

**BARTON SPRINGS/EDWARDS AQUIFER
CONSERVATION DISTRICT**

BASIC FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Barton Springs/Edwards Aquifer Conservation District
Austin, Texas


We have audited the accompanying basic financial statements of Barton Springs/Edwards Aquifer Conservation District as of and for the years ended August 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Barton Springs/ Edwards Aquifer Conservation District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Barton Springs/Edwards Aquifer Conservation District as of August 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Barton Springs/Edwards Aquifer Conservation District's basic financial statements. The budgetary comparison schedule on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Figer & Company
February 8, 2011

Barton Springs / Edwards Aquifer Conservation District

Management Discussion and Analysis

Fiscal Year Ending August 31, 2010

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 Assets 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 Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

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

The Statement of Revenues, Expenses, and Changes in Net Assets 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 assets.

Condensed Statement of Net Assets August 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 937,849	\$ 1,294,619	\$ 1,316,351
Capital assets	518,139	455,611	365,127
Other assets	71	71	71
Total assets	<u>\$ 1,456,059</u>	<u>\$ 1,750,301</u>	<u>\$ 1,681,549</u>
Total liabilities	<u>\$ 131,651</u>	<u>\$ 287,014</u>	<u>\$ 112,146</u>
Net assets:			
Invested in capital assets	365,127	365,127	365,127
Unrestricted	<u>959,281</u>	<u>1,098,160</u>	<u>1,204,276</u>
Total net assets	<u>1,324,408</u>	<u>1,463,287</u>	<u>1,569,403</u>
Total liabilities and net assets	<u>\$ 1,456,059</u>	<u>\$ 1,750,301</u>	<u>\$ 1,681,549</u>

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets Years Ended August 31, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 1,395,522	\$ 1,395,239	\$ 1,422,093
Operating expenses	<u>1,536,694</u>	<u>1,514,021</u>	<u>1,512,070</u>
Operating income	<u>(141,172)</u>	<u>(118,782)</u>	<u>(89,978)</u>
Nonoperating revenues (expenses)			
Interest income	2,293	12,666	48,814
Interest expense	<u>0</u>	<u>0</u>	<u>0</u>
Total nonoperating rev/(exp)	<u>2,293</u>	<u>12,666</u>	<u>48,814</u>
Change in net assets	<u>(138,879)</u>	<u>(106,116)</u>	<u>(41,163)</u>
Net assets beginning of year	<u>\$ 1,463,287</u>	<u>\$ 1,569,403</u>	<u>\$ 1,610,566</u>
Net assets end of year	<u>\$ 1,324,408</u>	<u>\$ 1,463,287</u>	<u>\$ 1,569,403</u>

FINANCIAL HIGHLIGHTS OF CHANGES IN OPERATING REVENUES

Permittees' Water Use and Transport (export) fees and City of Austin Assessment fees, net of conservation credits to both, increased slightly (0.65%) in both dollar terms and proportion of total operating revenue, representing 77.44% of total 2010 operating revenue. There continue to be 2 District transport permits, one now for \$82,367 and the other for \$15,500. Transport fees were budgeted for \$124,000 in both FY 2010 and FY 2009, but only a portion of that was actually received, as the full permit was not approved by the Board, and the portion that was approved was prorated as to its fees; the remainder of the permit increase request is still under appeal and should be resolved in FY 2011. Thus, the transport fees realized are \$26,133 less than the budgeted amount of \$124,000.

Grant income budgeted for FY 2010 (\$170,000) was \$90,000 less than what was budgeted for FY 2009 (\$260,000), as one grant wrapped up during the current year and the other one was largely in a holding mode. Actual grant income received in FY 2010 for both the 319(h) and the HCP-2 grants was \$161,551, even slightly less than budgeted. The 319h grant was completed in February, 2010 after an extension request was granted.

All "Other Fees" revenue (derived from sources such as well development fees, well application and inspection fees, annual permit fees, contractual administrative support of the Texas Alliance of Groundwater Districts, Enforcement Fines and Penalties fees of which there was -0- for FY 2009 and FY 2010), was projected to be \$19,500 (a decrease from the \$44,450 projected for FY 2009).

The change in total annual income from FY 2009 to FY 2010 was a slight decrease. Total annual projected income for FY 2010 was \$1,783,140 (\$64,941 less than the \$1,848,081 that was projected for FY 2009).

Investment (interest) income in FY 2010 continues to decrease as a result primarily of the much less favorable money market returns, along with the smaller investment base. Actual investment income received for FY 2010 is \$2,293; actual investment income received for FY 2009 was \$12,666 (\$10,373 less), and was only 47.8% of the \$4,800 projected.

FINANCIAL HIGHLIGHTS OF CHANGES IN OPERATING EXPENSES

Personnel salaries and wages for FY 2010 is \$ 749,321 which is very close (100.3%) to what was budgeted. This is a 6.5% increase from the prior year (FY 2009 salaries and wages expense was \$703,940) that reflects the effect of normal increases in salaries, incentive compensation, and salary-indexed fringe benefits.

Staff tax and benefit-related expenses for FY 2010 is \$116,211 which is 2.4% less than the prior year, but includes a fluctuating accrued vacation expense account that changes monthly that relates to this apparent decrease. Group insurance benefits for FY 2010 are \$103,772, an increase from the prior year by 23.7%, as expected due to the 24% increase in health care premiums.

Directors' compensation for meetings increased slightly (by 1.3% or \$375) over the prior year, but the total expense was still within the legislatively mandated maximum amount of \$9000 per year per director, with all 5 directors currently accepting compensation throughout FY 2010.

Direct expenses associated with the ongoing work of the various programmatic teams (Aquifer Sciences, Education and Community Outreach, Regulatory Programs) are not meaningfully comparable on a year-on-year basis, because the work programs of each vary year to year. These teams' efforts were substantially completed 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 even-numbered years, if and when warranted), the Elections account typically shows large percentage differences from year to year. Similarly, legislative services tend to be biennial with the Texas Legislative Regular Sessions in odd-numbered years, so year-on-year expense changes for these accounts approach 100%. There was a contested director election in FY 2010 but the total expenses were only \$3,795, as the District minimized its cost by contracting for election services during an extensive, broad-ranging local election field.

Professional Services (excluding legal expenses, and excluding professional services specific to team budgets) increased for FY 2010 (by 65.5% from the prior year) to \$53,023, and was 92.4% of what was budgeted. Most of this increase related to information technology enhancements that were billed and paid in FY 2010, as well as the delay in billing those services delivered in the prior year, which caused the FY 2009 expense to be smaller than budgeted.

Legal Services expense in FY 2010 decreased by 46.3% from the prior year, from \$109,387 to \$58,721. There were no new contested cases in FY 2010 that created a larger demand for such services, especially as compared to the immediately prior years.

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 (1) year. Land is not depreciated.

Fixed assets increased in FY 2010 by 13.7% for a total of \$518,139. Westbay monitor well equipment was capitalized and transferred to the Field Equipment category of Fixed Assets from the Aquifer Science team expenses and grant expenses totaling \$107,534.

KEY FACTORS INFLUENCING CHANGES IN CASH FUNDS

The available cash funds (Citibank accounts and TexPool General account, excluding contingency, capital, and reserve funds) at the end of FY 2010 was \$184,319 which is \$14,080 lower than the prior year, but this is attributable to the timing of depositing water use fee payments and their resulting deposits.

For FY 2010, the District transferred \$42,200 (\$41,972 in FY 2009) from its TexPool Capital fund account, and \$160,000 (\$63,784 in FY 2009) from its TexPool Contingency fund account, into its general operating account to fund specific projects and to balance the FY 2010 annual budget.

ANTICIPATED CHANGES

The following events related to financial management either have not occurred yet or have not yet substantially impacted the financial performance of the District, but are expected to be potentially significant in FY 2011:

- * Rule-making associated with newly authorized management zones, which could potentially decrease revenue and increase expenses;
- * Higher lobbying expense in support of an expanded legislative agenda;
- * Legislative services fees;
- * Possible continued higher-than-normal legal expenses associated with at least one ongoing contested case and/or related settlement negotiations, and with the resolution of a lawsuit brought against the District by one of its permittees;
- * Combination of voluntarily reduced water demand during non-drought periods from well-timed rains and of mandated reduced water demand during drought periods that leads to higher than normal conservation credits;
- * Continued use of new Drought Management Fee, policy management, and administration, and increases in new restricted-use capital account;
- * Continued grant efforts for possible saline zone studies and further preliminary desalination efforts in advance of and to qualify for those grant projects; and
- * HCP Continuation/Completion with possible new contractor as required and commitment of District funds beyond the current grant project termination.

BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
STATEMENTS OF NET ASSETS
AUGUST 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 869,407	\$ 1,192,224
Accounts receivable	66,384	101,097
Prepaid expenses	2,058	1,298
Total current assets	937,849	1,294,619
Noncurrent assets		
Capital assets		
Land	165,415	165,415
Building and improvements	227,034	227,034
Office furniture and equipment	54,933	54,933
Field equipment	309,876	202,342
Vehicles	88,918	88,918
	846,176	738,642
Less accumulated depreciation	(328,037)	(283,031)
Total capital assets, net	518,139	455,611
Deposits	71	71
Total noncurrent assets	518,210	455,682
Total assets	1,456,059	1,750,301
LIABILITIES		
Current liabilities		
Accounts payable	52,875	91,042
Conservation credits	35,859	45,642
Compensated absences	42,917	42,421
Deferred revenue	-	107,909
Total current liabilities	131,651	287,014
NET ASSETS		
Invested in capital assets, net of related debt	365,127	365,127
Unrestricted	959,281	1,098,160
Total net assets	\$ 1,324,408	\$ 1,463,287

See accompanying notes to financial statements.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Water permit and other fees	\$ 1,228,051	\$ 1,265,787
Grant revenue	166,281	127,491
Miscellaneous	1,190	1,961
Total operating revenues	<u>1,395,522</u>	<u>1,395,239</u>
OPERATING EXPENSES		
Operational expenses	148,467	152,132
Salaries, wages and compensation	779,096	733,340
Employment taxes, insurance and benefits	220,465	203,414
Professional services	111,745	141,428
Team expenditures	141,546	144,072
Grant expenditures	90,369	104,669
Depreciation	45,006	34,966
Total operating expenses	<u>1,536,694</u>	<u>1,514,021</u>
Operating income	<u>(141,172)</u>	<u>(118,782)</u>
NONOPERATING REVENUES		
Interest revenue	<u>2,293</u>	<u>12,666</u>
Total nonoperating revenues	<u>2,293</u>	<u>12,666</u>
Change in net assets	(138,879)	(106,116)
Net assets beginning of year	<u>1,463,287</u>	<u>1,569,403</u>
Net assets end of year	<u>\$ 1,324,408</u>	<u>\$ 1,463,287</u>

See accompanying notes to financial statements.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water permit and other use fees	\$ 1,136,810	\$ 1,285,376
Grant receipts	174,544	52,844
Payments to suppliers and employees	(440,686)	(345,486)
Payments to employees and benefits	(999,065)	(828,845)
Grant expenses	(90,369)	(104,669)
Other receipts	1,190	1,961
Net cash provided by (used by) operating activities	<u>(217,576)</u>	<u>61,181</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	<u>(107,534)</u>	<u>(125,450)</u>
Net cash used by capital and related financing activities	<u>(107,534)</u>	<u>(125,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	<u>2,293</u>	<u>12,666</u>
Net cash provided by investing activities	<u>2,293</u>	<u>12,666</u>
Net change in cash and cash equivalents	(322,817)	(51,603)
Cash and cash equivalents beginning of year	<u>1,192,224</u>	<u>1,243,827</u>
Cash and cash equivalents end of year	<u>\$ 869,407</u>	<u>\$ 1,192,224</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES		
Operating loss	\$ (141,172)	\$ (118,782)
Adjustments to reconcile operating income to net cash provided by (used by) operating activities:		
Depreciation	45,006	34,966
Change in assets and liabilities:		
Receivables, net	34,713	(29,788)
Prepaid and deferred expenses	(760)	(83)
Accounts payable and accrued expenses	(38,167)	84,583
Conservation credits	(9,783)	19,848
Compensated absences	496	10,281
Deferred revenue	<u>(107,909)</u>	<u>60,156</u>
Net cash provided by (used by) operating activities	<u>\$ (217,576)</u>	<u>\$ 61,181</u>

See accompanying notes to financial statements.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Barton Springs/Edwards Aquifer Conservation District (the District) is a ground-water conservation district created in 1986 by the Texas Water Commission (now the Texas Commission on Environmental Quality), validated in 1987 by the 70th Legislature (Senate Bill 988), and confirmed by the voters on August 8, 1987. The District's statutory authority is Chapter 52 of the Texas Water Code, as amended by the 70th Legislature Senate Bill 988, further amended to reference Chapter 36 of the Texas Water Code upon the repeal of Chapter 52, effective through House Bill 2294 by the 74th Legislature.

The District encompasses approximately 225 square miles and serves southern Travis County, northern Hays County, and portions of southwestern Bastrop and northwestern Caldwell Counties. The District is committed to providing for the conservation, preservation, protection, recharging, and prevention of waste of groundwater of the Barton Springs segment of the Edwards Aquifer.

The enabling legislation creating the District provides that the District may assess fees "on an annual basis, based upon the size of column pipe used in the wells, the production capacity of the well, or actual, authorized, or anticipated pumpage". The District may not assess and collect taxes. The enabling legislation, as amended by House Bill 2294 in the 74th Legislative Session, further provided that the City of Austin can be required to pay a usage fee not exceeding sixty percent of the sum of (1) the total water use fees received from all permitted users and (2) the usage fee of 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 with 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.

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*, 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.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE A – Continued

Basis of Presentation

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 assets, financial position, and cash flows.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at unpaid balances, all of which are considered to be fully collectible. Accordingly, no allowance for doubtful accounts has been recorded.

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 to 30 years
Office furniture and equipment	3 to 10 years
Field equipment	5 to 7 years
Vehicles	5 years

Compensated Absences

The District accrues accumulated unpaid vacation leave and associated employee-related costs when earned by the employee. The liability for accrued leave at August 31, 2010 and 2009 is \$42,917 and \$42,421, respectively.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE A – Continued

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.

Defining Operating Revenues and Expenses

The District's 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. Operating revenues and expenses also include amounts received and spent under the terms of the agreement with Texas Parks and Wildlife Department (see Note H). All other revenues and expenses are reported as nonoperating.

Net Assets

Net assets are divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets – consist of net assets that are restricted by the District's creditors, by the state enabling legislation, by grantors, and by other contributors.
- Unrestricted – all other net assets are reported in this category.

At August 31, 2010 and 2009, the District has no restricted net assets.

Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. During the years ended August 31, 2010 and 2009, the District was under contract with Texas Municipal League Intergovernmental Risk Pool to cover property and general liabilities. In addition, the District purchased commercial insurance to cover commercial crime coverage and public official bonds. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage.

Use of 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 may differ from those estimates.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE B – BUDGETARY CONTROL

The District's Board of Directors adopts an annual budget of anticipated revenues and expenses prior to the beginning of each fiscal year. This budget is prepared on substantially the same basis used to reflect actual revenues and expenses, except that capital outlay is budgeted in addition to depreciation expense and transfers to contingency and reserve funds are budgeted as non-cash disbursements. Amendments to the initial budget are approved by the Board as needed at its regular meetings.

NOTE C – DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The District's cash deposits as of and during the years ended August 31, 2010 and 2009 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The District is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. Among the items that must be addressed in the policy are the following: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, and (7) investment staff quality and capabilities. The Act also determines the types of investments which the District is authorized to invest in. These include: (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. Finally, the Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act.

The District participates in the Texas Local Governmental Investment Pool (TexPool), which is an external investment pool offered to local governments. TexPool is not SEC registered; however, it is regulated by the State Comptroller of Public Accounts. These investments are stated at fair value which is the same as the value of the pool shares. At August 31, 2010 and 2009, the District's investment in TexPool amounted to \$843,316 and \$1,023,334, respectively.

The District is in substantial compliance with the requirements of the Public Funds Investment Act and with local policies.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 165,415	\$ 0	\$ 0	\$ 165,415
Building and improvements	227,034	0	0	227,034
Office furniture and equipment	54,933	0	0	54,933
Field equipment	202,342	107,534	0	309,876
Vehicles	<u>88,918</u>	<u>0</u>	<u>0</u>	<u>88,918</u>
Total capital assets	\$ 738,642	107,534	0	\$ 846,176
Accumulated depreciation	<u>(283,031)</u>	<u>(45,006)</u>	<u>0</u>	<u>(328,037)</u>
Total capital assets, net	<u>\$ 455,611</u>	<u>\$ 62,528</u>	<u>\$ 0</u>	<u>\$ 518,139</u>

NOTE E – 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 the fiscal years ended August 31, 2010 and 2009 amounted to \$35,859 and \$45,642, respectively.

NOTE F – DESIGNATED NET ASSETS

The Board has designated a portion of its net assets as follows:

<u>Designation</u>	<u>Balance at August 31, 2010</u>	<u>Balance at August 31, 2009</u>
Reserve for contingencies	\$ 215,895	\$ 375,175
Reserve for payment of compensated absences	42,517	42,432
Reserve for future capital acquisitions	<u>426,676</u>	<u>467,940</u>
	<u>\$ 685,088</u>	<u>\$ 885,547</u>

Amounts equal to these reserves have been segregated into separate TexPool accounts. Such designations represent management's plans for the use of resources and do not have the same status as restrictions on net assets. Therefore, the reserves may be used by the District at any time, as directed by the Board.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE G – RETIREMENT PLAN

The District provides retirement benefits for all full-time employees who are at least twenty-one years of age and have twelve months of service. The plan, a defined contribution pension plan, is a money purchase pension plan and trust. The District's contributions for the years ended August 31, 2010 and 2009 were \$53,210 and \$51,318, respectively.

As of August 31, 2010, the defined contribution pension plan assets are summarized as follows:

<u>Investment Type</u>	<u>August 31, 2010</u>
Short-term investments	\$ 12,845
Mutual funds – equity	580,404
Mutual funds – fixed income	157,487
Total plan assets	<u>\$ 750,736</u>

During the plan year ended August 31, 2010 twelve of the thirteen persons employed by the District met eligibility requirements and were participants in the Plan. Three participants who terminated prior to September 1, 2006 have account balances in the plan. No persons were receiving survivors' benefits from the plan at any time during the year ended August 31, 2010.

NOTE H – CONTRACT AGREEMENTS

In June 2004, the District entered into a Memorandum of Agreement with the Texas Parks and Wildlife Department (TPWD). The agreement provides that the District will prepare a draft habitat conservation plan and draft environmental impact study or environmental assessment for management of the Edwards Aquifer to address covered endangered species in the Barton Springs area, as well as protection of the water supply. The agreement covered the three-year period ended April 28, 2007. For the years ended August 31, 2010 and 2009, the District recognized \$49,614 and \$0, respectively, in grant revenue from billings to TPWD, contributions from third parties, and donated conservation credits from permittees.

In March 2007, the District entered into an agreement with the Texas Commission on Environmental Quality (TCEQ) to provide services regarding the (i) upgrade of the Antioch Cave recharge facility by adding water quality monitoring equipment and flow management devices and (ii) the evaluation of additional Onion Creek surface water flow control systems. The grant is not to exceed \$558,000 with a grant period of March 29, 2007 through August 31, 2009. TCEQ will reimburse up to \$334,800 contingent upon the District's minimum matching funds or in-kind contributions of \$223,200. For the years ended August 31, 2010 and 2009, the District recognized \$111,937 and \$122,741, respectively, in grant revenue from billings to TCEQ. Expenses incurred by the District for the years ended August 31, 2010 and 2009, excluding payroll and overhead, amounted to \$40,520 and \$77,181, respectively.

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE I – LITIGATION

As a result of a contested-case permitting decision, in which the District Board authorized only a portion of the requested amount of water because the applicant failed to demonstrate a full amount of an alternative water supply as required by the District rules, the applicant City of Kyle is suing the District. The District is vigorously defending itself and believes that it will prevail in the suit on summary judgment, or in a trial and if necessary on appeal. However, even if the District ultimately loses, the financial exposure of the District is small; what the City of Kyle would win is the amount of water that was denied them in the Board's original permitting decision. The City requested attorney fees which may be recoverable within the discretion of the court if Kyle prevails on its claim under the Uniform Declaratory Judgment Act. The District's extraordinary costs associated with the Kyle case will primarily be additional legal fees, and the amount of those legal expenses will depend on how far the case is pursued; these extraordinary costs could range from several thousand to several dozens of thousands of dollars. These fees are recoverable by the District if it prevails. If not, these expenses will be defrayed from current-year operational funds, and if necessary, from the Contingency reserve fund.

NOTE J – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 8, 2011, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**BARTON SPRINGS/EDWARDS AQUIFER CONSERVATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(GAAP Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
OPERATING REVENUES				
Water use fees - permittees	\$ 647,903	\$ 647,903	\$ 451,821	\$ (196,082)
Water use fees - City of Austin	733,077	733,077	733,077	-
Conservation credits	(25,794)	(25,794)	(39,078)	(13,284)
Grant revenue	175,160	175,160	166,281	(8,879)
Other fees	19,500	19,500	82,231	62,731
Miscellaneous	500	500	1,190	690
Total operating revenues	<u>1,550,346</u>	<u>1,550,346</u>	<u>1,395,522</u>	<u>(154,824)</u>
OPERATING EXPENSES				
Operational expenses	174,517	173,820	148,467	25,353
Salaries, wages and compensation	777,954	783,343	779,096	4,247
Employment taxes, insurance and benefits	222,177	251,700	220,465	31,235
Professional services	102,400	119,400	111,745	7,655
Team expenditures	267,700	259,000	141,546	117,454
Grant expenditures	170,000	170,000	90,369	79,631
Depreciation	50,000	50,000	45,006	4,994
Total operating expenses	<u>1,764,748</u>	<u>1,807,263</u>	<u>1,536,694</u>	<u>270,569</u>
Operating income	<u>(214,402)</u>	<u>(256,917)</u>	<u>(141,172)</u>	<u>115,745</u>
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	4,800	4,800	2,293	(2,507)
Transfers to reserves	160,000	202,200	-	(202,200)
Total nonoperating revenues (expenses)	<u>164,800</u>	<u>207,000</u>	<u>2,293</u>	<u>(204,707)</u>
Change in net assets	(49,602)	(49,917)	(138,879)	(88,962)
Net assets beginning of year	<u>1,378,308</u>	<u>1,378,308</u>	<u>1,463,287</u>	<u>-</u>
Net assets end of year	<u>\$1,328,706</u>	<u>\$1,328,391</u>	<u>\$1,324,408</u>	<u>\$ (88,962)</u>