

**BRAZORIA COUNTY GROUNDWATER
CONSERVATION DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2006

**KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

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BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

*Annual Financial Report
For the Year Ended September 30, 2006*

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FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

March 19, 2007

To the Board of Directors
Brazoria County Groundwater Conservation District

We have audited the accompanying financial statements of the governmental activities and the general fund of Brazoria County Groundwater Conservation District (the "District") as of and for the year ended September 30, 2006, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brazoria County Groundwater Conservation District as of September 30, 2006 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Schedule of Revenues, Expenditure and Changes in Fund Balance – Budget and Actual – General Fund on pages 9 through 12 and 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

*Management's Discussion and Analysis
For the Year Ended September 30, 2006*

As directors of Brazoria County Groundwater Conservation District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2006.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$ 191,791 (deficit net assets). This is an increase in deficit of \$ 116,941 from the prior year deficit net assets balance of \$ 74,850. This deficit resulted from conducting elections initiating general governmental and administrative operations prior to initiating charges for fees of office, which began October 1, 2006.
- As of the close of the current fiscal year, the District's governmental fund reported an ending fund balance of \$ -0-. The fund balance is zero for the same reasons for the governmental activities deficit net assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Brazoria County Groundwater Conservation District basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by fees. The *governmental activities* of the District include general government and administration, and groundwater conservation.

The government-wide financial statements can be [found on pages 14 and 15](#) of this report.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

*Management's Discussion and Analysis
For the Year Ended September 30, 2006*

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has only one major fund, which is the general fund, and is reported as a governmental fund.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The fund financial statements can be found on [pages 18 and 19 of this report](#).

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on [pages 21-29 of this report](#).

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. The required supplementary information can be found [on page 32 of this report](#).

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the Brazoria County Groundwater Conservation District, liabilities exceeded assets by \$ 191,791 as of September 30, 2006. Deficit net assets of the District's governmental activities increased by \$ 116,941, from \$ 74,850 to \$ 191,791.

The largest portion of the District's deficit net assets (100%) reflects its liabilities for loans incurred.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

*Management's Discussion and Analysis
For the Year Ended September 30, 2006*

Brazoria County Groundwater Conservation District's Net Assets

	Governmental Activities			
	September 30, 2006	September 30, 2005	Increase (Decrease)	Percent Change
Current and other assets	\$	\$ 97	\$ (97)	(100%)
Capital assets			-0-	0%
Total assets	<u>-0-</u>	<u>97</u>	<u>(97)</u>	<u>(100%)</u>
Current and other liabilities			-0-	0%
Long-term liabilities	<u>191,791</u>	<u>74,947</u>	<u>116,844</u>	<u>156%</u>
Total liabilities	<u>191,791</u>	<u>74,947</u>	<u>116,844</u>	<u>156%</u>
Net Assets:				
Invested in capital assets, net of related debt			-0-	0%
Restricted			-0-	0%
Unrestricted	<u>(191,791)</u>	<u>(74,850)</u>	<u>(116,941)</u>	<u>156%</u>
Total net assets	<u>\$(191,791)</u>	<u>\$(74,850)</u>	<u>\$(116,941)</u>	<u>156%</u>

Governmental Activities: Governmental activities increased the District's deficit net assets by \$ 122,660. No revenues were reported for the year ended September 30, 2006. The following table provides a summary of the District's operations for the years ended September 30, 2006 and September 30, 2005, respectively.

Brazoria County Groundwater Conservation District's Change in Net Assets

	Governmental Activities			
	Year Ended September 30, 2006	Year Ended September 30, 2005	Increase (Decrease)	Percent Change
Revenues:				
Total revenues	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>0%</u>
Expenses:				
General government and administration	<u>109,530</u>	<u>46,829</u>	<u>61,701</u>	<u>132%</u>
Groundwater conservation	<u>7,411</u>	<u>5,372</u>	<u>2,039</u>	<u>40%</u>
Total expenses	<u>116,941</u>	<u>52,201</u>	<u>64,740</u>	<u>124%</u>
Increase (decrease) in net assets	<u>(116,941)</u>	<u>(52,201)</u>	<u>(64,740)</u>	<u>124%</u>
Net assets - October 1,	<u>(74,850)</u>	<u>(22,649)</u>	<u>(52,201)</u>	<u>230%</u>
Net assets - September 30,	<u>\$(191,791)</u>	<u>\$(74,850)</u>	<u>\$(116,941)</u>	<u>156%</u>

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

Management's Discussion and Analysis
For the Year Ended September 30, 2006

Financial Analysis of the District's Funds

As noted earlier, the Brazoria County Groundwater Conservation District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental fund reported a fund balance of \$ -0-.

General Fund Budgetary Highlights. The District did not enact a formal budget for the year ended September 30, 2006. Consequently actual expenditures exceeded budget by \$ 121,189 and proceeds from loan advances exceeded budget by \$ 121,092.

Debt Administration

At the end of the current fiscal year, the District had a total debt of \$ 191,791, which, comprises loan received from Brazoria County and significant vendors. These loans will be retired with fee revenues.

	Governmental Activities			
	September 30, 2006	2005	Increase (Decrease)	Percent Change
Loans	\$ <u>191,791</u>	\$ <u>74,947</u>	\$ <u>116,844</u>	<u>156%</u>

Economic Factors and Next Year's Budgets and Rates

The annual budget is the means by which District Director's set the direction of the District, and allocates its resources.

In considering the budget for FY 2007, District Director's considered the following factors:

- Estimated fee revenues of \$ 277,048.
- Employee costs of \$ 47,860.
- Consultant costs of \$ 92,500.
- Election expenses of \$ 30,000.
- Debt service (repayment of loans payable) of \$ 61,088.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Directors, 111 E. Locust Street, Building A-29, Suite 290, Angleton, Texas, 77515.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
September 30, 2006

EXHIBIT A-1
Page 1 of 1

	Total Governmental Activities
ASSETS	
Total assets	\$ <u>-0-</u>
LIABILITIES	
Noncurrent Liabilities:	
Due within one year	64,217
Due in more than one year	<u>127,574</u>
Total liabilities	<u>191,791</u>
NET ASSETS	
Unrestricted	(<u>191,791</u>)
Total net assets	\$(<u><u>191,791</u></u>)

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

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT B-1
Page 1 of 1

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets Primary Government</u>
		<u>Total Governmental Activities</u>
GOVERNMENTAL ACTIVITIES:		
General government and administration	\$ 109,530	\$(109,530)
Groundwater conservation	<u>7,411</u>	<u>(7,411)</u>
Total governmental activities	<u>\$ 116,941</u>	(116,941)
GENERAL REVENUES		
Total general revenues		<u>-0-</u>
Change in net assets		(116,941)
Net assets (deficit) - beginning		<u>(74,850)</u>
Net assets (deficit) - ending		<u>\$(191,791)</u>

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

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FUND FINANCIAL STATEMENTS

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2006

EXHIBIT C-1
Page 1 of 1

	General Fund
ASSETS	
Total assets	\$ <u>-0-</u>
LIABILITIES AND FUND BALANCES	
Liabilities	\$
Fund balance	<u> </u>
Total liabilities and fund balances	\$ <u>-0-</u>
Total fund balances – governmental funds balance sheet (C-1)	\$ -0-
<p>Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:</p>	
Payables for loan principal are not reported in the funds.	(<u>191,791</u>)
Net assets of governmental activities – statement of net assets (A-1)	\$(<u>191,791</u>)

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

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(GENERAL FUND)
Year Ended September 30, 2006

EXHIBIT C-2
Page 1 of 1

	<u>Total Governmental Funds</u>
REVENUES	
Total revenues	\$ <u>-0-</u>
EXPENDITURES	
Current:	
General Government and Administration:	
Legal	75,348
Consultants	20,813
Legal notices	926
Printing	12,343
Insurance - bonds	100
Groundwater Conservation:	
Consultants	7,411
Debt Service:	
Principal	<u>4,248</u>
Total expenditures	<u>121,189</u>
Excess (deficiency) of revenues over expenditures	<u>(121,189)</u>
OTHER FINANCING SOURCES (USES)	
Proceeds from loan advances	<u>121,092</u>
Total other financing sources and (uses)	<u>121,092</u>
Net changes in fund balances	(97)
Fund balances- beginning	<u>97</u>
Fund balances-ending	\$ <u><u>-0-</u></u>
Net change in fund balances – total governmental funds (C-2)	\$(97)
<p>Amounts reported for <i>governmental activities</i> in the statement of activities (B-1) are different because:</p>	
<p>Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net assets.</p>	
The fund statements reported \$ 121,092 in loan proceeds.	(121,092)
<p>Repayment of long-term debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the governmental activities statement of net assets. The fund Statement reported \$ 4,248 in loan principal payments.</p>	
	<u>4,248</u>
Change in net assets of governmental activities (B-1)	<u><u>\$(116,941)</u></u>

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

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BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

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BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District was formed on September 1, 2003 by the 78th Legislature of the State of Texas in House Bill No. 3602 (the "Act"). Pursuant to the Act, the Board of Directors of the District has the permitting and general management powers granted under Chapter 36 of the Texas Water Code. Section 36.101 of the Texas Water Code authorizes a groundwater conservation district to make and enforce rules to provide for conserving, preserving, protecting, and recharging of the groundwater or of a groundwater reservoir or its subdivisions in order to control subsidence or prevent waste of groundwater and to carry out the powers and duties provided by Chapter 36 of the Texas Water Code. The District board, a five-member elected group, is the level of government that serves to provide groundwater conservation within Brazoria County, Texas.

Reporting Entity

The elected Board of Directors has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 14, "The Reporting Entity." There are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report financial information on all of the activities of the primary government. The District maintains one fund (General Fund), therefore, there are no interfund activities. The *governmental activities* are supported by fees and loans. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as *general revenues*. The District had no program or general revenues for the year ended September 30, 2006.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Fees are recognized as revenues in the year for which they are charged. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues from local sources consist primarily of fees. Fee revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and the unrestricted resources as needed.

The District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. The major revenue source is fees (application, production, export and other administrative). Expenditures include all costs associated with the daily operations of the District. The District has only one fund, the general fund.

Budgetary Data

The budget law of the State of Texas provides that amounts budgeted for current expenditures from the various funds of the District shall not exceed the balances in the funds, plus the anticipated revenues for the current year. The legal level of budgetary control is at the functional level (Current Expenditures: General Government and Administration and Groundwater Conservation, Capital Outlay, and Debt Service) of each fund. Any expenditures, which alter the total budgeted amounts of a fund must be approved by the Board of Directors, and the budget amended. Budgets are adopted on a basis consistent with generally accepted accounting principles.

During the year ended September 30, 2006, the District Board of Directors did not enact a formal budget. All payments were approved and estimated expenditures were estimated based on available cash, provided by Brazoria County for start-up cash flow.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Fees

Section 3.31 of the District's Rules authorizes the Board of Directors of the District to establish application fees, production fees, export fees and other administrative fees. Beginning October 1, 2006, each well permit holder shall be responsible for reading the meter which measures the amount of water produced by each permitted well at the end of each month. Each well permit holder shall also be responsible for measuring the amount of water exported outside the District's boundaries during the course of each month. Each well permit holder shall accurately report such production and export measurements to the District on reporting forms provided by the District. Failure to make such production and export measures and report the same to the District shall be a violation of the District's rules. The District shall have the right to audit the production and export measurements submitted by the well permit holder by reading the meter at each permitted well. Failure to maintain meters for accurate reporting shall be a violation of the District's rules. All fees must be paid by check or money order. No cash is accepted. Production fees and export fees shall be calculated on the form provided by the District and shall be delivered by the well permit holder to the District with the monthly production and/ or export fees. Application fees shall be submitted with the permit application. This process is referred to as self-reporting. The validity of any permit is contingent upon payment of any applicable application, export or production fee. Failure to make complete and timely payments of a fee will automatically result in a one-time late payment penalty of ten (10) percent of the amount not paid. Failure to make complete and timely payment may also result in the Board declaring the respective well permit void.

The District adopted the following fee schedule effective October 1, 2006:

Permit Application Fees. The District charges well permit application fees of \$ 100 for one-year permits, \$ 175 for two-year permits, and \$ 250 for three-year permits.

Production Fees. A production fee of \$ 0.03 per 1,000 gallons of groundwater produced. Such production fee shall be assessed against all groundwater produced by permitted wells located in the District for all uses other than personal or agricultural uses or to otherwise benefit the land on which the well is located. The production fee is due by the last day of the month following the month for which production fee was calculated.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Export Fees. An export fee of \$ 0.015 per 1,000 gallons of water exported outside of the District boundaries. Such export fee shall be assessed in addition to the District's production fee. The export fee is due by the last day of the month following the month for which export fee was calculated.

No fees were reported during the year ended September 30, 2006.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in conjunction with resources that have been received, but not yet earned (such as permit fees for more than one period). The District had no deferred revenues at September 30, 2006.

Long-Term Debt

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Debt payable is reported net of the applicable debt premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net assets, as presented in the government-wide Statement of Net Assets, are reported when constraints placed on the use of net assets are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 2. NEW PRONOUNCEMENTS

In November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries". This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004. This statement was implemented and it did not have an impact on the District's financial statements.

GASB No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," was issued May 2004 and establishes uniform financial reporting by state and local government entities for Other Postemployment Benefit plans. This statement provides standards for measurement, recognition, and display of the assets, liabilities and where applicable, net assets and changes in net assets of such funds and for related disclosures. This statement is effective for periods beginning after December 15, 2007. As the District has no OPEB plans, this statement will not apply to the District.

In May 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1". This statement amends the portions of NCGA statement 1, "Governmental Accounting and Financial Reporting Principles", that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, and required supplementary information to assess the economic condition of a government. This statement is effective for periods beginning after June 15, 2005. This statement was implemented and did not have a material impact on the District's financial statements.

GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. As the District has no OPEB plans, this statement will not apply to the District.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the District's financial statements.

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. This statement is effective for periods beginning after June 15, 2005. As the District does not have any employees or termination benefits, the implementation of this statement did not have a material impact on the District's financial statements.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 3. DEPOSITS AND INVESTMENTS

The District contracts with Brazoria County to provide accounting services. As part of this agreement, Brazoria County maintains accounting records for the District as well as shared cash account as an agency fund for the District. This agency fund cash account is covered by the same depository agreement and pledged securities maintained by Brazoria County.

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures

The District had no cash and cash equivalents, current investments, or non-current investments at September 30, 2006.

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the District's depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

Investments

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

The District held no investments at or for the year ended September 30, 2006. Further, as of September 30, 2006, the District had not adopted an investment policy.

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 4 - LONG-TERM DEBT

Loans Payable

Beginning on September 29, 2005, Brazoria County advanced funds in the amount of \$ 55,800 to the Brazoria County Groundwater Conservation District to provide initial cash flow to organize the entity. During the year ended September 30, 2006, the County advanced an additional \$ 21,855 bringing the total to \$ 77,655 at September 30, 2006. The District has agreed to pay back Brazoria County over a five-year period beginning October 1, 2006 and ending September 30, 2011, without interest. Repayment is also based upon the collection of available revenues.

From the inception of the District, two principal vendors have provided legal and consulting services to the District without expectation of current payment. As of September 30, 2005, these vendors had performed services worth \$ 74,373 and had been paid \$ 55,225, leaving a balance due of \$ 19,148. During the year ended September 30, 2006, the District paid \$ 4,248 of the previous balance owed and received unpaid services worth \$ 99,236, leaving a balance due of \$ 114,136. The District has agreed to pay back the vendors over a two-year (\$ 28,454) and a three-year period (\$ 91,401), beginning October 1, 2006 and ending September 30, 2008 and September 30, 2009, without interest, respectively. Repayment is also based upon the collection of available revenues.

The District anticipates the ability to fully repay these loans based on collections of fee revenue which began effective October 1, 2006.

Loan transactions for the year ended September 30, 2006 were as follows:

Loans outstanding, October 1, 2005	\$ 74,947
Issued	121,092
Maturities	<u>(4,248)</u>
Loans outstanding, September 30, 2006	<u>\$ 191,791</u>

The following is a summary of loan requirements by year as of September 30, 2006:

<u>Year Ending</u> <u>September 30.</u>	<u>Principal</u> <u>Requirement</u>
2007	\$ 64,216
2008	56,197
2009	40,316
2010	15,531
2011	<u>15,531</u>
	<u>\$ 191,791</u>

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 4 - LONG-TERM DEBT - (Continued)

Changes in Outstanding Debt

Transactions for the year ended September 30, 2006 are summarized as follows:

	<u>Balance 10-01-05</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09-30-06</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
Loans payable	\$ <u>74,947</u>	\$ <u>121,092</u>	\$ <u>4,248</u>	\$ <u>191,791</u>	\$ <u>64,216</u>
Total	\$ <u>74,947</u>	\$ <u>121,092</u>	\$ <u>4,248</u>	\$ <u>191,791</u>	\$ <u>64,216</u>

NOTE 5 - CONTINGENCIES

The District is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and in the opinion of the District management would not materially affect the financial position of the District at September 30, 2006.

NOTE 6 - SUBSEQUENT EVENTS

Subsequent to September 30, 2006, the District began, for the first time, to assess fees of office and the Directors enacted a budget for the year ended September 30, 2007. Further, the District employed an Administrative Assistant and an Administrative Consultant to oversee the operations of the District. The District also contracted with Brazoria County for office space and accounting services.

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REQUIRED SUPPLEMENTAL INFORMATION

BRAZORIA COUNTY GROUNDWATER CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
Year Ended September 30, 2006

EXHIBIT D-1
Page 1 of 1

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Total revenues	\$ -0-	\$ -0-	\$ -0-	\$ -0-
EXPENDITURES				
Current:				
General Government and Administration:				
Legal			75,348	(75,348)
Consultants			20,813	(20,813)
Legal notices			926	(926)
Printing			12,343	(12,343)
Insurance - bonds			100	(100)
Groundwater Conservation:				
Consultants			7,411	(7,411)
Debt Service:				
Principal			4,248	(4,248)
Total expenditures	-0-	-0-	121,189	(121,189)
Excess (deficiency) of revenues over expenditures	-0-	-0-	(121,189)	(121,189)
OTHER FINANCING SOURCES (USES)				
Proceeds from loan advances			121,092	(121,092)
Total other financing sources and (uses)	-0-	-0-	121,092	(121,092)
Net changes in fund balances	-0-	-0-	(97)	(97)
Fund balances – beginning	97	97	97	-0-
Fund balances – ending	<u>\$ 97</u>	<u>\$ 97</u>	<u>\$ -0-</u>	<u>\$ (97)</u>

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