



# Montemayor Britton Bender PC

CERTIFIED PUBLIC ACCOUNTANTS

**BARTON SPRINGS/ EDWARDS AQUIFER  
CONSERVATION DISTRICT**

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

**31 AUGUST 2018**

**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 Conservation District (District) as of and for the year ended 31 August 2018, 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 risks of material misstatement 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of 31 August 2018, 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 9 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.

Montemayor Britton Bender PC

11 December 2018  
Austin, Texas

# **Barton Springs / Edwards Aquifer Conservation District**

## **Management Discussion and Analysis**

**Fiscal Year Ending August 31, 2018**

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, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$1,266,839	\$1,378,323	\$1,714,993
Capital assets	<u>494,337</u>	<u>449,070</u>	<u>454,053</u>
Total assets	<u>\$1,761,176</u>	<u>\$1,827,393</u>	<u>\$2,169,046</u>
Total liabilities	<u>\$282,171</u>	<u>\$292,746</u>	<u>\$580,025</u>
Net position:			
Net investment in capital assets	494,337	449,070	454,053
Unrestricted	<u>984,668</u>	<u>1,085,577</u>	<u>1,134,968</u>
Total net position	<u>1,479,005</u>	<u>1,534,647</u>	<u>1,589,021</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$1,761,176</u>	<u>\$1,827,393</u>	<u>\$2,169,046</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, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$1,772,448	\$1,661,528	\$2,003,708
Operating expenses	<u>1,845,398</u>	<u>1,723,925</u>	<u>1,791,213</u>
Operating income	<u>(72,950)</u>	<u>(62,397)</u>	<u>212,495</u>
Non-operating revenues(expenses)			
Interest income	17,308	8,023	3,638
Interest expense	<u>0</u>	<u>0</u>	<u>0</u>
Total non-operating rev/(exp)	<u>17,308</u>	<u>8,023</u>	<u>3,638</u>
Change in net position	(55,642)	(54,374)	216,133
Beginning net position	<u>1,534,647</u>	<u>1,589,021</u>	<u>1,372,888</u>
Net position end of year	<u>\$1,479,005</u>	<u>\$1,534,647</u>	<u>\$1,589,021</u>

## FINANCIAL HIGHLIGHTS OF CHANGES IN OPERATING REVENUES

The discussion that follows is based on FY 2018 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/Austin Water Utility Water Use fees (exclusive of conservation credits), together increased by \$147,479 in FY 2018 from the prior year to \$1,693,195 from \$1,545,716. This increase is directly attributed to the City of Austin Water Use Fee that was assessed in the amount of \$1,000,000 (the HB 3405 statutory cap) for FY 2018 but was assessed in the amount of \$850,846 for FY 2017 (17.5% increase). The City of Austin fee was calculated for FY 2018 based on an extensive analysis of the projected permitted pumping in accordance with the statutory formula.

Included in the production revenue above are transport permit fees. There continue to be two District transport permits that generated \$124,000 in transport fees revenue in both FY 2018 and FY 2017.

All "Other Fees" includes revenue derived from variable sources such as well development fees, well application and inspection fees, well pluggings, meter reading and late fees, and drought management fees (fees applicable only during a District-declared drought). Revenue from Other Fees was budgeted to be \$12,950. Actual Other Fees earned at fiscal year-end was \$14,466 which was a 34.8% decrease from the previous year of \$22,192.

Drought management fees (mentioned above) are assessed for permittee noncompliance only during a District-declared drought of three months or longer. The District declared Stage II Alarm Drought on July 12, 2018 which means the three-month period to begin assessing drought management fees would begin with August 1, 2018. Stage II Alarm Drought ended on October 11, 2018 so no drought management fees were assessed or collected for FY 2018. The District was in No Drought status for the entire FY 2017, therefore there were no drought management fees assessed or collected for FY 2017.

Interest income in FY 2018 as expected continues to be minimal but is a substantial increase (115.7%) from the prior year. Actual interest income received for FY 2018 is \$17,308 as compared to \$8,023 in FY 2017 (a difference of \$9,285).

Grant revenue was accrued in FY 2017 however due to the project being delayed the grantor did not pay grant revenue until FY 2018. Grant expenses for FY 2017 were \$123,282 and FY 2018 were \$118,268. The new grant amendment expired in December 2018, therefore, all grant revenue that will offset much of the grant expense incurred in both FY 2016 and FY 2017 for this project will be realized through reimbursement from the TWDB in FY 2018.

The first (and final) grant invoice was submitted for payment on March 30, 2018 and payment of \$226,157 was received and deposited on July 27, 2018, and the grant has been completed.

There were two additional projects completed in FY 2017 that generated \$100,000 each. There was a Travis County Trinity Modeling project, and also a Hays County Trinity Modeling project.

A third project for conducting investigations and offering educational support related to groundwater use in Southwest Travis County began in July of FY 2018 where payment of \$100,000 was expected but not received. The project runs through August 31, 2019 and the payment of \$100,000, all project-related expenses, and most of the work will occur in FY 2019.

In FY 2017, there was \$22,450 revenue received from the selling of access easements on the Antioch property to allow for the installation and future maintenance of a water pipeline for the Alliance Regional Water Authority. This was a one-time transaction that will not reoccur so there is no comparable revenue source for FY 2018.

## **FINANCIAL HIGHLIGHTS OF CHANGES IN OPERATING EXPENSES**

The discussion that follows is based on FY 2018 preliminary financial reports before final auditor adjustments and reclassifications in the audit process, although several of the year-end adjustments have already been posted.

Expenses for personnel salaries and wages for FY 2018 is \$841,485 which is \$21,871 higher than the previous year's expense of \$819,614. The increase in FY 2018 salaries was due to the four senior-level increases awarded, the expense that would have gone to the GM salary was used from the GM team budget to hire an Interim Acting GM for \$22,800 before the new and current GM was hired in June 2018. This isn't an exact comparison due to the GM position being vacant approximately four months where a consultant was utilized.

Actual expenses for employee payroll taxes and retirement benefits for FY 2018 are \$120,086 which is less than the previous year's expense of \$121,847. This small decrease of \$1,761 is directly attributed to the four months that the District was without a GM.

Actual expenses for employee group insurance benefits in FY 2018 is \$125,727 which is \$7,920 more than the FY 2017 expense of \$117,897 (a 6.7% change). This includes employee premiums, 25% of employee dependent premiums, family dental, employee life insurance, and employee vision. This line item usually increases annually. The two areas it increased the most was employee premiums, and the 25% of employee dependent premiums, as employee elections changed (by adding dependents that were not on the plan in FY 2017).

Actual expense for directors' compensation for meetings in FY 2018 is \$35,700 which is barely less than the FY 2017 actual expenses of \$36,400 (a 1.9 % decrease). This account was almost maximized for the past two years. 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 Board-adopted FY 2018 Goals and the District's Management Plan objectives (Appendix B of the draft Annual Report) and within their budget and schedule constraints, which are the more meaningful 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, the majority of expenses for legislative support services tend to be biennial with the Texas Legislative Regular Sessions in odd-numbered fiscal years. So year-on-year expenses will vary.

The majority of election expenses are incurred in the fiscal year building up to November elections in even-numbered calendar years. The District cancelled the November 2018 since there was no opposition to incumbent directors for precinct 2 and precinct 5. Although the November 2018 election day is actually in FY 2019, the \$2,974 in expenses occurred in FY 2018. This cannot really be compared to the previous



year's total expenses of \$1,912 that was the final payment for the FY 2016 election, which was also cancelled. The final payment for the election for FY 2018 was paid out in FY 2019 for an additional \$1,940. The election expense is included in the Professional Services expenses.

Regarding expenses for legislature support services, the District has changed the timing of when such services are needed from a biennial expense to an ongoing expense according to the new term of agreement dated July 1, 2016. The new agreement establishes a flat-fee structure bifurcated between legislative session months and legislative interim months spread across 24 months. During legislative months (November of even-numbered years through June of odd-numbered years), the fee will be \$4,000 per month. During legislative interim months (July of odd-numbered years through October of even-numbered years), the fee will be \$1,000 per month. So, legislative support service expenses will cycle biennially with \$36,000 incurred in the year with legislative months and \$12,000 in the following year with legislative interim months.

In FY 2018, actual Professional Services expenses (excluding legal expenses which are characterized below) were \$54,709 as compared to \$31,359 in FY 2017 (which is a 74% increase). These professional services include the annual financial audit, the Standard retirement plan administration, and incidental election expenses. In addition, there was a new category included for FY 2018 that was not a part of FY 2017. There was a Salary Survey completed for \$14,500. The expense category should discontinue after the project reaches completion.

Other professional services are team-specific and are included in team budgets as contracted support expenses.

Legal Services expense in FY 2018 was \$138,092 which is \$36,227 more than the previous year's expense of \$101,865 (a 35.6% increase). This level of expense is due to ongoing efforts associated with HB 3405 annexation of the Shared Territory, prospective contested case hearings, and other extraordinary legal matters.

Occasionally the District is involved in Special Projects. In FY 2017, the District entered into two interlocal funding agreements for a multiport Trinity Aquifer monitor well in Travis County, and a second multiport well in Hays County. Travis County paid \$100,000 for their well, and Hays County also paid \$100,000 for their well. The District completed the two projects and provided an additional \$50,000 towards the projects that were completed in FY 2017 in accordance with interlocal agreements with both counties.

In FY 2018, there were expenses of \$11,500 in the Facilities Upgrades and Facilities Repairs accounts for vine removal on the side lot, and for library shelving. This is a substantial increase from the previous year where only \$1,672 was expended. There were no large repair or upgrade needs for FY 2017. See key factors influencing capital assets.

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 2017, there was \$1,672 spent on a library shelving project. The other half of that project was paid in October 2018 for \$1,150. In FY 2018, there was one capital improvement project in Facilities Upgrades that was initiated and completed for \$6,750 to replace the back deck

In Facilities Repair and Maintenance for FY 2018; \$3,598 was spent, of which \$2,584 was for vine removal. The rest of the balance was for a few small repairs such as lighting fixtures, and HVAC repairs.

The District capitalized the database project for \$89,216 that will continue on into FY 2019 where it should be completed. In FY 2017 the District capitalized \$10,305 for field equipment.

## **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 2018 totaled \$348,049 which is \$97,578 more than the prior year's total of \$250,471. 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. But in this instance, it is directly attributable to the previously unreimbursed grant revenue previously mentioned, that was received in July 2018.

## **ANTICIPATED CHANGES FOR FY 2019**

The following events and initiatives 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 2019:

- Completion of the Southwest Travis County ILA Project
- Contracting with an HR Consulting Firm
- Continuation of two contested case/legal challenges associated with controversial permit applications in the Shared Territory – Electro Purification, and Needmore
- Contracting with Intera for litigation support
- Reassessment of the District Fee Schedule Excess Pumpage Fees tier calculations
- Installation of an additional Shared Territory monitor well
- Larger amounts of contractual funding associated with various technical and professional services, including:
  - technical services to support prospective special projects including ASR pilot projects, continued aquifer characterization, new monitor well installation, and HCP-related projects;
  - technical and consulting services to support prospective implementation of the HCP including initial annual reporting and mitigation measures; and
  - engineering services associated with continued monitoring and review of major roadway projects including SH 45 SW.

## **CONTINGENCY PLANNING ASSETS**

The current cash assets include \$792,189 designated by the Board for certain unanticipated legal expenses and other contingencies. This was the balance of our Contingency Account at the end of FY 2018. At the end of FY 2017 the balance was \$737,766.

The Texas Legislature has by statute declared Groundwater Conservation Districts (GCD) as the preferred method of groundwater management in the state (Texas Water Code, §36.0015(b)). Chapter 36 also affirms that groundwater is private property. The common law further affirms that groundwater, as private property in place, is constitutionally protected from regulatory takings and that any lawful GCD action that is determined by a court to be a taking of private property will require just compensation.

While taking claims are very fact-specific and complex to litigate, the possibility exists that the District may take a lawful action that limits a landowners access to their private property (groundwater) that may be determined by a court to be a regulatory takings. Such a determination will require substantial expense to litigate and/or pay for such just compensation to remedy the takings. This potential legal risk is relatively low but is planned for by the Board by reserving certain funds as a contingency for this scenario or other matters that may require substantial expense by the District.

Additionally, annexation of the Shared Territory in Hays County resulting from HB 3405 has increased the District's jurisdictional area and the number of permits that are process and issued by the District. The increase number of permits also increases the probability of potential contested cases and the associated legal expenses.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT**  
**STATEMENT OF NET POSITION PROPRIETARY FUND**  
**31 AUGUST 2018**

**ASSETS**

Current assets

Cash	\$116,770
Short-term investments (including \$792,189 designated by the Board for legal and other contingencies)	1,147,487
Other	<u>2,582</u>
	<u>1,266,839</u>

Noncurrent assets

Nondepreciable capital assets	290,974
Depreciable capital assets	<u>203,363</u>
	<u>494,337</u>
	<u>1,761,176</u>

**LIABILITIES**

Current liabilities

Accounts payable	30,260
Conservation credits	21,502
Accrued payroll	58,324
Amounts held for others (Note 11)	93,184
Unearned permit and fee revenue	<u>78,901</u>
	<u>282,171</u>

**NET POSITION**

Net investment in capital assets	494,337
Unrestricted	<u>984,668</u>
	<u>\$1,479,005</u>

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

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT  
 PROPRIETARY FUND  
 STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION  
 YEAR ENDED 31 AUGUST 2018**

<b>OPERATING REVENUE</b>	
Water permits and fees	\$1,707,661
Grant	59,987
Other	<u>22,108</u>
	<u>1,789,756</u>
<b>OPERATING EXPENSES</b>	
Personnel and related	1,088,660
Legal	138,092
Grant	118,268
General management team	66,590
Aquifer science	65,037
Professional services	54,709
Depreciation and amortization	43,949
Director compensation	35,700
Regulatory compliance	31,750
Education and outreach	22,932
Utilities	22,252
Maintenance	16,231
Legislation	13,000
IT monthly maintenance	12,000
Office supplies	10,512
Leases	9,723
Other	<u>95,993</u>
	<u>1,845,398</u>
<b>CHANGE IN NET POSITION</b>	<u>(55,642)</u>
<b>BEGINNING NET POSITION, as previously stated</b>	1,561,911
Prior period adjustment	<u>(27,264)</u>
<b>BEGINNING NET POSITION, as restated</b>	<u>1,534,647</u>
<b>ENDING NET POSITION</b>	<u>\$1,479,005</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 31 AUGUST 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from water permit and other use fees	\$1,633,377
Other cash receipts	317,612
Payments to employees for services	(1,130,255)
Payments to suppliers for goods and services	<u>(671,503)</u>
	<u>149,231</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases from sale of investments	(118,454)
Purchase of capital assets	<u>(89,216)</u>
	<u>(207,670)</u>

NET CHANGE IN CASH	(58,439)
BEGINNING CASH	<u>175,209</u>
ENDING CASH	<u>\$116,770</u>

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

Change in net position	(\$55,642)
Depreciation and amortization	43,949
Change in accounts receivable	169,524
Change in prepaid expense	1,975
Change in accrued payroll liabilities	(5,895)
Change in accounts payable	3,611
Change in deposits for SOAH hearing	65,920
Change in deferred inflows related to water fees	(72,415)
Change in conservation credits	<u>(1,796)</u>
	<u>\$149,231</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 8 August 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 (HB 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 30 November 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

#### 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.

#### 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 District's 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.

#### 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.

Well monitoring access rights are capitalized at costs incurred by the District and amortized on a straight line basis over the useful life stated in the well right agreement. Well monitoring access rights with an indefinite life are not amortized; however, they are evaluated for impairment annually. The well monitoring access rights will enable the District to perform tests and collect data on the saline portion of the Edwards aquifer that will assist in evaluating the effects of pumping, and inform its feasibility as an alternative water supply.



# BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### CAPITAL ASSETS

Depreciation/amortization on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Years</u>
Building and improvements	25-30
Office furniture and equipment	3-10
Field equipment	5-7
Vehicles and finite life well monitoring access rights	5

#### DEFERRED INFLOWS

Deferred inflows 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, liabilities, and deferred inflows. 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 require 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.

# 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 the related payroll taxes and retirement contributions earned by the employee.

### NOTE 3: DEPOSITS AND INVESTMENTS

At 31 August 2018, the carrying amount of the District's cash deposits was \$116,770, and the bank balance was \$69,778. Short-term investments of \$1,147,487 are invested with TexPool. TexPool investments are carried at amortized cost, which approximates fair value.

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 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 31 August 2018, the TexPool portfolio had a weighted average maturity of 28 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 workers' compensation. The District insures against risk through commercial insurance.

# BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### **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 31 August 2018 amounted to \$21,502.

### **NOTE 6: CONCENTRATION**

56% of the District's revenue is from the City of Austin as required by the District's enabling legislation.

### **NOTE 7: RETIREMENT PLAN**

Effective, 1 September 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, employees 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 31 August 2018 the District's contribution to the Plan was \$55,727.

### **NOTE 8: OPERATING LEASE**

The District has entered into leases for equipment which expire in 2021. For the fiscal year ended 31 August 2018 rent expense was approximately \$9,700. Future minimum lease payments for the operating lease are \$9,170 a year for the fiscal years ending 31 August 2019 through 31 August 2020 and \$7,782 for the fiscal year ending 31 August 2021.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9: CAPITAL ASSETS**

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Capital assets not depreciated/amortized:</b>				
Land	\$165,415	\$0	\$0	\$165,415
Well monitoring access rights, indefinite life	36,343	0	0	36,343
Database	<u>0</u>	<u>89,216</u>	<u>0</u>	<u>89,216</u>
	<u>201,758</u>	<u>89,216</u>	<u>0</u>	<u>290,974</u>
<b>Depreciable/amortizable assets:</b>				
Building and improvements	268,588	0	0	268,588
Office furniture and equipment	33,252	0	0	33,252
Field equipment	386,708	0	0	386,708
Vehicles	78,339	0	0	78,339
Well monitoring access rights, finite life	127,705	0	0	127,705
<b>Accumulated depreciation/amortization:</b>				
Building and improvements	(149,643)	(10,926)	0	(160,569)
Office furniture and equipment	(33,252)	0	0	(33,252)
Field equipment	(360,505)	(7,482)	0	(367,987)
Vehicles	(78,339)	0	0	(78,339)
Well monitoring access rights, finite life	<u>(25,541)</u>	<u>(25,541)</u>	<u>0</u>	<u>(51,082)</u>
	<u>247,312</u>	<u>(43,949)</u>	<u>0</u>	<u>203,363</u>
	<u>\$449,070</u>	<u>\$45,267</u>	<u>\$0</u>	<u>\$494,337</u>

**NOTE 10: LITIGATION**

The District was not actively involved in any litigation during FY 2018. However, there were other legal matters beyond general matters (discussed below) that required material expenditures for legal services in FY 2018.

# BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10: LITIGATION

- A. 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 continued from FY 2016 and FY 2017 into FY 2018 requiring substantial legal expense primarily related to the conversion of the temporary permit into a regular permit for Needmore Water, LLC. In FY 2017, this permit conversion was contested and referred by the Board to the State Office of Administrative Hearings (SOAH) to conduct a contested case hearing. In FY 2018, the SOAH Administrative Law Judge issued a ruling dismissing the protestant's Motion for Summary Disposition in the contested case, granting Needmore and BSEACD's Motions and cancelling the Hearing on the Merits. In FY 2019, the Board again referred the case to the SOAH for further determination on the merits of the case. The District anticipates additional legal expenses associated with ongoing activities related to this contested case preparations including possible depositions, legal briefing, and the possible actual hearing on the merits. Trinity Edwards Springs Protection Alliance (TESPA) paid the District \$31,000 to cover the District's future legal fees related to this case of which \$23,184 has not been spent. At the end of this case any unspent amounts will be refunded to TESPA.
- B. In FY 2018, the District reviewed the well modification and production permit applications filed by Electro Purification, LLC in FY 2017 and recommended a draft proposed permit in May 2018. The public submitted more than 300 comment letters or emails, including twelve comment letters requesting a contest case hearing. In July 2018, the Board referred the case to the SOAH to conduct the contested case hearing, which has been scheduled to be held in September 2019. With that stated, in FY 2019, the District anticipates legal expenses associated with the contested case. Electro Purification paid the District \$70,000 to cover the District's future legal fees related to this case. At the end of this case any unspent amounts will be reimbursed to Electro Purification.
- C. Beginning in FY 2017 and continuing into FY 2018, the District was actively involved in the analysis of the Texas Pollution Discharge Elimination System (water-quality discharge) permit application filed by the City of Dripping Springs to authorize an unprecedented direct discharge of treated effluent into Onion Creek above the recharge zones of the Trinity and Edwards Aquifers. This involved expenditures for legal services to discuss possible settlement terms and confer with the applicant and other affected parties. The District's stated opposition to the draft permit warranted legal expenses in FY2017 and FY2018. In June 2018, the District, along with several other parties, reached a settlement agreement with the City of Dripping Springs, that provides significant measures to protect the recharge features in the Onion Creek watershed.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11: AMOUNTS HELD FOR OTHERS**

Electro Purification (NOTE 10 paragraph B)	\$70,000
TESPA (NOTE 10 paragraph A )	<u>23,184</u>
	<u>\$93,184</u>

**NOTE 12: PRIOR PERIOD ADJUSTMENT**

As of 31 August 2017, the liability for amounts held for others in the statement of net position proprietary fund was understated by \$27,264, which resulted in the net position being overstated by the same amount at 31 August 2017. Additionally, water permit and fee revenue in the proprietary fund statement of revenue, expenses and changes in fund net position, as well as the change in net position was overstated by \$27,264 for the year ended 31 August 2017. Accordingly, a prior period adjustment was recorded to restate the beginning net position.