


Mr. David Wallace
December 9, 1999
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If you or members of your staff have any questions regarding these matters, please feel free to contact Mr. Jay Don Jobson in our San Antonio Region Office at 210/403-4056.

Sincerely,



Thomas G. Haberle
Water Section Team Leader
San Antonio Region Office
Texas Natural Resource Conservation Commission

TGH/JDJ/eg

Enclosures: Summary of Inspection Findings
Obtaining TNRCC Rules

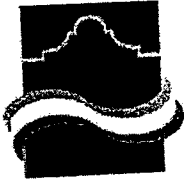
cc: TNRCC Field Operations, Austin

SUMMARY OF INSPECTION FINDINGS

Entity: Kestrel Air Park	PWS ID. N° 0460222	Inspection Date: 10/22/99
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OUTSTANDING ALLEGED VIOLATIONS

No.	Requirement(s) Cited	Description of Alleged Violation, Corrective Action Recommendation, and Compliance Documentation	Compliance Due Date
1	§290.39(d)	<p>Description: The system must secure the services of a registered professional engineer well versed in the design and construction of public water systems so that "as-built" plans and specifications for the distribution system can be prepared and submitted for our review. The submittal must describe the existing facilities as well as the proposed modifications which are necessary to bring the system into compliance with our regulations.</p> <p>Corrective Action: Obtain approval for the existing distribution system from our "Plans Review" team in our Austin Central Office.</p> <p>Compliance Documentation: Submit a copy of the approval letter.</p>	January 31, 2000

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BexarMet Water District

"The Water Resource People"



In San Antonio, Texas, it is: 3:48 PM, Thursday, November 6th, 2003, Central Standard Time.



Caras



BEXARMET WATER DISTRICT NEWLY ELECTED DIRECTORS

Our Next
Board of Directors
Meeting
will be held on
November 24, 2003
at 4:00 p.m. in the
Board Room
2047 West Malone
San Antonio, Texas

Elected
Nov 4th ⇒

District #1

Jose "Joe" Gallegos, Jr.

District #3

John Amos Longoria

District #4

Victor Villarreal

CITIZENS LOOKING AFTER *Their* WATERWORKS

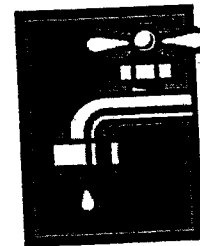


See Something Suspicious?
Phone (210) 922-2141 or 911



We need your help—and you can help yourself, your neighbors, and your community in the process. The Bexar Metropolitan Water District respectfully asks that you join in its Operation Eagle CLAW: "Citizens Looking After their Waterworks."

Water Conservation Tips for Home



Simple things you can do to save water and money at home [Complete Story](#)

Some Facts About Drinking Water

BexarMet – like most other drinking

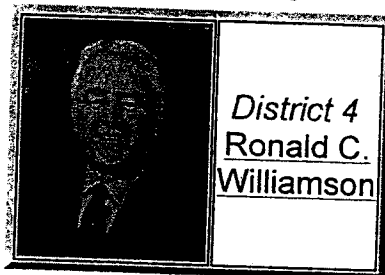
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BexarMet Water District

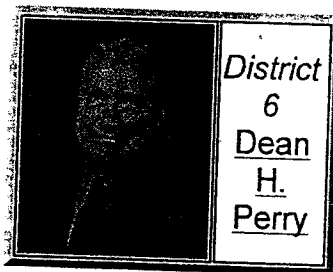
"The Water Resource People"

Board of Directors

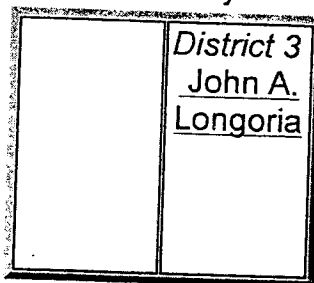
President



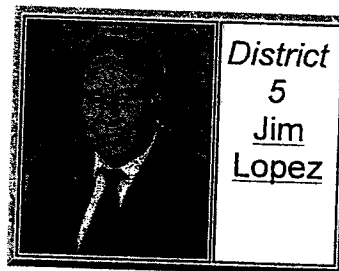
Vice President



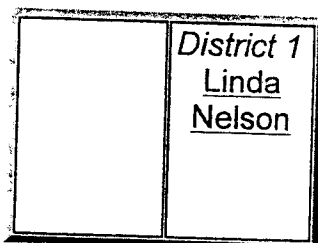
Secretary



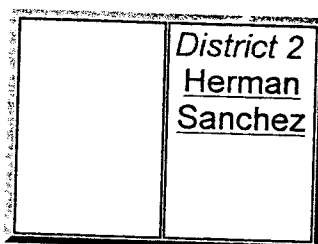
Treasurer



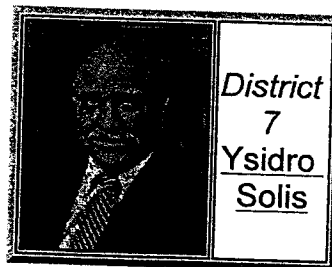
Director



Director



Director



BexarMet is governed by a seven-person Board of Directors, elected from representative customer districts. The Board sets policy direction, monitors financial

requirements, and takes action on District business activities. The Board's goals include

- High quality water in sufficient quantity to meet customer needs.
- Excellent service.
- Responsible planning for and development of new water resources
- Sound financial management that balances system development and capacity needs with control of operation costs.
- Reasonable consumer rates, with programs that address needs of all customers, including the unserved and underserved.
- Strong water education programs that broaden customer knowledge and support.
- Promote and maintain a strong conservation programs with incentives for water efficiency and additional costs for high use.
- Continuing leadership as a regional water purveyor.

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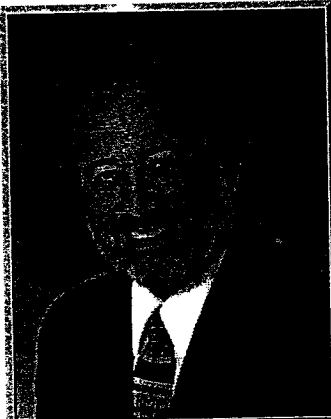


BexarMet Water District

"The Water Resource People"








Management Staff



Thomas C Moreno
General Manager/CEO



Sylvia Gamez
Senior Deputy Manager

				
Chuck Ahrens Deputy General Manager Communications Water Efficiency Programs	Michael Albach Deputy General Manager Water Resources	Larry Bittle Deputy General Manager Field Operations	Michael Dutton Deputy General Manager Finance	Dep

Managers

Frank Cantu
Risk
Manager
210-357-5704

Nick Rodriguez
Engineering
Services
Manager
210-354-6536

Lupe Ortiz
Southeast Systems
Operations Area Manager
210 -357-5713

Jim DeLoach
Support Operations
Manager
210-357-5741

Jesse Morin
Accounting
Manager
210-354-6522

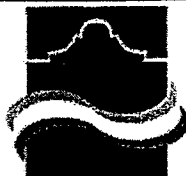
Roy Stout
Central Systems
Operations Area Manager
210 - 354-6553

Steve Pettit
(Interim)
Water Productions
Manager
210-354-6558

Thomas Wanat
Excavation
Manager
210-354-6535

John Tapia
Northside Systems
Operations Area Manager
210-357-5715

Steve Sandoval
Information Services
Manager
210 - 354-6549

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BexarMet Water District

"The Water Resource People"



Mission Statement



To ensure a stable supply of excellent water for our customers, while providing extraordinary service. Protect and maintain the bounty of the Edwards Aquifer's springs, rivers and streams for the pleasure of future generations through the development of alternative water resources. Be the pathfinder in applying technological advances to increase the quantity and quality of our product and enhance our performance.

Continue to create valuable alternative uses for all District assets and be a catalyst for positive change by providing greater choices in higher education and significant business and job opportunities for San Antonio area youth.

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BexarMet Water District

"The Water Resource People"



BexarMet History

In 1945 as WW II finally ended, San Antonio's young military veterans were streaming home eager to restart their lives. Anticipating a rush of home building activity and the need for water service, the Texas Legislature created Bexar Metropolitan Water District as a stand alone agency. The District is governed by a board of directors elected by citizens it serves and is independent of municipal and county governments.

BexarMet's initial service area contained 4,765 primarily residential accounts; today it exceeds 70,000 residential and commercial accounts providing water to over 225,000 people in Bexar, Medina, Comal and Atascosa counties. . This dynamic expansion is a direct result of strategies developed and implemented following a change in leadership in 1985. The new General Manager/CEO, Tom Moreno launched a strategic departmental restructuring and a series of employee skills enhancement programs. The objective was to create a strong tactical force to manage accelerated water resource development, focused on supporting expanded market coverage while protecting the Edwards Aquifer. By 1988, the structure was in place. Break through technologies sharpened operational efficiencies. Bexar Met was prepared to support the rapid infrastructure expansion required to achieve the District's objective.

A substantial part of the District's growth has been through the acquisition of existing water utilities attracted by BexarMet's growing presence as an innovative, visionary leader in water resource development which acted early to ensure a secure supply of water for its customers and to meet other critical area needs.

The reputation is justified.

Bexar Met leads the entire Edwards Aquifer region in alternative water resource production, through the development of mutually beneficial ground and surface water contracts in Bexar and surrounding counties. Bexar Met also built Texas' first ultrafiltration water facility utilizing cutting edge technology developed by global water filtration leader, Suez Lyonnaise des Eaux. Using water from the Medina River, the plant's modular design provides the capability to produce 27million gallons a day of the pristine water required by food processors, pharmaceutical and microchip manufacturers. BexarMet has offered to sell up to 9 million gallons a day of the initial

water production to the San Antonio Water System at Kelly AFB for use by the Greater Kelly Development Authority. This water can offset the short fall in GKDA's available supply created by the contractual agreement under the Endangered Species Act reducing pumping from Kelly AFB wells by 40%. This ruling adversely affected GKDA's ability to attract certain business categories critical to their assigned objective of generating 20 thousand jobs over a five year period to replace those lost in the shutdown of USAF maintenance operations at Kelly AFB.

BexarMet's distinctive history is the product of enlightened leadership provided by its management, a knowledgeable board of directors, and support of an intelligent, motivated staff. It is also indicative of the outstanding achievements and substantial contributions that will be forthcoming from this dynamic water district.

We recommend that you visit this site regularly to read about new developments and that you explore the other pages for interesting news regarding unique community contributions, and additional water resource development.

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BexarMet Water District

"The Water Resource People"

Corporate Goals

Delivering On Corporate Goals

Providing Excellent Customer Service - Practicing Environmental Responsibility

Utilizing State Of The Art Technology - Community Contributions

These four goals, were established in 1945, they have not changed. What is more important, they continue to imprint every significant action taken by BexarMets management and Board of Directors.

Customer service is the dominant criteria, shaping and driving all decisions regarding the acquisition of new technology and development of additional water resources.

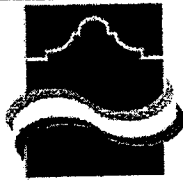
Technology in particular has rapidly emerged as a critical factor in customer service and alternative water production. BexarMets history of finding technological options to enhance operating efficiencies, provided the confidence to step up to the always controversial issue of developing a surface water resource in San Antonio. Building Texas' first ultra-filtration water plant firmly establishes BexarMet's ability to develop innovative solutions to perplexing problems. Advances in water filtration technology created this opportunity to provide San Antonio with first alternative drinking water resource.

As a result, Bexar Met has rapidly emerged as the Edwards Aquifer's regional leader in alternative water resource development, significantly reducing pumping from the reservoir and benefiting every community dependent upon the Aquifer.

Believing that all District assets should be employed for the benefit of its customers and the community, Bexar Met has established a non profit corporation to develop a 200-acre university campus, and a 400 acre international business park, adjacent to the new ultra-filtration plant.

Excellent customer service, environmental responsibility, and extraordinary community contributions. All made possible by dramatic technological advances and the vision and dedication of a unique water company committed to delivering on its

corporate goals.

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BexarMet Water District

"The Water Resource People"



Quick Facts

About Bexar Met

Created by the Texas Legislature in 1945, as a subdivision of the state of Texas, Bexar Metropolitan Water District was established to serve the needs of residential, business and industrial customers within its boundaries. The District is governed by a seven member board elected by the citizens they serve. Beginning with 4,765 customers the District currently provides water to over 70,000 locations 250,000 individuals in Bexar and three other counties.

A Growing System

BexarMets 270 employees maintain 850 miles of pipeline, 70,000 meters, 105 wells, and 97 storage tanks that contain 50.2 million gallons of water.

All 3,280 fire hydrants in the District are color coded to AWWA standards. This coding instantly provides firefighters with the approximate flow capacity and available volume. Critical information that helps them quickly determine if auxiliary units are required.

Alternative Water Development

BexarMets commitment to ensure a long-term supply of unrestricted, non-Edwards water for its customers, a tall order in drought prone south Texas, is well on its way to being achieved. In the process Bexar Met is becoming recognized as a visionary leader in developing alternative water sources. Here is why

Building the 27million gallon a day ultra-filtration plant on the Medina River, the first in Texas, to produce the pristine water required by food processors, pharmaceutical and microchip manufacturers.

Providing SAWS with the opportunity to purchase up to 9 million gallons of water a day to support the Greater Kelly Development Authority new business development program. This can offset the 40 percent reduction in pumping from Edwards Aquifer wells mandated in the USAF Section 7 Consultation agreement under the Endangered Species Act.

Augmenting Kelly's new water supply by building a 12.5 million gallon storage tank. The giant 12.5 million gallon structure incorporates pre-cast vertically reinforced concrete wall sections enclosed by an interlocking steel wall densely wrapped with pre-stressed steel wire, and a protective exterior mortar finish.

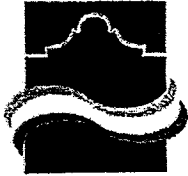
Technological Advances

Adding new Supervisor Control And Data Acquisition system. The SCADA system monitors all electronically sequenced pump stations and storage tanks 24 hours a day. The system transmits data via fiber optics and radio frequencies to BexarMet Control, where it is displayed in virtual graphics format and triggers an alarm if any deviation occurs. The system produces a log of these activities and current water usage.

The Geographical Positioning System, GPS, is a satellite- mapping program that gives our engineers an industry standardized, more accurate reading of positioning coordinates on the Texas Plane Coordinate System, even in the field. The savings are substantial.

Electronically testing 900 miles of pipeline, and repairing every leak. Utilizing technologically advanced equipment to detect leaks quickly, BexarMet's on call repair team provides rapid turn around to prevent system losses.

Maintaining 24-hour leak detection and repair teams for our customers and conducting in home water use audits to ensure efficiency.



BexarMet Water District

"The Water Resource People"



Water Resources

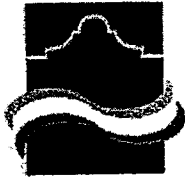
Bexar Met Water Resource Development

The strength of BexarMets visionary leadership can be measured by reviewing the Districts innovative and aggressive response to the daunting challenge created by the enforced reduction of water allocations from the Edwards Aquifer.

While media coverage focused on problems related to San Antonio's continued reliance on the Edwards as its sole source of water, Bexar Met was breaking new ground in alternative water resource development. In fact BexarMet leads the entire Edward Aquifer region in new water development. Here is a brief review of some of the Districts activities related to this issue.

- * Contracted for 20 thousand acre feet of Medina irrigation water.
- * Built Texas' first ultra-filtration surface water treatment plant, currently producing 9 million gallons of pristine water per day, the quality required by pharmaceutical makers, food processors and micro-chip manufacturers.
- * Providing SAWS with the opportunity to purchase up to 9 million gallons of pristine pure water a day for the Greater Kelly Development Authority business development program. This will more than offset the forty percent reduction in pumping from Kelly's Edwards Aquifer wells called for in the USAF Section 7 consultation agreement under the Endangered Species Act.
- * Capturing and storing treated water released from Kelly AFB in off channel reservoirs for use by Winter Garden Area Irrigators.
- * Acquiring, pumping rights to surplus water in the Carrizo Wilcox Aquifer.
- * Building a 12.5 million gallon above ground storage tank, one of the largest in America as a critical component of the Medina River UltraFiltration surface water facilities.
- * Conducting a system wide leak detection and repair program in all of BexarMets Edwards' water systems as an active part of the districts conservation program.

- * Maintaining full-time leak detection and repair teams on call 24 hours per day.
- * Conducting in home water use audits to ensure efficiency.
- * Conducting effective water conservation education programs that help rank BexarMet customer's among the most efficient water users in the State.
- * Generating additional water use efficiency through a series of rebate plans for the replacement of large volume washing machines and toilets, the addition of rain sensors to cut off sprinkler systems during rain events and an audit for sprinkler systems to maintain efficiency.
- * Maintaining a full-time professional horticultural department to encourage water efficient landscaping through the use of on-property examples of xeriscape and heat tolerant ground covers and planting methods.

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BexarMet Water District

"The Water Resource People"



New Technologies

Applying New Technologies

New technology evaluation and rapid deployment is part of BexarMets continuing customer service enhancement program. This intense focus is paying major dividends for all of San Antonio. Visit this site regularly for updates.

Membrane Filtration:

BexarMet scores two landmark water industry achievements in 1999; building Texas' first ultra-filtration water facility and San Antonio's first and only surface water production capability.

BexarMets intense search for surface water filtration technology capable of producing the pristine water required by key industries, led to global filtration leader, Suez Lyonnaise des Eaux of France and their facilities operating partner, United Water, Americas premier water utility operations and management company. The breakthrough technology filtration facility on the Medina River, came on line in December 1999. This new water resource, currently producing 9 million gallons a day has been offered to offset the business crippling shortfall created by the Endangered Species Act that dictated a 40% reduction in pumping from Kelly's Edwards Aquifer wells.

Mapping:

Applying breakthrough technologies continues to drive BexarMets extraordinary productivity. The Geographical Positioning System; GPS, is a satellite mapping program that provides our engineers with a more accurate reading of positioning coordinates on the Texas Plane Coordinate System. Utilizing a portable computer and antenna, an engineer in the field can enter survey information into the data dictionary for printout at the District office. The savings in both time and man hours is substantial.

SCADA System:

Production systems, including electronically sequenced pump stations and storage tanks require twenty four hours monitoring. The Supervisor Controlled And Data Acquisition system transmits data via radio frequencies and fiber optics to the District control center where it is displayed in virtual graphics format and sounds an alarm if any deviation from normal operation occurs. The system also provides a log of these activities and a summary log of up to the minute water usage.

New Technology In Test:

BexarMet is currently testing a revolutionary wireless networked meter reading system that creates a two way real time communications link to the customer's meter. The remarkable remote system is capable of reporting monthly usage based on first and final reading, plus detecting leaks and instantly alerting District operations. The technology is solid-state; no moving parts to wear down or corrode.

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BexarMet Water District

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Leak Detection

Electronic Leak Detection Or Practicing What We Preach

Because we regularly remind you of the necessity and value of maintaining the water tight integrity of your home and business water systems, we wanted to share with you the efforts we have completed to do the same for the system that serves us all.

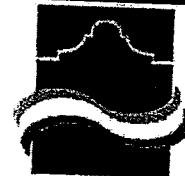
Bexar Met conducted a comprehensive leak detection and remediation program in each of our Edwards Aquifer supplied systems. Every meter, valve and hydrant in the 840 mile system was tested, or examined, utilizing super sensitive electronic equipment that detected and located leaks and printed out an accurate calculation of their location. Every detected leak, or faulty part was subsequently repaired or replaced.

This effort joins and compliments our established customer assistance programs including in home leak detection teams and customer rebates for the installation of water efficient devices.

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BexarMet Water District

"The Water Resource People"



Purchasing Policy

BexarMet will ensure that purchases of equipment, materials, supplies and related services confirm with the spirit of Chapter 49 of the Texas Water Code, and that purchases are cost-effective and in the best interest of BexarMet and its customers.

Procurement activities will be conducted in an open and fair manner with equal opportunity provided to all qualified parties. BexarMet will provide equal contracting opportunities as provided by federal law and regulations to small business enterprises and disadvantaged business enterprises.

To the extent provided by law, BexarMet purchasing decisions will give priority to domestic good and services and recycled products and recyclable materials, while taking into consideration the quality, price availability, competition and technical requirements. BexarMet will encourage contractors and subcontractors to use recycled products and recyclable materials if quality and price indicate their use.

Procedures for contract awards shall be in accordance with Chapter 49 of the Texas Water Code. For contracts of \$25,000 or more, the Board shall advertise the letting of the contract, including the general conditions, time, and place of opening of sealed bids. For contracts of \$15,000 or more but less than \$25,000, the Board shall solicit written competitive bids on uniform written specifications from at least three (3) bidders. For contracts of less than \$15,000, the Board is not required to advertise or see competitive bids.

An interested party who is dissatisfied with BexarMet's bidding or contract award processes, or with the award of a contract or purchase order by BexarMet after a competitive bid procedure, may file a protest concerning such process. The General Manager is authorized to adopt protest procedures, consistent with this policy, which ensure that each protest is dealt with in good faith and fairly evaluated. The General Manager, or designee, is authorized to negotiate and execute settlements of bid and/or contract award protests and present such settlements to the Board for approval.

Bexar Metropolitan Water District
Annual Financial Statements
For the Year Ended April 30, 2003

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Visit our website
www.bexarmet.org

Management's Discussion and Analysis

Thomas C. Moreno
General Manager/CEO

As management of the Bexar Metropolitan Water District, we offer readers of the Bexar Metropolitan Water District's financial statements this narrative overview and analysis of the financial activities of the Bexar Metropolitan Water District for the fiscal year ended April 30, 2003. All amounts, unless otherwise indicated, are expressed in whole dollars.

BOARD OF DIRECTORS

Ronald C. Williamson
President

Dean H. Perry
Vice President

Gabe Gonzalez, Sr.
Secretary

Jim Lopez
Treasurer

Arnuro Siller
Director

Ysidro Solis
Director

Robert "Tinker" Garza
Director

Financial Highlights

- The assets of the Bexar Metropolitan Water District exceeded its liabilities at the close of the most recent fiscal year by \$49,802,860. Of this amount, \$15,635,900 (Unrestricted Net Assets) may be used to meet the District's ongoing obligations to creditors.
- The District's total net assets increased by \$7,208,394. The majority of this increase is attributable to operating income increases and contributed capital.
- As of the close of the current fiscal year, the District's ending net assets totaled \$258,886,141.
- The Bexar Metropolitan Water District's total debt increased by \$15,062,405 as a result of the issuance of \$57,700,000 of Revenue Refunding Bonds, Series 2002.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bexar Metropolitan Water District's basic financial statements. The Bexar Metropolitan Water District's basic financial statements comprise three components: (1) statement of net assets, (2) statement of revenues, expenditures, and changes in net assets, and (3) statement of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

The Statement of Net Assets presents information on all of the Bexar Metropolitan Water 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.

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Phone: (210) 670-3100
Fax: (210) 673-3404

South San Branch
2706 W. Southcross
San Antonio, Texas 78211
P.O. Box 245994
San Antonio, Texas 78224-5994
Phone: (210) 922-1221

Management's Discussion and Analysis
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The Statement of Revenues, Expenses, and Changes in Net Assets shows the revenue sources, expenses classification of expenses and reflects the net change in assets for the fiscal year.

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

The basic financial statements can be found on pages 9-15 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 16-41 of this report.

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 Bexar Metropolitan Water District, assets exceeded liabilities by \$49,802,860 at the close of the most recent fiscal year.

The District investment in fixed assets net of related debt increased by \$5,474,120 during the year. At the beginning of the fiscal year this investment was \$7,210,695 and had improved at the end of the fiscal year (76%) to \$12,684,815. This was primarily a result of construction expenditures and the capitalization of interest.

Net restricted assets consist of amounts for debt service, construction, and contingencies and escrow. During the year, net assets restricted for debt service decreased by \$1,672,847 to \$8,357,068. Net assets restricted for construction increased by \$322,283 to \$721,785. Amounts restricted for contingencies and escrow increased \$3,820,284 (45%) primarily from the application of funds to two capital leases. Overall, net restricted assets increased by \$2,469,720 to \$21,482,145.

Unrestricted net assets decreased (5%) to \$15,635,900. The primary source of this decrease was the District's investment in fixed assets.

Bexar Metropolitan Water District's Net Assets

	<u>2003</u>	<u>2002</u>
Current and Other Assets	\$ 49,781,023	\$ 45,833,547
Capital Assets, Including Construction in Progress	<u>209,105,118</u>	<u>198,746,279</u>
Total Assets	<u>258,886,141</u>	<u>244,579,826</u>
Long-term Liabilities	193,017,828	191,535,584
Other Liabilities	<u>16,065,453</u>	<u>10,449,776</u>
Total Liabilities	<u>209,083,281</u>	<u>201,985,360</u>
Total Assets Less Total Liabilities	<u>\$ 49,802,860</u>	<u>\$ 42,594,466</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 12,684,815	\$ 7,210,695
Restricted:		
Debt Service	8,357,068	10,029,915
Construction	721,785	399,502
Contingencies and Escrow	<u>12,403,292</u>	<u>8,583,008</u>
Total Restricted	21,482,145	19,012,425
Unrestricted	<u>15,635,900</u>	<u>16,371,346</u>
Total Net Assets	<u>\$ 49,802,860</u>	<u>\$ 42,594,466</u>

Revenues and expenses, increased net assets by \$2,490,740. Elements of this increase are as follows:

	<u>2003</u>	<u>2002</u>
Operating Income	\$ 42,483,036	\$ 38,416,066
Operating Expenses	<u>(36,833,062)</u>	<u>(32,506,049)</u>
Net Operating	5,649,974	5,910,017
Non-Operating Revenues	3,840,250	3,594,829
Interest Expense and Amortization	(8,871,302)	(8,105,478)
Contributed Capital and Grants	<u>5,274,293</u>	<u>1,395,088</u>
Increase in Net Assets	5,893,215	2,794,456
Net Assets, May 1	43,909,645	39,800,010
Prior Period Adjustment	--	1,315,179
Net Assets, April 30	<u>\$ 49,802,860</u>	<u>\$ 43,909,645</u>

Management's Discussion and Analysis
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The most significant increases were from increased District water revenues (9%) of \$2,815,714 to \$35,381,760. Operating expenses increased (14%) by \$4,537,013 to \$36,833,062. Net operating income decreased (4.4) \$260,043 to \$5,649,974.

At the end of the fiscal year, Bexar Metropolitan Water District had unrestricted cash balances of \$1,197,997 and unrestricted net assets of \$15,635,900. Unrestricted cash balances decreased \$422,273 (26%) over the prior year. Unrestricted net assets decreased \$1,005,446 (7%).

Capital Asset and Debt Administration

Capital Assets - The District's investment in capital assets as of April 30, 2003 amounts to \$209,105,118 (net of depreciation). This investment in capital assets includes land and land rights, a water treatment plant, transmission lines, machinery and equipment, capitalized charges (including interest), and construction in progress. The total increase in capital assets during the year was (6%) \$10,358,839.

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

- Highway 90 to Kriewald project
- Bulverde pipeline project
- Walzem to Crestway project

Bexar Metropolitan Water District's Capital Assets

	<u>2003</u>	<u>2002</u>
Buildings/Improvements	\$ 6,249,480	\$ 6,119,030
Equipment	21,691,906	20,650,334
Furniture & Fixtures	972,149	970,649
Utility Plant and Distribution System	232,709,226	213,264,384
Land	3,696,549	2,314,585
Construction in Progress	6,588,400	10,149,282
Total	271,907,710	253,468,264
Less Accumulated Depreciation	(62,802,592)	(54,721,985)
Totals	<u>\$209,105,118</u>	<u>\$198,746,279</u>

Management's Discussion and Analysis
Page 5

Additional information on the Bexar Metropolitan Water District's capital assets can be found in Note 6 on pages 23 and 24 of this report.

Bexar Metropolitan Water District's Outstanding Debt

Long-term Debt

At the end of the current fiscal year, the District had debt outstanding of \$206,597,989. Debt consists of revenue and revenue refunding bonds, commercial paper, and capital leases

	<u>2003</u>	<u>2002</u>
Revenue and Refunding Bonds	\$191,181,827	\$135,612,680
Commercial Paper	10,000,000	50,000,000
Capital Leases	<u>5,416,162</u>	<u>5,922,904</u>
Totals	<u>\$206,597,989</u>	<u>\$191,535,584</u>

The Bexar Metropolitan Water District's total debt increased by \$15,062,405 (8%) during the current fiscal year. The key factor was the issuance of \$57,700,000 of Revenue Refunding Bonds, Series 2002.

Additional information on the District's long-term debt can be found in Notes 8-11 on pages 26-35 of this report.

Economic Factors and Next Year's Budget

- The approved FY 2003-04 operations and maintenance budget for the District is \$34,172,224. Most of the budgeted increase over the previous year's expenditures is for water resource/production related expenses.
- Budgeted FY 2003-04 District Net Income is \$684,870.
- The approved FY 2003-04 capital improvement program budget is \$14,867,500. These expenditures will be funded with a combination of operating revenues, impact fee revenues, and debt.

Request for Information

This financial report is designed to provide a general overview of the Bexar Metropolitan Water District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Bexar Metropolitan Water District, 2047 W. Malone, San Antonio, Texas 78225.



Thomas C. Moreno
General Manager/CEO

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Independent Auditors' Report

Board of Directors
Bexar Metropolitan Water District
2047 W. Malone
San Antonio, Texas 78225

We have audited the accompanying basic financial statements of the Bexar Metropolitan Water District, as of and for the year ended April 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Bexar Metropolitan Water District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Bexar Metropolitan Water District, as of April 30, 2003, and the results of its operations and the cash flows of its proprietary funds for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board, Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-For*

*State and Local Governments, and Statement No. 37, Basic Financial Statements
- and Management's Discussion and Analysis - for State and Local Governments.*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 of the Bexar Metropolitan Water District. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2003, on our consideration of Bexar Metropolitan Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is not a required part of the basic financial statements of the Bexar Metropolitan Water District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crawford, Iverson & Co., P.C.

Crawford, Iverson & Co., P.C.

June 30, 2003

**Bexar Metropolitan Water District
Statement of Net Assets - Proprietary Funds
April 30, 2003**

Assets		Bexar Metropolitan Water District		Bexar Metropolitan Development Corporation		Total
Current Assets		\$	758,111	\$	439,886	\$ 1,197,997
Cash and Cash Equivalents						
Accounts Receivable:						
District Customers		4,593,247		-		4,593,247
Miscellaneous		466,529		-		466,529
Due From and To		150		5,830		5,980
Prepaid Expenses		188,354		-		188,354
Inventories of Materials and Supplies		1,311,096		-		1,311,096
Total Current Assets		7,317,487		445,716		7,763,203
Restricted Assets						
Receivable Restricted Assets		21,663		-		21,663
U.S. Government Securities-Revenue Reserve		-		-		-
Reserve Fund		7,754,166		2,264,526		10,018,692
Interest and Sinking Fund		6,092,542		1,547,068		7,639,610
Construction Fund		721,684		6,553		728,237
Contingency Fund		1,501,518		900,349		2,401,867
Escrow Accounts		693,638		-		693,638
Total Restricted Assets		16,785,211		4,718,496		21,503,707
Fixed Assets						
Buildings/Improvements		6,249,480		-		6,249,480
Equipment		21,691,906		-		21,691,906
Furniture and Fixtures		972,149		-		972,149
Utility Plant and Distribution System		205,354,458		27,354,768		232,709,226
Total		234,267,993		27,354,768		261,622,761

Bexar Metropolitan Water District
Statement of Net Assets - Proprietary Funds
April 30, 2003

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Total
less Accumulated Depreciation	(60,590,789)	(2,211,803)	(62,802,592)
Net Depreciable Assets	173,677,204	25,142,965	198,820,169
Land	3,696,549	-	3,696,549
Construction in Progress	6,588,400	-	6,588,400
Net Fixed Assets	183,962,153	25,142,965	209,105,118
Other Assets			
Supplemental Water Projects	20,481,491	-	20,481,491
Security Deposits	12,985	-	12,985
Advances to CRWA	19,637	-	19,637
Total Other Assets	20,514,113	-	20,514,113
Total Assets	\$ 228,578,964	\$ 30,307,177	\$ 258,886,141

**Bexar Metropolitan Water District
Statement of Net Assets - Proprietary Funds
April 30, 2003**

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Total
\$	\$ 3,044,829	\$ 151,937	\$ 3,196,766
Accounts Payable	2,749,972	-	2,749,972
Sewer and Garbage Collections	150,815	-	150,815
Credit Balances in Accounts Receivable	1,542,239	-	1,542,239
Current Portion of Capital Lease	5,830	150	5,980
Due To	10,356	-	10,356
Accrued Interest on Commercial Paper	777,718	-	777,718
Accrued Expenses	-	-	-
Total Current Liabilities	8,281,759	152,087	8,433,846

Liabilities and Equity

Current Liabilities

Accounts Payable	3,044,829	151,937	3,196,766
Sewer and Garbage Collections	2,749,972	-	2,749,972
Credit Balances in Accounts Receivable	150,815	-	150,815
Current Portion of Capital Lease	1,542,239	-	1,542,239
Due To	5,830	150	5,980
Accrued Interest on Commercial Paper	10,356	-	10,356
Accrued Expenses	777,718	-	777,718
Total Current Liabilities	8,281,759	152,087	8,433,846

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Current Liabilities of Restricted Funds

Accrued Bond Interest Payable	3,810,430	541,177	4,351,607
Revenue Bonds payable Within One Year	2,275,000	1,005,000	3,280,000
Total Current Liabilities of Restricted Funds	6,085,430	1,546,177	7,631,607

Long-term Debt

Revenue Bonds, Series 1995	37,995,000	-	37,995,000
Revenue Bonds, Series 1998	65,335,403	28,401,424	93,736,827
Subordinated Revenue Notes, Series 1995A	1,750,000	-	1,750,000
Revenue Refunding Bonds, Series 2002	57,700,000	-	57,700,000
Commercial Paper Notes, Series 1997	10,000,000	-	10,000,000
Total Bonds and Notes	172,780,403	28,401,424	201,181,827

Bexar Metropolitan Water District
Statement of Net Assets - Proprietary Funds
April 30, 2003

Less:			
Revenue Bonds Payable Within One Year			
Unamortized Bond Original Issue Discount	(2,275,000)	(1,005,000)	(3,280,000)
Unamortized Bond Issue Costs	(3,173,448)	(295,090)	(3,468,538)
	(4,553,863)	(735,521)	(5,289,384)
Net Revenue Bonds and Notes Payable	162,778,092	26,365,813	189,143,905
Capital Leases Payable	5,416,162	-	5,416,162
Less Current Portion	(1,542,239)	-	(1,542,239)
Net Capital Leases	3,873,923	-	3,873,923
Total Liabilities	181,019,204	28,064,077	209,083,281
Net Assets			
Invested in Capital Assets, Net of Related Debt	14,898,671	(2,213,856)	12,684,815
Restricted For:			
Debt Service	6,092,542	2,264,526	8,357,068
Construction	721,785	-	721,785
Contingencies and Escrow	9,949,322	2,453,970	12,403,292
Total Restricted	16,763,649	4,718,496	21,482,145
Unrestricted	15,897,440	(261,540)	15,635,900
Total Net Assets	47,559,760	2,243,100	49,802,860
Total Liabilities and Net Assets	\$ 228,578,964	\$ 30,307,177	\$ 258,886,141

See Accompanying Notes to Financial Statements.

Bexar Metropolitan Water District
Statement of Revenues, Expenditures and Changes in
Net Assets - Proprietary Funds
For the Year Ended April 30, 2003

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Total
Operating Revenues			
Water Sales to Customers	\$ 35,381,760	\$ 3,716,052	\$ 39,097,812
Sewer Revenues	158,726	-	158,726
Customer Penalties and Fees	1,515,141	-	1,515,141
Collection Fees for Sewer, Garbage and Fire Protection	860,104	-	860,104
Fire Protection	68,447	-	68,447
Regulatory Fees	782,806	-	782,806
Total Operating Revenues	38,766,984	3,716,052	42,483,036
Operating Expenses			
Production Expenses	16,604,475	1,018,410	17,622,885
Administrative and General Expenses	11,516,863	15,811	11,532,674
Depreciation	6,919,168	758,335	7,677,503
Total Operating Expenses	35,040,506	1,792,556	36,833,062
Operating Income (Loss)	3,726,478	1,923,496	5,649,974
Non-operating Revenues (Expenses)			
Contributions in Aid of Construction	1,732,371	-	1,732,371
Interest Earned	582,604	137,234	719,838
Main and Service Extensions	882,613	-	882,613
Bad Debts Recovered	4,599	-	4,599
Other Non-operating Revenues	467,000	-	467,000
Gain (Loss) on Sale of Assets	33,829	-	33,829
Bond and Other Interest Expense	(7,208,939)	(1,082,355)	(8,291,294)
Amortization of Bond Issue Costs	(496,960)	(83,048)	(580,008)
Total Non-operating Revenues (Expenses)	(4,002,883)	(1,028,169)	(5,031,052)
Income (Loss) Before Contributed Capital	(276,405)	895,327	618,922
Contributed Capital and Grants	5,274,293	-	5,274,293
Change in Net Assets	4,997,888	895,327	5,893,215
Prior Period Adjustment	1,315,179	-	1,315,179
Net Assets May 1	41,246,693	1,347,773	42,594,466
Net Assets April 30	\$ 47,559,760	\$ 2,243,100	\$ 49,802,860

See Accompanying Notes to Financial Statements

Bexar Metropolitan Water District
Statements of Cash Flows-Proprietary Funds
For the Year Ended April 30, 2003

Cash Flows From Operating Activities:

Cash Received from Customers
Cash Received from Other Services
Cash Payments to Suppliers for Goods and Services
Cash Payments to Employees for Services
Net Cash Provided (Used) by Operating Activities

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Total
\$	\$ 35,175,767	\$ -	\$ 35,175,767
	3,187,621	3,716,052	6,903,673
	(19,781,844)	(1,364,121)	(21,145,965)
	(7,191,714)	-	(7,191,714)
	<u>11,389,830</u>	<u>2,351,931</u>	<u>13,741,761</u>

Cash Flows From Investing Activities:

Purchase of Investments
Investment Income
Net Cash Provided (Used) by Investing Activities

		(638,865)	(638,865)
	582,604	137,234	719,838
	<u>582,604</u>	<u>(501,631)</u>	<u>80,973</u>

Cash Flows From Capital & Related Financial Activities:

(Increase) Decrease in Restricted Assets
Non-operating Revenues
Contributed Capital and Grants
Proceeds From Commercial Paper Notes
Repayment of Commercial Paper Notes
Proceeds from Bond Issue
Principal Payments-Bonds and Notes
Principal Payments-Capital Leases
Additions to Capital Leases
Additions to Supplemental Water Projects
Purchase of Fixed Assets
Interest Paid
Net Cash Provided (Used) by Capital and Related Financing Activities

(1,829,107)	-	(1,829,107)
471,599	-	471,599
2,614,984	-	2,614,984
10,000,000	-	10,000,000
(50,000,000)	-	(50,000,000)
57,700,000	-	57,700,000
(8,875,000)	(965,000)	(9,840,000)
(1,605,229)	-	(1,605,229)
1,098,486	-	1,098,486
(400)	-	(400)
(15,440,785)	(14,098)	(15,454,883)
(6,296,672)	(1,102,138)	(7,398,810)
<u>(12,162,124)</u>	<u>(2,081,236)</u>	<u>(14,243,360)</u>

**Bexar Metropolitan Water District
Statements of Cash Flows-Proprietary Funds
For the Year Ended April 30, 2003**

	Bexar Metropolitan Water District	Bexar Metropolitan Development Corporation	Total
Net Increase (Decrease) in Cash & Cash Equivalents	(189,690)	(230,936)	(420,626)
Cash & Cash Equivalents, May 1	947,801	670,822	1,618,623
Cash and Cash Equivalents at April 30	<u>\$ 758,111</u>	<u>\$ 439,886</u>	<u>\$ 1,197,997</u>
Reconciliation of Income From Operations to Net Cash Provided by Operating Activities			
Net Income or (Loss)	3,726,478	1,923,496	5,649,974
Adjustments to Reconcile Net Income From Operations to Net Cash Provided by Operating Activities:			
Depreciation	6,919,168	758,335	7,677,503
Allowance for Credit Losses	948,018	-	948,018
(Increase) Decrease In:			
Accounts Receivable-District Customers	(456,759)	-	(456,759)
Accounts Receivable-Miscellaneous	(175,811)	-	(175,811)
Inventory of Materials and Supplies	27,994	-	27,994
Prepaid Expenses	(169,296)	-	(169,296)
Increase (Decrease) in:			
Accounts Payable	686,878	(329,900)	356,978
Sewer & Garbage Collection Payable	(323,403)	-	(323,403)
Accrued Expenses	206,563	-	206,563
Bank Overdraft	-	-	-
Total Provided by Operating Activities	<u>\$ 11,389,830</u>	<u>\$ 2,351,931</u>	<u>\$ 13,741,761</u>

See Accompanying Notes to Financial Statements.

**Bexar Metropolitan Water District
Notes to Financial Statements
April 30, 2003**

Note 1-Summary of Significant Accounting Policies

The Bexar Metropolitan Water District (the District) is a political subdivision of the State of Texas created in 1945 by an Act of the 49th Legislature. Duties and functions of the District are in Article 8280-126 VATS, Title 128, Chapter 12. While 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 presently provides water service and limited sewer service to its customers. The District, on a contract basis, also collects garbage and sewer revenues for various entities within its service area.

The District's service area consists of approximately 277 square miles in Bexar, Atascosa, Medina, and Comal Counties, Texas. 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 Reporting Entity

In defining the reporting unit for reporting purposes, the District considered the criteria required for including component units. The most significant of this criteria includes the ability to exercise oversight responsibility, the ability to influence operations, accountability for fiscal matters and special financing relationships. Based on this criteria, there are two component units included in the financial statements of the District. Component units, although legally separate entities, are, in substance, part of the District's operations.

Blended Component Units

In January, 1997, the District incorporated the Bexar Metropolitan Development Corporation and the Bexar Metropolitan Water District Public Facility Corporation. The Bexar Metropolitan Development Corporation is operating a water treatment facility. As of April 30, 2002, the Bexar Metropolitan Water District Public Facility Corporation had not been activated. Both of these entities are component units of the District and accordingly will be reported as blended component units.

The Bexar Metropolitan Water District Development Corporation was organized for the purpose of benefiting and accomplishing public purposes and may issue bonds on behalf of the District to promote and develop commercial, industrial, and manufacturing enterprises.

**Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003**

Note 1-Summary of Significant Accounting Policies (Continued)

The Bexar Metropolitan Water District Public Facility Corporation was organized to assist the District in financing, refinancing, or providing public facilities. This corporation will have 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.

New Reporting Standard

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years will be affected. The District is required to implement this standard for the fiscal year ending April 30, 2004; however, the District has elected to implement this standard for the year ending April 30, 2002 in advance of the required implementation date.

Government-wide Financial Statements

The government-wide financial statements of the Bexar Metropolitan Water District include a statement of net assets, statement of revenues, expenses, and changes in net assets and a statement of cash flows. These are all presented for the proprietary (enterprise) activities of the District.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District operates as an enterprise (proprietary) fund. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management accountability, or

Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003

Note 1-Summary of Significant Accounting Policies (Continued)

other purposes. The financial statements in this report are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

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

The only interfund activities presented in these financial statements are lease payments from the District to the Development Corporation.

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's enterprise fund are charges to customers for providing water. Operating expenses for enterprise funds include the cost of sales and 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.

Revenue Recognition - Grants

The District recognizes grant revenues in the period that they are earned and measurable under the accrual method of accounting. Since revenues are restricted to capital improvements, they are recognized as contributed capital.

Estimates

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

**Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003**

Note 1-Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Deposits and Investments

State statutes and the District's investment policies authorize the District to invest (short-term and long-term) in Certificates of Deposit, U.S. Treasury Obligations, U.S. Agency Issues, High-Grade Commercial Paper, Banker's Acceptances, Repurchase Agreements and certain stock and bond funds. All short-term investments are stated at cost or amortized costs, except for investments in long-term U.S. Treasury notes which are classified as available-for-sale and reported at fair value. Unrealized gains or losses on the long-term securities are recognized as direct increases or decreases to fund equity.

Receivables and Payables

Accounts receivable consist of amounts due from customers of the District and other miscellaneous receivables. Accounts payable consist of trade payables, amounts collected for other agencies, and other accrued expenses including accrued payroll, taxes, compensated absences, and construction retainage.

Other Assets

Included in other assets are deferred charges for professional fees in connection with water conservation studies, possible future acquisitions by the District, and the District's contribution to a 1992 Water Conservation Agreement with Bexar-Medina-Atascosa Counties Water Control and Improvement No. 1 (BMA). This agreement was modified in 1995 and again in 1999 to provide firm yield water.

Inventories

The District maintains material inventories in the enterprise fund consisting of pipe, supplies, and other items used in the District's construction projects and system maintenance. These inventories are valued using the average cost method.

Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003

Note 1-Summary of Significant Accounting Policies (Continued)

Fixed Assets

Fixed assets are recorded at cost or estimated historical cost if purchased or constructed. The fixed asset account includes all of the District's assets including public domain ("infrastructure") assets such as drainage systems which have value only to the District. Interest incurred during the construction of assets is 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. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. Depreciation expense is computed on the straight-line method with rates generally required by utility accounting. Depreciation expense is taken on capital lease assets and included with the other fixed assets.

Estimated useful lives of the assets are:

	<u>Years</u>
Buildings/Improvements	25-40
Equipment	4-40
Furniture and Fixtures	10
Utility Plant and Distribution System	5-50

Long-term Obligations

Long-term debt and other obligations financed by the enterprise funds are recorded as liabilities. This includes the long-term portion of bonds, notes, and capital leases

Compensated Absences

The District has a policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for accumulated sick leave since it is the District's policy to record the cost of sick leave only when it is used. Vacation pay is accrued when incurred in the enterprise (proprietary) fund and reported as a liability. Employees may accumulate from two to four weeks of vacation pay as of the end of the fiscal year depending on their length of employment.

**Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003**

Note 1-Summary of Significant Accounting Policies (Continued)

Net Assets

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

Bond Discounts/Premiums/Issuance Cost

For enterprise (proprietary) funds, bond premiums or discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Note 2-Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for the enterprise fund.
2. The District adopts a budget for the enterprise fund on a basis consistent with Generally Accepted Accounting Principles (GAAP).
3. The budget amounts shown are the final authorized amounts adopted by the District's board of directors.

Note 3-Deposits and Investments

Deposits

Deposits are categorized into three categories of credit risk:

1. Insured and held in the entity's name.
2. Collateralized by pledged securities from banks.
3. Uncollateralized and uninsured.

Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003

Note 3-Cash and Investments (Continued)

At April 30, 2003, the District's deposit balances were as follows:

	Category			Carrying Amount
	1	2	3	
Checking Accounts	<u>\$250,055</u>	<u>\$1,348,100</u>	<u>\$5,874,898</u>	<u>\$7,473,053</u>

At year-end, the carrying amount of the District's deposits at Bank of America was \$1,398,278 and the bank balance was \$1,448,100. Bank of America, as the District's depository, had pledged \$2,384,282 to collateralized the District's deposits. At year-end, the carrying amount of deposits in the Frost National Bank was \$5,974,898 and the bank balance was the same. Only \$100,000 of these deposits are insured. Various bank accounts at three other banks were fully insured.

Investments

GASB 31 requires investments to be carried at fair value with unrealized changes being recorded in the statement of activities. Investments in 2a7-like pools are valued based upon the value of pool shares. The District invests in a 2a7-like pool, the Local Governmental Investment Cooperative (LOGIC) which was created under the Interlocal Cooperation Act. The District also invests in mutual fund type money market accounts. This investment pool and the money market accounts have not been assigned a risk category since the District is not issued securities, but rather owns an undivided beneficial interest in these assets. The following reflects the District's balances in each of these investments at April 30, 2003:

Logic	\$ 8,440,972
JP Morgan Money Market Account	<u>6,812,537</u>
Totals	<u>\$ 15,253,509</u>

Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003

Note 4-Restricted Cash and Investments

Certain bank accounts and investments are restricted and/or set aside for specific purposes. The following identifies these amounts.

	<u>2003</u>
Interest & Sinking Funds-Revenue Bonds	\$ 10,018,692
Reserve Funds	7,639,610
Construction Funds	755,504
Contingency Fund	2,408,420
Escrow Accounts	<u>693,638</u>
Total Restricted Assets	<u>\$ 21,515,864</u>

Note 5-Receiveables

Accounts Receivable consists of amounts due from customers for water, agency fees, fire hydrants, repairs and impact fees. The gross receivables are \$5,833,016 less an allowance for uncollectible accounts totaling \$1,239,769. Credit balances in accounts receivable totaling \$150,815 have been reclassified and presented as current liabilities. Included in gross receivables is \$1,811,217 of unbilled water receivables.

Miscellaneous Receivables in the amount of \$466,529 consist of NSF checks, employee and other miscellaneous receivables.

Restricted Receivables are due from the bond agent for the new bond issue and totals \$21,663.

Note 6-Fixed Assets

Fixed assets for the enterprise (proprietary) fund as of April 30, 2003, were as follows:

Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003

Note 6-Fixed Assets (Continued)

	<u>2003</u>
Buildings/Improvements	\$ 6,249,480
Equipment	21,691,906
Furniture & Fixtures	972,149
Utility Plant & Distribution System	<u>205,354,458</u>
Total	234,267,993
Less accumulated depreciation	<u>(60,590,789)</u>
Net Depreciable Assets	173,677,204
Land	3,696,549
Construction in Progress	<u>6,588,400</u>
Net Fixed Assets	<u>\$183,962,153</u>

The District has capitalized \$773,377 of interest expense in the current year in the enterprise fund as part of construction projects and acquisitions.

Construction in progress at April 30, 2003, totaling \$6,588,400, consisted of various construction projects including transmission and distribution lines, wells and storage facilities, and other capital improvements to the District's facilities.

Depreciation expense was \$7,322,272, of which \$403,104 was capitalized.

Note 7-Lease Obligations

The District leases various office and construction equipment through capital leasing arrangements in the enterprise (proprietary) fund. The assets and obligations are recorded in the enterprise fund directly. Amortization applicable to enterprise fund assets acquired through capital lease arrangements is included with depreciation for financial statement presentations.

The future minimum lease obligations as of April 30, 2003 were as follows:

**Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003**

Note 7-Lease Obligations (Continued)

<u>Year Ending April 30</u>	<u>Amount</u>
2003	\$1,770.895
2004	1,474.479
2005	1,090.928
2006	421.121
2007	318.288
Thereafter	1,068.462
Total Minimum Lease Payments	6,144.173
Less Amounts Representing Interest	(728.011)
Present Value of Minimum Lease Payments	<u>\$5,416.162</u>

Operating Leases – Vehicles

The District has operating leases on vehicles, copiers and printers. The following is a schedule by years of future minimum rental payments under the leases at April 30, 2003.

<u>Year Ending April 30</u>	<u>Amount</u>
2004	\$ 177.156
2005	162.299
2006	85.283
2007	28.816
2008	20.354
Total	<u>\$ 473.908</u>

Water Purchase Contracts and Leases for Water Rights

The District has 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. Fixed minimum payments have been established for the first twelve (12) years.

The District has 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.

Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003

Note 7-Lease Obligations (Continued)

The District has acquired certain water rights in Atascosa County that will require minimum payments. The District also had a responsibility to develop five (5) wells on this property. Another lease is with Canyon Lake Water Supply. Minimum lease payments for the next five years are as follows:

<u>Year Ended April 30,</u>	
2004	\$ 3,743.597
2005	3,717.208
2006	3,805.617
2007	3,893.081
2008	<u>4,234.097</u>
Totals	<u>\$ 19,393.600</u>

Note 8-Long-term Debt

The following is a summary of the bonds, notes, and capital lease transactions of the District's enterprise (proprietary) fund for the year ended April 30, 2003:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due</u>
	<u>May 1</u>			<u>April 30</u>	<u>Within</u>
					<u>One Year</u>
Revenue Bonds	\$141,446.827	\$ 57,700.000	\$ 9,715.000	\$189,431.827	\$ 3,155.000
Subordinated Revenue Notes	1,875.000	--	125.000	1,750.000	125.000
Capital Leases	<u>5,922.904</u>	<u>1,098.487</u>	<u>1,605.229</u>	<u>5,416.162</u>	<u>1,542.239</u>
	149,244.731	58,798.487	11,445.229	196,597.989	4,822.239
Commercial Paper Notes	<u>50,000.000</u>	<u>10,000.000</u>	<u>50,000.000</u>	<u>10,000.000</u>	<u>--</u>
Totals	<u>\$199,244.731</u>	<u>\$ 68,798.487</u>	<u>\$ 61,445.229</u>	<u>\$206,597.989</u>	<u>\$ 4,822.239</u>

The enterprise (proprietary) fund long-term debt as of April 30, 2003 consists of: (1) Waterworks System Revenue Bonds, Series 1995 with \$37,995,000 outstanding at the end of the year. Interest, which ranges from 3.9% to 6.35% is payable semi-annually on May 1 and November 1. These bonds constitute special obligations of the District and are secured by revenues from the District's operation. The proceeds from this issue were used to refund bond issues, provide funds for construction, repair and maintenance of existing facilities, acquisition of new systems, and to pay the issuance cost. (2) Subordinated Revenue Notes, Series 1995A with \$1,750,000 outstanding at the end of the year issued for the purpose of

**Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003**

Note 8-Long-term Debt (Continued)

providing funds for acquisitions and construction of additions and improvements to the system. These notes have a zero interest rate. (3) Waterworks System Revenue Bond, Series 1998 with \$65,335,403 outstanding at the end of the year. Interest ranges from 3.75% to 5.6% with interest payable May 1 and November 1 each year. (4) Waterworks System Revenue Refunding Bonds, Series 2002 with \$57,700,000 outstanding at the end of the year. Interest ranges from 3.0% to 5.375% with interest payable May 1 and November 1 each year. This issue refunded the Series 1992 bonds and redeemed \$50,000,000 of commercial paper. (5) A \$28,401,424 Water Facility Contract Revenue Bond, Series 1998, issued by the Bexar Metropolitan Development Corporation. Interest ranges from 4.05% to 5.5%. (6) Thirteen capital leases for office and construction equipment.

The annual requirements to amortize these bonds, notes, and capital leases as of April 30, 2003 are as follows:

Year Ending April 30

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 4,822,239	\$ 8,377,705	\$ 13,199,944
2005	4,985,332	8,736,527	13,721,859
2006	4,790,685	8,531,463	13,322,148
2007	4,792,667	8,353,837	13,146,504
2008	4,870,281	8,172,070	13,042,351
2008 - 2012	27,194,958	37,607,331	64,802,289
2013 - 2017	28,598,211	35,008,641	63,606,852
2018 - 2022	34,057,361	29,346,631	63,403,992
2023 - 2027	38,255,378	25,146,162	63,401,540
2028 - 2032	21,733,312	33,335,313	55,068,625
2033 - 2037	15,547,565	20,945,932	36,493,497
2038	6,950,000	347,500	7,297,500
Totals	<u>\$196,597,989</u>	<u>\$223,909,112</u>	<u>\$420,507,101</u>

Note 9-Redemption of Bonds

The \$37,995,000 Bexar Metropolitan Water District Waterworks System Revenue Bonds, Series 1995 are subject to mandatory and optional redemption prior to maturity as follows:

Bexar Metropolitan Water District
Notes to Financial Statements (Continued)
April 30, 2003

Note 9-Redemption of Bonds (Continued)

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, 2005, 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, 2005 through April 30, 2006	102%
May 1, 2006 through April 30, 2007	101%
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

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: