

**BASTROP COUNTY WATER
CONTROL AND IMPROVEMENT
DISTRICT NO. 2**

**Financial Statements and
Supplemental Information as of and for the
Year Ended December 31, 2013 and
Independent Auditors' Report**



BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS

COUNTY OF BASTROP

I, John S. Creamer, JR
(Name of Duly Authorized District Representative)

of the BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 12th day of May, 20 14, its annual audit report for the fiscal year ended December 31, 2013 and that copies of the annual audit report have been filed in the District office, located at 106 Conference Dr., Bastrop, TX 78602.

The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Texas Water Code.

Date: 5/12, 20 14. By: [Signature]
(Signature of District Representative)
John S. Creamer, JR, President
(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 12th day of May, 20 14.

[Signature]
(Signature of Notary)

(SEAL)

Lisa D. Patterson
(Printed Name of Notary)

My Commission Expires On: _____
Notary Public in and for the State of Texas.





MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

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Austin, TX 78701

Round Rock: 303 East Main Street
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Bastrop County Water Control and Improvement District No. 2:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Bastrop County Water Control and Improvement District No. 2 (the "District"), as of and for the year ended December 31, 2013, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' judgment, 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 entity'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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"
This firm is not a CPA firm*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As described in Note 11 to the financial statements, the District's government-wide and fund financial statements as of and for the year ended December 31, 2012 have been restated to correct certain misstatements. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 5 through 8 and pages 26 and 27, respectively, 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 inquiries 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Commission on Environmental Quality (the "TCEQ") supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The TCEQ supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the TCEQ supplemental information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maxwell Socha + Ritter LLP

Austin, Texas
April 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

Management's Discussion and Analysis For the Year Ended December 31, 2013

As management of Bastrop County Water and Improvement District No. 2 (the "District"), we provide readers of the District financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements that follow.

The District accounts for water and wastewater services using Proprietary Funds. The District accounts for stand-by fees and road construction and maintenance using Special Revenue Funds. The government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

Financial Highlights

- The District's total net position was approximately \$5.3 million at December 31, 2013.
- During the year, the District generated approximately \$2.4 million in total revenues.
- The total expenses in the Proprietary Funds for the District's water and wastewater operations were approximately \$1.4 million as of December 31, 2013. Total stand-by and road construction and maintenance expenses, which are accounted for in the Special Revenue Funds, were approximately \$492,000.

Using this report

This report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 and 10). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Governmental fund financial statements (starting on page 11) report the District's operations in more detail than the government-wide statements by providing information about the District's governmental funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources.

Proprietary fund financial statements (starting on page 13) are considered to operate similar to a business enterprise. These statements present a longer-term view of the property and debt obligations and other matters related to the District's water and wastewater operations.

The Notes to Basic Financial Statements (starting on page 16) provide narrative explanations or additional data that are an integral part for full disclosure in the government-wide statements or the fund financial statements.

The Required Supplemental Budgetary Schedules (pages 26 and 27) are required schedules for the major special revenue funds of the District and provide a comparison of actual results to original and amended budgeted amounts.

The Texas Commission on Environmental Quality ("TCEQ") Supplemental Schedules (starting on page 28) provide additional information and are required to be presented by the TCEQ.

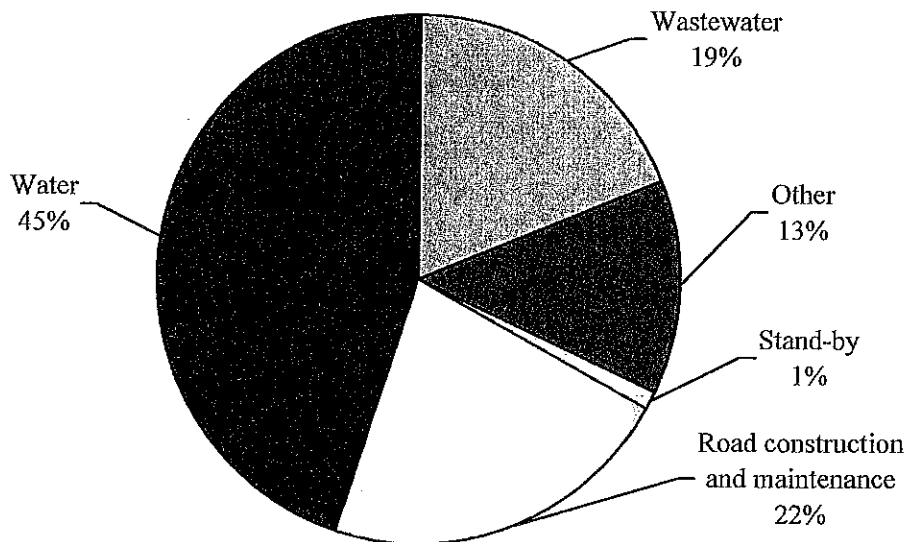
Financial Analysis of the District as a Whole

Net position - The District's combined net position was \$5.2 million as of December 31, 2013. See additional analysis below:

The District's Net Position (in thousands of dollars)							
	Governmental Activities		Business-type Activities		Total		Total % Change
	2013	2012	2013	2012	2013	2012	
Current and other assets	\$ 913	767	975	642	1,888	1,409	34.0%
Capital and non-current assets	1,981	2,029	2,137	2,080	4,118	4,109	0.2%
Total Assets	2,894	2,796	3,112	2,722	6,006	5,518	8.8%
Current liabilities	12	7	415	403	427	410	4.1%
Non-current liabilities	-	-	320	365	320	365	(12.3%)
Total Liabilities	12	7	735	768	747	775	(3.6%)
Net investment in capital assets	1,981	2,029	1,772	1,676	3,753	3,705	1.3%
Restricted for debt service	-	-	65	65	65	65	-
Unrestricted, as restated	901	760	540	213	1,441	973	48.1%
Total Net Position, as restated	\$2,882	2,789	2,377	1,954	5,259	4,743	10.9%

Change in net position - The District's combined net position increased by approximately \$516,000 for the year ended December 31, 2013. See additional analysis (including the breakout of revenue) below:

Sources of Revenue for the Year Ended December 31, 2013



The District's Change in Net Position (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total % Change
	2013	2012	2013	2012	2013	2012	
Revenues:							
Program, as restated	\$ 569	\$ 414	1,547	1,557	2,116	1,971	7.4%
General	16	11	315	11	331	22	1,404.5%
Total Revenues	585	425	1,862	1,568	2,447	1,993	22.8%
Expenses:							
Stand-by	71	46	-	-	71	46	54.3%
Road construction and maintenance	421	494	-	-	421	494	(14.8%)
Water	-	-	945	977	945	977	(3.3%)
Wastewater	-	-	494	521	494	521	(5.2%)
Total Expenses	492	540	1,439	1,498	1,931	2,038	(5.3%)
Change in net position, as restated	\$ 93	\$ (115)	423	70	516	(45)	1,246.7%

Capital Assets

Capital assets totaled approximately \$4.1 million for the year ended December 31, 2013 with approximately \$2.0 million attributable to the Special Revenue Funds, made up primarily of road improvements, and approximately \$2.1 million attributable to the Proprietary Funds, made up primarily of water and wastewater improvements. More detailed information about the District's capital assets is presented in the Notes to Basic Financial Statements.

	The District's Capital Assets	
	2013	2012
Land	\$ 131,702	\$ 131,702
Water and wastewater improvements	4,152,423	3,827,426
Road improvements	3,623,220	3,550,428
Building and improvements	400,251	400,251
Machinery and equipment	448,344	425,034
Vehicles	192,613	192,613
Furniture and fixtures	33,364	29,239
Subtotal	8,981,917	8,556,693
Accumulated depreciation	(4,863,735)	(4,447,102)
Total	\$ 4,118,182	\$ 4,109,591

Long-Term Debt

The District owes \$365,000 in water system revenue bonds to the Texas Water Development Board as of December 31, 2013. During the year, the principal balance on all long-term debt was reduced by \$40,000. More detailed information about the District's long-term debt is presented in the Notes to Basic Financial Statements.

Budget Discussion

At December 31, 2013, compared to budget the Stand-By Fund finished the year behind budget by approximately \$24,000, primarily due to higher professional fee expenditures compared to budget. At December 31, 2013, the Road Construction and Maintenance Fund finished the year ahead of budget by approximately \$44,000 primarily due to lower expenditures for contract services and consumable supplies and materials, along with lower office related and other expenditures, offset by an increase in the allowance for uncollectible accounts and higher professional fee expenditures.

2011 Wildfires

The District experienced significant process and property damage issues due to the catastrophic wildfires that swept through the District's service area in September 2011. Assessments as to final damage are still in progress. Management expects that the financial exposure to damage will be insignificant as the Federal Emergency Management Agency and the Texas Municipal League (the District's insurance carrier) will provide coverage.

Currently Known Facts, Decisions, or Conditions

For the year ended December 31, 2014, the District has budgeted an increase in fund balance approximately \$6,000 for the Stand-By Fund. For the year ended December 31, 2014, the District has budgeted for an increase in fund balance for the Road Construction and Maintenance Fund totaling approximately \$59,000. For the year ended December 31, 2014, the District had budgeted expenses over revenues of approximately \$186,000, a decrease in net position, for its Water and Wastewater Proprietary Funds.

Requests for Information

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District at P. O. Box 708, Bastrop, Texas 78602.

BASIC FINANCIAL STATEMENTS

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

GOVERNMENT-WIDE STATEMENT OF NET POSITION DECEMBER 31, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	STATEMENT OF NET POSITION
ASSETS:			
Cash and cash equivalents	\$ 542,450	784,142	1,326,592
Investments:			
Unrestricted	-	150,000	150,000
Restricted	-	65,000	65,000
Receivables:			
Assessments receivable, net	325,693	-	325,693
Service accounts receivable, net	-	19,671	19,671
Internal balances	45,106	(45,106)	-
Utility deposits	-	920	920
Capital assets (net of accumulated depreciation):			
Land	-	131,702	131,702
Water and wastewater improvements	-	1,669,470	1,669,470
Road improvements	1,951,470	-	1,951,470
Building and improvements	-	243,439	243,439
Machinery and equipment	29,583	81,195	110,778
Vehicles	-	7,198	7,198
Furniture and fixtures	-	4,125	4,125
Total assets	<u>\$ 2,894,302</u>	<u>3,111,756</u>	<u>6,006,058</u>
LIABILITIES:			
Accounts payable	\$ 11,799	182,933	194,732
Accrued salaries	-	11,990	11,990
Other accrued liabilities	-	15,020	15,020
Customer deposits	-	122,900	122,900
Accrued vacation leave	-	36,838	36,838
Long-term liabilities:			
Due within one year	-	45,000	45,000
Due after one year	-	320,000	320,000
	<u>11,799</u>	<u>734,681</u>	<u>746,480</u>
NET POSITION:			
Net investment in capital assets	1,981,053	1,772,129	3,753,182
Restricted for debt service	-	65,000	65,000
Unrestricted	901,450	539,946	1,441,396
Total net position	<u>\$ 2,882,503</u>	<u>2,377,075</u>	<u>5,259,578</u>

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

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
			<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:					
Stand-By	\$ 70,704	26,460	(44,244)	-	(44,244)
Road construction and maintenance	421,437	542,873	121,436	-	121,436
Total governmental activities	\$ 492,141	569,333	77,192	-	77,192
Business-type activities:					
Water	\$ 944,553	1,092,441	-	147,888	147,888
Wastewater	494,035	454,677	-	(39,358)	(39,358)
Total business-type activities	\$ 1,438,588	1,547,118	-	108,530	108,530
General revenues and other:					
Rental income			\$ -	9,200	9,200
Interest and other			16,040	71,025	87,065
Insurance recoveries			-	234,262	234,262
Total general revenues and other			16,040	314,487	330,527
Change in net position			93,232	423,017	516,249
Net position, beginning, as restated			2,789,271	1,954,058	4,743,329
Net position, ending			\$ 2,882,503	2,377,075	5,259,578

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

FUND FINANCIAL STATEMENTS

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

BALANCE SHEET - GOVERNMENTAL FUNDS DECEMBER 31, 2013

	STAND-BY FUND	ROAD CONSTRUCTION AND MAINTENANCE FUND	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET POSITION
ASSETS:					
Cash and cash equivalents	\$ 24,207	518,243	542,450	-	542,450
Assessments receivable, net	35,400	290,293	325,693	-	325,693
Due from Proprietary Fund	55,110	-	55,110	-	55,110
Capital assets (net of accumulated depreciation):					
Road improvements	-	-	-	1,951,470	1,951,470
Machinery and equipment	-	-	-	29,583	29,583
Total assets	<u>\$ 114,717</u>	<u>808,536</u>	<u>923,253</u>	<u>1,981,053</u>	<u>2,904,306</u>
LIABILITIES:					
Accounts payable	\$ 1,981	9,818	11,799	-	11,799
Due to Proprietary Fund	-	10,004	10,004	-	10,004
Total liabilities	<u>1,981</u>	<u>19,822</u>	<u>21,803</u>	<u>-</u>	<u>21,803</u>
FUND BALANCES-					
Assigned fund balance	<u>112,736</u>	<u>788,714</u>	<u>901,450</u>	<u>(901,450)</u>	<u>-</u>
Total fund balances	<u>112,736</u>	<u>788,714</u>	<u>901,450</u>	<u>(901,450)</u>	
Total liabilities and fund balances	<u>\$ 114,717</u>	<u>808,536</u>	<u>923,253</u>		
Net position:					
Net investment in capital assets				\$ 1,981,053	
Unrestricted				<u>901,450</u>	
Total net position				<u>\$ 2,882,503</u>	

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

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

	STAND-BY FUND	ROAD CONSTRUCTION AND MAINTENANCE FUND	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET POSITION
EXPENDITURES:					
Service operations:					
Professional fees	\$ 51,898	66,089	117,987	-	117,987
Bad debt	-	73,540	73,540	-	73,540
Salary allocation	-	45,547	45,547	-	45,547
Consumable supplies and materials	-	30,307	30,307	-	30,307
Office	10,586	19,443	30,029	-	30,029
Contract services	-	18,202	18,202	-	18,202
Repairs and maintenance	4,731	3,810	8,541	-	8,541
Other	3,489	20,393	23,882	-	23,882
Capital outlay	-	96,102	96,102	(96,102)	-
Depreciation expense	-	-	-	144,106	144,106
Total expenditures/expenses	70,704	373,433	444,137	48,004	492,141
REVENUES-					
Program revenues:					
Standby charges	26,460	-	26,460	-	26,460
Road assessment fees	-	542,873	542,873	-	542,873
Interest and other	5,622	10,418	16,040	-	16,040
Total program revenues	32,082	553,291	585,373	-	585,373
Total revenues	32,082	553,291	585,373	-	585,373
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(38,622)	179,858	141,236	(141,236)	-
Changes in net position				93,232	93,232
FUND BALANCES/ NET POSITION:					
Beginning of year, as restated	151,358	608,856	760,214	2,029,057	2,789,271
End of year	\$ 112,736	788,714	901,450	1,981,053	2,882,503

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

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2013**

	WATER FUND	WASTEWATER FUND	TOTAL PROPRIETARY FUNDS
ASSETS:			
Cash and cash equivalents	\$ 644,115	140,027	784,142
Investments:			
Unrestricted	150,000	-	150,000
Restricted	65,000	-	65,000
Service accounts receivables, net	10,649	9,022	19,671
Due from other funds	117,096	-	117,096
Utility deposits	920	-	920
Capital assets (net of accumulated depreciation):			
Land	117,177	14,525	131,702
Water and wastewater improvements	1,151,020	518,450	1,669,470
Building and improvements	243,439	-	243,439
Machinery and equipment	41,859	39,336	81,195
Vehicles	2,399	4,799	7,198
Furniture and fixtures	4,125	-	4,125
Total assets	<u>\$ 2,547,799</u>	<u>726,159</u>	<u>3,273,958</u>
LIABILITIES:			
Accounts payable	\$ 25,003	157,930	182,933
Accrued salaries	11,990	-	11,990
Other accrued liabilities	14,824	196	15,020
Customer deposits	122,900	-	122,900
Due to other funds	55,110	107,092	162,202
Accrued vacation leave	36,838	-	36,838
Long-term liabilities:			
Due within one year	45,000	-	45,000
Due after one year	320,000	-	320,000
Total liabilities	<u>631,665</u>	<u>265,218</u>	<u>896,883</u>
NET POSITION:			
Net investment in capital assets	1,195,019	577,110	1,772,129
Restricted for debt service	65,000	-	65,000
Unrestricted	656,115	(116,169)	539,946
Total net position	<u>\$ 1,916,134</u>	<u>460,941</u>	<u>2,377,075</u>

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

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS YEAR ENDED DECEMBER 31, 2013

	WATER FUND	WASTEWATER FUND	TOTAL PROPRIETARY FUNDS
OPERATING REVENUES:			
Charges for services	\$ 1,004,816	347,626	1,352,442
Tap fees	77,975	106,827	184,802
Reconnect fees	7,750	-	7,750
Other	1,900	224	2,124
Total operating revenues	1,092,441	454,677	1,547,118
EXPENSES:			
Service operations:			
Payroll and related expenses	443,212	-	443,212
Operations	129,642	230,575	360,217
Repairs and maintenance	52,002	76,650	128,652
Consumable supplies and materials	45,990	28,227	74,217
Professional services	43,941	12,453	56,394
Office	44,275	5,606	49,881
Contract services	500	1,000	1,500
Other	20,350	8,148	28,498
Depreciation	141,151	131,376	272,527
Debt service-			
Interest and fiscal charges	23,490	-	23,490
Total expenses	944,553	494,035	1,438,588
Net operating income (loss)	147,888	(39,358)	108,530
NON-OPERATING REVENUES:			
Rental income	9,200	-	9,200
Interest and other	3,019	68,006	71,025
Insurance recoveries	-	234,262	234,262
Total non-operating revenues	12,219	302,268	314,487
CHANGE IN NET POSITION	160,107	262,910	423,017
NET POSITION:			
Beginning of year	1,756,027	198,031	1,954,058
End of year	\$ 1,916,134	460,941	2,377,075

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

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS DECEMBER 31, 2013

	WATER FUND	WASTEWATER FUND	TOTAL PROPRIETARY FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,090,307	454,286	1,544,593
Cash paid to employees and suppliers	(766,563)	(409,762)	(1,176,325)
Net cash provided by operating activities	<u>323,744</u>	<u>44,524</u>	<u>368,268</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Net effect of interfund balances	75,494	(74,929)	565
Increase in accrued vacation leave	16,624	-	16,624
Net cash provided by (used in) noncapital financing activities	<u>92,118</u>	<u>(74,929)</u>	<u>17,189</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal payments on notes payable	(40,000)	-	(40,000)
Insurance recoveries	-	234,262	234,262
Net cash provided by (used in) capital and related financing activities	<u>(40,000)</u>	<u>234,262</u>	<u>194,262</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(150,000)	-	(150,000)
Purchases of capital assets	(176,347)	(152,775)	(329,122)
Rental income	9,200	-	9,200
Interest and other income	3,019	68,006	71,025
Net cash used in investing activities	<u>(314,128)</u>	<u>(84,769)</u>	<u>(398,897)</u>
Net change in cash and cash equivalents	61,734	119,088	180,822
Cash and cash equivalents, beginning of the year	582,381	20,939	603,320
Cash and cash equivalents, end of year	<u>\$ 644,115</u>	<u>140,027</u>	<u>784,142</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 147,888	(39,358)	108,530
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	141,151	131,376	272,527
Provision for uncollectible accounts	229	-	229
Increase in service accounts receivables	(2,363)	(391)	(2,754)
Increase (decrease) in accounts payables	11,300	(45,829)	(34,529)
Increase (decrease) in accrued salaries and other accrued liabilities	9,089	(1,274)	7,815
Increase in customer deposits	16,450	-	16,450
Net cash provided by operating activities	<u>\$ 323,744</u>	<u>44,524</u>	<u>368,268</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bastrop County Water Control and Improvement District No. 2 (the "District") was created September 23, 1985 by the Commission's Court of Bastrop County, Texas, under Chapter 51 of the Texas Water Code. The Board of Directors (the "Board") of the District held their first meeting on October 7, 1985. The original major system assets of the District were awarded to the District by judicial order in July 1986. The District has operated the system since that date.

In 1989, House Bill No. 2341 was enacted giving the District authority to administer a road utility district. As created under Article III, Section 52, of the Texas Constitution, the District may provide for the construction, maintenance, and operation of macadamized, graveled, or paved roads and turnpikes, or work facilities or improvements in aid of those roads and turnpikes, inside or outside the boundaries of the District. The Board may issue bonds on a vote of a two-thirds majority of the voters of the District, or the territory to be affected by the bonds, voting at an election called and held for that purpose. The act restricts the size of potential bond issues and fees which can be assessed. House Bill No. 2341, as enacted, expired September 1, 1991.

In 1991, House Bill No. 2902 was enacted. The bill placed certain restrictions on the District's use of road assessment fees. Through August 31, 1991, the assessments collected could be used for maintenance and new construction. Beginning September 1, 1991, all road assessment fees are to be used for new construction only and administrative expenses at no more than 10% of funds collected. House Bill No. 2902 expired September 1995. House Bill No. 706 was submitted in January 1997 and approved on April 28th, 1997. House Bill No. 706 increased allowed percentages for administrative fees to 15%.

The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board which has been elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB") Statement No. 14 since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District's reporting entity.

Government-Wide and Fund Financial Statements - The government-wide financial statements (ie. the statement of net position and the statement of activities) report information on all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, supported by stand-by and road construction and maintenance assessments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for water and wastewater services.

The statement of activities demonstrates the degree to which the expenses are offset by program revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as 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. Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Major revenue sources considered susceptible to accrual include interest income.

The District reports the following major governmental funds:

The Stand-By Fund includes charges to current customers within the District to help fund and pay for general operations of the District. It is a budgeted fund.

The Road Construction and Maintenance Fund includes charges to current customers within the District to help fund and pay specifically for road construction and maintenance within the District. It is a budgeted fund.

Additionally, the District reports the following fund type:

The Proprietary Funds (consisting of the Water Fund and the Wastewater Fund) are enterprise funds used to account for the operations of the District's water and wastewater services and operations, including construction and capital improvements and maintenance to the District's water, wastewater, and related infrastructure assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgets and Budgetary Accounting - Formal budgetary integration is employed as a management control device for both the governmental and proprietary funds. The budgets are proposed by the District for the fiscal year commencing the following January 1. The budgets for the governmental funds are adopted on the modified accrual basis while the budgets for the proprietary funds are adopted on the accrual basis, which is consistent with generally accepted accounting principles.

Assets, Liabilities, and Net Position or Equity

Cash and cash equivalents - Cash and cash equivalents included cash on deposit as well as investments with maturities of three months or less. All cash and cash equivalents are recorded at cost, which approximates fair market value.

Accounts Receivable - The District provides for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. As of December 31, 2013, the allowance for uncollectible accounts was as follows:

Fund	Allowance for Doubtful Accounts
Stand-By	\$ 410,926
Road Construction and Maintenance	1,501,628
Water	23,130
Total government-wide	<u>\$ 1,935,684</u>

Capital Assets - Capital assets, which includes land, water and wastewater improvements, buildings and improvements, road improvements, vehicles, machinery and equipment, and furniture and fixtures, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All capital assets and capital asset improvements are recorded at historical cost if purchased or estimated fair value at the date of donation if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Capital assets (other than land) are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Water and wastewater improvements	7-39
Buildings and improvements	7-39
Road improvements	25
Machinery and equipment	5-25
Furniture and fixtures	10
Vehicles	5

Accrued Vacation Leave - It is the District's policy to allow employees to accrue personal leave as earned up to a maximum of forty hours and to accrue sick leave as earned with limitation. Upon termination, employees are paid for accrued personal leave, but not for accrued sick leave.

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 and business-type activities statement of net position.

Fund Equity - The District's fund balance classifications are presented in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 8 for additional information on those fund balance classifications.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net position or fund balance.

Deferred Outflows and Inflows of Resources - The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 became effective for fiscal years beginning after December 15, 2012 and has been implemented in these financial statements.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. The objective of GASB Statement No. 68 is to improve accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through certain trusts. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. GASB Statement No. 68 also identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, GASB Statement No. 68 addresses the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Management is still evaluating the effects that the full implementation of GASB Statement No. 68 will have on its financial statements for the year ended December 31, 2014.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds total fund balance	\$ 901,450
Capital assets used in governmental activities are not current financial resources and are therefore not reported in the governmental funds balance sheet	<u>1,981,053</u>
Total net position	<u>\$ 2,882,503</u>

Amounts reported for governmental activities in the statement of activities are different because:

Excess of revenues over expenditures	\$ 141,236
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	96,102
Depreciation expense	<u>(144,106)</u>
Change in net position	<u>\$ 93,232</u>

3. CASH AND TEMPORARY INVESTMENTS

The District's deposits are required to be secured in the manner provided by law for the security of the funds. At December 31, 2013, such deposits were entirely covered by Federal Deposit Insurance Corporation ("FDIC") insurance or secured by collateral pledged by the depository.

The Public Funds Investment Act (the "PFIA") authorizes the District to invest in funds under a written investment policy. The District's investment policy is approved annually by the Board. The primary objectives of the District's investment strategy, in order of priority, are safety, liquidity, and yield. In accordance with the PFIA and the District's investment policy, at December 31, 2013, the District invested all of its investments in certificates of deposit, of which \$150,000 matures in November 2014 and \$65,000 matures in April 2016. The District has restricted \$65,000 of investments in accordance with Texas Water Development Board (the "TWDB") bond requirements as a reserve for future principal and interest payments.

4. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." The composition of interfund balances as of December 31, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
Water	Wastewater	\$ 107,092
Water	Road Construction and Maintenance	10,004
Stand-By	Water	<u>55,110</u>
Total		<u>\$ 172,206</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	Balance December 31, 2012	Additions	Retirements and Transfers	Balance December 31, 2013
Governmental activities:				
Capital assets being depreciated:				
Road improvements	\$ 3,550,428	72,792	-	3,623,220
Machinery and equipment	13,914	23,310	-	37,224
Total capital assets being depreciated	<u>3,564,342</u>	<u>96,102</u>	<u>-</u>	<u>3,660,444</u>
Less accumulated depreciation for:				
Road improvements	(1,527,979)	(143,771)	-	(1,671,750)
Machinery and equipment	(7,306)	(335)	-	(7,641)
Total accumulated depreciation	<u>(1,535,285)</u>	<u>(144,106)</u>	<u>-</u>	<u>(1,679,391)</u>
Governmental activities capital assets, net	<u>\$ 2,029,057</u>	<u>(48,004)</u>	<u>-</u>	<u>1,981,053</u>
Business-type activities:				
Capital assets not being depreciated-				
Land	131,702	-	-	131,702
Capital assets being depreciated:				
Water and wastewater improvements	3,827,426	324,997	-	4,152,423
Building and improvements	400,251	-	-	400,251
Machinery and equipment	411,120	-	-	411,120
Vehicles	192,613	-	-	192,613
Furniture and fixtures	29,239	4,125	-	33,364
Total capital assets being depreciated	<u>4,860,649</u>	<u>329,122</u>	<u>-</u>	<u>5,189,771</u>
Less accumulated depreciation for:				
Water and wastewater improvements	(2,241,491)	(241,462)	-	(2,482,953)
Building and improvements	(145,405)	(11,407)	-	(156,812)
Machinery and equipment	(322,815)	(7,110)	-	(329,925)
Vehicles	(174,329)	(11,086)	-	(185,415)
Furniture and fixtures	(27,777)	(1,462)	-	(29,239)
Total accumulated depreciation	<u>(2,911,817)</u>	<u>(272,527)</u>	<u>-</u>	<u>(3,184,344)</u>
Total capital assets being depreciated, net	<u>1,948,832</u>	<u>56,595</u>	<u>-</u>	<u>2,005,427</u>
Business-type activities capital assets, net	<u>\$ 2,080,534</u>	<u>56,595</u>	<u>-</u>	<u>2,137,129</u>

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

	Balance December 31, 2012	Additions	Retirements	Balance December 31, 2013
Water System				
Revenue Bonds	\$ 405,000	-	(40,000)	365,000
Total	<u>\$ 405,000</u>	<u>-</u>	<u>(40,000)</u>	<u>365,000</u>

Water System Revenue Bonds:

\$365,000 - Series 2000 Revenue Bonds payable serially through the year 2020 at an interest rate of 5.8%.

Debt service requirements to maturity for District's revenue bonds are summarized as follows:

Fiscal Year	Principal	Interest	Total Requirement
2014	\$ 45,000	21,170	66,170
2015	45,000	18,560	63,560
2016	50,000	15,950	65,950
2017	50,000	13,050	63,050
2018	55,000	10,150	65,150
2019-2020	<u>120,000</u>	<u>10,440</u>	<u>130,440</u>
Total	<u>\$ 365,000</u>	<u>89,320</u>	<u>454,320</u>

The bonds are payable to the TWDB from the proceeds of and are secured by a pledge of the net water and wastewater revenues of the District. At December 31, 2013, all revenue bonds were authorized and issued.

TWDB Sinking Fund Compliance:

The debt agreement with the TWDB requires certain deposits and reserves in place to cover future debt service and interest payments. At December 31, 2013, the District was in compliance with these deposit and reserve requirements.

7. PENSION PLAN

The District has established a fully-insured defined benefit retirement plan, which covers substantially all full-time employees. Participating, eligible employees vest in the plan over a six-year graded vesting schedule. The annual pension cost is based on a benefit formula using a fixed benefit rate of 17% of each participant's average monthly salary, reduced pro-rata for less than twenty-five years of service. The District may elect to permit distribution to be made in the form of lump sum distributions or annuities over the life of the participant. Retirement expenses under the plan for the year ended December 31, 2013 were \$5,193.

8. FUND BALANCE

For the year ended December 31, 2013, the District has presented fund balance classifications in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in a district's General Fund. As there is no General Fund reported by the District, there is no unassigned fund balance.

The detail of the fund balances is included in the Governmental Funds Balance Sheet on page 11. Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has the authority to assign fund balance for a specific purpose. As of December 31, 2013, the District has not adopted a comprehensive fund balance policy; as a result, spending and commitments and assignments of fund balance are executed in accordance with GASB's default policy. Under the default policy, in circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

9. RENTAL INCOME

The District entered into a lease agreement with the Tahitian Village Property Owners Association (the "TVPOA") for 128 square feet of office space. The term of the lease has been extended through December 31, 2014. In addition, the District periodically leases its meeting space to various parties for evening and weekend events. Rental income under these and the TVPOA lease amounted to \$9,200 for the year ended December 31, 2013.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases - The District leases certain office equipment under various operating leases which expire on various dates through 2015. The leases had initial terms of one to five years. Total rent expense was \$7,656 for the year ended December 31, 2013.

Future minimum annual rentals under noncancelable leases (which are principally for leased office equipment) were as follows as of December 31, 2013:

2014	\$	5,067
2015		1,412
Total	\$	<u>6,479</u>

Wastewater Treatment Service Agreement - On April 28, 1998, the District entered into a Wastewater Treatment Service Agreement (the "Agreement") with the Lower Colorado River (the "LCRA") wherein the LCRA agreed to acquire and construct major wastewater treatment, collection, and conveyance facilities within the District's boundaries. Under the terms of the Agreement, along with any amendments thereto, the costs incurred by the LCRA to provide wastewater collection and treatment services to the District are to be recovered through the standby fees available to the District in 1998 and wastewater service rates paid by District customers. During its annual budget process, the LCRA develops Annual Project Revenue Requirements (the "Annual Requirement") for the wastewater system to recover its finance costs, operations and maintenance costs, and coverage. The Annual Requirement is then pro-rated on a monthly basis to calculate the amount of the monthly charge the District must pay to the LCRA.

Pursuant to the terms of the Agreement, the District represented and covenanted that all moneys required to be paid by the District under the Agreement constitute an operating expense of the District's wastewater system as authorized by the Constitution and laws of the State of Texas, including Chapters 49 and 51 of the Texas Water Code, as amended.

In the wake of the 2011 wildfires that impacted the District's ability to make scheduled payments of its monthly charges to the LCRA, the LCRA and the District amended the Agreement to temporarily modify the District's monthly charge to an amount that the District could reasonably meet. Beginning on July 1, 2013 (the beginning of FY2014 for the LCRA), the District initiated repayments to the LCRA to cover the shortfall accumulated during the temporary reduction in the District's monthly charge.

Risk Management - The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies and the Texas Municipal League ("TML") to effectively manage its risk. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The TML was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. TML members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML board. Rates are estimated to include all claims expected to occur during the policy including claims incurred but not reported. The TML has established claims reserves for each of the types of insurance offered. Although the TML is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML adjusts the contribution rate for subsequent years. Members may receive returns of contributions if actual results are more favorable than estimated.

Damage from the wildfires of 2011 is still being assessed. It is expected that between the Federal Emergency Management Agency (FEMA) and TML coverage an insignificant amount of financial exposure will result.

11. RESTATEMENT OF NET POSITION AND FUNDS BALANCE

Restatement of Special Revenue Fund Balance:

The fund balance for the Stand-By Fund (as Special Revenue Fund) has been restated as follows to correct prior year balances:

Beginning Stand-By Fund fund balance - December 31, 2012, as previously reported	\$ 144,714
To reflect revenue for assessments billed in the proper period	<u>6,644</u>
Beginning Stand-By Fund fund balance - December 31, 2012, as restated	<u>\$ 151,358</u>

Restatement of Governmental Activities Net Position:

The net position for governmental activities has been restated as follows to correct prior year balances:

Beginning Governmental Activities Net Position balance - December 31, 2012, as previously reported	\$ 2,782,627
To reflect revenue for assessments billed in the proper period	<u>6,644</u>
Beginning Governmental Activities Net Position balance - December 31, 2012, as restated	<u>\$ 2,789,271</u>

**REQUIRED
SUPPLEMENTAL BUDGETARY INFORMATION**

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - STAND-BY FUND YEAR ENDED DECEMBER 31, 2013

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:			
Standby charges	\$ 35,000	26,460	(8,540)
Interest and other	-	5,622	5,622
TOTAL REVENUES	35,000	32,082	(2,918)
EXPENDITURES:			
Service operations:			
Professional fees	18,000	51,898	(33,898)
Office	13,500	10,586	2,914
Repairs and maintenance	-	4,731	(4,731)
Other	500	3,489	(2,989)
Capital Outlay	18,000	-	18,000
TOTAL EXPENDITURES	50,000	70,704	(20,704)
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(15,000)	(38,622)	(23,622)
FUND BALANCE:			
Beginning of year, as restated	151,358	151,358	-
End of year	\$ 136,358	112,736	(23,622)

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

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ROAD CONSTRUCTION AND MAINTENANCE FUND
YEAR ENDED DECEMBER 31, 2013**

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:			
Road assessment fees	\$ 531,500	542,873	11,373
Interest and other	10,300	10,418	118
TOTAL REVENUES	541,800	553,291	11,491
EXPENDITURES:			
Service operations:			
Professional fees	34,500	66,089	(31,589)
Office	33,850	19,443	14,407
Consumable supplies and materials	60,000	30,307	29,693
Salary allocation	50,000	45,547	4,453
Repairs and maintenance	6,100	3,810	2,290
Contract services	45,000	18,202	26,798
Bad debt	-	73,540	(73,540)
Other	76,500	20,393	56,107
Capital Outlay	100,000	96,102	3,898
TOTAL EXPENDITURES	405,950	373,433	32,517
EXCESS OF REVENUES OVER EXPENDITURES	135,850	179,858	44,008
FUND BALANCE:			
Beginning of year	608,856	608,856	-
End of year	<u>\$ 744,706</u>	<u>788,714</u>	<u>44,008</u>

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

**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
SUPPLEMENTAL INFORMATION**

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**INDEX OF SUPPLEMENTAL SCHEDULES REQUIRED BY
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
YEAR ENDED DECEMBER 31, 2013**

SCHEDULE INCLUDED		
YES	NO	
<u>X</u>	<u> </u>	TSI-0 Notes Required by the Water District Accounting Manual
<u>X</u>	<u> </u>	TSI-1 Schedule of Services and Rates
<u>X</u>	<u> </u>	TSI-2 Schedule of Proprietary Fund Expenses
<u>X</u>	<u> </u>	TSI-3 Schedule of Temporary Investments
<u> </u>	<u>X</u>	TSI-4 Analysis of Taxes Levied and Receivable
<u>X</u>	<u> </u>	TSI-5 Long-Term Debt Service Requirements by Years
<u>X</u>	<u> </u>	TSI-6 Analysis of Changes in Long-Term Debt
<u>X</u>	<u> </u>	TSI-7 Comparative Schedule of Revenues and Expenditures - All Funds - Five Years
<u>X</u>	<u> </u>	TSI-8 Board Members, Key Personnel and Consultants

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-0 NOTES REQUIRED BY THE WATER DISTRICT ACCOUNTING MANUAL YEAR ENDED DECEMBER 31, 2013

The notes which follow are not necessarily required for fair presentation of the audited basic financial statements of the District which are contained in the preceding section of this report. They are presented in conformity with requirements of the Texas Commission on Environmental Quality to assure disclosure of specifically required facts.

(A) Creation of District

See Note 1 to basic financial statements.

(B) Contingent Liabilities

See Note 10 to basic financial statements.

(C) Pension Coverage

See Note 7 to basic financial statements.

(D) Pledge of Revenues

See Note 6 to basic financial statements.

(E) Compliance with Debt Service Requirements

See Note 6 to basic financial statements.

(F) Redemption of Bonds

Not applicable.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**TSI-1 SCHEDULE OF SERVICES AND RATES
YEAR ENDED DECEMBER 31, 2013**

1. Services Provided by the District:

- | | | |
|---|---|---|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input checked="" type="checkbox"/> Roads |
| <input type="checkbox"/> Participates in joint venture, regional system and or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other (specify): _____ | | |

2. Retail Service Providers:

a. Retail Rates for a 5/8" Meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER	\$ 32.50	N/A	N	\$. 3.55	0 to 3,000
				4.00	3,001 to 5,000
				4.40	5,001 to 10,000
				4.90	10,001 to 20,000
				5.30	20,001 to 30,000
				5.65	30,001 to 40,000
				6.00	40,001 to No Limit
WASTEWATER	\$ 70.00	N/A	Y	\$ N/A	N/A
SURCHARGE	\$ None				

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water: \$ 73.15 Wastewater: \$ 70.00

(continued)

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-1 SCHEDULE OF SERVICES AND RATES (continued)

YEAR ENDED DECEMBER 31, 2013

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	-
<=3/4"	1,551	1,294	x 1.0	1,294
1"	3	3	x 2.5	7.5
1 1/2"	-	-	x 5.0	-
2"	7	3	x 8.0	24
3"	-	-	x 15.0	-
4"	-	-	x 25.0	-
6"	-	-	x 50.0	-
8"	-	-	x 80.0	-
10"	-	-	x 115.0	-
Total Water	1,561	1,300		1,325.5
Total Wastewater	573	483	x 1.0	483

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system:	<u>113,124,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>105,147,000</u>	(Gallons billed/Gallons pumped)
		<u>92.9%</u>

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees?

Yes No

If yes, Date of the most recent Commission Order: N/A

Does the District have Operation and Maintenance standby fees?

Yes No

If yes, Date of the most recent Commission Order: 1986

(continued)

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-1 SCHEDULE OF SERVICES AND RATES (continued)
YEAR ENDED DECEMBER 31, 2013

5. Location of District:

County in which district is located: Bastrop

Is the District located entirely within one county? Yes No

Is the District located within a city? Entirely Partly Not at all

City in which District is located: City of Bastrop

Is the District located within a city's extra-territorial jurisdiction (ETJ)? Entirely Partly Not at all

ETJ's in which district is located: City of Bastrop

Are Board members appointed by an office outside the District? Yes No

If yes, by whom? N/A

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-2 SCHEDULE OF WATER AND WASTEWATER FUND EXPENSES YEAR ENDED DECEMBER 31, 2013

Personnel Expenditures (including benefits)	\$	443,212
Professional Fees:		
Auditing		6,250
Legal		30,600
Engineering		4,758
Financial Advisor		-
Purchased Services For Resale- Bulk Water and Wastewater Purchases		-
Contracted Services:		
Bookkeeping		13,316
General Manager		-
Appraisal District		-
Tax Collector		-
Other Contracted Services		-
Utilities		51,801
Repairs and Maintenance		181,040
Administrative Expenditures:		
Directors' Fees		-
Office Supplies		7,337
Insurance		28,632
Other Administrative Expenses		121,240
Capital Outlay:		
Capitalized Assets		-
Expenditures not Capitalized		74,217
Tap Connection Expenditures		1,500
Solid Waste Disposal		1,528
Fire Fighting		-
Parks and Recreation		-
Depreciation		272,527
Other Expenditures		200,630
TOTAL EXPENDITURES	\$	1,438,588

Number of persons employed by the District: 8 Full-Time 2 Part-Time
(Does not include independent contractors or consultants)

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**TSI-3 SCHEDULE OF TEMPORARY INVESTMENTS
YEAR ENDED DECEMBER 31, 2013**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at December 31, 2013</u>	<u>Accrued Interest Receivable at December 31, 2013</u>
<u>Water Fund-</u>					
Certificate of Deposit	30226	1.97%	4/2/2016	65,000	-
Certificate of Deposit	74188	0.50%	11/1/2014	150,000	-

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS DECEMBER 31, 2013

Due During Fiscal Years Ending 12/31	Bastrop County Water Control and Improvement District No. 2 Revenue Bonds, Series 2000		
	Principal Due 8/15	Interest Due 2/15, 8/15	Total
2014	\$ 45,000	21,170	66,170
2015	45,000	18,560	63,560
2016	50,000	15,950	65,950
2017	50,000	13,050	63,050
2018	55,000	10,150	65,150
2019	60,000	6,960	66,960
2020	60,000	3,480	63,480
	<u>\$ 365,000</u>	<u>89,320</u>	<u>454,320</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-6 ANALYSIS OF CHANGES IN LONG-TERM DEBT DECEMBER 31, 2013

		Series 2000		
Interest rate		5.80%		
Dates interest payable		2/15; 8/15		
Maturity dates		8/15/2020		
Bonds outstanding, beginning of period	\$	405,000		
Bonds issued/acquired during current period		-		
Bonds retired during current period		(40,000)		
Bonds outstanding, end of period	\$	<u>365,000</u>		
Interest paid during current period	\$	<u>23,490</u>		
Paying agent's name & address:		Texas Water Development Board Austin, Texas		
		<u>Revenue Bonds</u>		
Bond authority:				
Amount authorized	\$	745,000 (a)		
Amount issued		<u>745,000</u>		
Remaining to be issued	\$	<u>-</u>		
Debt Service Fund cash and temporary investments balances as of December 31, 2013:	\$	<u>65,000</u>		(b)
Average annual debt service payments (principal & interest) for remaining term of debt:	\$	<u>64,903</u>		

(a) Since the District has no taxing authority, it has no specific standing authorization to issue bonds.

(b) Amount represents cash equivalents restricted for payment of Texas Water Development Board bonds.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS FIVE YEARS ENDED DECEMBER 31, 2013

	AMOUNTS					PERCENT OF FUND TOTAL REVENUES				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
REVENUES:										
Charges for services	\$ 1,352,442	1,237,499	1,542,398	1,183,585	1,195,391	55.3 %	62.3	67.8	55.7	59.1
Stand-by fees	26,460	50,114	41,867	43,566	45,732	1.1	2.5	1.8	2.1	2.3
Tap fees	184,802	220,263	236,348	268,679	220,491	7.5	11.1	10.4	12.6	10.9
Reconnect fees	7,750	8,300	8,000	9,450	14,013	0.3	0.4	0.4	0.5	0.7
Other operating	2,124	90,619	70,166	231,874	168,149	0.1	4.6	3.1	10.9	8.3
Interest and other	330,527	22,782	4,858	7,079	6,649	13.5	1.1	0.2	0.3	0.3
Road assessment fees	542,873	356,694	370,065	380,019	371,507	22.2	18.0	16.3	17.9	18.4
Total	2,446,978	1,986,271	2,273,702	2,124,252	2,021,932	100.0 %	100.0	100.0	100.0	100.0
EXPENDITURES/EXPENSES:										
Office	79,910	95,920	162,482	169,675	160,751	3.3 %	4.8	7.1	8.0	8.0
Payroll	488,759	484,550	703,550	642,073	702,320	20.0	24.4	30.9	30.2	34.7
Contract services	19,702	57,233	37,684	70,814	21,490	0.8	2.9	1.7	3.3	1.1
Professional fees	174,381	136,056	120,782	146,010	127,533	7.1	6.8	5.3	6.9	6.3
Equipment and maintenance	241,717	479,556	48,716	21,938	68,725	9.9	24.1	2.1	1.0	3.4
Operating expenses	360,217	338,621	752,314	824,938	631,853	14.7	17.0	33.1	38.8	31.2
Bad debt	73,540	-	-	-	-	3.0	0.0	0.0	0.0	0.0
Other	52,380	73,290	-	-	-	2.1	3.7	0.0	0.0	0.0
Capital outlay	96,102	58,429	155,716	93,495	187,635	3.9	2.9	6.8	4.4	9.3
Depreciation	272,527	202,850	-	-	-	11.1	10.2	0.0	0.0	0.0
Debt service	23,490	29,471	76,705	76,772	112,224	1.0	1.5	3.4	3.6	5.6
Total expenditures/expenses	1,882,725	1,955,976	2,057,949	2,045,715	2,012,531	76.9 %	98.3	90.4	96.2	99.6
EXCESS OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 564,253	30,295	215,753	78,537	9,401	23.1 %	1.7	9.6	3.8	0.4
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,300	1,224	1,150	1,338	1,301					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	483	443	396	500	490					

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-8 BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS DECEMBER 31, 2013

Complete District Mailing Address: P.O. Box 708, Bastrop, Texas 78602

District Business Telephone Number: (512) 321-1688

Submission date of the most recent District Registration Form:
(TWC Sections 36.054 and 49.054) May 14, 2013

Limit on fees of office that a director may receive during a fiscal year:
(Set by Board Resolution - TWC Sections 49.060) \$7,200

<u>Name and Address</u>	<u>Term of Office Elected & Expires or Date Hired</u>	<u>Fees 12/31/13</u>	<u>Expense Reimbursements 12/31/13</u>	<u>Title at Year End</u>
<u>Board Members:</u>				
John Creamer	Elected 5/10 - 5/14	\$ -	\$ -	President
Victor Gonzalez	Elected 5/10 - 5/14	-	-	Vice President
Karen Pinard	Elected 5/12 - 5/16	-	-	Secretary
Ken Keil	Appointed 6/12 - 5/16	-	-	Treasurer
Brent Golman	Appointed 4/13 - 5/14	-	-	Director
<u>Former Board Members:</u>				
Christy Kossler	Elected 5/10 - 4/13	-	-	Former Treasurer
<u>Key Administrative Personnel</u>				
Tyler Walsh	10/03	66,229	-	Operations Manager
Alma Rodriguez	1/01	59,437	-	Office Manager

Note: No director is disqualified from serving on this Board under the Texas Water Code.

(continued)

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-8 BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (continued) DECEMBER 31, 2013

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements 12/31/13</u>	<u>Title at Year End</u>
<u>Consultants:</u>			
Befco Engineering, Inc.	1996	\$ 47,988	Engineers
Lisa Patterson	2010	58,275	Legal Counsel
Spirit Financial, Inc.	2011	32,525	Bookkeeper
Maxwell Locke & Ritter LLP	2013	15,000	Auditor
Samco Capital Markets, Inc.	2000	-	Financial Advisor