\$ 3,130,000
2034	3,290,000
2035	3,460,000

Capital Appreciation Bonds

The Capital Appreciation Bonds are not subject to redemption prior to maturity.

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H. DEBT SERVICE COVERAGE RATIO

The following describes the debt service coverage ratio covenant provided by each bond indenture.

The Waterworks System Revenue Bonds, Series 1995; Waterworks System Revenue Bonds, Series 1998; Waterworks System Revenue Refunding Bonds, Series 2002; Waterworks System Revenue Refunding Bonds, Series 2006; and the Subordinate Revenue Notes, Series 1995A provide for a debt service coverage ratio covenant. The covenant states that the District shall generate, in each year, net revenues (all revenues, excluding grant revenues, less operating expenses, less depreciation expense) equal to 1.25 times the maximum annual principal and interest payments outstanding during the fiscal year, less capitalized interest.

For the year ended April 30, 2007, the District's debt service coverage ratio was as follows:

Operating Revenues	\$	64,121,293
Non-Operating Revenues		1,746,973
Grant Revenue		(86,043)
Gain on Sale of Capital Assets		(492,964)
<b>Gross Revenues</b>		<b>65,289,259</b>
Operating Expenses		57,311,589
Depreciation		(8,612,526)
Non-Bond Related Interest Expense		115,175
<b>Net Expenses</b>		<b>48,814,238</b>
 <b>Net Revenues</b>	 \$	 <b>16,475,021</b>
 <b>Debt Service</b>		
Revenue Parity Bonds – Actual Payments	\$	10,679,465
Subordinate Revenues Notes – Actual Payments		125,000
Commercial Paper		215,728
<b>Total Debt Service Requirement</b>	<b>\$</b>	<b>11,020,193</b>
 <b>Debt Service Ratio</b>		
Revenue Parity Bonds and Subordinate Revenue Notes		1.52
<b>Total Debt Service Ratio</b>		<b>1.49</b>

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I. CHANGES IN LONG TERM DEBT

Long term debt activity for the year ended April 30, 2007 was as follows:

	Outstanding May 1, 2006	Additions	Deductions	Outstanding April 30, 2007	Due Within One Year
Bonds Payable:					
Revenue Bonds Payable	\$ 179,046,827	\$ 53,741,387	\$ (34,233,186)	\$ 198,555,028	\$ 4,610,000
Subordinate Revenue Notes Payable	1,375,000	-	(125,000)	1,250,000	125,000
Less Deferred Amounts: (Discounts)/Premiums Accounting Loss	(2,453,529)	389,802	319,545	(1,744,182)	-
	-	(1,675,801)	55,860	(1,619,941)	-
<b>Total Bonds Payable</b>	<b>177,968,298</b>	<b>52,455,388</b>	<b>(33,982,781)</b>	<b>196,440,905</b>	<b>4,735,000</b>
Accretion of Interest on Capital Appreciation Bonds	8,672,465	1,034,391	(3,488,269)	6,218,587	-
Commercial Paper Notes Payable	20,000,000	-	(20,000,000)	-	-
Capital Leases Payable	2,599,527	-	(669,649)	1,929,878	508,926
Contracts Payable	37,612	-	(7,136)	30,476	7,719
<b>Total</b>	<b>\$ 209,277,902</b>	<b>\$ 53,489,779</b>	<b>\$ (58,147,835)</b>	<b>\$ 204,619,846</b>	<b>\$ 5,251,645</b>

See subsequent event footnote.

J. SELF FUNDED MEDICAL AND DENTAL CLAIMS

The District has established a single employer employee health and welfare benefit plan authorized by the Employee Retirement Income Security Act of 1974 as amended. The plan provides medical, dental, life and stop loss insurance coverage to eligible employees, former employees, and their dependents. The District provides this at no cost to the employee.

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The District pays to the third party administrator, an average of \$151 per month, per employee, which includes life, accidental death and dismemberment coverage, stop loss insurance coverage, and administrative charges. Additionally, all medical and dental claims are administered by the third party administrator, acting on behalf of the District, and paid by the District.

The determined insurance claims liability of \$140,937 at April 30, 2007 is based upon actual claims paid 60 days after year-end.

The following provides a tabular reconciliation of the changes in claims liability for the last two years:

Fiscal Year Ending April 30,	Beginning Balance	Liability Incurred and Change in Estimate	Payments	Ending Balance
2007	\$ 221,591	\$ 2,584,718	\$ 2,665,372	\$ 140,937
2006	\$ 126,620	\$ 2,047,857	\$ 1,952,886	\$ 221,591

**K. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance for these risks of loss. Settled claims resulting from other risks of loss have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District contracts with the Texas Municipal League (TML) to provide workers' compensation insurance. This multiple-employer account provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML. Liability by the District is generally limited to the contributed amounts.



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L. DEFINED BENEFIT PENSION PLAN

*Plan Description.* The Bexar Metropolitan Water District Retirement Income Plan (the plan) is a single-employer defined benefit pension plan that covers all of its eligible employees. The plan is governed by the District, who is authorized to establish and amend all plan provisions. The District has delegated the authority to manage certain plan assets to The Standard Insurance Company and GE Private Asset Management. The Standard Insurance Company issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be requested and obtained from the District's offices. The District's covered payroll for employees at March 1, 2006 (beginning of the Plan year) under this contract was \$8,591,544.

*Plan Amendment.* On March 26, 2007, the Board approved the change to the Plan's fiscal year end from February 28<sup>th</sup> to April 30<sup>th</sup> to coincide with the District's fiscal year. As a result, the subsequent financial statements will be presented as of April 30, 2008.

*Eligibility.* Employees are eligible to enter the plan on March 1 and September 1 following completion of 12 months of employment and attaining age 21. Participating employees accrue benefits if they work at least 1,000 hours per plan year. A terminating participant who has completed five years of service is entitled to receive a vested benefit starting on his normal retirement date. The amount of the benefit is equal to the retirement income earned on the basis of service to date and provided by employer contributions multiplied by the appropriate vested percentage from the table below, plus the benefit, if any, provided by the employee after tax contributions.

<u>Years of Service</u>	<u>Vested Percentages</u>
Less than 5	0%
5 or more	100%

Notwithstanding the above schedule, the accrued benefits are 100% vested when an actively employed participant attains retirement age, becomes total and permanently disabled, or deceases. Any benefits derived from employee contributions are always 100% vested.

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*Summary of Significant Accounting Policies—Basis of Accounting and Valuation of Investments.* The financial statements of the plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The District's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

*Concentration of Credit Risk.* Identification, by amount and issuer, of investments in any one issuer that represent 5 percent or more of plan net assets (other than investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments) follows:

Investments	Amount at February 28, 2007
Insurance Company Separate Accounts	\$ 1,990,684
Invested in Insurance Companies	1,285,306
Common Trust Funds	7,943,947
Total	\$ 11,219,937

*Funding Policy.* The contribution requirements of plan members and the District are established and may be amended by the plan's board. The plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits as they come due. The aggregate method is used for the actuarial cost. Under this method, the plan's projected benefit liability is reduced by existing assets and any remaining unamortized balance to arrive at the present value of future normal costs. This result is then allocated to the current and future years as a level percentage of payroll. The portion allocated to the current year is the normal cost. The actuarial cost is based on the following assumptions:

Standard Insurance Company Actuarial Assumptions	
Date of Actuarial Valuation	March 1, 2006
Actuarial Cost Method	Aggregate **
Asset Valuation Method	Market value
Inflation Rate	None*
Investment Return	7.5%
Projected Salary Increases	5%
Post-Retirement Benefit Increases	None*
Amortization Method	Level percentage of payroll

\* No assumption assumed by actuary

\*\* This method does not identify or separately amortize unfunded actuarial accrued liabilities.

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Effective April 1, 1996, participants are required to contribute 5 percent of their salary. These are pre-tax contributions as described in the Internal Revenue Code section 414(h) that are used to buy an additional benefit in the plan. Prior to April 1, 1996, plan participants contributed 3.2 percent of their first \$6,000, and 6 percent of the excess over \$6,000. During the plan year, employee contributions of \$444,222 were made. The District is required to contribute at an actuarially determined rate; the current rate is 10.5 percent of covered payroll. Interest is credited on the balance of all employee contributions at 5 percent per annum.

*Annual Pension Cost.* During the plan year, the District contributed \$904,672. The annual pension cost, percentage of annual pension cost contributed, and the net pension obligation data at the end of the plan year and for each of the preceding two years is as follows:

Plan Year Ending February 28,	Annual Pension Cost (APC)	Percentage of Annual Pension Cost Contributed	Net Pension Obligation (NPO) (Asset)
2007	\$ 907,004	99.74%	\$ (229,212)
2006	\$ 836,568	102.38%	\$ (231,544)
2005	\$ 827,320	120.41%	\$ (140,298)

Calculation of the NPO for plan year 2007 follows:

(1) Net Pension Obligation (Asset) at March 1, 2006	\$ (231,544)
(2) Interest on NPO = (1) * 7.50	(17,366)
(3) Annual Required Contribution (ARC)	904,672
(4) Amortization Factor	11.755
(5) Adjustment to ARC = (1) / (4)	(19,698)
(6) Annual Pension Cost (APC)	907,004
(7) Actual Contribution Made	904,671
(8) Increase/ (Decrease) in the NPO = (6) - (7)	2,332
(9) Net Pension (Asset) at February 28, 2007 = (1) + (8)	(229,212)

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Year Ended April 30, 2007

M. POST EMPLOYMENT BENEFITS

The District provides health care insurance benefits for retired employees to the participants of the Bexar Metropolitan Water District Retirement Income Plan. To become eligible, the employee must retire from the District with a monthly income benefit from the Retirement Income Plan.

The health care insurance benefits are as follows:

- (1) Premium reimbursement program - an employee who retires after January 6, 1997 is eligible to receive a reimbursement of the lesser of \$100 per month or the amount of the insurance premium; or
- (2) Premium paid in full/reduced rate program - an employee who retires after January 1, 2003 is eligible for health care insurance benefits at no charge or purchased health benefits at a reduced rate.

Premium Reimbursement Program: The plan is administered by Standard Insurance Company. The plan funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The aggregate method is used for the actuarial cost. The District's actuarially determined contributions at March 1, 2006 (beginning of the Plan year) were \$13,348 based on the net assets available of \$95,495 and two participating retirees. The District has contributed \$16,886 as of February 28, 2007..

The actuarial cost is based on the following assumptions:

Standard Insurance Company	
Actuarial Assumptions	
Date of Actuarial Valuation	March 1, 2006
Actuarial Cost Method	Aggregate
Asset Valuation Method	Market value
Inflation Rate	None*
Investment Return	7.5%
Projected Salary Increases	5%
Post-retirement Benefit Increases	None*
Amortization Method	N/A
Utilization	25%

\* No assumption assumed by actuary

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

Premium Paid in Full and Reduced Premium Programs: The District provides health insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance premium. The retiree is entitled to participate in the District's self insurance program. The District had two retirees participating in the premium paid in full program and none for the reduced premium program. Insurance premiums and claims paid amounted to \$6,373 as of April 30, 2007.

N. CONTINGENCIES AND COMMITMENTS

1. Pending Litigation

The District is the subject of various claims and litigation, which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that the District's liabilities in these cases, if decided adversely to the District, will not be material.

2. Construction Contracts

The District is committed under various contracts for completion of construction or acquisition of capital assets totaling approximately \$2,250,923 as of April 30, 2007.

3. Grants

The District participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grant; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

4. Water Purchase Contracts

The District entered into a water supply agreement with Bexar-Medina-Atascosa Counties W.C.I.D. No. 1 (BMA) to purchase water. The basic term of this contract is fifty (50) years with an additional forty (40) year option. The contract requires the District to take or pay in monthly installments fixed minimum payments for the first twelve (12) years. The payments increase for an additional 1,000 acre fee per year until 2010. Fixed monthly installment payments will occur thereafter.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

NOTES TO FINANCIAL STATEMENTS

Year Ended April 30, 2007

The District entered into a forty (40) year regional tax-exempt water supply contract with Canyon Regional Water Authority (CRWA). This contract requires the District to take or pay for 4,000 acre feet of water. Minimum amounts will be recalculated each year. The District also has the responsibility to fund a proportionate share of all capital and operating agreements with this entity.

The District entered into a ten-year water purchase agreement in 2003, as amended with Canyon Lake Water Supply Corporation. The District has agreed to buy 500,000 gallons per day of treated potable water. Additionally, the District agrees to sell 600 acre feet per annum of its 2,000 acre-feet per annum of "out-of-district" water allocation from Canyon Lake Reservoir. However, no "out-of-district water" has been made available to the District.

The District entered into a twenty-five (25) year contract with Water Exploration Co. LTD (WECO) to provide Trinity Aquifer water to its Hill Country service area. The groundwater purchase agreement calls for the District to purchase up to 17,500 acre-feet of water annually. The project is expected to be complete by spring of 2008. For years one through seven, the contract requires escalating payments of \$1.25 per 1,000 gallons to \$1.75 per 1,000 gallons every two years. At the end of the seventh production year, the payment will be increased annually by the greater of four percent (4%) or the percentage difference between the CPI computed by the Bureau for the next to last month of the preceding production year and the current production year. Further, the contract calls for a minimum payment, which will be paid per each calendar month and will never be less than the monthly minimum payment, provided sufficient water is available to meet one-twelfth (1/12) of the percentage of "Maximum Sustainable Yield".

O. SUBSEQUENT EVENTS

Bonds

On July 10, 2007, the District issued \$31,235,000 Bexar Metropolitan Water District Waterworks System Revenue Refunding Bonds, Series 2007 with interest rates ranging from 4.4% to 5%. The refunding proceeds, along with other legally available District funds will be used to (i) currently refund all of the District's Waterworks System Revenue Bonds, Series 1995 in the principal amount of \$32,725,000 and (ii) pay the costs of their issuance.

Sale of Property

On November 27, 2006, the Board approved the sale of five District water systems (The Woods at Fair Oaks & Village Green, Mobile City Estates, Leon Springs Mobile Villa, and Hidden Springs) to the San Antonio Water System (SAWS) in the amount of \$1,010,000. The agreement was entered into on December 18, 2006 and the purchase closed on May 14, 2007.

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**REQUIRED SUPPLEMENTARY INFORMATION**



**BEXAR METROPOLITAN WATER DISTRICT**  
**San Antonio, Texas**

**REQUIRED SUPPLEMENTARY INFORMATION – (Unaudited)**  
**Retirement Income Plan**  
**Schedule of Funding Progress – Last Three Fiscal Years**

Historical trend information about the Bexar Metropolitan Water District Retirement Income Plan (the plan) is presented herewith as required supplementary information. It is intended to help users assess the plan's funding status on an on-going basis, assess progress made in accumulating assets to pay benefits as they come due, and make comparisons with other utility retirement systems

<b>Bexar Metropolitan Water District Retirement Income Plan</b>			
<b>Schedule of Funding Progress</b>			
Actuarial Valuation Date	March 1, 2007	March 1, 2006	March 1, 2005
(1) Actuarial Value of Assets	\$ 11,219,937	\$ 10,473,119	\$ 12,892,445
(2) Actuarial Accrued Liability	\$ 8,366,887	\$ 8,196,427	\$ 10,266,592
(3) Funded Ratio (1)/(2)	134.1%	127.8%	125.6%
(4) Unfunded (Overfunded) Accrued Liability (UAAL) (2)-(1)	\$ (2,853,050)	\$ (2,276,692)	\$ (2,625,853)
(5) Annual Covered Payroll	\$ 10,018,753	\$ 8,675,118	\$ 8,261,864
(6) UAAL as a Percentage of Covered Payroll [(2)-(1)]/(5)	(28.5)%	(26.2)%	(31.8)%

Note: The Standard Insurance Company issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be requested and obtained from the District's offices.

**OTHER SUPPLEMENTARY INFORMATION**

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Combining Schedule of Net Assets

April 30, 2007

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Eliminating Entries	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Unrestricted Current Assets				
Cash and Cash Equivalents	\$ 4,976,945	\$ 721,669	\$ -	\$ 5,698,614
Accounts Receivable:				
District Customers (Net of allowance for uncollectible accounts of \$1,978,149)	5,402,848	-	-	5,402,848
Miscellaneous (Net of allowance for uncollectible accounts of \$663,147)	1,405,060	-	-	1,405,060
Intercompany Receivable	150	5,830	(5,980)	-
Prepaid Expenses	322,037	-	-	322,037
Inventory	1,930,457	-	-	1,930,457
Total Unrestricted Current Assets	14,037,497	727,499	(5,980)	14,759,016
Restricted Current Assets				
Cash and Cash Equivalents	16,006,701	3,334,122	-	19,340,823
Investments	208,969	2,147,683	-	2,356,652
Total Restricted Current Assets	16,215,670	5,481,805	-	21,697,475
Total Current Assets	30,253,167	6,209,304	(5,980)	36,456,491
<b>Noncurrent Assets</b>				
Unrestricted Noncurrent Assets				
Capital Assets				
Land	10,616,917	-	-	10,616,917
Construction In Progress	20,146,148	-	-	20,146,148
Capital Assets Being Depreciated	291,619,190	26,689,810	-	318,309,000
Less: Accumulated Depreciation	(88,500,104)	(5,472,502)	-	(93,972,606)
Total Capital Assets (Net)	233,882,151	21,217,308	-	255,099,459
Other Assets				
Unamortized Bond Issuance Costs	3,010,348	760,960	-	3,771,308
Net Pension Asset	229,212	-	-	229,212
Total Other Assets	3,239,560	760,960	-	4,000,520
Total Noncurrent Assets	237,121,711	21,978,268	-	259,099,979
Total Assets	\$ 267,374,878	\$ 28,187,572	\$ (5,980)	\$ 295,556,470

(Continued)

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Combining Schedule of Net Assets

April 30, 2007

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Eliminating Entries	Total
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Current Liabilities Payable from Unrestricted Assets				
Accounts Payable	\$ 8,017,084	\$ 591,997	\$ -	\$ 8,609,081
Sewer and Garbage Collections	1,214,187	-	-	1,214,187
Accrued Wages/Payroll Taxes Payable	505,159	-	-	505,159
Prepaid Customer Accounts	407,316	-	-	407,316
Current Portion of Long Term Debt	516,645	-	-	516,645
Security Deposits	71,555	-	-	71,555
Intercompany Payable	5,830	150	(5,980)	-
Accrued Vacation	490,926	-	-	490,926
Insurance Claims Liability	140,937	-	-	140,937
Deferred Revenue	52,457	-	-	52,457
Other Accrued Expenses	123,600	-	-	123,600
<b>Total Unrestricted Current Liabilities</b>	<b>11,545,696</b>	<b>592,147</b>	<b>(5,980)</b>	<b>12,131,863</b>
Current Liabilities Payable from Restricted Assets				
Revenue Bonds Payable Within One Year	3,550,000	1,185,000	-	4,735,000
Accrued Bond Interest Payable	4,215,020	450,814	-	4,665,834
<b>Total Restricted Current Liabilities</b>	<b>7,765,020</b>	<b>1,635,814</b>	<b>-</b>	<b>9,400,834</b>
<b>Total Current Liabilities</b>	<b>19,310,716</b>	<b>2,227,961</b>	<b>(5,980)</b>	<b>21,532,697</b>
<b>Noncurrent Liabilities</b>				
Noncurrent Portion of Long Term Debt	173,280,364	26,087,837	-	199,368,201
<b>Total Noncurrent Liabilities</b>	<b>173,280,364</b>	<b>26,087,837</b>	<b>-</b>	<b>199,368,201</b>
<b>Total Liabilities</b>	<b>192,591,080</b>	<b>28,315,798</b>	<b>(5,980)</b>	<b>220,900,898</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	59,545,490	(5,294,569)	-	54,250,921
Restricted Net Assets				
Restricted for Debt Service	9,982,169	1,697,019	-	11,679,188
Restricted for Construction	505,154	-	-	505,154
Restricted for Contingencies	1,513,327	3,333,972	-	4,847,299
Restricted for Employees' Pension Benefits	229,212	-	-	229,212
<b>Total Restricted Net Assets</b>	<b>12,229,862</b>	<b>5,030,991</b>	<b>-</b>	<b>17,260,853</b>
Unrestricted Net Assets	3,008,446	135,352	-	3,143,798
<b>Total Net Assets</b>	<b>\$ 74,783,798</b>	<b>\$ (128,226)</b>	<b>\$ -</b>	<b>\$ 74,655,572</b>

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year Ended April 30, 2007

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Eliminating Entries	Total
<b>Operating Revenues</b>				
Water Sales	\$ 48,223,715	\$ 4,042,716	\$ (4,042,716)	\$ 48,223,715
Customer Penalties and Fees	2,218,542	-	-	2,218,542
Impact Fees	5,746,887	-	-	5,746,887
Water Development Fees	3,567,741	-	-	3,567,741
Main and Service Extensions	1,543,574	-	-	1,543,574
Collection Fees for Sewer, Garbage and Fire Protection	1,198,839	-	-	1,198,839
Fire Protection	152,518	-	-	152,518
Regulatory Fees	1,469,477	-	-	1,469,477
<b>Total Operating Revenues</b>	<b>64,121,293</b>	<b>4,042,716</b>	<b>(4,042,716)</b>	<b>64,121,293</b>
<b>Operating Expenses</b>				
Production Expenses	35,026,679	1,132,316	(4,042,716)	32,116,279
Administrative and General Expenses	13,672,384	29,197	-	13,701,581
Depreciation	8,612,526	901,948	-	9,514,474
<b>Total Operating Expenses</b>	<b>57,311,589</b>	<b>2,063,461</b>	<b>(4,042,716)</b>	<b>55,332,334</b>
<b>Operating Income</b>	<b>6,809,704</b>	<b>1,979,255</b>	<b>-</b>	<b>8,788,959</b>
<b>Non-Operating Revenues (Expenses)</b>				
Grant Revenue	86,043	-	-	86,043
Interest Earned	839,716	255,731	-	1,095,447
Bad Debts Recovered	8,472	-	-	8,472
Other Non-operating Revenues	319,778	-	-	319,778
Gain on Disposal of Capital Assets	492,964	-	-	492,964
Bond and Other Interest Expense	(8,724,365)	(1,368,011)	-	(10,092,376)
Amortization of Bond Issuance Costs and Discount	(486,113)	(56,147)	-	(542,260)
<b>Total Non-Operating (Expenses)</b>	<b>(7,463,505)</b>	<b>(1,168,427)</b>	<b>-</b>	<b>(8,631,932)</b>
<b>Increase/(Decrease) in Net Assets, before Capital Contributions</b>	<b>(653,801)</b>	<b>810,828</b>	<b>-</b>	<b>157,027</b>
<b>Capital Contributions</b>	<b>11,545,737</b>	<b>-</b>	<b>-</b>	<b>11,545,737</b>
<b>Change in Net Assets</b>	<b>10,891,936</b>	<b>810,828</b>	<b>-</b>	<b>11,702,764</b>
<b>Net Assets - Beginning Balance</b>	<b>63,891,862</b>	<b>(939,054)</b>	<b>-</b>	<b>62,952,808</b>
<b>Net Assets - Ending Balance</b>	<b>\$ 74,783,798</b>	<b>\$ (128,226)</b>	<b>\$ -</b>	<b>\$ 74,655,572</b>

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BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Combining Schedule of Cash Flows

Year Ended April 30, 2007

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Eliminating Entries	Total
<b>Cash Flows From Operating Activities:</b>				
Cash Received from Customers	\$ 52,244,388	\$ 4,042,716	\$ (4,042,716)	\$ 52,244,388
Cash Received from Other Services	13,731,493	-	-	13,731,493
Cash Payments to Suppliers for Goods and Services	(32,014,592)	(725,232)	4,042,716	(28,697,108)
Cash Payments to Employees for Services	(12,680,517)	-	-	(12,680,517)
<b>Net Cash Provided by Operating Activities</b>	<b>21,280,772</b>	<b>3,317,484</b>	<b>-</b>	<b>24,598,256</b>
<b>Cash Flows From Investing Activities:</b>				
Purchase of Investments	(204,085)	(2,147,683)	-	(2,351,768)
Investment Income	839,716	255,731	-	1,095,447
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>635,631</b>	<b>(1,891,952)</b>	<b>-</b>	<b>(1,256,321)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Cash Received from Issuance of Bonds	195,757	-	-	195,757
Repayments of Bad Debt	8,472	-	-	8,472
Other Non-operating Revenues	310,139	-	-	310,139
Proceeds from Sale of Capital Assets	2,035,221	-	-	2,035,221
Cash Paid for the Issuance of Bonds	(1,442,920)	-	-	(1,442,920)
Principal Payments-Bonds and Notes	(3,310,000)	(1,135,000)	-	(4,445,000)
Principal Payments-Capital Leases	(669,649)	-	-	(669,649)
Principal Payments - Contracts Payable	(7,136)	-	-	(7,136)
Purchase of Capital Assets	(14,697,401)	(838,007)	-	(15,535,408)
Bond and Other Interest Expense	(7,947,722)	(926,029)	-	(8,873,751)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(25,525,239)</b>	<b>(2,899,036)</b>	<b>-</b>	<b>(28,424,275)</b>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	<b>(3,608,836)</b>	<b>(1,473,504)</b>	<b>-</b>	<b>(5,082,340)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>24,592,482</b>	<b>5,529,295</b>	<b>-</b>	<b>30,121,777</b>
<b>Cash and Cash Equivalents, End of Year</b> (including \$19,340,823 reported in restricted accounts)	<b>\$ 20,983,646</b>	<b>\$ 4,055,791</b>	<b>\$ -</b>	<b>\$ 25,039,437</b>

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Combining Schedule of Cash Flows

Year Ended April 30, 2007

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Eliminating Entries	Total
Reconciliation of Operating Income to Net Cash				
Provided by Operating Activities				
Operating Income	\$ 6,809,704	\$ 1,979,255	\$ -	\$ 8,788,959
Adjustments to Reconcile Operating Income				
to Net Cash Provided by Operating Activities				
Depreciation	8,612,526	901,948	-	9,514,474
Credit Losses	1,312,886	-	-	1,312,886
(Increase) Decrease In:				
Accounts Receivable-District Customers	617,188	-	-	617,188
Accounts Receivable-Miscellaneous	541,759	-	-	541,759
Inventory of Materials and Supplies	(188,225)	-	-	(188,225)
Prepaid Expenses	(39,614)	-	-	(39,614)
Accounts Receivable-Noncurrent	481,250	-	-	481,250
Security Deposits	12,985	-	-	12,985
Net Pension Asset	(48,228)	-	-	(48,228)
Increase (Decrease) in:				
Accounts Payable	4,661,286	436,281	-	5,097,567
Sewer & Garbage Collection Payable	(1,081,092)	-	-	(1,081,092)
Accrued Wages/Payroll Taxes	63,381	-	-	63,381
Credit Balances in Accounts Receivable	161,934	-	-	161,934
Security Deposits	9,100	-	-	9,100
Accrued Vacation	79,960	-	-	79,960
Deferred Revenue	52,457	-	-	52,457
Due to Bexar County	(61,043)	-	-	(61,043)
Insurance Claims Liability	(80,654)	-	-	(80,654)
Accrued Expenses - Other	63,212	-	-	63,212
Accounts Payable-Noncurrent	(700,000)	-	-	(700,000)
Total Cash Provided by Operating Activities	<u>\$ 21,280,772</u>	<u>\$ 3,317,484</u>	<u>\$ -</u>	<u>\$ 24,598,256</u>

Noncash Capital and Financing Activities:

- a. The District received contributed capital assets from developers in the amount of \$11,545,737.
- b. Capitalized interest costs totaled \$247,885.
- c. Amortization of bond issue costs and original issue discounts and premiums totaled \$486,113.



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## Texas Supplementary Information

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

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

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

**2. Retail Service Providers**

**a. Retail Rates Based on 5/8" Meter (or equivalent):**

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum Use</u>	<u>Usage Levels</u>
Water:	See attached schedule				
Wastewater:	<u>N/A</u>				
Surcharge:	<u>N/A</u>				
District employs winter averaging for wastewater usage: <u>N/A</u>					
Total charges per 10,000 gallon usage: Water: <u>See attached schedule</u> Wastewater: <u>NA</u>					

**b. Water and Wastewater Retail Connections**

<u>Meter Size</u>	<u>Total Connection</u>	<u>Active Connection</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	(1)	-	x 1.0	-
5/8" or 3/4"	(1)	77,989	x 1.0	77,989
1"	(1)	1,997	x 2.5	4,993
1 1/2"	(1)	791	x 5.0	3,955
2"	(1)	535	x 8.0	4,280
3"	(1)	107	x 15.0	1,605
4"	(1)	63	x 25.0	1,575
6"	(1)	35	x 50.0	1,750
8"	(1)	17	x 80.0	1,360
10"	(1)	-	x 115.0	-
<b>Total Water</b>		<b>81,534</b>		<b>97,507</b>
<b>Total Wastewater</b>	<u>N/A</u>			

(1) Information not available

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

**3. Total water consumption during the fiscal year (rounded to the nearest thousand):**

Gallons pumped into system:	<u>13,155,426</u>
Gallons billed to customers:	<u>11,190,954</u>
Water Accountability Ratio:	<u>85%</u>

**4. Location of District:**

County(ies) in which district is located. Bexar, Atascosa, Medina, Comal

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

Is the District located within one city? Entirely\_\_ Partly X Not at all\_\_

City(ies) in which district is located. San Antonio, Somerset, Castle Hills, Hill Country Village, Hollywood Park, and Bulverde

Is the District located within a city's extra territorial jurisdiction (ETJ)?  
Entirely\_\_ Partly X Not at all\_\_

ETJ's in which district is located. San Antonio, Somerset, Castle Hills, Hill Country Village, Hollywood Park, and Bulverde

Are Board members appointed by an office outside the district? Yes\_\_ No X

**BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas**

**Schedule of Services and Rates**

Year Ended April 30, 2007

**SERVICE RATES**

**Effective July 1, 2004**

**Group 1**

**Hidden Springs, Oakland Estates, Timber Oaks, Timberwood, Chaparral, Country Oaks, Elm Valley, Geronimo Forest, Legend Oaks, North San Antonio Hills, Remuda Ranch, Westview, Tameron, Becker Ranch Estates, Hickory Water, Pleasant Oaks, Savannah Heights, Silver Mountain, Water Services 3, Waterwood, Windy's Water, Meadow Wood Acres.**

<u>Meter Size (inches)</u>	<u>Capacity Reservation Fee/Month</u>
5/8	\$ 24.74
3/4	24.74
1	37.17
1 1/2	67.98
2	105.11
2 1/2	175.80
3	191.76
4	315.54
6	916.70
8	1,629.67

<u>Consumption Block</u>	<u>Volumetric Charges</u>	<u>Rate/1,000 gallons</u>
Commercial Class:		
0-3,000 gal.		\$ 1.63
> 3,000 gal.		2.01
Residential Class:		
0-3,000 gal.		1.63
3,001 to 25,000 gal.		2.01
Over 25,000 gal.		3.13

Total charges per 10,000 gallons water usage:	Volumetric Charge:	\$ 18.96
	Capacity Reservation Fee:	24.74
	<b>Total</b>	<b>\$ 43.70</b>

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

**Group 2**

**Castle Hills, Garden Valley, Northeast, Northwest, North San Antonio, Sal Saltillo Creek, Southside, Sara Martinez Creek 1, Sara Martinez Creek 2, Somerset, Vos, East Kelly, Briggs Ranch, Texas Research, Anaqua Spring Ranch**

<u>Meter Size (inches)</u>	<u>Capacity Reservation Fee/Month</u>
5/8	\$ 10.43
3/4	10.43
1	17.71
1 1/2	36.48
2	69.85
3	156.36
4	281.54
6	625.53
8	1,112.05

<u>Consumption Block</u>	<u>Volumetric Charges</u>	<u>Rate/1,000 gallons</u>
Commercial Class:		
0-10,000 gal.	\$	1.70
10,001-74,400 gal.		1.99
Over 74,400 gal.		4.60
Residential Class:		
0-10,000 gal.		1.70
10,001-25,000 gal.		1.99
25,001-74,400 gal.		3.80
Over 74,400 gal.		4.60

Total charges per 10,000 gallons water usage: Volumetric Charge: \$ 17.00  
 Capacity Reservation Fee: 10.43  
 Total \$ 27.43

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

**Group 3**

**Village Green, Woods of Fair Oaks, Bulverde Hills, Leon Springs, Mobile City, Woods of Spring Branch, HEB-Retail Center**

<u>Meter Size (inches)</u>	<u>Capacity Reservation Fee/Month</u>
5/8	\$ 26.87
3/4	26.87
1	43.53
1 1/2	70.50
2	105.11
3	114.22
4	185.04

<u>Consumption Block</u>	<u>Volumetric Charges</u>	<u>Rate/1,000 gallons</u>
Commercial Class:		
0-1,000 gal.		\$ 1.68
Over 1,000 gal.		3.38
Residential Class:		
0-1,000 gal.		1.68
1,001 to 25,000 gal.		3.38
Over 25,000 gal.		4.86

Total charges per 10,000 gallons water usage:	Volumetric Charge:	\$ 32.10
	Capacity Reservation Fee:	<u>26.87</u>
	<b>Total</b>	<b><u>\$ 58.97</u></b>

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

**Group 4**

**Embassy North, Hill Country Village, Hollywood Park, Stone Oak, Mountain Laurel Ranch**

<u>Meter Size (inches)</u>	<u>Capacity Reservation Fee/Month</u>
5/8	\$ 15.25
3/4	15.25
1	18.31
1 1/2	27.05
2	48.09
3	108.21
4	192.37
6	432.84
8	769.50

<u>Consumption Block</u>	<u>Volumetric Charges</u>	<u>Rate/1,000 gallons</u>
Commercial Class:		
0-10,000 gal.		\$ 1.97
10,001-74,400 gal.		2.29
Over 74,400 gal.		4.88
Residential Class:		
0-10,000 gal.		1.97
10,001-25,000 gal.		2.29
25,001 to 74,400 gal.		3.52
Over 74,400 gal.		4.88

Total charges per 10,000 gallons water usage: Volumetric Charge: \$ 19.70  
 Capacity Reservation Fee: 15.25  
 Total \$ 34.95

**System Improvement/Resource Development Fee**

<u>Meter Size</u>	<u>ESU</u>	<u>Fee/Mo</u>
5/8	1	\$ 6.64
3/4	1	6.64
1	2	13.27
1 1/2	5	33.16
2	8	53.05
3	18	119.37
4	32	212.21
6	70	464.21
8	120	795.79



BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

**TCEQ Pass-Through Fee:**  
Percentage of Bexar Met Retail Water Revenue 0.5%

**Effective July 1, 2005**

**EAA Pass-Through Fee:**  
Volumetric Charge per 1,000 gallons of water consumption \$.12

**Effective July 1, 2003**

<u><b>Install Service Charge</b></u>	<u><b>Charges</b></u>
3/4" x 5/8"	\$ 750
3/4" x 1"	850
1" x 1"	950
Square Meter Box	100

<u><b>Annual Fire Protection Charge</b></u>	<u><b>Charges</b></u>
4" Fire Line	\$ 500
6" Fire Line	750
8" Fire Line	1,000
10" Fire Line	1,250
12" Fire Line	1,500

<u><b>Miscellaneous Charges</b></u>	<u><b>Charges</b></u>
Turn on open fixtures each occurrence*	25
Straight connection, new construction**	1,000
Straight connection, each occurrence	100
Straight connection, fire hydrant***	2,500
Broken locks, each occurrence	50
Crimping of service, each occurrence	250

\* Effective: May 5, 2005

\*\* Effective: February 27, 2006

\*\*\* Effective: March 27, 2006

**BEXAR METROPOLITAN WATER DISTRICT**  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

<u>Meter Size</u>	<u>G.P.M.</u>		<u>Non-Refundable Service Fee</u>
5/8" x 3/4"	SR 20	\$	25
3/4" x 1"	SR 30		25
1" x 1"	SR 50		25
1 1/2" x 1 1/2"	SR 100		35
1 1/2" x 2"			35
2" x 2" Turbo	SR 160		35
3" x 3" Turbo	SR 350		45
4" Turbo	1000		45
4" Compound Meter	500		45
6" Turbo w/Strainer	2000		60
6" Compound Meter	1000		60
6" Meter			60
8" Meter			60
10" Meter			60
12" Meter			70
6" Fire Line Meter	1600		60
8" Fire Line Meter	2800		60
10" Fire Line Meter			60
12" Fire Line Meter			70

<u>Main Extension Fees</u>		<u>Non-Refundable Svc. Fee</u>
Homeowner Minimum (Per Linear Foot)	\$	14
Install Fire Hydrant for Homeowners Only		1,200
Pro-Rated Main (Per Linear Foot) - Commercial		18.50
6" Ductile Pipe (By Exception Only)		Quoted
8" Ductile Pipe – Fire Hydrants Included		Quoted
12" Ductile Pipe – Fire Hydrants Included		Quoted
16" Ductile Pipe – Fire Hydrants Included		Quoted
24" Ductile Pipe – Fire Hydrants Included		Quoted
Other Materials (C 900, Drisco Pipe, etc.)		Quoted

**Impact Fees - Effective: September 1, 2003**

**Somerset/Southside\*\***

<u>Meter Size</u>	<u>GPM</u>	<u>EDU</u>	<u>Total Impact Fee</u>	<u>Meter Install Fee</u>
5/8" or 3/4"	20	\$794.80 x 1	\$ 794.80	\$ 200*
1"	50	\$794.80 x 2	1,589.60	200*
1 1/2"	100	\$794.80 x 5	3,974.00	Quoted
2"	160	\$794.80 x 8	6,358.40	Quoted
3"	350	\$794.80 x 18	14,306.40	Quoted
4"	640	\$794.80 x 32	25,433.60	Quoted
6"	1,400	\$794.80 x 70	55,636.00	Quoted
8"	2,400	\$794.80 x 120	95,376.00	Quoted
10"	3,800	\$794.80 x 190	151,012.00	Quoted

**BEXAR METROPOLITAN WATER DISTRICT**  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

**Southeast\*\***

<u>Meter Size</u>	<u>GPM</u>	<u>EDU</u>	<u>Total Impact Fee</u>	<u>Meter Install Fee</u>
5/8" or 3/4"	20	\$794.80 x 1	\$ 794.80	\$ 200*
1"	50	\$794.80 x 2	1,589.60	200*
1 1/2"	100	\$794.80 x 5	3,974.00	Quoted
2"	160	\$794.80 x 8	6,358.40	Quoted
3"	350	\$794.80 x 18	14,306.40	Quoted
4"	640	\$794.80 x 32	25,433.60	Quoted
6"	1,400	\$794.80 x 70	55,636.00	Quoted
8"	2,400	\$794.80 x 120	95,376.00	Quoted
10"	3,800	\$794.80 x 190	151,012.00	Quoted

**Northeast\*\***

<u>Meter Size</u>	<u>GPM</u>	<u>EDU</u>	<u>Total Impact Fee</u>	<u>Meter Install Fee</u>
5/8" or 3/4"	20	\$794.80 x 1	\$ 794.80	\$ 200*
1"	50	\$794.80 x 2	1,589.60	200*
1 1/2"	100	\$794.80 x 5	3,974.00	Quoted
2"	160	\$749.80 x 8	6,358.00	Quoted
3"	350	\$794.80 x 18	14,306.40	Quoted
4"	640	\$749.80 x 32	25,433.60	Quoted
6"	1,400	\$749.80 x 70	55,636.00	Quoted
8"	2,400	\$794.80 x 120	95,376.00	Quoted
10"	3,800	\$794.80 x 190	151,012.00	Quoted

**Northwest\*\***

<u>Meter Size</u>	<u>GPM</u>	<u>EDU</u>	<u>Total Impact Fee</u>	<u>Meter Install Fee</u>
5/8" or 3/4"	20	\$794.80 x 1	\$ 794.80	\$ 200*
1"	50	\$794.80 x 2	1,589.60	200*
1 1/2"	100	\$794.80 x 5	3,974.00	Quoted
2"	160	\$794.80 x 8	6,358.40	Quoted
3"	350	\$794.80 x 18	14,306.40	Quoted
4"	640	\$794.80 x 32	25,433.60	Quoted
6"	1,400	\$794.80 x 70	55,636.00	Quoted
8"	2,400	\$794.80 x 120	95,376.00	Quoted
10"	3,800	\$794.80 x 190	151,012.00	Quoted

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Services and Rates

Year Ended April 30, 2007

**Castle Hills\*\***

<u>Meter Size</u>	<u>GPM</u>	<u>EDU</u>	<u>Total Impact Fee</u>	<u>Meter Install Fee</u>
5/8" or 3/4"	20	\$300.50 x 1	\$ 300.50	\$ 200*
1"	50	\$300.50 x 2	601.00	200*
1 1/2"	100	\$300.50 x 5	1,502.50	Quoted
2"	160	\$300.50 x 8	2,404.00	Quoted
3"	350	\$300.50 x 18	5,409.00	Quoted
4"	1,000	\$300.50 x 32	9,616.00	Quoted
6"	1,400	\$300.50 x 70	21,035.00	Quoted
8"	2,400	\$300.50 x 120	36,060.00	Quoted
10"	3,800	\$300.50 x 190	57,095.00	Quoted

**Stone Oak, Hill Country, Hollywood Park\*\***

<u>Meter Size</u>	<u>GPM</u>	<u>EDU</u>	<u>Total Impact Fee</u>	<u>Meter Install Fee</u>
5/8" or 3/4"	20	\$494.50 x 1	\$ 494.50	\$ 200*
1"	50	\$494.50 x 2	989.00	200*
1 1/2"	100	\$494.50 x 5	2,472.50	Quoted
2"	160	\$494.50 x 8	3,956.00	Quoted
3"	350	\$494.50 x 18	8,901.00	Quoted
4"	1,000	\$494.50 x 32	15,824.00	Quoted
6"	1,400	\$494.50 x 70	34,580.00	Quoted
8"	2,400	\$494.50 x 120	59,340.00	Quoted
10"	3,800	\$494.50 x 190	93,955.00	Quoted

\* If Service Installed By Developer

\*\* If Applicable Additional Fees Apply if Service Install by BMWD

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Enterprise Fund Expenses

Year Ended April 30, 2007

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Total
<b>Production Expenses</b>			
Payroll and Payroll Taxes	\$ 7,687,481	\$ -	\$ 7,687,481
Utilities	2,981,344	-	2,981,344
Fuel Expense	685,929	-	685,929
Insurance Benefits	2,248,120	-	2,248,120
Maintenance	5,352,381	-	5,352,381
Contract Labor	94,284	-	94,284
Production Expenses	-	1,132,316	1,132,316
Lease Payments to Development Corporation	4,042,716	-	4,042,716
Water Purchases and Treatment	11,066,156	-	11,066,156
Contracts and Rentals	866,161	-	866,161
Miscellaneous Expenses	2,107	-	2,107
<b>Total Production Expenses</b>	<b>35,026,679</b>	<b>1,132,316</b>	<b>36,158,995</b>
<b>Administrative and General Expenses</b>			
Payroll and Payroll Taxes	5,136,377	-	5,136,377
Directors Fees	41,265	-	41,265
Agency Fees	321,825	-	321,825
Advertising and Photography Expense	50,185	-	50,185
Insurance Expense	327,750	-	327,750
Professional Services	2,071,352	9,394	2,080,746
Contract Labor	141,753	-	141,753
Office Supplies and Expense	194,467	-	194,467
Communication Expenses	205,252	-	205,252
Dues and Subscriptions	67,658	-	67,658
License and Permits	214,134	-	214,134
Postage	461,496	-	461,496
Training	48,692	-	48,692
Travel and Entertainment	67,486	-	67,486
Utilities	125,668	-	125,668
Security	306,934	-	306,934
Data Processing Services	219,603	-	219,603
Credit Losses	1,312,886	-	1,312,886
Benefits and Hiring Expenses	1,607,767	-	1,607,767
Financial Expenses	274,007	19,803	293,810
Elections Expenses	42,174	-	42,174
Contracts and Rentals	-	-	-
Miscellaneous Expenses	547,948	-	547,948
<b>Total Administrative and General Expenses</b>	<b>13,786,679</b>	<b>29,197</b>	<b>13,815,876</b>
Overhead Allocated to Capital Projects	(84,049)	-	(84,049)
Equipment Expense Allocated to Capital Projects	(30,246)	-	(30,246)
<b>Net Administrative and General Expenses</b>	<b>13,672,384</b>	<b>29,197</b>	<b>13,701,581</b>
Depreciation Expense	8,612,526	901,948	9,514,474
<b>Total Operating Expenses</b>	<b>\$ 57,311,589</b>	<b>\$ 2,063,461</b>	<b>\$ 59,375,050</b>

Number of full time employees: 332

Number of Part-time employees: 5

**BEXAR METROPOLITAN WATER DISTRICT**  
San Antonio, Texas

Schedule of Revenues, Expenses and Changes in  
Net Assets - Budget to Actual

Year Ended April 30, 2007

	Original Budget	Final Amended Budget	Actual Amounts GAAP Basis *	Variance with Final Budget Favorable/ (Nonfavorable)
<b>Operating Revenues</b>				
Water Sales to Customers	\$ 44,655,696	\$ 44,655,696	\$ 48,223,715	\$ 3,568,019
Customer Penalties and Fees	1,775,047	1,775,047	2,218,542	443,495
Impact Fees	5,250,000	5,250,000	5,746,887	496,887
Water Development Fees	-	-	3,567,741	3,567,741
Main and Service Extensions	1,150,000	1,150,000	1,543,574	393,574
Collection Fees for Sewer, Garbage and Fire Protection	1,207,800	1,207,800	1,198,839	(8,961)
Fire Protection	150,000	150,000	152,518	2,518
Regulatory Fees	1,550,000	1,550,000	1,469,477	(80,523)
<b>Total Operating Revenues</b>	<b>55,738,543</b>	<b>55,738,543</b>	<b>64,121,293</b>	<b>8,382,750</b>
<b>Operating Expenses</b>				
Production Expenses	29,072,824	29,072,824	35,026,679	(5,953,855)
Administrative and General Expenses	9,753,633	9,753,633	13,672,384	(3,918,751)
Depreciation	8,554,033	8,554,033	8,612,526	(58,493)
<b>Total Operating Expenses</b>	<b>47,380,490</b>	<b>47,380,490</b>	<b>57,311,589</b>	<b>(9,931,099)</b>
<b>Operating Income</b>	<b>8,358,053</b>	<b>8,358,053</b>	<b>6,809,704</b>	<b>(1,548,349)</b>
<b>Non-operating Revenues (Expenses)</b>				
Grant Revenue	-	-	86,043	86,043
Interest Earned	446,363	446,363	839,716	393,353
Bad Debts Recovered	50,000	50,000	8,472	(41,528)
Other Non-operating Revenues	860,000	860,000	319,778	(540,222)
Gain on Disposal of Capital Assets	-	-	492,964	492,964
Bond and Other Interest Expense	(9,173,518)	(9,173,518)	(8,724,365)	(449,153)
Amortization of Bond Issuance Costs and Discount	(345,000)	(345,000)	(486,113)	141,113
<b>Total Non-operating (Expenses)</b>	<b>(8,162,155)</b>	<b>(8,162,155)</b>	<b>(7,463,505)</b>	<b>698,650</b>
<b>Increase (Decrease) in Net Assets, Before Capital Contributions</b>	<b>195,898</b>	<b>195,898</b>	<b>(653,801)</b>	<b>(849,699)</b>
<b>Capital Contributions</b>	<b>-</b>	<b>-</b>	<b>11,545,737</b>	<b>11,545,737</b>
<b>Change in Net Assets</b>	<b>\$ 195,898</b>	<b>\$ 195,898</b>	<b>\$ 10,891,936</b>	<b>\$ 10,696,038</b>

\* Actual expenses do not include the Bexar Metropolitan Development Corporation since an annual budget is not adopted.

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Temporary Investments

Year Ended April 30, 2007

Description	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable at End of Year
Local Government Investment Cooperative	2332-01	5.27%	Open	\$ 7,849,495	\$ -
Local Government Investment Cooperative	2332-02	5.27%	Open	126,111	-
Local Government Investment Cooperative	2332-04	5.27%	Open	1,513,327	-
Local Government Investment Cooperative	2332-05	5.27%	Open	3,375,169	-
Local Government Investment Cooperative	2332-07	5.27%	Open	2,637,422	-
Local Government Investment Cooperative	2332-08	5.27%	Open	505,154	-
Local Government Investment Cooperative	2332-09	5.27%	Open	2,004,615	-
Bank of New York US Govt MM Fund	420420	4.70%	Open	164,460	-
Bank of New York FMNA Discount Note	420420	6.24%	Open	208,969	-
Bank of New York US Govt MM Fund	420425	4.52%	Open	2,472,913	-
Bank of New York US Govt MM Fund	420418	4.70%	Open	21,258	-
Bank of New York US Govt MM Fund	420391	4.70%	Open	588,322	-
Bank of New York US Govt MM Fund	420392	4.70%	Open	1,478,232	-
Bank of New York US Govt MM Fund	420394	4.70%	Open	148	-
Bank of New York FMNA Discount Note	420394	4.56%	Open	2,147,683	-
Bank of New York US Govt MM Fund	420397	4.70%	Open	122,410	-
Bank of New York US Govt MM Fund	420413	4.70%	Open	10,937	-
Bank of New York US Govt MM Fund	420400	4.70%	Open	1,827,782	-
Bank of New York US Govt MM Fund	420419	4.70%	Open	6,702	-
Totals				<u>\$ 27,061,110</u>	<u>\$ -</u>

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**BEXAR METROPOLITAN WATER DISTRICT**  
San Antonio, Texas

Schedule of Debt Service Requirements

Year Ended April 30, 2007

1-May Fiscal Year	Revenue Bonds Series 1995			Revenue Refunding Bond Series 2002			Revenue Notes Series 1995A	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Principal
2008	\$ 830,000	\$ 1,984,114	\$ 2,814,114	\$ 1,155,000	\$ 1,383,979	\$ 2,538,979	\$ 125,000	\$ 840,000
2009	870,000	1,937,364	2,807,364	1,205,000	1,347,650	2,552,650	125,000	880,000
2010	915,000	1,888,276	2,803,276	1,250,000	1,306,193	2,556,193	125,000	915,000
2011	965,000	1,834,164	2,799,164	1,295,000	1,260,361	2,555,361	125,000	960,000
2012	1,025,000	1,774,464	2,799,464	1,345,000	1,210,849	2,555,849	125,000	1,005,000
2013	1,090,000	1,711,014	2,801,014	1,405,000	1,157,194	2,562,194	125,000	1,050,000
2014	1,150,000	1,643,814	2,793,814	265,000	1,121,972	1,386,972	125,000	1,100,000
2015	1,220,000	1,572,714	2,792,714	275,000	1,107,459	1,382,459	125,000	1,150,000
2016	1,810,000	1,481,814	3,291,814	175,000	1,095,365	1,270,365	125,000	1,575,000
2017	1,920,000	1,371,114	3,291,114	185,000	1,085,690	1,270,690	125,000	1,650,000
2018	2,030,000	1,255,083	3,285,083	195,000	1,075,478	1,270,478	-	1,860,000
2019	2,150,000	1,132,295	3,282,295	200,000	1,064,863	1,264,863	-	1,955,000
2020	2,275,000	1,002,311	3,277,311	215,000	1,053,710	1,268,710	-	2,050,000
2021	2,410,000	864,689	3,274,689	225,000	1,041,885	1,266,885	-	2,155,000
2022	2,550,000	718,989	3,268,989	235,000	1,029,963	1,264,963	-	2,260,000
2023	2,700,000	564,770	3,264,770	250,000	1,017,838	1,267,838	-	2,375,000
2024	2,395,000	409,416	2,804,416	260,000	1,005,088	1,265,088	-	2,955,000
2025	2,545,000	252,571	2,797,571	275,000	991,713	1,266,713	-	3,105,000
2026	2,705,000	85,884	2,790,884	285,000	977,713	1,262,713	-	3,265,000
2027	-	-	-	2,325,000	912,463	3,237,463	-	574,455
2028	-	-	-	2,440,000	791,813	3,231,813	-	539,552
2029	-	-	-	2,570,000	663,432	3,233,432	-	507,971
2030	-	-	-	2,700,000	528,388	3,228,388	-	479,453
2031	-	-	-	2,840,000	386,425	3,226,425	-	451,723
2032	-	-	-	2,985,000	237,159	3,222,159	-	426,930
2033	-	-	-	3,135,000	80,334	3,215,334	-	402,744
2034	-	-	-	-	-	-	-	379,831
2035	-	-	-	-	-	-	-	359,434
2036	-	-	-	-	-	-	-	340,124
2037	-	-	-	-	-	-	-	6,305,000
2038	-	-	-	-	-	-	-	6,620,000
2039	-	-	-	-	-	-	-	6,950,000
	<b>\$ 33,555,000</b>	<b>\$ 23,484,860</b>	<b>\$ 57,039,860</b>	<b>\$ 29,690,000</b>	<b>\$ 24,934,977</b>	<b>\$ 54,624,977</b>	<b>\$ 1,250,000</b>	<b>\$ 57,442,217</b>

Revenue Bonds Series 1998

Revenue Bonds Series 2006

Revenue Bonds Series 1998			Revenue Bonds Series 2006			
Interest	Accreted Interest	Total	Principal	Interest	Accreted Interest	Total
\$ 2,610,955	\$ -	\$ 3,450,955	\$ 600,000	\$ 2,380,188	\$ -	\$ 2,980,188
2,572,675	-	3,452,675	625,000	2,354,156	-	2,979,156
2,531,830	-	3,446,830	655,000	2,326,956	-	2,981,956
2,488,225	-	3,448,225	680,000	2,298,588	-	2,978,588
2,441,545	-	3,446,545	710,000	2,269,050	-	2,979,050
2,391,963	-	3,441,963	740,000	2,238,238	-	2,978,238
2,339,000	-	3,439,000	1,965,000	2,173,387	-	4,138,387
2,282,750	-	3,432,750	2,050,000	2,073,013	-	4,123,013
2,214,625	-	3,789,625	1,365,000	1,994,462	-	3,359,462
2,134,000	-	3,784,000	1,405,000	1,939,063	-	3,344,063
2,046,250	-	3,906,250	1,460,000	1,874,462	-	3,334,462
1,950,875	-	3,905,875	1,515,000	1,807,663	-	3,322,663
1,850,750	-	3,900,750	1,575,000	1,743,500	-	3,318,500
1,745,625	-	3,900,625	1,635,000	1,672,850	-	3,307,850
1,635,250	-	3,895,250	1,725,000	1,597,250	-	3,322,250
1,519,375	-	3,894,375	1,800,000	1,517,938	-	3,317,938
1,386,125	-	4,341,125	1,880,000	1,435,137	-	3,315,137
1,234,625	-	4,339,625	1,965,000	1,348,625	-	3,313,625
1,075,375	-	4,340,375	2,050,000	1,258,288	-	3,308,288
993,750	2,020,545	3,588,750	3,925,000	1,114,037	-	5,039,037
993,750	2,055,448	3,588,750	2,387,219	981,237	1,667,781	5,036,237
993,750	2,087,029	3,588,750	1,750,405	915,688	879,595	3,545,688
993,750	2,115,547	3,588,750	1,768,916	853,225	926,084	3,548,225
993,750	2,143,277	3,588,750	1,789,847	789,219	970,153	3,549,219
993,750	2,168,070	3,588,750	2,855,000	692,562	-	3,547,562
993,750	2,192,256	3,588,750	2,985,000	561,162	-	3,546,162
993,750	2,215,169	3,588,750	3,130,000	415,750	-	3,545,750
993,750	2,235,566	3,588,750	3,290,000	255,250	-	3,545,250
993,750	2,254,869	3,588,743	3,460,000	86,500	-	3,546,500
836,125	-	7,141,125	-	-	-	-
513,000	-	7,133,000	-	-	-	-
173,750	-	7,123,750	-	-	-	-
<b>\$ 49,912,194</b>	<b>\$ 21,487,776</b>	<b>\$ 128,842,187</b>	<b>\$ 53,741,387</b>	<b>\$ 42,967,444</b>	<b>\$ 4,443,613</b>	<b>\$ 101,152,444</b>

**BEXAR METROPOLITAN WATER DISTRICT**  
San Antonio, Texas

Schedule of Debt Service Requirements

Year Ended April 30, 2007

Bexar Metropolitan Development Corp Revenue Series 1998					Total Debt Service		
1-May Fiscal Year	Principal	Interest	Accreted Interest	Total	Principal	Interest	Accreted Interest
2008	\$ 1,185,000	\$ 875,558	\$ -	\$ 2,060,558	\$ 4,735,000	\$ 9,234,794	\$ -
2009	1,240,000	821,588	-	2,061,588	4,945,000	9,033,433	-
2010	1,295,000	763,903	-	2,058,903	5,155,000	8,817,158	-
2011	1,355,000	702,275	-	2,057,275	5,380,000	8,583,613	-
2012	1,420,000	636,352	-	2,056,352	5,630,000	8,332,260	-
2013	1,485,000	566,261	-	2,051,261	5,895,000	8,064,670	-
2014	1,560,000	530,250	-	2,090,250	6,165,000	7,808,423	-
2015	710,162	530,250	924,838	2,165,250	5,530,162	7,566,186	924,838
2016	668,143	530,250	966,857	2,165,250	5,718,143	7,316,516	966,857
2017	628,020	530,250	1,006,980	2,165,250	5,913,020	7,060,117	1,006,980
2018	591,886	530,250	1,043,114	2,165,250	6,136,886	6,781,523	1,043,114
2019	560,740	530,250	1,074,260	2,165,250	6,380,740	6,485,946	1,074,260
2020	531,228	530,250	1,103,772	2,165,250	6,646,228	6,180,521	1,103,772
2021	501,128	530,250	1,133,873	2,165,251	6,926,128	5,855,299	1,133,873
2022	474,673	530,250	1,160,327	2,165,250	7,244,673	5,511,702	1,160,327
2023	449,592	530,250	1,185,408	2,165,250	7,574,592	5,150,171	1,185,408
2024	425,852	530,250	1,209,148	2,165,250	7,915,852	4,766,016	1,209,148
2025	1,635,000	411,375	-	2,046,375	9,525,000	4,238,909	-
2026	1,720,000	327,500	-	2,047,500	10,025,000	3,724,760	-
2027	1,805,000	239,375	-	2,044,375	8,629,455	3,259,625	2,020,545
2028	1,895,000	146,875	-	2,041,875	7,261,771	2,913,675	3,723,229
2029	1,990,000	49,750	-	2,039,750	6,818,376	2,622,620	2,966,624
2030	-	-	-	-	4,948,369	2,375,363	3,041,631
2031	-	-	-	-	5,081,570	2,169,394	3,113,430
2032	-	-	-	-	6,266,930	1,923,471	2,168,070
2033	-	-	-	-	6,522,744	1,635,246	2,192,256
2034	-	-	-	-	3,509,831	1,409,500	2,215,169
2035	-	-	-	-	3,649,434	1,249,000	2,235,566
2036	-	-	-	-	3,800,124	1,080,250	2,254,869
2037	-	-	-	-	6,305,000	836,125	-
2038	-	-	-	-	6,620,000	513,000	-
2039	-	-	-	-	6,950,000	173,750	-
	<b>\$ 24,126,424</b>	<b>\$ 11,373,562</b>	<b>\$ 10,808,577</b>	<b>\$ 46,308,563</b>	<b>\$ 199,805,028</b>	<b>\$ 152,673,030</b>	<b>\$ 36,739,967</b>

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<u>Total</u>	
\$	13,969,794
	13,978,433
	13,972,158
	13,963,613
	13,962,260
	13,959,670
	13,973,423
	14,021,186
	14,001,516
	13,980,117
	13,961,523
	13,940,946
	13,930,521
	13,915,300
	13,916,702
	13,910,171
	13,891,016
	13,763,909
	13,749,760
	13,909,625
	13,898,675
	12,407,620
	10,365,363
	10,364,394
	10,358,471
	10,350,246
	7,134,500
	7,134,000
	7,135,243
	7,141,125
	7,133,000
	7,123,750
<u>\$</u>	<u>389,218,033</u>

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Changes in Long-Term Bonded Debt

Year Ended April 30, 2007

	Revenue Bonds Series 1995	TWDB Bonds Series 1995A	Revenue Bonds Series 1998
Interest Rate	3.9-6.35%	None	3.75-5.6%
Dates Interest Payable	May & Nov 1	May & Nov 1	May & Nov 1
Maturity Dates	5/1/96 to 5/1/2026	5/1/97 to 5/1/2016	5/1/99 to 5/1/2038
Beginning Bonds Outstanding	\$ 34,345,000	\$ 1,375,000	\$ 64,630,403
Bonds Sold During the Current Year	-	-	-
Bonds Retired During the Current Year	(790,000)	(125,000)	(7,188,186)
Ending Bonds Outstanding	<u>\$ 33,555,000</u>	<u>\$ 1,250,000</u>	<u>\$ 57,442,217</u>
Interest Paid During the Current Year	\$ 2,027,676	\$ -	\$ 2,646,850
<u>Paying Agent's Name and City</u>			
Revenue Bonds, Series 1995	The Bank of New York, New York, NY		
TWDB Bonds, Series 1995A	The Bank of New York, New York, NY		
Revenue Bonds, Series 1998	Chase Corporate Trust Services, Dallas, TX		
Waterworks System Revenue Bonds, Series 1998	Chase Corporate Trust Services, Dallas, TX		
Waterworks System Revenue Refunding Bonds, Series 2002	The Bank of New York, New York, NY		
Waterworks System Revenue Refunding Bonds, Series 2006	US Bank - Corporate Trust, Los Angeles, CA		
Commercial Paper Notes	Bankers Trust Company, New York, NY		
<u>Bond Authority</u>			
	Revenue Bonds	Commercial Paper	Refunding Bonds
Amount Authorized	\$ 141,416,827	\$ 50,000,000	\$ 57,700,000
Amount Issued	141,416,827	-	57,700,000
Remaining to be Issued	<u>\$ -</u>	<u>\$ 50,000,000</u>	<u>\$ -</u>
Debt Service Cash and Temporary Balances April 30, 2007	<u>\$ 21,697,475</u>		
Average Annual Debt Service Payments for the Remaining Term of All Debt	<u>\$ 12,163,064</u>		

<u>Development Corp. Revenue Bonds Series 1998</u>	<u>Revenue Refunding Bonds Series 2002</u>	<u>Revenue Refunding Bonds Series 2006</u>	<u>Total Bonds &amp; Notes</u>	<u>Commercial Paper Notes Series 1997</u>	<u>Totals</u>
4.05 -5.5%	3-5.375%	4.25 - 5%	-	1.2-1.55%	-
May & Nov 1	May & Nov 1	May & Nov 1	-	Variable	-
5/1/01 to 5/1/2029	7/15/02 to 5/1/2032	5/1/07 to 5/1/2035	- -	5/1/2025 unknown	- -
\$ 25,261,424	\$ 54,810,000	\$ -	\$ 180,421,827	\$ 20,000,000	\$ 200,421,827
-	-	53,741,387	53,741,387	-	53,741,387
<u>(1,135,000)</u>	<u>(25,120,000)</u>	<u>-</u>	<u>(34,358,186)</u>	<u>(20,000,000)</u>	<u>(54,358,186)</u>
<u>\$ 24,126,424</u>	<u>\$ 29,690,000</u>	<u>\$ 53,741,387</u>	<u>\$ 199,805,028</u>	<u>\$ -</u>	<u>\$ 199,805,028</u>
\$ 926,030	\$ 2,008,999	\$ -	\$ 7,609,555	\$ 122,206	\$ 7,731,761

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<u>Total</u>
\$ 249,116,827
199,116,827
<u>\$ 50,000,000</u>

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Comparative Schedule of Revenues and Expenses - 5 Years

Year Ended April 30, 2007

	Amounts				
	2007	2006	2005	2004	2003
<b>Operating Revenues</b>					
Water Sales to Customers	\$ 48,223,715	\$ 48,625,696	\$ 41,433,412	\$ 37,249,594	\$ 39,097,812
Sewer Revenues	-	-	-	-	158,726
Customer Penalties and Fees	2,218,542	1,865,595	2,581,824	2,560,970	1,515,141
Impact Fees	5,746,887	6,306,783	2,698,702	1,946,495	1,713,720
Water Development Fees	3,567,741	-	-	-	-
Main and Service Extensions <3>	1,543,574	1,612,755	1,189,265	1,008,104	882,613
Collection Fees for Sewer, Garbage, and Fire	1,198,839	1,364,405	1,358,020	1,070,449	860,104
Fire Protection	152,518	173,230	125,873	131,762	68,447
Miscellaneous and Regulatory Fees	1,469,477	1,479,937	961,617	944,407	782,806
<b>Total Operating Revenues</b>	<u>64,121,293</u>	<u>61,428,401</u>	<u>50,348,713</u>	<u>44,911,781</u>	<u>45,079,369</u>
<b>Operating Expenses</b>					
Production Expenses	35,026,679	27,542,051	23,988,084	22,890,396	17,622,885
Administrative and General Expenses	13,672,384	9,830,870	10,893,086	10,906,697	11,532,674
Depreciation Expense	8,612,526	8,164,205	8,277,638	8,578,274	7,677,503
<b>Total Operating Expenses</b>	<u>57,311,589</u>	<u>45,537,126</u>	<u>43,158,808</u>	<u>42,375,367</u>	<u>36,833,062</u>
<b>Operating Income</b>	<u>6,809,704</u>	<u>15,891,275</u>	<u>7,189,905</u>	<u>2,536,414</u>	<u>8,246,307</u>
<b>Non Operating Revenues (Expenses)</b>					
Gain on Investments	-	-	-	3,776,999	-
Contributions in Aid of Construction	-	-	-	-	18,651
Grant Revenue	86,043	418,004	166,118	247,563	-
Interest Earned	839,716	560,978	572,956	526,260	719,838
Bad Debts Recovered	8,472	23,070	5,278	36,982	4,599
Gain on Disposal of Assets	492,964	121,813	7,609	51,565	33,829
Bond and Other Interest Expense	(8,724,365)	(9,122,131)	(8,967,219)	(8,540,539)	(8,291,294)
Amortization of Bond Issue Costs	(486,113)	(227,042)	(322,180)	(1,211,149)	(580,008)
Other Non Operating Revenues	319,778	285,240	444,037	434,633	467,000
<b>Total Non Operating Expenses</b>	<u>(7,463,505)</u>	<u>(7,940,068)</u>	<u>(8,093,401)</u>	<u>(4,677,686)</u>	<u>(7,627,385)</u>
<b>Increase/(Decrease) in Net Assets Before Capital Contributions and Special Items</b>	<u>(653,801)</u>	<u>7,951,207</u>	<u>(903,496)</u>	<u>(2,141,272)</u>	<u>618,922</u>
<b>Capital Contributions</b>	11,545,737	7,075,540	5,738,450	7,373,620	-
<b>Special Items</b>	-	481,376	625,130	-	-
<b>Change in Net Assets</b>	<u>\$ 10,891,936</u>	<u>\$ 15,508,123</u>	<u>\$ 5,460,084</u>	<u>\$ 5,232,348</u>	<u>\$ 618,922</u>

Note: The above data does not include the operations of the Bexar Metropolitan Development Corporation.

<1> Certain line items for 2003-2004 have been reclassified for 2006 comparison purposes only.

<2> Amounts for 2003-2005 do not reflect restatements of net assets as reported in the 2006 notes to financial statements.

<3> Main and Service Extensions were reclassified to operating revenues since these are revenues generated by its ongoing operations.

Percent of Total Revenues				
2007	2006	2005	2004	2003
75.2%	79.2%	82.3%	82.9%	86.7%
0.0%	0.0%	0.0%	0.0%	0.4%
3.5%	3.0%	5.1%	5.7%	3.4%
9.0%	10.3%	5.4%	4.3%	3.8%
5.6%	0.0%	0.0%	0.0%	0.0%
2.4%	2.6%	2.4%	2.2%	2.0%
1.9%	2.2%	2.7%	2.4%	1.9%
0.2%	0.3%	0.3%	0.3%	0.2%
2.3%	2.4%	1.9%	2.1%	1.7%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
54.6%	44.8%	47.6%	51.0%	39.1%
21.3%	16.0%	21.6%	24.3%	25.6%
<u>13.4%</u>	<u>13.3%</u>	<u>16.4%</u>	<u>19.1%</u>	<u>17.0%</u>
<u>89.4%</u>	<u>74.1%</u>	<u>85.7%</u>	<u>94.4%</u>	<u>81.7%</u>
10.6%	25.9%	14.3%	5.6%	18.3%
0.0%	0.0%	0.0%	8.4%	-
0.0%	0.0%	0.0%	0.0%	0.0%
0.1%	0.7%	0.3%	0.6%	0.0%
1.3%	0.9%	1.1%	1.2%	1.6%
0.0%	0.0%	0.0%	0.1%	0.0%
0.8%	0.2%	0.0%	0.1%	0.1%
(13.6%)	(14.9%)	(17.8%)	(19.0%)	(18.4%)
(0.8%)	(0.4%)	(0.6%)	(2.7%)	(1.3%)
0.5%	0.5%	0.9%	1.0%	1.0%
<u>(11.6%)</u>	<u>(12.9%)</u>	<u>(16.1%)</u>	<u>(10.4%)</u>	<u>(16.9%)</u>
(1.0%)	12.9%	(1.8%)	(4.8%)	1.4%
18.0%	11.5%	11.4%	16.4%	-
0.0%	0.8%	1.2%	-	-
<u>17.0%</u>	<u>25.2%</u>	<u>10.8%</u>	<u>11.7%</u>	<u>1.4%</u>



BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Board Members, Key Personnel, and Consultants

Year Ended April 30, 2007

Complete District Mailing Address: 2047 W. Malone  
 District Business Telephone Number: (210) 354-6500  
 Submission Date of the most recent District Registration Form: July 13, 2005  
 Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

<u>Board Members</u>	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimburse- ments</u>	<u>Title at Year End</u>
Victor Villarreal	(Elected) 11-03 11-08	\$5,850	-	President
David Sosa	(Appointed) 07-05 05-07	\$5,400	-	Vice-President
James Fenimore	(Appointed) 06-05 05-07	\$6,450	-	Treasurer
Jim H. Clement	(Elected) 02-05 11-08	\$6,000	-	Secretary
Jose Gallegos Jr.	(Elected) 11-03 11-08	\$4,950	-	Director
Lesley Wenger	(Elected) 02-05 11-08	\$6,600	-	Director
Robert Morin	(Appointed) 06-05 05-07	\$4,800	-	Director

**BEXAR METROPOLITAN WATER DISTRICT**  
**San Antonio, Texas**

Schedule of Board Members, Key Personnel, and Consultants

Year Ended April 30, 2007

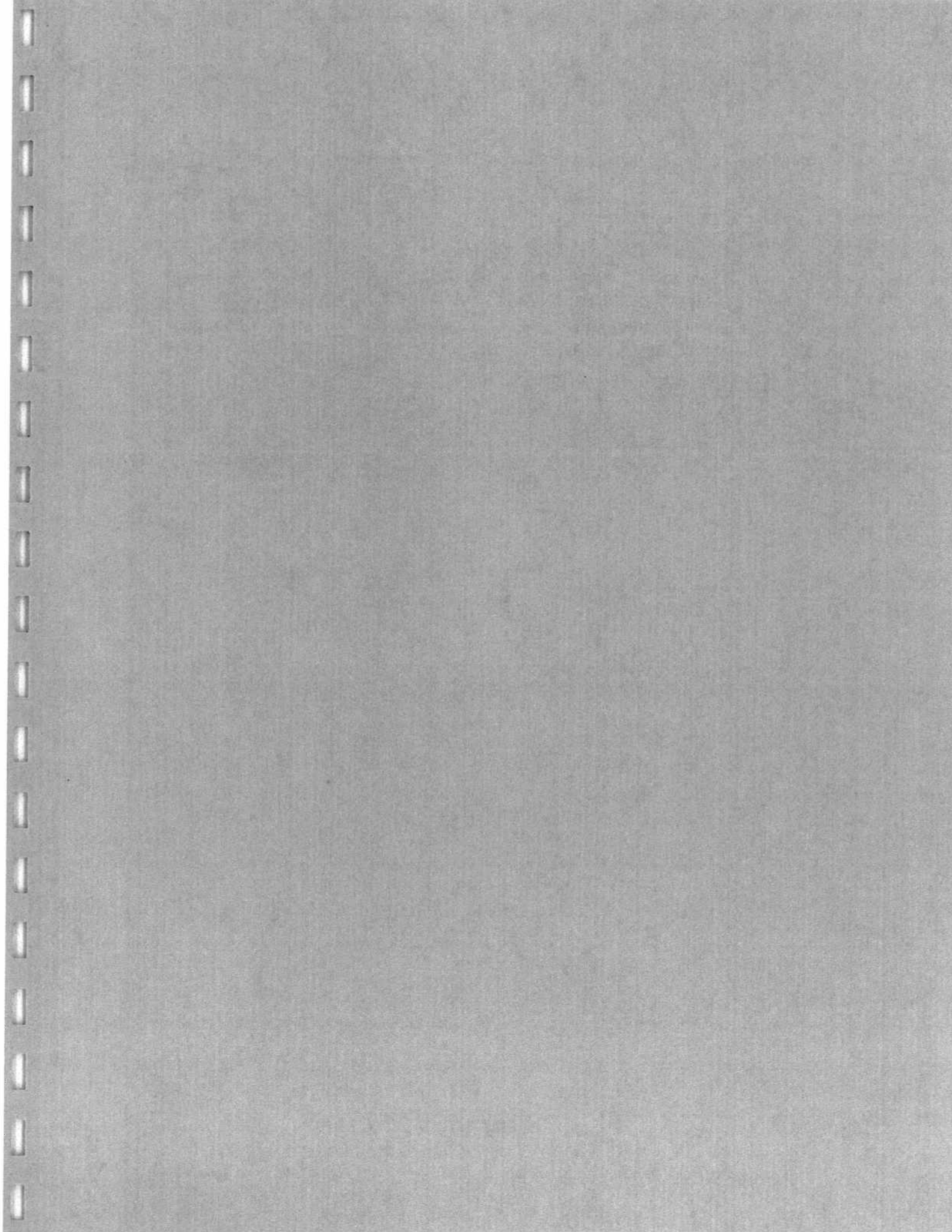
<b>Key Administrative Personnel</b>	<b>Date Hired</b>	<b>Annual Salary</b>	<b>Title</b>
F. Gilbert Olivares	December 22, 2003	\$ 164,000	General Manager
Jesse Morin	November 3, 1997	\$ 95,000	Director of Finance
Vacant	N/A	N/A	Director of Water Resources and Strategic Planning
Johnnie Terrazas	May 8, 2000	\$ 90,000	Chief Engineer
Adolfo Ruiz	May 4, 2005	\$ 115,000	General Counsel
Laura Stryjewski	November 14, 2005	\$ 89,000	Director of Customer Relations and Business Development
Edna Wigfall-Crute	January 3, 2005	\$ 89,000	Director of Administration

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

Schedule of Board Members, Key Personnel, and Consultants

Year Ended April 30, 2007

<u>Consultants</u>	<u>Date Hired</u>	<u>Fees</u>	<u>Type</u>
Garza/Gonzalez & Associates	June 8, 2004	\$ 126,595	District Auditor
River City	April 28, 2006	\$ 589,634	Engineering Services
Freese & Nichols Inc	March 31, 2006	\$ 82,655	Engineering Services
Cleary Engineering	March 29, 2006	\$ 53,280	Engineering Services
Clark, Thomas & Winters	March 1, 2006	\$ 302,819	Legal
R. L Wilson	September 1, 2005	\$ 280,739	Legal
Hazen & Terrel, P.C.	March 31, 2003	\$ 189,351	Legal
William M McKamie, P.C.	April 3, 2006	\$ 69,352	Legal
Villarreal & Moreno, L.L.P.	April 6, 2006	\$ 60,084	Legal
McGinnis, Lochridge & Kilgore	September 21, 2006	\$ 90,000	Legal/Lobbyist
Connolly & Company Ltd	September 29, 2006	\$ 120,552	Public Relations



# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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## **BEXAR METROPOLITAN WATER DISTRICT** San Antonio, Texas

### **REPORT ON THE CONDUCT OF AUDIT**

Year Ended April 30, 2007

207 Arden Grove  
San Antonio, TX 78215  
210/227-1389  
Fax 227-0716

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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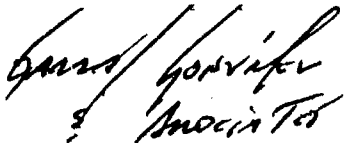
Members of the Finance Committee and  
Board of Directors  
Bexar Metropolitan Water District  
San Antonio, Texas

We have audited the financial statements of the Bexar Metropolitan Water District (the District) for the year ended April 30, 2007 and have issued our report thereon dated September 4, 2007. Professional standards require that we provide you with the following information related to our audit.

- the conduct of our audit (Parts I – IX),
- internal control and other issues (Part X), and
- compliance issue (Part XI)

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

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the District personnel during the course of our audit.



*Garza/Gonzalez  
& Associates*

September 4, 2007

207 Arden Grove  
San Antonio, TX 78215  
210/227-1389  
Fax 227-0716

BEXAR METROPOLITAN WATER DISTRICT  
San Antonio, Texas

REPORT ON THE CONDUCT OF AUDIT

Year Ended April 30, 2007

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## **I. Auditors' Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated February 21, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

## **II. Significant 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 I to the financial statements. No new accounting policies were adopted by the District and the application of existing policies was not changed during the year ended April 30, 2007. 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.

The District's Defined Benefit Pension Plan (Plan) is included in the District's financial reporting entity as a blended component unit and reported as a pension trust fund in the District's financial statements.

## **III. Management Judgments and 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 significant estimates affecting the District's financial statements are depreciation, amortized bond discounts, premiums, and issuance costs, fair value of investments, uncollectible receivables, and receivables for unbilled water revenues. Following are the basis used by management for such estimates:

- depreciation is based on estimated useful lives of the capital assets.
- bond discounts, premiums, and issuance costs are amortized over the life of the respective bond.
- fair value of investments is based on information provided by a financial institution.
- allowance for uncollectible customer receivables represents receivable balances outstanding for more than 60 days.



- allowance for uncollectible miscellaneous receivables represents receivable balances outstanding for more than 90 days.
- receivables for unbilled water revenues are computed based on the number of days during the current fiscal year divided by the number of days billed subsequent to year end.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### **IV. Significant Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process. We proposed several audit adjustments which had a significant effect on the District's financial statements. These audit adjustments decreased assets by \$746,298, liabilities by \$1.3 million, revenues by \$628,220, and expenses by \$1.2 million. The purpose of the audit adjustments was to properly state allowance for uncollectible accounts receivable and related expense, impact fee receivable and related revenue, accumulated depreciation and depreciation expense, and to properly account for the series 2006 refunding bonds issued in the current year.

Additionally, in connection with our audit, we have discussed with management certain immaterial financial statement misstatements that have not been recorded in the general ledger or accounted for in the financial statements as of and for the year ended April 30, 2007. We have reported the misstatements to management in an audit difference evaluation form and have received a written representation that management believes the effects of the uncorrected financial statement misstatements are immaterial. The uncorrected misstatements are to reflect the current year effect of a prior year audit difference, which was to properly record attorney fees billed and/or unbilled for services rendered for the year ended April 30, 2006; and, to adjust the pension plan investment balances to agree to the amount confirmed.

#### **V. Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the District's financial statements and our report thereon does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents.

#### **VI. 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **VII. Consultations with Other Independent Accountants**

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

## **VIII. Matters Discussed with Management Prior to Reappointment**

A variety of matters were discussed with management, including the application of accounting principles and auditing standards, prior to reappointment 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 reappointment.

## **IX. Difficulties Encountered in Performing the Audit**

We encountered no difficulties in performing our audit, however, not all data requested was provided on a timely basis, which delayed the completion of this report.

## **X. Internal Control and Other Issues**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and a deficiency that we consider to be a material weakness.

*A control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. **We consider the deficiencies described below as items 1, 2a, 5, 6e-6g, 8a-8e, 9a-9b, and 10c to be significant deficiencies in internal control.**

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

## **CAPITAL ASSETS**

### **Physical Inventory (Prior Year Comment)**

Although the District initiated a physical inventory on all classes of capital assets in the current year, the process was not completed during the year. As a result \$2 million of land recorded in the general ledger remains unsupported the capital asset subsidiary ledger lacks sufficient detailed information to accurately identify individual capital assets, including assets with a date of service as early as 1946, and approximately \$1.8 million of capital assets that are idle and still being depreciated.

We recommend that the District continue the physical inventory process on all classes of assets to determine if the \$2 million of land recorded, but unsupported, in the general ledger can be identified or should be written off, and to revise the capital asset subsidiary ledger to reflect the results.

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## **Significant Deficiencies and Other Comments**

### **1. CAPITAL ASSETS**

#### **Overhead Rates (Prior Year Comment)**

Since the District outsourced the majority of its construction projects in the current year, minimal in-house work was performed and only \$114,295 in overhead was charged to projects, which is nominal when compared to prior year amounts. However, an analysis to evaluate the reasonableness of the overhead rates has not been performed.

We recommend the District perform an analysis of the current overhead rates applied to construction projects to determine if they should be revised to ensure the most optimal and reasonable rates are used, in the event the District begins to perform a significant number of in-house construction projects, and maintain documentation of the methodology and/or analysis used to support the revised rates.

### **2. CONSTRUCTION IN PROGRESS (CIP)**

#### **a. Closed Projects (Current Year Comment)**

It is our understanding that the engineering department is responsible for notifying the accounting department when construction projects are substantially complete so that they may be closed and removed from CIP and added to capital assets. However, projects were not closed in the current year since the accounting department did not receive such notification. As a result, construction projects valued at approximately \$2.5 million, that had no current year activity, remained open and reported as CIP instead of capitalized and depreciated.

We recommend that the engineering and accounting departments work together throughout the year to identify and close construction projects that are substantially complete.

b. CIP Software (Prior Year Comment)

The accounting software currently used is unable to generate a report of open construction projects; therefore, ongoing projects are accounted for in an Excel spreadsheet, which is cumbersome since transactions are entered from various sources to ensure completeness of each ongoing project.

We recommend the District continue with its plans of implementing an upgraded version of the current accounting software to enable reports to be generated in a more efficient and effective manner.

c. Change Orders (Current Year Comment)

Our testing of ten (10) open construction jobs disclosed the following:

- Two (2) instances in which the vendor was paid more than the approved contract amount; however, documentation of a change order was not available for our review.
- One (1) instance in which the vendor received change orders exceeding 10% of the total contracted amount; however, documentation of Board approval of the change order, as required by the District's policy, was not available for our review.

We recommend that the District implement procedures to monitor vendor payments to ensure the approved contract amount is not exceeded and that it abide by its policy and ensure Board approval is obtained for change orders, which may exceed 10% of the contract amount.

3. PROCUREMENT/PURCHASING

a. Competitive Procurement (Prior Year Comment)

Although the District employs a purchasing manager, the procurement process remains decentralized since in various instances, purchases are made by departments without coordinating first with the purchasing department to ensure purchases are made in compliance with state and local requirements. Our testing denoted the following:

- Eleven (11) of the forty (40) transactions tested met the competitive procurement process criteria since the vendors were paid, in the aggregate, more than \$25,000. In eight (8) of the eleven (11) instances, competitive procurement procedures were not followed.
- Three (3) of the forty (40) transactions tested did not have evidence of a phone/written solicitation from vendors paid, in the aggregate, between \$15,000 and \$25,000, and in ten (10) instances where the vendor was paid, in the aggregate, less than \$15,000, there was no evidence that phone solicitations were obtained, as required by the District's purchasing policies.

- In one instance, a vendor was paid for services provided although it was not the vendor selected through the RFQ process. In addition, the vendor had been notified that it had not been selected.
- We offer the following observations related to the Emergency Resolution that was approved by the Board on October 24, 2006:
  - Section 49.273 (j) of the Texas Water Code, allows the Board to bypass competitive bids for *repair* of district facilities under certain circumstances that *require immediate corrective action*. We noted that purchases and contracts entered into to address the concerns in the designated emergency areas bypassed the competitive procurement process.
  - A contract (not to exceed \$1M) for the Development of Additional Water Resources was entered into 2 ½ months after the emergency condition was declared, and invoices for services rendered were received subsequent to the District's fiscal year end; although, the contract requires the contractor to remit monthly invoices.
  - Purchases of equipment made from various vendors pursuant to the Emergency Resolution, totaling an estimated \$1 million, were made during January, 2007; however, as of the District's fiscal year end, the equipment either had not been received or was stored, pending installation.
  - On December 18, 2006, the Board was asked to *ratify* the purchase of the equipment in an amount not to exceed \$950,000. However, the equipment was ordered subsequent to that date, a purchase requisition was completed *after* the equipment was ordered, and the total amount of the purchase was \$1,007,370.

We recommend that the District route all planned purchases for services, supplies, materials, and equipment to the purchasing department on a timely basis to ensure that the District adheres to the state and local competitive bidding requirements.

b. Purchasing Manual/Policies (Prior Year Comment)

Our review of the purchasing policies included in the District's purchasing manual denoted the following:

- Section C.3. of the purchasing procedures states that "all expenditures for goods and services over \$5,000 require Board Approval." However, the policy does not specify the document required to be approved (i.e. purchase requisitions, purchase orders, checks, invoices, contract amendments, etc.) and whether approval is required before or after the purchase is made.
- The dollar threshold for capital expenditures has not been revised to reflect the thresholds established in the capital asset policy.

We recommend that the District revise its purchasing policies to clarify the Board approval requirements and to reflect the updated monetary capital expenditure threshold.

c. Procurement Process (Prior Year Comment)

Based on our testing of forty (40) transactions, we identified the following:

- In three (3) instances, either the purchase requisition, check, or invoice lacked evidence that the proper approval process was followed.
- In two (2) instances, the purchase requisition lacked evidence of budget review.
- In two (2) instances a vendor contract was not provided.

We recommend that the controls established for the approval process be denoted on all documents in the procurement process to provide evidence to a third party that each purchase is properly approved. In addition, vendor contracts should be maintained in a central repository to ensure they are available for review.

d. Contract for Water Supply Agreement (Current Year Comment)

The water supply agreement between the District and the Atascosa Rural Water Supply Corporation terminated August, 2005.

We recommend that all water supply agreements be renewed and presented for Board approval to ensure terms and conditions are updated as necessary.

e. Emergency Purchases (Prior Year Comment)

In two (2) of the twenty-five (25) capital asset additions tested, purchases were made and identified as emergency purchases. However, the policies and procedures for emergency purchases were not followed since (1) in both instances the vendor was secured by an individual other than the purchasing agent and the purchase requisition was not completed the next business day, and (2) in one instance written acknowledgement was not obtained from the Board president.

We recommend that the District instruct departments to coordinate with the purchasing department in emergency situations to ensure compliance with established policies and procedures.

f. Contract for Public Relation Services (Current Year Comment)

During the current year, the District entered into a contract with Connolly & Company (C&C) for public relation services at a monthly retainer fee of \$5,000 for any and all services to be performed related to public relations, advertising, marketing, image management, promotions and special events, and related activities. The contract was for the period commencing October 1, 2006 and ending December 1, 2006, and if extended could continue until May 31, 2007.

However, the contract was amended effective February 1, 2007, at which time the following modifications were made.

- Monthly retainer fee increased from \$5,000 to \$10,000.
- Contract scope was changed to include favorable representation with the Texas Legislature.
- A new name and logo campaign would be completed by June 2007.
- The contract termination date was extended to January 31, 2008.
- The termination clause increased from 30 to 90 days.

C&C's total compensation through April 30, 2007 for services rendered including payments for other costs totaled \$120,552.

Our review of the contract terms and conditions disclosed the following:

- The contract was awarded without advertising and did not adhere to the Request for Qualifications (RFQ) or Request for Proposal (RFP) process as required by the Professional Services Procurement Act and District policies.
- Exhibit A of both, the original and amended contract required that a complete advertising and image campaign program and budget be presented to the General Manager and the Board for review and approval by mid-November 2006; however, these items were unavailable for our review.
- The original and amended contract reads that the monthly retainer fee is for any and all services to be performed related to public relations, advertising, image management, promotions and special events, and related activities. However, our review of invoicing and payments made to C&C indicated that they were paid an additional \$8,748, for creative design services.
- C&C billed and was paid an additional \$5,000 on February 9, 2007 for website creative graphic design, construction, management, and coordination. The original contract indicates that C&C would provide competitive bids for these services; however, none were received.

In addition, the amended contract (effective February 1, 2007) indicates that these services would be provided at no additional professional costs.

- C&C billed and was paid \$9,487 for reprinting of 250 Utility Reports at a rate of \$37.948 each, which is at a higher rate than the 500 original reports printed at a cost of \$13,634 or a rate of \$27.268 for each report, a difference of \$2,670.

We recommend that the District implement policies and procedures that would designate someone to monitor contract terms and conditions and payments made to contractors to ensure they are consistent with the contract terms and conditions. In addition, we recommend that the District determine and recover any and all payments in excess of the contract terms and conditions.

g. Indefinite Delivery Contracts (Current Year Comment)

Our review of the process used to award indefinite delivery contracts for flatwork or concrete services denoted the following:

- All three contractors that responded to the invitation for bids were Board approved to provide services to the District.
- Each contractor submitted unit prices for fifty-one (51) different items. The bid tabulation prepared by the District identified a “primary” (lowest bidder) and “secondary” (second lowest bidder) contractor for each individual (51) items. However, discussions at the Board meeting and the motion adopted by the Board did not specify that contractors were to be selected on a primary and/or secondary basis.
- Throughout the current year at staff’s discretion, projects for flatwork or concrete services were awarded to two of the three approved contractors without consideration for the lowest responsive bid. As a result, the District may not have received the best economical price since projects were not awarded to the lowest responsive bidder.

We recommend that all motions adopted by the Board be written in a manner that is clear and concise to third parties. In addition, we recommend that if a contractor other than the lowest bidder is awarded a project that the specific reasons be documented.

h. Consultant Contract (Current Year Comment)

The Board authorized management to negotiate and approve a contract for Construction, Administration and Inspection Management (CAIM) Professional Services; however, the Board resolution failed to include the total estimated compensation or a “not to exceed amount”. Instead, the compensation provisions are open since the contract reflects that total expenses are estimated to be approximately \$75,000 per month for an indefinite period of months.

We recommend that the District expedite the reestablishment of an in-house engineering department to reduce operating costs. In addition, we recommend that the Board control costs paid to outside consultants by including total compensation limits in their motions and requiring change orders or contract amendments for overages, if any.



4. **INFORMATION TECHNOLOGY (IT)**

**IT Department (Prior Year Comment)**

In previous years several recommendations were made relating to IT. Our review of this area in the current year indicated that the District has addressed the previous issues and is in the process of bringing a formal disaster recovery/business continuity plan online.

We recommend that the District continue with their plans of developing a formal disaster recovery/business continuity plan so that in the event of a disaster, they could continue operations.

5. **BUDGET**

**Budget Policy (Prior Year Comment)**

The District budget policy requires management to submit budget amendments to the Board for any department or budget category that will exceed the adopted budget amount or when total expenditures are expected to exceed the adopted budget. The total expenditures and item expenditures for the year ended April 30, 2007 exceeded their respective budgets. Management failed to prepare and present budget amendments during the year.

We recommend that District management prepare and present budget amendments for Board approval prior to incurring expenditures exceeding the approved budgets.

6. **PAYROLL**

a. **Pay Schedule (Prior Year Comment)**

In thirteen (13) of the forty (40) payroll disbursements tested, employees' job titles were not reflected in the District's Board approved pay grade schedule for the respective pay grade. Therefore we were unable to determine whether the employees were paid in accordance with the District's pay grade schedule.

We recommend that the human resources department review all employee titles to ensure they are included in the District's Board approved pay grade schedule.

b. **Overtime (Prior Year Comment)**

The Employee Handbook indicates that "Overtime cannot be self-approved." Our testing of payroll indicated that supervisors/managers do not document approval of overtime before it is incurred. The total overtime paid during the year to all employees was in excess of \$1 million.

We recommend that management adhere to its policies and establish a process which requires the respective supervisor/manager to document approval of overtime before it is incurred by employees.

c. Worker's Compensation (Current Year Comment)

Our testing of payroll indicated that employees receive holiday pay while they are receiving worker's compensation benefits.

We recommend that the District consult with Texas Workers' Compensation Commission to determine if the practice of paying employees for holiday pay while receiving worker's compensation benefits is allowable.

d. Employee Handbook (Current Year Comment)

The District's revised employee handbook does not address all types of pay an employee may receive; such as, standby pay, or shift premium pay of 10% for overtime worked by employees while on standby.

We recommend that the District include all types of pay in its employee handbook.

e. Payroll Department Structure (Current Year Comment)

Effective October 20, 2006, the payroll department, which was originally assigned to the accounting department, was assigned to the human resources department.

We recommend that the payroll department be reassigned to the accounting department to ensure proper segregation of duties between the payroll and human resources departments.

f. Employee Pay Rates (Current Year Comment)

The payroll department is responsible for setting pay rates within the payroll system and for processing payroll.

We recommend that the human resources department, independent of the payroll department, enter pay rates into the payroll system to ensure proper segregation of duties. Changes in pay rates should be verified by the payroll department.

g. Blank Check Stock (Current Year Comment)

During our audit fieldwork, we observed the blank payroll check stock located in the payroll department and maintained by payroll personnel. In addition, a blank check stock log is not maintained.

We recommend that an individual independent of the payroll department maintain the blank check stock in a secure location, and that a log be maintained to strengthen controls over the distribution of the blank checks.

## 7. SEWER AND GARBAGE FEES

### a. Sewer and Garbage Fee Collections (Prior Year Comment)

Our review of sewer and garbage fees billed and collected on behalf of other entities denoted the following:

- The District bills and collects sewer charges and retains 15% of the charges as service fees, based on a contract between a city and another water system. However, it is our understanding that there is not a contract between the District and the city. Additionally, the contract between another city and the other water system provides for increasing the collection fee by a bad debt allowance, which the District has not done since 1995.
- The District remits the garbage charges *billed* to one city instead of the charges collected, as stated in the agreement between the District and the city.

We recommend that the District enter into written agreements with the third parties to ensure collections and remittances are properly performed. In addition, the District should comply with the written agreement for garbage collections or consider revising it to reflect the actual practice.

### b. Sewer Rates (Current Year Comment)

Written agreements or ordinances were not available to support the sewer rates charged to a retail customer and to Hollywood Park commercial users. In addition, based on correspondence between Hollywood Park and the District, there are inconsistencies in the rates currently used.

We recommend that the District obtain written agreements or ordinances for all rates billed on behalf of a third party.

## 8. ACCOUNTS RECEIVABLE

### a. Accounts Receivable Process (Current Year Comment)

Our review of the District's customer's accounts receivable process indicates that:

- Various adjustments are made to the individual customer accounts in the subsidiary system, but are not adequately identified as to type of adjustments, i.e. refunds, adjustment to billings, or errors.
- Monthly reconciliations of the accounts receivable general ledger control account balance and subsidiary ledger balance are not performed.

We recommend that any and all adjustments made to an individual customer account be adequately identified and any documentation that supports the adjustment be retained. Additionally, monthly reconciliations between the subsidiary and general ledger account balance must be performed.

b. Adjustments to Customer Accounts (Current Year Comment)

Adjustments to customer accounts are made by the billing supervisor, accounts receivable supervisor, billing staff, customer service senior representatives, the customer service manager, and by collectors for the payment of returned checks.

The ability to adjust customer accounts should be limited to the billing supervisor and the accounts receivable supervisor to ensure adjustments are properly authorized.

c. Collection of Overdue Receivables (Current Year Comment)

Our review of the billing and collection process over miscellaneous receivables indicates there is an estimated \$460,000 in long outstanding receivables for amounts owed from various parties for service installations, fire hydrants, repairs, and water assessments. In some instances receivables have been outstanding since 1999.

We recommend the District consider more rigorous collection efforts by providing monthly statements to all parties; following up when considered necessary, including progressive District actions; assessing penalties and/or interest, if lawful; or, submitting overdue accounts to a collection agency.

d. NSF Checks (Prior Year Comment)

The District contracts with an agency for the collection of customers' NSF checks and records the related receivable. However, a reconciliation of the account has not been prepared since February 2007 to support the balance of \$253,432 recorded in the general ledger.

We recommend that the District ensure a reconciliation is prepared on a monthly basis to support the NSF check balance.

e. Impact and Water Development Fees (Current Year Comment)

The quotation form that authorizes the sale of service, which is prepared by the mains and services department and the Utility Service Agreements (USA), which are prepared by the legal department, are not provided to the accounting department until the payment for impact and water development fees are received. As a result, payments are recorded on a "cash basis" instead of recording a receivable and related revenue in the period that it is earned.

We recommend that the accounting department be provided with the quotation forms and USA upon approval to ensure proper recording in the accounting system.

## 9. INVENTORY

### a. Inventory Process (Prior Year Comment)

Our review of the inventory process denoted the following:

- The District performs complete physical inventory counts twice a year (December and April) instead of performing cycle counts periodically throughout the year.
- Two employees have access to the recordkeeping (perpetual inventory records) and storekeeping (issuing inventory) functions.
- A reconciliation between the perpetual inventory system and the general ledger is not performed.
- The District does not have a formal written policy for scrap sales of inventory.

We recommend that the District:

- Consider performing cycle counts on a quarterly basis and a complete inventory count at the end of the fiscal year.
- Separate the duties of recordkeeping and storekeeping.
- Reconcile the inventory balance of the general ledger to the perpetual inventory system and investigate any differences. The reconciliation should be reviewed and approved by another individual.
- Develop a written policy for sales of scrap inventory.

### b. Inventory Count (Current Year Comment)

Based on a physical inventory test count performed of twenty-five (25) items, variances were identified in three (3) instances. These variances were caused by the lack of documentation for issuances and/or returns. In addition, in one (1) instance the variance was due to input error, which resulted in a significant variance.

We recommend the District retain the supporting documentation for inventory issuances and/or returns and ensure stock requisitions are completed and entered into the inventory system in a timely manner. The District should also require a recount of items that have large variances between the physical count and stock status report.

10. **ACCOUNTING**

a. **Journal Entries (Prior Year Comment)**

Our review of the District's journal entry process indicated that journal entries are not consistently signed by either, the persons preparing the entry or the person approving the entry, and; the majority of the journal entries are prepared and entered into the general ledger by the same individual.

We recommend that the District implement controls to prevent unauthorized changes to the general ledger by requiring that all journal entries include a signature of the person who prepared and approved the entry.

b. **Authorized Check Signers (Current Year Comment)**

An employee who terminated employment at the District in November 2006 has not been removed as an authorized signer from the District's bank accounts.

We recommend that the District ensure that authorized signers have their check signing privileges revoked immediately upon termination.

c. **Vendor Invoices (Current Year Comment)**

During our audit fieldwork, we noticed invoices received from two vendors that were retained by other departments and not timely remitted to the accounting department for recording. As a result, audit adjustments totaling \$420,464 were made to record the expense in the proper period.

We recommend that all departments be required to submit vendor invoices in a timely manner to the accounting department to ensure expenses are recorded in the proper period.

11. **DEFINED BENEFIT PENSION PLAN**

**Defined Benefit Pension Plan (Prior Year Comment)**

Our testing of the District's defined benefit pension plan (the Plan) indicated that the Plan remains over funded by \$229,212, an increase of \$48,228 from the prior year.

We recommend that the District consider applying the over funded amount in the subsequent year.

12. **OTHER**

New Pronouncements (Current Year Comment)

The Governmental Accounting Standards Board (GASB) has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which will require an actuarial valuation to be performed for financial reporting purposes. The requirements of this Statement will become effective for the fiscal year ending April 30, 2008 since the District provides post employment benefits through (1) the premium reimbursement program and (2) the premium paid in full/reduced rate program.

We recommend that the District consult with their current vendor to ensure that the actuarial valuation be performed in accordance with the requirements of this Statement and to contract with a third party for the preparation of an actuarial valuation for the premium paid in full/reduced rate program.

**XI. Compliance Issue**

**INVESTMENTS**

The Public Funds Investment Act (Prior Year Comment)

Our testing for compliance with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act, indicated that a certain financial institution doing investment business with the District has refused to provide the required written representation, which indicates that the institution has—

- received and reviewed the investment policy of the District; and
- has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the District's investment policy.

We recommend that the District comply with all applicable requirements of the Public Funds Investment Act and ensure the required representations are received.



# MEMORANDUM

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**To:** Board of Directors

**From:** F. Gilbert Olivares, General Manager  
Bexar Metropolitan Water District

**cc:** Rene Gonzalez, CPA  
Garza/Gonzalez & Associates

**Date:** September 18, 2007

**Subject:** BexarMet Responses to Auditors' Report on the Conduct of Audit for Fiscal Year 2007

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Bexar Metropolitan Water District (the "District" and/or "BexarMet") has reviewed the comments in the Conduct of the Audit Report submitted by Garza/Gonzales & Associates (the "Comments") for Fiscal Year (FY) 2007 and has provided responses (the "Responses") herein to each of the Comments.

In order to have a better understanding of the District's responses, it is important that the reader understand the circumstances surrounding the District's operations during FY 2007. During the fiscal year, the 80<sup>th</sup> Texas Legislature introduced House Bill (HB) 1565, which threatened the dissolution of the District's Board, and consequently, a potentially significant change in the District's operations. In an effort to address the concerns outlined within this Bill, senior management worked extensively to support the Board of Directors' efforts to mitigate the effects of HB1565 as originally introduced. As a result, certain findings from the 2006 fiscal year Conduct of the Audit Report that senior management planned to address were not fully implemented. However, management has already taken proactive steps to rectify the findings outlined in the current year's Conduct of the Audit Report. Please note, for brevity's sake, only the responses to the auditors' comments are included herein. They are as follows:

## **X. Internal Control and Other Issues**

### **Capital Assets - prior year comment**

#### **Physical Inventory (Prior Year Comment)**

As was done in the prior fiscal year, District staff concurs with this assessment. The \$2 million referred to as being recorded in the general ledger without support or documentation still remains on the balance sheet as of fiscal year end 2007. The District has made progress in obtaining, organizing and indexing old files and documents from previous years that may assist in finding the support for the purchase or existence of the land in question. If such



support is not located by fiscal year end 2008, the \$2 million of land will be dealt with accordingly. Also, the physical inventory process will continue in fiscal year 2008. A revised list of idle assets will be review by staff who will determine a course of action.

#### Overhead Rates (Prior Year Comment)

Management will review our current overhead rates applied to construction projects. An analysis to determine reasonableness of rates that should be applied will be performed and rates will be adjusted if warranted.

## **2. Construction in Progress (CIP)**

### a. Closed Jobs (Current Year Comment)

While Staff agrees that the engineering department is responsible for making the determination that a project is complete, the finance department will begin reviewing the CIP account regularly and inquire with the engineering department regarding projects that appear idle. This dialogue will give opportunity for both departments to determine the appropriate time for projects to be considered closed and reclassified to fixed assets. Further, along with the form created in the prior fiscal year intended to document the completion of construction projects, management will ensure the continual dialogue amongst the Engineering department and the Finance department to verify the timely closing of construction projects.

### b. CIP Software (Prior Year Comment)

Staff concurs with the recommendation of continuing with its plans of implementing an upgraded version of the current accounting software. The accounting software currently used by the District, Macola, will be upgraded before the end of the fiscal year.

### c. Change Orders (Current Year Comment)

Staff has already begun discussion on improving methods to monitor vendor payments to not only ensure payments do not exceed contract amounts, but to report remaining balances based on the contract. Once the procedure is instituted, Staff will be able to monitor the change order policy. Further, Staff will recommend to the Board a change in the current policy, which requires change orders in excess of 10 percent of the total contract amount to be taken for Board approval, to reflect an approval requirement more appropriate to the current operations of the District.

## **Procurement/Purchasing**

### a. Competitive Procurement (Prior Year Comment)

The District staff understands the importance of adhering to state and local competitive bidding requirements. The District has begun the process of analyzing purchasing procedures. This analysis entails interviews, observations and recommendations. Once

the recommendations have been completed, documentation of procedures can then be performed. These procedures will act as a guideline for all purchases, training of new personnel and will be available for review and testing for the current fiscal year audit. However, the District Management does not agree with the comment of the auditors within the section of the management letter pertaining to the emergency resolution. Please see the responses below:

As it pertains to the contract for the Development of Additional Water Resources, the Emergency Resolution was signed by the Board on October 24, 2006. It was determined by the BexarMet Board that if sufficient potable water was not available by the summer of 2007 in the Hill Country System, then a serious health hazard would be created such as the boil water notices that were issued previously and mandatory water restrictions that were implemented in the city of Hill Country Village, Hollywood Park, Stone Oak and Timberwood Park last summer. Of particular concern, was a potential of a lack of water for a hospital and a large retirement community located in the Stone Oak area. Also, BexarMet suffered unreasonable economic loss by having to buy expensive retail water from SAWS in the amount of approximately 1.2 million dollars; hauling water to various areas in the Hill Country System; stationing water tanker trucks outside North Central Baptist Hospital as a precaution; and providing expensive filters to minimize water turbidity.

The contract the auditors refer to is the Applied Water Management Contract ("Contract") which was approved at the December 18 2006, Board Meeting, which was fifty five days (55) days (1 $\frac{3}{4}$  months) after the Emergency Resolution and not 2 $\frac{1}{2}$  months as represented by the auditors. The Contract was established in order to supplement, on an expedited basis, a viable Edwards Aquifer water source to the Hill County System in conjunction with the current development of Trinity Aquifer Wells associated with the WECO project, which includes the Stein, Rogers and Dym tracts.

The search for Edward's Aquifer wells was given heightened importance by the fact that the anticipated timely development of the eight (8) Stein tract WECO wells by the summer of 2007 would be delayed indefinitely because of unanticipated litigation between the landowners and WECO that denied BexarMet access to the tract. Also the unanticipated complications in testing the WECO wells in the farther Dym and Roger Tracts (debris in the well, jettison water in well to clean and water quality issues) delayed the projects even further.

The approval of the Contract in December 2006 was not a delay or untimely as suggested by the auditors, but was within the industry standard of allotted time to identify the scope of the project; negotiate a price; and to prepare and agree upon contract terms. Applied Water Management Group started invoicing BexarMet within the fiscal year, although, not on a thirty (30) day consistent basis. BexarMet will note the auditors' recommendation and proceed with a process to monitor payment schedules.

Regarding the purchase of equipment under the emergency resolution, as the auditors were not specific as to the equipment, BexarMet has logically assumed that they are referring to the purchase of switch gears and generators for the Rogers and Dym Tracts as

mentioned in the above response. To reiterate, the unanticipated events delayed the installation of the above-referenced equipment. If these events did not occur, then the equipment would have been ready and available for installation. Also, equipment had to be ordered as early as possible in order to provide sufficient lead time in the manufacturing of the equipment. Even with the expedited delivery, it could still take up to an estimated ninety (90) day time frame for BexarMet to receive the equipment.

As it relates to the purchase of equipment ratified by the Board, the equipment was ordered before the December 18, 2006 Board Meeting. It is the District's determination that the additional amount of \$57,370.00 was expended for expedited delivery of the equipment and the purchase of spare parts.

b. Purchasing Manual/Policies (Prior Year Comment)

District staff concurs and will follow through with the auditors' recommendation and review the purchasing manual. The District will recommend change in policy as to type of document to be approved and the appropriate stage in the process to for Board approval will also be addressed.

c. Procurement Process (Prior Year Comment)

District staff recognizes and concurs with the importance of controls over the purchasing process. The approval process should be denoted on all documents. The District staff will implement a more thorough review of purchasing document for completeness.

d. Contract for Water Supply Agreement (Current Year Comment)

The District does not concur with the comment of the auditors regarding the contract with the Atascosa Rural Water Corporation. The Contract with Atascosa Rural Water Supply Corporation terminated at the end of August 2005, but was renewed and extended for an additional five years pursuant to Board approval at the August 29, 2005 Board Meeting.

e. Emergency Purchases (Prior Year Comment)

As previously stated in this document, the District has begun the process of analyzing purchasing procedures. Improving communications amongst departments and staff is the goal of the District to ensure an efficient and compliant operation.

f. Contract for Public Relations Services (Current Year Comment)

Management does not concur with the auditors' claim that the contract with Connolly & Company was "awarded without advertising and did not adhere to the Request for Qualification (RFQ) or Request for Proposal (RFP) process as required by the Professional Services Procurement Act and District Policies".

The District's sole purpose for engaging Connolly & Company's services was to assist the District in transforming its tarnished image amongst the community. This image

management service included, but by no means was limited to, crisis management, image promotion and community relations as well as building a comprehensive publicity plan, press conference planning and strategies, serving as the District spokesperson, and later revamping the District website to create a whole new image. These services entailed skill, talent and creative ability and strategic planning and was the type of service which denotes a person in a profession which requires years of service for one to attain competence and which calls for a high order of intelligence, skill and learning. Mr. Connolly, who personally provided the majority of these services to the District, has years of experience and specialized training in reforming images and handling crisis management on behalf of companies in which he either was employed or provided consulting services to on their behalf. Mr. Connolly also maintained a relationship with Bexar County Judge, Nelson Wolff, which was important given the County's legislative agenda to incorporate BexarMet into the County. The General Manger compared Connolly & Company's qualifications with the responses received in a previous 2005 RFQ for consulting services and determined that given the climate at the time, Connolly & Company demonstrated the competence and unique qualifications to represent BexarMet in the public relations area during this time.

Contrary to the auditor's comment, BexarMet was in compliance with its Administrative Policies and the Professional Services Procurement Act. Connolly & Company did provide the type of professional services as set forth above. According to Attorney General Opinion MW 344, a professional service is one requiring "predominantly mental or intellectual, rather than physical or manual," skills. Attorney General Opinion MW-244 (1981) at 4 (quoting *Maryland Casualty Co. v. Crazy Water Co.*, 160 S.W. 2d 102, 105 (Tex.Civ. App.-Eastland 1942, no writ). Furthermore, a "professional works in a profession that "requires years of education and service for one to attain competence and [that] calls for a high order of intelligence, skill and learning." *Id.* (quoting *Transportation Displays, Inc. v. City of New Orleans*, 346 So. 2d 359, 363 n.5 (La.Ct.App. 1977)). In *Transportation Displays, Inc.*, the court determined that while the sale of advertising space at an airport is subject to the competitive bidding requirements, they indicated that if the city were to hire an advertising agency to attract tourist by designing an advertising program that it would be excluded from the competitive bidding requirements since the city under those circumstances should exercise discretion in hiring an agency whose creativity and skill bests suits that particular purpose. As stated above, Connolly & Company provided the professional skill and competence required by BexarMet.

Even if Connolly & Company falls outside the scope of the Professional Services Procurement Act (PSPA), as the auditors contend, the District's General Manger still has the authority pursuant to Section 2.05 of the District's Professional Services Procurement Policy to retain professionals who fall outside of the PSPA. The District policy also provides that the Board may consider the recommendation of the General Manager and the qualifications and cost in selecting the professional, which the Board did at the September 25, 2006 Board Meeting.

The auditors' comment that the District did not adhere to a Request for Proposal (RFP) is not well reasoned. BexarMet's administrative policies provides that purchases of

equipment, material, supplies and related services that conforms to Chapter 49 of the Texas Water Code are applicable to contract awards subject to an RFP. Connolly & Company's services do not fall under this category.

During late Fall 2006, the Legislature was preparing to start and rhetoric regarding Bexar County's takeover of BexarMet was becoming more apparent. As such, any image campaign would have been premature as the public relations efforts were focused on keeping BexarMet intact. Also, this campaign was not budgeted for and therefore not practical or implemented. Alternately, management choose the more economical approach of an image campaign by utilizing press releases, media stories, the State of the Utility Report and Board mandated public meetings.

During the initial term of the contract as well as amended contract, Connolly & Company agreed to perform all services as identified in Exhibit A of the contract, as modified by the amendment. Exhibit A identifies the services to be performed as public relations, advertising, image management and promotions and special events. Exhibit A also identifies services that are not covered by the retainer, but can be provided. The term creative design is not identified in Exhibit A as a service included in the monthly retainer. Therefore, creative design services were specifically excluded from the contract. BexarMet contends that the auditors' opinion that creative concepting and creative design are the same is incorrect. In addition, the Amendment to the contract expands the scope of the services provided to include political positioning and revamping of BexarMet's web site.

In regard to the \$5,000.00 payment for website design, Connolly & Company was asked to provide a preliminary website within the General Managers signature authority of \$5,000.00. This was a project authorized by the General Manager. Further, the language in Exhibit A related to this item is permissive not mandatory. The relevant language states competitive bids would be provided for BexarMet's review to utilize these services. Connolly & Company was instructed to provide as much work as possible for \$5000.00. Generally most websites will run in excess of \$5,000.00, so the funds paid were for a review of BexarMet's existing website and preliminary website design. Further, the contract amendment indicated the website would be delivered at no additional professional fees, which it was. This website was delivered and is utilized by BexarMet today.

The creating and printing of the State of The Utility Reports ("STUR") were outside the scope of the contract and were billed as they were printed. The Auditors finding that BexarMet overpaid as per unit charge for the second printing of 250 STUR is taken out of context. What the auditors do not mention with any specificity, is that there is a difference in price for the number of reports printed and the price difference that may occur in the span of time between the first and second printing.

g. Indefinite Delivery Contracts (Current Year Comment)

Staff does not concur with the auditor's assessment in regard to the Indefinite Delivery Contracts. Please see the Districts response to bullet points 2, 3 and the auditor's recommendation below:

The Bid packet for the indefinite delivery contract for concrete work provided that the RFP was not an offer, obligation, or agreement to award any amount of work, or purchase any amount of product from any respondent and that BexarMet reserved the right to make no award, multiple awards, or one award when it was in the best interest of BexarMet to do so. Therefore, the Board meeting and the motion adopted by the Board should not have specified that contractors were to be selected on a primary and/or secondary basis. The designation of a "primary" and "secondary" identification on the bid tabulation was created by the Purchasing Department for their evaluation process only.

BexarMet has the sole discretion of selection of any of the three contractors based on the following seven (7) criteria, which price is just one factor: (1) experience and demonstrated competence providing concrete work as per Section C Scope of Work; (2) pricing; (3) response time; (4) quality control methods; (5) warranty; (6) previous City of San Antonio experience; and (7) previous BexarMet experience. The rationale in having more than one contractor gives BexarMet the flexibility to service its customers in a timely manner in all our seven non-contiguous areas taking all the above criteria into consideration. The responsible department addresses each assignment with all of the above criteria in mind, not just pricing, based on the best interests of the District and ratepayers in ensuring that the job is performed timely and efficiently. The auditors' assumption that the District may have not received the best economical price based on only one of the seven criteria is unsubstantiated and is an erroneous conclusion.

Contrary to the auditors' statement, the motion adopted by the Board was clear and concise and consistent with the bid packet. BexarMet staff concurs with the auditor's recommendation that documentation of the selection of a contractor by the responsible department is in order.

h. Consultant Contract (Current Year Comment)

The auditors recommend that the District re-establish an in-house engineering department to reduce operating costs. While the District is in favor of reducing operating costs, proper management of the engineering department and having the resources and expertise to properly manage the on-going projects and planning is of great importance to the District. Outsourcing is a viable option until qualified personnel can be obtained. The District does have advertisements in place for engineering vacancies.

#### **4. Information Technology (IT)**

##### IT Department (Prior Year Comment)

Staff concurs with the recommendation to continue with plans of developing a formal disaster recovery/business continuity plan. The IT department is implementing a disaster recovery process that will allow a recovery of the key server systems for Bexar Met within 24 hours in the event of a disaster. Completion of this process is expected early next year.

#### **5. Budget**

##### Budget Policy (Prior Year Comment)

The District's management concurs that budget amendments should be submitted for Board approval prior to incurring expenditures exceeding the approved budget. Staff will review current practices concerning budget monitoring and make recommendations to improve or modify these practices.

#### **6. Payroll**

a. Pay Schedule (Prior Year Comment)

Management concurs with the auditors' recommendations and has taken steps to implement the changes. The Board of Directors approved the pay grade schedule at its July 30, 2007 meeting. However, the information was not updated into payroll until early September, 2007.

b. Overtime (Prior Year Comment)

An overtime approval form was established in August, 2007 and is turned in weekly to the payroll department for processing.

c. Worker's Compensation (Current Year Comment)

As of September, 2007, the Workers Compensation Carrier (TML) will pay all eligible benefits, including pay to the employees.

d. Employee Handbook (Current Year Comment)

The Human Resources department of the District will plan to update the employee handbook to include standby and 10% pay for overtime worked by employees.

e. Payroll Department Structure (Current Year Comment)

Staff concurs with this recommendation and has reassigned payroll to the accounting department.

f. Employee Pay Rates (Current Year Comment)

Staff concurs with the recommendation to ensure proper segregation of duties regarding changes in pay rates and verifying changes in the payroll system.

g. Blank Check Stock (Current Year Comment)

The blank check stock has been removed from the payroll department and a check log has been established. Additionally, the check register is reviewed monthly by the accounting staff to improve internal control.

**7. Sewer and Garbage Fees**

a. Sewer and Garbage Fee Collections (Prior Year Comment)

The auditors refer to the contract between the Town of Hollywood Park and Hill Country S.A. Ltd. which the District assumed pursuant to the purchase of the Hill Country Water System in 1995. A concurrent contract with Hollywood Park is therefore not necessary. District staff will consider the auditors' recommendation and review the existing agreement to determine if a new contract or an increase in the collection fee is warranted. By agreement, the District only remits the garbage charges collected and not billed. The District will make efforts to memorialize the arrangement to reflect the current agreement.

b. Sewer Rates (Current Year Comment)

The District surmises that the retail customer the auditor is referring to is the H-E-B retail center whose rate was established by the acquisition of the system. The acquisition documents are in the possession of the District. The District has available the Hollywood Park Ordinance with amendments that outlines and supports the District's sewer charges. The District will review its correspondence with Hollywood Park and make every effort to clarify and/or resolve the noted inconsistencies, if any.

**8. Accounts Receivable**

a. Accounts Receivable Process (Current Year Comment)

Concur, staff will review procedures to adequately identify adjustments made to an individual customer account and begin reconciling between subsidiary accounts and the general ledger on a monthly basis.



b. Adjustments to Customer Accounts (Current Year Comment)

Concur; staff will implement procedures to limit ability to adjust customer accounts to the billing supervisor and accounts receivable supervisor.

c. Collection of Overdue Receivables (Current Year Comment)

Concur, staff will review collection processes and consider more rigorous collection efforts.

d. NSF Checks (Prior Year Comment)

Concur; staff will begin to reconciling the NSF check balance on a monthly basis.

e. Impact and Water Development Fees (Current Year Comment)

Staff does not agree with booking revenue based on a quotation. The transaction is not complete until the quote is accepted which coincides with payment.

**9. Inventory**

a. Inventory Process (Prior Year Comment)

Concur, Staff will consider cycle counts on a quarterly basis, separate the duties of recordkeeping and storekeeping and develop a written policy for sales of scrap inventory.

b. Inventory Count (Current Year Comment)

Concur, staff will retain supporting documentation for inventory issuances and returns and require recounts on items with large variances between physical count and stock status report.

**10. Accounting**

a. Journal Entries (Prior Year Comment)

Concur, staff will continue the process to acquire the signatures or initials of those involved in the journal entry process.

b. Authorized Check Signers (Current Year Comment)

The district has already changed the signature card to eliminate the terminated employee.

c. Vendor Invoices (Current Year Comment)

Concur, staff is currently reviewing procedures to improve the flow of invoices to allow the recording of vendor invoices on a timelier basis.

**11. Defined Benefit Pension Plan**

Defined Benefit Pension Plan (Prior Year Comment)

The Standard (third party administrator) and staff disagree with the plan being over funded. The current funds in the plan are for the benefit of retirement planning alone, not cash flow. If we were to reduce current year funding, according to our third party administrator, it would be without causing irreparable harm to the plan. However, this would be a one-time reduction and would slightly bump up future funding levels. In addition, less employer contribution could lower the annual guarantee interest rate for the plan. Moreover, this will lower the plan's funded ratio (the ratio of assets to the value of accrued benefits).

**12. Other**

New Pronouncements (Current Year)

Concur with the auditors.

**XI. Compliance Issues**

**Investments**

The Public Funds Investment Act (Prior Year Comment)

Pursuant to Chapter 2256 of the Texas Government Code and the Public Funds Investment Act, the District remitted to all banking institutions investing on it behalf a copy of the Board approved investment policy. Each one of the banks to which the policy was sent responded with the signed confirmation request with the exception of the Bank of New York (BNY). According to a representative of BNY, "as Trustee and in accordance with the Trust Agreement for the captioned bonds (they) invest all monies held in trust upon the written direction from Bexar Met and do not have any investment direction, Consequently, their contention is that "since (they) invest only upon direction, (they) are not it position to perform (the) request a described", which as to confirm that the District has implemented controls to prevent investment transactions not authorized by the District's policy.

Staff made numerous attempts to explain the circumstances of the response required by the District, however, BNY maintained the position that they would not remit confirmation requested.

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