



Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

BARTON SPRINGS/ EDWARDS AQUIFER CONSERVATION DISTRICT

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

AUGUST 31, 2015

**BARTON SPRINGS/EDWARDS AQUIFER
CONSERVATION DISTRICT**

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Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Barton Springs/Edwards Aquifer Conservation District

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Barton Springs/Edwards Aquifer Conservative District (District) as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiring of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Montgomery Britton Bender PC

21 March 2016
Austin, Texas

Barton Springs / Edwards Aquifer Conservation District

Management Discussion and Analysis

Fiscal Year Ending August 31, 2015

The following **Management Discussion and Analysis** narrative provides an overview and summary-level analysis of the significant activities and situations that have financial reporting consequence for the fiscal year. This information is provided in conjunction with our financial statements that follow. The percentages shown in the Management Discussion & Analysis narrative are based on the comparisons of the Statements of Revenues, Expenses and Changes in Net Position **before** any adjusting journal entries in the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Since the activities of the District are financed primarily by fees charged to external parties, such activities are reported as an enterprise fund and are considered a "business-type activity." The financial statements required for an enterprise fund are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the District's assets and liabilities, with the difference between the two reported as net position, as of the end of the fiscal year. Over time, increases or decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing the operating revenues and expenses of the District for the fiscal year, using the accrual basis of accounting. Therefore, revenues are recognized when earned, and expenses are recognized when incurred, regardless of when cash is received or paid.

The Statement of Cash Flows provides information about the cash receipts and cash payments of the District during the fiscal year, summarized by operating, capital and related financing, and investing activities.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

CONDENSED FINANCIAL INFORMATION

The following table presents comparative condensed financial information on assets, liabilities and net position.

Condensed Statement of Net Position August 31, 2015, 2014 and 2013

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|-------------------------------------------|----------------------------|----------------------------|----------------------------|
| Current assets | \$ 1,253,929 | \$ 1,201,374 | \$ 1,187,957 |
| Capital assets | <u>357,337</u> | <u>379,273</u> | <u>407,776</u> |
| Total assets | <u>\$ 1,611,266</u> | <u>\$ 1,580,647</u> | <u>\$ 1,595,733</u> |
| Total liabilities | <u>\$ 238,378</u> | <u>\$ 69,397</u> | <u>\$ 86,806</u> |
| Net position: | | | |
| Net investment in capital assets | 357,337 | 379,273 | 407,776 |
| Unrestricted | <u>1,051,551</u> | <u>1,131,977</u> | <u>1,101,151</u> |
| Total net position | <u>1,372,888</u> | <u>1,511,250</u> | <u>1,508,927</u> |
| Total liabilities and net position | <u>\$ 1,611,266</u> | <u>\$ 1,580,647</u> | <u>\$ 1,595,733</u> |

The following table presents comparative condensed financial information on revenues, expenses, and changes in net position.

Condensed Statement of Revenues, Expenses and Changes in Net Position Years Ended August 31, 2015, 2014 and 2013

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|----------------------------------------|----------------------------|----------------------------|----------------------------|
| Operating revenues | \$ 1,395,059 | \$ 1,446,465 | \$ 1,413,444 |
| Operating expenses | <u>1,483,752</u> | <u>1,444,631</u> | <u>1,405,976</u> |
| Operating income | <u>(88,693)</u> | <u>1,834</u> | <u>7,468</u> |
| Non-operating revenues (expenses) | | | |
| Interest income | 594 | 489 | 1,351 |
| Interest expense | <u>0</u> | <u>0</u> | <u>0</u> |
| Total non-operating rev/(exp) | <u>594</u> | <u>489</u> | <u>1,351</u> |
| Change in net position | <u>(88,099)</u> | <u>2,323</u> | <u>8,819</u> |
| Beginning net position (restated 2015) | <u>\$ 1,460,987</u> | <u>\$ 1,508,927</u> | <u>1,500,108</u> |
| Net position end of year | <u>\$ 1,372,888</u> | <u>\$ 1,511,250</u> | <u>\$ 1,508,927</u> |

FINANCIAL HIGHLIGHTS OF CHANGES IN OPERATING REVENUES

The discussion that follows is based on FY 2015 preliminary financial reports before adjustments and reclassifications in the audit process.

Permittees' Production Fees and Annual Permit fees, Transport (export) fees, and City of Austin Water Use fees, decreased by \$26,139 in FY 2015 from the prior year to \$1,383,960 from \$1,410,100 (a small 1.9% decrease). This revenue was close to what was budgeted for FY 2015 (\$1,402,217), with the shortfall primarily reflecting conservation credits awarded for FY 2015 (\$38,188). Included in these revenues are transport permit fees. There continue to be two District transport permits that generate \$124,000 in transport fees revenue in both FY 2015 and FY 2014.

There was no revenue associated with Grants in FY 2015 or in FY 2014.

All "Other Fees" revenue (derived from variable sources such as well development fees, well application and inspection fees, and drought management fees) was initially projected and budgeted to be \$4,000 but was actually \$10,114 for FY 2015. Of that actual FY 2015 revenue (\$10,114), well development applications and inspection fees generated \$7,950 as compared to \$5,475 in FY 2014; meter reading and plugging application fees generated \$875 as compared to \$1,050 in FY 2014; late fees generated \$289 as compared to \$82 in FY 2014; and Drought Management Fees generated \$1,000 in FY 2015 as compared to \$0 for FY 2014.

Drought management fees are assessed for permittee noncompliance only during a District-declared drought of three months or longer. The District was in declared drought starting in September 2014 and lasting through January 2015, when the District declared a no-drought condition. This period of time was of sufficient duration to assess drought management fees, however, there was no occurrence of compliance triggering fees so none were assessed.

There was no fee income from Enforcement Fines and Penalties in FY 2015 or FY 2014.

Interest income in FY 2015 as expected continues to be minimal. Actual interest income received for FY 2015 is \$594 as compared to \$489 in FY 2014.

FINANCIAL HIGHLIGHTS OF CHANGES IN OPERATING EXPENSES

The discussion that follows is based on FY 2015 preliminary financial reports before adjustments and reclassifications in the audit process.

Expenses for personnel salaries and wages for FY 2015 is \$723,396, which is \$26,917 more than the previous year's expense of \$696,479 (a 3.9% increase). The higher salaries in FY 2015 were a result of planned staffing and salary adjustments.

Actual expenses for staff payroll taxes and retirement benefit-related for FY 2015 are \$112,895, which is more than the previous year's expense of \$107,320 (a 5.2% increase). (This account includes an accrued vacation expense that fluctuates from month to month.) Actual expenses for group insurance benefits in FY 2015 is \$107,986, which is more than last year's expense of \$103,431 (a 4.4% increase).

Actual expense for directors' compensation for meetings in FY 2015 is \$39,515 which is less than the FY 2014 actual expenses of \$39,700 (a 0.5% decrease), and represents 87.8% of the

amount budgeted. This account was almost maximized even though the Board was down one director from April through August 2014. This is due to the statutory increase in the daily cap on director's compensation from \$200 per day maximum allowed to \$250 per day maximum allowed, and the subsequent increase in meeting rates approved by the Board on July, 25, 2014. The rates were increased from \$100 to \$200 for regular meetings and from \$75 to \$100 for other meetings. In this category, the statutory maximum annual amount, which was not increased, of \$9,000 per director per fiscal year, is always budgeted at the full amount of \$45,000 for the five directors.

Direct expenses associated with the ongoing work of the various programmatic teams (Aquifer Science, Education and Outreach, and Regulatory Compliance) are not meaningfully comparable on a year-on-year basis, because the work programs of each vary and also cross over fiscal years. These teams' efforts were judged by the Board to have made sufficient progress towards achieving the District's 2015 Management Plan objectives (Appendix B of the draft Annual Report) and within their budget and schedule constraints, which are the more important management measures.

Since the District holds elections no more often than every two years (in odd-numbered fiscal years, if and when election contests warrant), the Elections account typically shows large percentage differences from year to year. Similarly, expenses for legislative services tend to be biennial with the Texas Legislative Regular Sessions in odd-numbered fiscal years. So year-on-year expense can vary as much as 100%.

The majority of election expenses are incurred in the odd-numbered fiscal years building up to November elections in even-numbered calendar years. In FY 2013, election expenses totaled \$26,492. Similar to FY 2013, the majority of the 2014 election expenses were incurred in FY 2015. The total election expenses incurred in FY 2015 were \$15,277 which was \$14,481 more than the previous election fiscal year's expense in FY 2014 of \$796.

In FY 2015, there were expenses related to legislative lobbying in the amount of \$40,000, which was 100% of the budgeted amount. In FY 2014, there were \$0 legislative-related expenses, as the Legislature was not in session that year.

In FY 2015, Actual Professional Services expenses (excluding legal expense characterized below) barely increased to \$29,776 as compared to \$29,047 in FY 2014. Other professional services are team-specific and are included in team budgets as contracted support expenses.

Legal Services expense In FY 2015 is \$86,021 which was more than the previous year's expense of \$49,453 (a 74% increase). This increase was due to addressing State Highway 45 Southwest, Attorney General Opinions, and an extraordinary level of additional legal services required for new legislation and annexation related issues. This expense account only includes continuing or planned legal representation and does not include more variable legislative services, which are characterized above.

Several expense accounts or sub-accounts showing large percentage changes reflect small dollar amounts in one or both years leading to relatively large proportional changes.

KEY FACTORS INFLUENCING CAPITAL ASSETS

Capital assets subject to depreciation include building, vehicles, and equipment with an original cost that is greater than \$5,000 and with a life exceeding one year. Land is not depreciated.

In FY 2015, there was one capital improvement project initiated and completed for \$11,750. This was an interior remodeling project to reconfigure and modernize part of the office into a laboratory. This project will account for the change in capital assets, net of their depreciation.

KEY FACTORS INFLUENCING CHANGES IN CASH FUNDS

The available cash funds (two BB&T accounts and one TexPool General account, excluding the contingency, and reserve funds) at the end of FY 2015 totaled \$475,477, which is \$54,270 more than the prior year's total of \$421,207. Differences in these funds are mostly attributable to the timing of receipts of water use fee payments from permittees and the City of Austin and their resulting deposits.

In FY 2015, the District transferred \$295,000 from its TexPool accounts in order to balance the budget for four separate issues: 1) \$160,000 for a Westbay monitoring well installation; 2) \$31,600 to cover expense adjustments associated with Budget Revision 1; and 3) \$63,450 to cover expense adjustments associated with Budget Revision 2. The Westbay well was not installed in FY 2014 so the \$160,000 budgeted and not expended remained in the TexPool General account and was rebudgeted in the FY 2016 initial annual budget to be available for anticipated project start up in FY 2016. The District also transferred \$5,000 from its General operating account back into the TexPool Contingency account in response to the annual Board directive to contribute this amount to the Contingency account. The Contingency account transfer was made at the outset of the fiscal year as routinely scheduled each year. This practice serves no practical budgeting purpose therefore it has been discontinued.

ANTICIPATED CHANGES

The following events affecting the revenue, cost, and financial management have not occurred yet or have not yet substantially impacted the financial performance of the District, but are expected to occur and be potentially significant to financial performance and/or condition in FY 2016:

- A transfer of \$160,000 from the TexPool General account will be made at the beginning of FY 2016 not into the Aquifer Science Team budget as was in FY 2015 but in a separate budget category "Grant Expenses and Special Projects Expenses" in anticipation of installing a third Westbay well which is part of a TWDB grant that was awarded and under contract in FY 2015.
- The District submitted an application to the TWDB Board for a Regional Facility Planning Grant on January 28, 2015 to assess the Saline Edwards Aquifer as a potential water supply. The District was awarded grant funding in the amount of \$240,000 to support the District's grant project. The contract with TWDB for the grant project was approved by the Board and executed on August 27, 2015.
- An application was made in early FY 2016 to the TWDB for additional matching grant funding to support studies to assess the feasibility of Aquifer Storage and Recovery (ASR) as a water supply strategy (Rider 25 grant), however, the grant funds were not awarded.
- The onset of Drought conditions in the beginning of FY 2016 may generate additional revenues from the assessment of drought management fees or drought enforcement penalties; however, such revenues are not budgeted sources of income and elevated

aquifer conditions at the end of FY 2015 make the prospect of a drought declaration in FY 2016 unlikely.

- Additional remodeling and upgrades to accommodate additional staff and enhance the functionality of the existing District office and facilities.
- **Annexation:** During the 84th Legislative Session in 2015, state and local officials responded to requests from Hays County citizens to pass legislation to manage, conserve, preserve, and protect groundwater resources in unregulated portions of Hays County adjacent to and south of the District's jurisdictional area. As a result, HB 3405 became law on June 19, 2015. The new law gave the District the authority and responsibility for managing groundwater production of the Trinity Aquifer and other non-Edwards aquifers (example: Austin Chalk Aquifer, Alluvium) in new annexed area. HB 3405 established a Temporary Permit process to allow existing wells to be transitioned into a permit without interruption. Anticipated expenses associated with the annexation include:
 - additional staff and technical contracted support to accommodate the extraordinary workload associated with implementation of HB 3405;
 - legal expenses associated with redistricting to redraw and expand the three non-Austin precincts into the new annexed area;
 - legal expenses associated with a contested election in the redrawn Director precincts;
 - legal expenses associated with contested cases on new permits in the recently annexed shared territory; and
 - legal expenses associated with legal challenges arising from implementation of HB 3405.
- Larger amounts of contractual funding associated with various technical and legal professional services, including:
 - technical and consulting services to be responsive to comments received by the U.S. Fish and Wildlife Service and during the public review process on the District's submitted draft HCP and ITP application and to support completion of the draft EIS;
 - technical services on prospective special projects including: regional wastewater management; desal or ASR pilot projects; continued aquifer characterization; or development of an extension of Groundwater Availability Model for the Hill Country Trinity Aquifer;
 - technical service associated with prospective HCP mitigation measures;
 - engineering services associated with monitoring and review of major roadway projects including SH45 SW; and
 - engineering and technical services associated with modeling and assessment of prospective Trinity Aquifer pumping in the recently annexed area (the "shared territory").

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUND

AUGUST 31, 2015

ASSETS

Current assets

| | |
|------------------------|------------------|
| Cash | \$135,419 |
| Short-term investments | 1,116,394 |
| Other | <u>2,116</u> |
| | <u>1,253,929</u> |

Noncurrent Assets

| | |
|---------------------------------|--------------------|
| Land | 165,415 |
| Depreciable capital assets, net | <u>191,922</u> |
| | <u>357,337</u> |
| | <u>\$1,611,266</u> |

LIABILITIES AND NET POSITION

LIABILITIES

Current liabilities

| | |
|----------------------|----------------|
| Accounts payable | \$17,782 |
| Conservation credits | 38,190 |
| Accrued payroll | 93,961 |
| Deferred revenue | <u>88,445</u> |
| | <u>238,378</u> |

NET POSITION

| | |
|----------------------------------|--------------------|
| Net investment in capital assets | 357,337 |
| Unrestricted | <u>1,015,551</u> |
| | <u>1,372,888</u> |
| | <u>\$1,611,266</u> |

The accompanying notes are an integral part of this financial statement presentation.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION

YEAR ENDED AUGUST 31, 2015

| | <u>Proprietary Fund</u> |
|-------------------------------------------------------|-------------------------|
| OPERATING REVENUE | |
| Water permits and fees | \$1,394,074 |
| Other | <u>1,579</u> |
| | <u>1,395,653</u> |
| OPERATING EXPENSES | |
| Personnel and related | 983,792 |
| Legal | 86,021 |
| Habitat Conservation Plan projects | 50,018 |
| Legislation | 40,000 |
| Aquifer science | 35,043 |
| Depreciation | 33,037 |
| Professional services | 29,776 |
| General management contracted support | 27,799 |
| Utilities | 23,285 |
| Maintenance | 22,185 |
| Groundwater Management Areas joint planning | 20,056 |
| Computer expenses | 19,295 |
| Election expense | 15,277 |
| Education and outreach | 15,316 |
| Office | 15,192 |
| Other | <u>67,660</u> |
| | <u>1,483,752</u> |
| CHANGE IN NET POSITION | <u>(88,099)</u> |
| BEGINNING NET POSITION, as previously reported | 1,511,250 |
| Prior period adjustment | <u>(50,263)</u> |
| BEGINNING NET POSITION, as restated | <u>1,460,987</u> |
| ENDING NET POSITION | <u>\$1,372,888</u> |

The accompanying notes are an integral part of this financial statement presentation.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

PROPRIETARY FUND STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|-----------------------------------------------|------------------|
| Receipts from water permit and other use fees | \$1,491,409 |
| Other cash receipts | 1,579 |
| Payments to employees for services | (978,100) |
| Payments to suppliers for goods and services | <u>(444,149)</u> |
| | <u>70,739</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--------------------------|-----------------|
| Purchase of investments | (74,004) |
| Purchase of fixed assets | <u>(11,101)</u> |
| | <u>(85,105)</u> |

NET CHANGE IN CASH (14,366)

BEGINNING CASH 149,785

ENDING CASH \$135,419

Reconciliation of operating income to net cash provided by operating activities:

| | |
|---------------------------------------|-----------------|
| Operating income | (\$88,099) |
| Depreciation | 33,037 |
| Change in prepaid expense | 7,083 |
| Change in accrued payroll liabilities | 6,274 |
| Change in accounts payable | 15,109 |
| Change in deferred revenue | 88,215 |
| Change in conservation credits | <u>9,120</u> |
| | <u>\$70,739</u> |

The accompanying notes are an integral part of this financial statement presentation.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

The Barton Springs/Edwards Aquifer Conservation District (District) is a Groundwater Conservation District created in 1986 by the Texas Water Commission, validated in 1987 by the 70th Legislature of the State of Texas (Senate Bill 988), and confirmed by the voters on August 8, 1987. As a Groundwater Conservation District, the District's statutory purpose and adopted mission is to conserve, preserve, protect, enhance recharge, and prevent waste of groundwater and preserving all aquifers within the District.

Upon creation, the District's jurisdictional area encompassed approximately 255 square miles and was generally defined to include all the area within the Barton Springs segment of the Edwards Aquifer with an extended utility service area to the east. In 2015, the 84th Texas Legislature (House Bill 3405) expanded the District's jurisdictional area to include the portion of Hays County located within the boundaries of the Edwards Aquifer Authority excluding the overlapping area in the Plum Creek Conservation District. The newly annexed area, designated as "Shared Territory," excludes the Edwards Aquifer and includes all other aquifers, including the underlying Trinity. The District's jurisdictional area now encompasses approximately 420 square miles and includes both urban and rural areas in southern Travis County, central and eastern Hays County, and portions of northwestern Caldwell County.

The District's statutory authority is derived primarily from the enabling legislation creating the District, Senate Bill 988, 70th RS, now codified at Special District Local Laws Code Chapter 8802, and Chapter 36 of the Texas Water Code. The enabling legislation creating the District provides that the District may assess fees "on an annual basis, based on the size of column pipe used in the wells, the production capacity of the well, or actual, authorized, or anticipated pumpage." The House Bill 2294 in the 74th Legislative Session further provided that the City of Austin can be required to pay a water use fee not exceeding 60% of the sum of (1) the total production fees received from all permitted users, and (2) the water use fee of the City of Austin. House Bill 3405 further amended the District's enabling legislation by setting limits on the total annual water use fee assessed to the City of Austin.

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

These financial statements present the operations of the District alone, and include no component units. As defined by GASB Statement No. 14 the *Financial Reporting Entity*, and GASB Statement No. 39, *an Amendment to Statement No. 14*, component units are legally separate entities that would be included in the Districts reporting entity because of the significance of their operating or financial relationships with the District. Based on the specific criteria in the Statement, the District has no component units and is not a component unit of any other reporting entity as defined by the Statement.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Basic financial statements of a governmental entity normally include both government-wide and fund financial statements. However, because the District only has one fund, only fund financial statements are presented.

The District's operations are accounted for in the proprietary fund type called an enterprise fund. Enterprise funds are required to be used to account for business-type operations for which a fee is charged to external users for goods or services. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's business-type activities are presented on the accrual basis of accounting. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|--------------------------------|-------------|
| Buildings and improvements | 25-30 years |
| Office furniture and equipment | 3-10 years |
| Field equipment | 5-7 years |
| Vehicles | 5 years |

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

COMPENSATED ABSENCES

The District accrues accumulated unpaid vacation leave and associated employee-related costs when earned by the employee.

DEFERRED REVENUE

Deferred revenue consists of water permit fees received in the current fiscal year which are applicable to the succeeding fiscal year. These fees will be recognized as revenue in the fiscal year to which they apply.

OPERATING REVENUE AND EXPENSES

The District proprietary fund type distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses consist of charges for services (consisting of fees assessed for permittees' permitted pumpage) and the costs of providing those services, including depreciation. All other revenues and expenses are reported as nonoperating. There were no significant nonoperating revenues or expenses during the year.

NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: DEPOSITS AND INVESTMENTS

At August 31, 2015, the carrying amount of the District's cash deposits was \$135,419, and the bank balance was \$59,807. Short-term investments of \$1,116,394 are invested with TexPool. The carrying value of these deposits and investments approximates fair value.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds in a manner that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel.

TexPool is a local government investment pool. These investments are carried at amortized cost, which approximates fair value. The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. TexPool is a 2(a)7 like fund, which means that it is structured similar to a money market mutual fund. It allows shareholders the ability to deposit or withdraw funds on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. TexPool is rated AAAM (the highest rating a local government investment pool can achieve) and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At August 31, 2015, the TexPool portfolio had a weighted average maturity of 41 days. However, the District considers the holdings in this fund to have a one day weighted average maturity because the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The District has adopted an investment strategy to pursue limited investment risk, the objectives of which are safety of principal, maintenance of adequate liquidity, maximization of return on investments and maintain public trust from prudent investment activities. The District is authorized to invest in its depository accounts with banks or invest in TexPool. During the year, the District complied with its investment policy.

NOTE 4: RISK MANAGEMENT

The District is exposed to various risks of loss including general liability, property damage, and worker's compensation. The District insures against risk through commercial insurance.

NOTE 5: CONSERVATION CREDITS

The District supports and encourages a permittee's efforts to conserve water and to reduce annual pumpage as a result of conservation efforts by providing a credit to the permittee's account for the ensuing fiscal year. To be eligible for the credit, the permittee's reported pumpage volume must be less than the maximum amount pumped on an annual basis in the last three fiscal years, and the permittee must meet other requirements regarding submission of timely payments and meter readings. Conservation credits awarded for fiscal year ending August 31, 2015 amounted to \$38,190.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6: RETIREMENT PLAN

Effective, September 1, 1991, the District's Board of Directors established a defined benefit contribution retirement plan, which is a money purchase pension plan and trust, known as the Barton Springs/ Edwards Aquifer Conservation District Retirement Plan and Trust (the Plan). The Plan is administered by Standard Retirement Services, Inc. and provides retirement benefits for all full-time employees who are at least twenty-one years of age and have twelve months of service.

The administrator separately accounts for each employee participant's interest in individual accounts, and investments are participant directed. The required employee contribution rate is 7.5% and is matched by the District in the same amount. Upon entry to the Plan, employee's are 50% vested in the District's contributions. After two years of service, eligible employees become 100% vested. Forfeitures are allocated first to pay Plan administrative expenses, then used to reduce employer contributions. For fiscal year ended August 31, 2015 the District's contribution to the Plan were \$52,929.

NOTE 7: CAPITAL ASSETS

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---------------------------------|------------------------------|-------------------|------------------|---------------------------|
| Capital assets not depreciated: | | | | |
| Land | \$165,415 | \$0 | \$0 | \$165,415 |
| Depreciable assets: | | | | |
| Building and improvements | 257,488 | 11,100 | 0 | 268,588 |
| Office furniture and equipment | 33,253 | 0 | 0 | 33,253 |
| Field equipment | 376,488 | 0 | 0 | 376,488 |
| Vehicles | 78,339 | 0 | 0 | 78,339 |
| Accumulated depreciation | <u>(531,709)</u> | <u>(33,037)</u> | <u>0</u> | <u>(564,746)</u> |
| | <u>\$379,274</u> | <u>(\$21,937)</u> | <u>\$0</u> | <u>\$357,337</u> |

NOTE 8: PRIOR PERIOD ADJUSTMENT

Accrued payroll in the statement of activities was understated by \$50,263 as of August 31, 2014, which resulted in net position being overstated by the same amount. A prior period adjustment has been recorded to correct the beginning unrestricted net position. The effect of this adjustment on the change in net position for the year ended August 31, 2014 was not material.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9: ECONOMIC DEPENDENCY

52% of the District's revenue is from one permittee as required by the District's enabling legislation.

NOTE 10: LITIGATION

The District was not actively involved in any litigation during fiscal year 2015. However, there were other legal proceedings that required and will likely continue to require a relatively minor amount of related legal services in fiscal year 2016:

A. In fiscal year 2010, TCEQ issued its final (and revised) recommendations concerning provision of Groundwater Conservation District (GCD) protection to the areas in the Hill Country Priority Groundwater Management Area that did not have GCDs. The nature of these recommendations, which included ordering the District to consider annexing a large area in southwestern Travis County among other actions, and the subsequent responses by stakeholders resulted in a contested-case hearing by the State Office of Administrative Hearings (SOAH). However, in early fiscal year 2013 the hearing was abated until after the 2013 legislative session.

The matter was resumed in late fiscal year 2013 after the session until January of 2014 when the TCEQ cancelled the hearing. There has been no TCEQ activity on this matter but it is likely that the matter will come up again in fiscal year 2016 in the build-up to the 2017 legislative session at which time the District will require additional legal services to respond.

B. The District was very active in fiscal year 2015 in reviewing and responding to environmental documents and increased activity associated with State Highway 45 Southwest. This activity involved legal review of the District's consent decree, briefings to the Board, and participation in a Central Texas Regional Mobility Authority (CTRMA) technical workgroup to review the stormwater control designs. The activity associated with the supplemental agreement was ongoing in fiscal year 2015 carrying over into fiscal year 2016. The District is anticipating continued legal work in fiscal year 2016 but with low risk of extraordinary unbudgeted legal expense.

C. With the passage of HB 3405 in the 2015 legislative session, the District expanded its boundaries to include previously unregulated portions of the Trinity Aquifer (and other non-Edwards aquifers) in Hays County. The bill also required the issuance of temporary permits and subsequently, the conversion of those temporary permits into regular permits for existing well owners. The implementation of HB 3405 required substantial legal expense to develop the necessary rules to implement the bill and the new permitting process. This work began in fiscal year 2015 but has carried over into fiscal year 2016. The District also anticipates additional legal expense associated with the implementation of HB 3405 including expenses to address contested permits, legal challenges, and redistricting to expand the three non-Austin precincts into the shared territory.