

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

**Financial Statements and
Supplemental Information as of and for the
Year Ended December 31, 2014 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, Karen Pinard
(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 14th day of MAY, 20 15, its annual audit report for the fiscal year ended December 31, 2014 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: May 14, 20 15. By: Karen Pinard
(Signature of District Representative)

Karen Pinard, Vice President
(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 14th day of May, 20 15.

Alma L. Rodriguez
(Signature of Notary)



Alma L. Rodriguez
(Printed Name of Notary)

My Commission Expires On: 05-02-2018
Notary Public in and for the State of Texas.



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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, 2014, 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, 2014, 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.

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 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maxwell Socher Pitter LLP

Austin, Texas
May 13, 2015

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

Management's Discussion and Analysis For the Year Ended December 31, 2014

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, 2014. 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 \$5.7 million at December 31, 2014.
- During the year, the District generated approximately \$2.7 million in total revenues.
- The total expenses in the Proprietary Funds for the District's water and wastewater operations were approximately \$1.6 million for the year ended December 31, 2014. Total stand-by and road construction and maintenance expenses, which are accounted for in the Special Revenue Funds, were approximately \$676,000.

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.

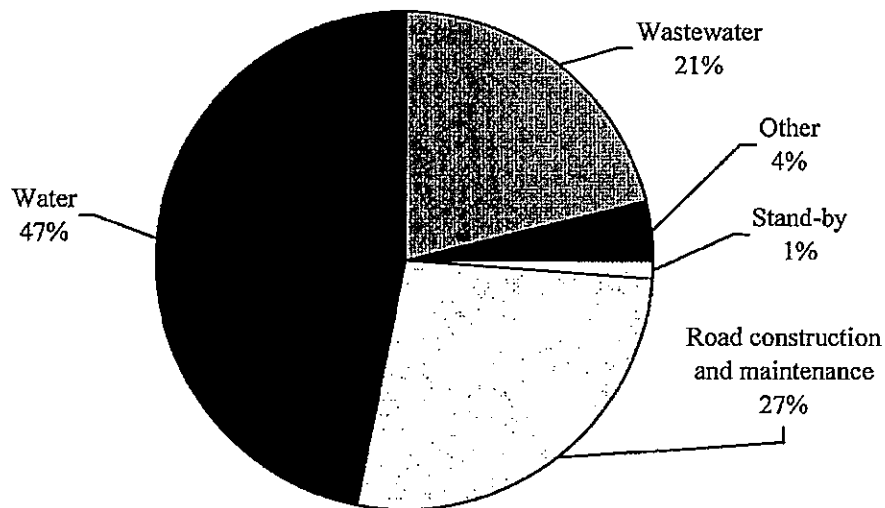
Financial Analysis of the District as a Whole

Net position - The District's combined net position was approximately \$5.7 million as of December 31, 2014. See additional analysis below:

The District's Net Position (in thousands of dollars)							
	Governmental Activities		Business-type Activities		Total		Total % Change
	2014	2013	2014	2013	2014	2013	
Current and other assets	\$1,108	913	1,160	975	2,268	1,888	20.1%
Capital and non-current assets	2,059	1,981	2,117	2,137	4,176	4,118	1.4%
Total Assets	3,167	2,894	3,277	3,112	6,443	6,006	7.3%
Current liabilities	191	12	320	415	511	427	19.7%
Non-current liabilities	-	-	275	320	275	320	(14.1%)
Total Liabilities	191	12	595	735	786	747	5.2%
Net investment in capital assets	2,059	1,981	1,797	1,772	3,856	3,753	2.7%
Restricted for debt service	-	-	65	65	65	65	-
Unrestricted	917	901	819	540	1,737	1,441	20.5%
Total Net Position	\$2,976	2,882	2,681	2,377	5,657	5,259	7.6%

Change in net position - The District's combined net position increased by approximately \$398,000 for the year ended December 31, 2014. See additional analysis (including the breakout of revenue) below:

Sources of Revenue for the Year Ended December 31, 2014



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

	Governmental Activities		Business-type Activities		Total		Total % Change
	2014	2013	2014	2013	2014	2013	
Revenues:							
Program	\$ 750	\$ 569	1,806	1,547	2,556	2,116	20.8%
General	20	16	77	315	97	331	(70.7)%
Total Revenues	<u>770</u>	<u>585</u>	<u>1,884</u>	<u>1,862</u>	<u>2,653</u>	<u>2,447</u>	<u>8.4%</u>
Expenses:							
Stand-by	62	71	-	-	62	71	(12.7)%
Road construction and maintenance	614	421	-	-	614	421	45.8%
Water	-	-	880	945	880	945	(6.9)%
Wastewater	-	-	700	494	700	494	41.7%
Total Expenses	<u>676</u>	<u>492</u>	<u>1,580</u>	<u>1,439</u>	<u>2,256</u>	<u>1,931</u>	<u>16.8%</u>
Change in net position	<u>\$ 94</u>	<u>\$ 93</u>	<u>304</u>	<u>423</u>	<u>398</u>	<u>516</u>	<u>(23.1)%</u>

Capital Assets

Capital assets totaled approximately \$4.2 million for the year ended December 31, 2014 with approximately \$2.1 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	
	2014	2013
Land	\$ 131,702	\$ 131,702
Construction in progress	183,044	-
Water and wastewater improvements	4,306,447	4,152,423
Road improvements	3,666,025	3,623,220
Building and improvements	413,241	400,251
Machinery and equipment	470,451	448,344
Vehicles	225,164	192,613
Furniture and fixtures	33,364	33,364
Subtotal	<u>9,429,438</u>	<u>8,981,917</u>
Accumulated depreciation	<u>(5,253,811)</u>	<u>(4,863,735)</u>
Total	<u>\$ 4,175,627</u>	<u>\$ 4,118,182</u>

Long-Term Debt

The District owes \$320,000 in water system revenue bonds to the Texas Water Development Board as of December 31, 2014. During the year, the principal balance on all long-term debt was reduced by \$45,000. More detailed information about the District's long-term debt is presented in the Notes to Basic Financial Statements.

Budget Discussion

At December 31, 2014, compared to budget, the Stand-By Fund finished the year behind budget by approximately \$35,000, primarily due to an increase in bad debt expenses compared to budget. At December 31, 2014, the Road Construction and Maintenance Fund finished the year behind budget by approximately \$14,000 primarily due to an increase in the allowance for uncollectible accounts, an increase in capital outlay, offset by an increase in road assessment fees income.

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, 2015, the District had budgeted expenses over revenues, a decrease in net position, of approximately \$10,000 for the Stand-By Fund. For the year ended December 31, 2015, the District had budgeted expenses over revenues of approximately \$74,000 for the Road Construction and Maintenance Fund. For the year ended December 31, 2015, the District had budgeted expenses over revenues of approximately \$217,500, 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, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	STATEMENT OF NET POSITION
ASSETS:			
Cash and cash equivalents	\$ 788,117	972,215	1,760,332
Investments:			
Unrestricted	-	150,751	150,751
Restricted	-	65,000	65,000
Receivables:			
Assessments receivable, net	274,823	-	274,823
Service accounts receivable, net	-	15,765	15,765
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	-	1,626,791	1,626,791
Road improvements	1,836,389	-	1,836,389
Construction in progress	183,044	-	183,044
Building and improvements	-	244,689	244,689
Machinery and equipment	39,237	81,278	120,515
Vehicles	-	30,152	30,152
Furniture and fixtures	-	2,345	2,345
Total assets	\$ 3,166,716	3,276,502	6,443,218
LIABILITIES:			
Accounts payable	\$ 172,355	63,459	235,814
Accrued salaries	-	8,971	8,971
Other accrued liabilities	18,304	20,711	39,015
Customer deposits	-	142,200	142,200
Accrued vacation leave	-	40,076	40,076
Long-term liabilities:			
Due within one year	-	45,000	45,000
Due after one year	-	275,000	275,000
	190,659	595,417	786,076
NET POSITION:			
Net investment in capital assets	2,058,670	1,796,957	3,855,627
Restricted for debt service	-	65,000	65,000
Unrestricted	917,387	819,128	1,736,515
Total net position	\$ 2,976,057	2,681,085	5,657,142

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, 2014**

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Position		
			Governmental Activities	Business-type Activities	Total
Governmental activities:					
Stand-By	\$ 61,773	29,052	(32,721)	-	(32,721)
Road construction and maintenance	614,476	720,387	105,911	-	105,911
Total governmental activities	\$ 676,249	749,439	73,190	-	73,190
Business-type activities:					
Water	\$ 880,059	1,238,086	-	358,027	358,027
Wastewater	699,508	568,178	-	(131,330)	(131,330)
Total business-type activities	\$ 1,579,567	1,806,264	-	226,697	226,697
General revenues and other:					
Rental income			\$ -	8,220	8,220
Interest and other			20,364	18,371	38,735
Insurance recoveries			-	50,722	50,722
Total general revenues and other			20,364	77,313	97,677
Change in net position			93,554	304,010	397,564
Net position, beginning, as restated			2,882,503	2,377,075	5,259,578
Net position, ending			\$ 2,976,057	2,681,085	5,657,142

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, 2014**

	STAND-BY FUND	ROAD CONSTRUCTION AND MAINTENANCE FUND	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET POSITION
ASSETS:					
Cash and cash equivalents	\$ 17,195	770,922	788,117	-	788,117
Assessments receivable, net	11,623	263,200	274,823	-	274,823
Due from Proprietary Fund	55,110	-	55,110	-	55,110
Capital assets (net of accumulated depreciation):					
Road improvements	-	-	-	1,836,389	1,836,389
Construction in progress	-	-	-	183,044	183,044
Machinery and equipment	-	-	-	39,237	39,237
Total assets	<u>\$ 83,928</u>	<u>1,034,122</u>	<u>1,118,050</u>	<u>2,058,670</u>	<u>3,176,720</u>
LIABILITIES:					
Accounts payable	\$ 85	172,270	172,355	-	172,355
Other accrued liabilities	-	18,304	18,304	-	18,304
Due to Proprietary Fund	-	10,004	10,004	-	10,004
Total liabilities	<u>85</u>	<u>200,578</u>	<u>200,663</u>	<u>-</u>	<u>200,663</u>
FUND BALANCES-					
Assigned fund balance	<u>83,843</u>	<u>833,544</u>	<u>917,387</u>	<u>(917,387)</u>	<u>-</u>
Total fund balances	<u>83,843</u>	<u>833,544</u>	<u>917,387</u>	<u>(917,387)</u>	
Total liabilities and fund balances	<u>\$ 83,928</u>	<u>1,034,122</u>	<u>1,118,050</u>		
Net position:					
Net investment in capital assets				\$ 2,058,670	
Unrestricted				<u>917,387</u>	
Total net position				<u>\$ 2,976,057</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, 2014**

	STAND-BY FUND	ROAD CONSTRUCTION AND MAINTENANCE FUND	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET POSITION
EXPENDITURES:					
Service operations:					
Professional fees	\$ 27,261	116,805	144,066	-	144,066
Operations	-	56,033	56,033	-	56,033
Bad debt	22,678	133,277	155,955	-	155,955
Salary allocation	-	54,901	54,901	-	54,901
Consumable supplies and materials	1,081	21,373	22,454	-	22,454
Office	10,753	13,700	24,453	-	24,453
Repairs and maintenance	-	1,448	1,448	-	1,448
Capital outlay	-	294,556	294,556	(241,968)	52,588
Depreciation expense	-	-	-	164,351	164,351
Total expenditures/expenses	<u>61,773</u>	<u>692,093</u>	<u>753,866</u>	<u>(77,617)</u>	<u>676,249</u>
REVENUES-					
Program revenues:					
Standby charges	29,052	-	29,052	-	29,052
Road assessment fees	-	720,387	720,387	-	720,387
Interest and other	3,828	16,536	20,364	-	20,364
Total program revenues	<u>32,880</u>	<u>736,923</u>	<u>769,803</u>	<u>-</u>	<u>769,803</u>
Total revenues	<u>32,880</u>	<u>736,923</u>	<u>769,803</u>	<u>-</u>	<u>769,803</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(28,893)	44,830	15,937	(15,937)	-
Changes in net position				93,554	93,554
FUND BALANCES/ NET POSITION:					
Beginning of year	<u>112,736</u>	<u>788,714</u>	<u>901,450</u>	<u>1,981,053</u>	<u>2,882,503</u>
End of year	<u>\$ 83,843</u>	<u>833,544</u>	<u>917,387</u>	<u>2,058,670</u>	<u>2,976,057</u>

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, 2014**

	WATER FUND	WASTEWATER FUND	TOTAL PROPRIETARY FUNDS
ASSETS:			
Cash and cash equivalents	\$ 956,195	16,020	972,215
Investments:			
Unrestricted	150,751	-	150,751
Restricted	65,000	-	65,000
Service accounts receivables, net	15,765	-	15,765
Due from other funds	195,522	-	195,522
Utility deposits	920	-	920
Capital assets (net of accumulated depreciation):			
Land	117,177	14,525	131,702
Water and wastewater improvements	1,056,277	570,514	1,626,791
Building and improvements	244,689	-	244,689
Machinery and equipment	42,274	39,004	81,278
Vehicles	30,152	-	30,152
Furniture and fixtures	2,345	-	2,345
Total assets	<u>\$ 2,877,067</u>	<u>640,063</u>	<u>3,517,130</u>
LIABILITIES:			
Accounts payable	\$ 7,470	55,989	63,459
Accrued salaries	8,971	-	8,971
Other accrued liabilities	16,363	4,348	20,711
Customer deposits	142,200	-	142,200
Due to other funds	55,110	185,518	240,628
Accrued vacation leave	40,076	-	40,076
Long-term liabilities:			
Due within one year	45,000	-	45,000
Due after one year	275,000	-	275,000
Total liabilities	<u>590,190</u>	<u>245,855</u>	<u>836,045</u>
NET POSITION:			
Net investment in capital assets	1,172,914	624,043	1,796,957
Restricted for debt service	65,000	-	65,000
Unrestricted	1,048,963	(229,835)	819,128
Total net position	<u>\$ 2,286,877</u>	<u>394,208</u>	<u>2,681,085</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, 2014**

	WATER FUND	WASTEWATER FUND	TOTAL PROPRIETARY FUNDS
OPERATING REVENUES:			
Charges for services	\$ 1,142,803	429,939	1,572,742
Tap fees	83,670	138,191	221,861
Reconnect fees	8,850	-	8,850
Other	2,763	48	2,811
Total operating revenues	<u>1,238,086</u>	<u>568,178</u>	<u>1,806,264</u>
EXPENSES:			
Service operations:			
Payroll and related expenses	416,297	-	416,297
Operations	87,047	395,668	482,715
Repairs and maintenance	37,741	131,650	169,391
Consumable supplies and materials	50,489	35,827	86,316
Professional services	64,303	31,782	96,085
Office	47,672	7,608	55,280
Contract services	1,500	1,500	3,000
Other	14,626	8,239	22,865
Depreciation	138,460	87,234	225,694
Debt service-			
Interest and fiscal charges	21,924	-	21,924
Total expenses	<u>880,059</u>	<u>699,508</u>	<u>1,579,567</u>
Net operating income (loss)	358,027	(131,330)	226,697
NON-OPERATING REVENUES:			
Rental income	8,220	-	8,220
Interest and other	4,496	13,875	18,371
Insurance recoveries	-	50,722	50,722
Total non-operating revenues	<u>12,716</u>	<u>64,597</u>	<u>77,313</u>
CHANGE IN NET POSITION	370,743	(66,733)	304,010
NET POSITION:			
Beginning of year	<u>1,916,134</u>	<u>460,941</u>	<u>2,377,075</u>
End of year	<u>\$ 2,286,877</u>	<u>394,208</u>	<u>2,681,085</u>

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, 2014

	<u>WATER FUND</u>	<u>WASTEWATER FUND</u>	<u>TOTAL PROPRIETARY FUNDS</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,232,970	577,200	1,810,170
Cash paid to employees and suppliers	(719,388)	(710,063)	(1,429,451)
Interest paid	(21,924)	-	(21,924)
Net cash provided by (used in) operating activities	<u>491,658</u>	<u>(132,863)</u>	<u>358,795</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Net effect of interfund balances	(78,426)	78,426	-
Increase in accrued vacation leave	3,238	-	3,238
Net cash provided by (used in) noncapital financing activities	<u>(75,188)</u>	<u>78,426</u>	<u>3,238</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal payments on notes payable	(45,000)	-	(45,000)
Insurance recoveries	-	50,722	50,722
Net cash provided by (used in) capital and related financing activities	<u>(45,000)</u>	<u>50,722</u>	<u>5,722</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(751)	-	(751)
Purchases of capital assets	(71,355)	(134,167)	(205,522)
Rental income	8,220	-	8,220
Interest and other income	4,496	13,875	18,371
Net cash used in investing activities	<u>(59,390)</u>	<u>(120,292)</u>	<u>(179,682)</u>
Net change in cash and cash equivalents	312,080	(124,007)	188,073
Cash and cash equivalents, beginning of the year	644,115	140,027	784,142
Cash and cash equivalents, end of year	<u>\$ 956,195</u>	<u>16,020</u>	<u>972,215</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 358,027	(131,330)	226,697
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	138,460	87,234	225,694
Provision for (recovery of) uncollectible accounts	(8,539)	-	(8,539)
Increase in service accounts receivables	3,423	9,022	12,445
Decrease in accounts payables	(17,533)	(101,941)	(119,474)
Increase (decrease) in accrued salaries and other accrued liabilities	(1,480)	4,152	2,672
Increase in customer deposits	19,300	-	19,300
Net cash provided by (used in) operating activities	<u>\$ 491,658</u>	<u>(132,863)</u>	<u>358,795</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, 2014

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. For the year ended December 31, 2014, expenditures in the Stand-By Fund and Road Construction and Maintenance Fund exceeded budgeted amounts by \$27,723 and \$131,343, respectively.

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, 2014, the allowance for uncollectible accounts was as follows:

Fund	Allowance for Doubtful Accounts
Stand-By	\$ 295,950
Road Construction and Maintenance	1,754,557
Water	10,177
Wastewater	4,414
Total government-wide	<u>\$ 2,065,098</u>

Capital Assets - Capital assets, which includes land, construction in progress, 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 and construction in progress) 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.

Deferred Outflows and Inflows of Resources - The District complies with 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.

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, 2015.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, effective for fiscal years beginning after June 15, 2014. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68 related to amounts associated with contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB Statement No. 71 requires that, at the time of transition to GASB Statement No. 68, a government recognize beginning deferred outflows of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Management is still evaluating the effects that the full implantation of GASB Statement No. 71 will have on its financial statements for the year ended December 31, 2015.

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	\$ 917,387
Capital assets used in governmental activities are not current financial resources and are therefore not reported in the governmental funds balance sheet.	<u>2,058,670</u>
Total net position	<u>\$ 2,976,057</u>

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

Excess of revenues over expenditures	\$ 15,937
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	241,968
Depreciation expense	<u>(164,351)</u>
Change in net position	<u>\$ 93,554</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, 2014, such deposits were not fully 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 deposits and investments are invested pursuant to the investment policy, which 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, 2014, the District invested all of its investments in certificates of deposit, of which \$150,000 matures in November 2015 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. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 was as follows:

	Balance December 31, 2013	Additions	Retirements and Transfers	Balance December 31, 2014
Governmental activities:				
Capital assets not being depreciated-				
Construction in progress	\$ -	183,044	-	183,044
Capital assets being depreciated:				
Road improvements	3,623,220	42,805	-	3,666,025
Machinery and equipment	37,224	16,119	-	53,343
Total capital assets being depreciated	3,660,444	58,924	-	3,719,368
Less accumulated depreciation for:				
Road improvements	(1,671,750)	(157,886)	-	(1,829,636)
Machinery and equipment	(7,641)	(6,465)	-	(14,106)
Total accumulated depreciation	(1,679,391)	(164,351)	-	(1,843,742)
Total capital assets being depreciated, net	1,981,053	(105,427)	-	1,875,626
Governmental activities capital assets, net	<u>\$ 1,981,053</u>	<u>77,617</u>	-	<u>2,058,670</u>
Business-type activities:				
Capital assets not being depreciated-				
Land	131,702	-	-	131,702
Capital assets being depreciated:				
Water and wastewater improvements	4,152,423	153,993	-	4,306,416
Building and improvements	400,251	12,990	-	413,241
Machinery and equipment	411,120	5,988	-	417,108
Vehicles	192,613	32,551	-	225,164
Furniture and fixtures	33,364	-	-	33,364
Total capital assets being depreciated	5,189,771	205,522	-	5,395,293
Less accumulated depreciation for:				
Water and wastewater improvements	(2,482,953)	(196,672)	-	(2,679,625)
Building and improvements	(156,812)	(11,740)	-	(168,552)
Machinery and equipment	(329,925)	(5,905)	-	(335,830)
Vehicles	(185,415)	(9,597)	-	(195,012)
Furniture and fixtures	(29,239)	(1,780)	-	(31,019)
Total accumulated depreciation	(3,184,344)	(225,694)	-	(3,410,038)
Total capital assets being depreciated, net	2,005,427	(20,172)	-	1,985,255
Business-type activities capital assets, net	<u>\$ 2,137,129</u>	<u>(20,172)</u>	-	<u>2,116,957</u>

5. 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, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
Water	Wastewater	\$ 185,518
Water	Road Construction and Maintenance	10,004
Stand-By	Water	55,110
Total		<u>\$ 250,632</u>

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2014:

	Balance December 31, 2013	Additions	Retirements	Balance December 31, 2014
Water System Revenue Bonds	\$ 365,000	-	(45,000)	320,000
Total	<u>\$ 365,000</u>	<u>-</u>	<u>(45,000)</u>	<u>320,000</u>

Water System Revenue Bonds:

\$320,000 - 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
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
Total	<u>\$ 320,000</u>	<u>68,150</u>	<u>388,150</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, 2014, 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, 2014, 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, 2014 were \$4,603.

8. FUND BALANCE

For the year ended December 31, 2014, 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, 2014, 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, 2015. 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 \$8,220 for the year ended December 31, 2014.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases - The District leases certain office equipment under various operating leases which expire on various dates through 2019. The leases had initial terms of one to five years. Total rent expense was \$9,321 for the year ended December 31, 2014.

Future minimum annual rentals under noncancelable leases (which are principally for leased office equipment) were as follows as of December 31, 2014:

2015	\$	6,178
2016		4,766
2017		4,766
2018		4,766
2019		794
Total	<u>\$</u>	<u>21,270</u>

Wastewater Treatment Service Agreement - On April 28, 1998, the District entered into a Wastewater Treatment Service 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.

On July 1, 2014, the District and the LCRA entered into a Revised and Restated Wastewater Service Agreement (the "Agreement"), which transfers operations of the wastewater collection system to the District while the LCRA continues to own the system. Pursuant to the terms of the revised and restated Agreement, the District is required to pay to the LCRA a monthly charge through June 2034. As a part of the revision to the Agreement, LCRA and the District established a schedule of Annual Project Revenue Requirements, which is based upon the total annual capital and amortization payments necessary for the LCRA to recover its finance costs, coverage, and amortized capacity charges owed to the City of Bastrop for wastewater treatment. The Annual Project Revenue Requirement amounts also include the debt service and coverage for the repayments of the shortfall incurred by the District during a temporary reduction in the District's monthly charge negotiated by the District and LCRA in the wake of the Bastrop Complex Fire of 2011, which impacted the District's finances. This monthly charge is not subject to annual review or adjustment unless (1) the parties mutually agree to a review and adjustment or (2) the District defaults in its obligations under the terms of the Agreement.

Under the terms of the revised and restated Agreement, the District continues to represent and covenant 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. The District is solely responsible for implementing sewer charges and fees, and for billing and collecting the same, from its customers in accordance with all applicable laws.

Additionally, the terms of the revised and restated Agreement required the assignment of the Agreement between the City of Bastrop, Texas, and the LCRA Concerning the Treatment of Wastewater (the "City Agreement"). With the consent of the City of Bastrop, all of the LCRA's rights, duties, and obligations under the City Agreement were assigned and delegated to the District, and the City agreed to submit its monthly billing statements for the treatment of wastewater directly to the District. Prior to this assignment, the LCRA received the City's monthly bill and forwarded the same to the District for payment.

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.

**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, 2014**

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:			
Standby charges	\$ 40,211	29,052	(11,159)
Interest and other	-	3,828	3,828
TOTAL REVENUES	40,211	32,880	(7,331)
EXPENDITURES:			
Service operations:			
Professional fees	19,750	27,261	(7,511)
Office	13,800	10,753	3,047
Consumable supplies and materials	-	1,081	(1,081)
Repairs and maintenance	-	-	-
Bad Debt	-	22,678	(22,678)
Other	500	-	500
Capital Outlay	-	-	-
TOTAL EXPENDITURES	34,050	61,773	(27,723)
DEFICIENCY OF REVENUES UNDER EXPENDITURES	6,161	(28,893)	(35,054)
FUND BALANCE:			
Beginning of year	112,736	112,736	-
End of year	<u>\$ 118,897</u>	<u>83,843</u>	<u>(35,054)</u>

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, 2014**

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:			
Road assessment fees	\$ 602,064	720,387	118,323
Interest and other	17,300	16,536	(764)
TOTAL REVENUES	619,364	736,923	117,559
EXPENDITURES:			
Service operations:			
Professional fees	43,000	116,805	(73,805)
Operations	-	56,033	(56,033)
Office	27,200	13,700	13,500
Consumable supplies and materials	60,000	21,373	38,627
Salary allocation	40,000	54,901	(14,901)
Repairs and maintenance	5,000	1,448	3,552
Contract services	25,000	-	25,000
Bad debt	-	133,277	(133,277)
Other	210,550	-	210,550
Capital Outlay	150,000	294,556	(144,556)
TOTAL EXPENDITURES	560,750	692,093	(131,343)
EXCESS OF REVENUES OVER EXPENDITURES	58,614	44,830	(13,784)
FUND BALANCE:			
Beginning of year	788,714	788,714	-
End of year	<u>\$ 847,328</u>	<u>833,544</u>	<u>(13,784)</u>

**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, 2014**

<u>SCHEDULE INCLUDED</u>		
<u>YES</u>	<u>NO</u>	
<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, 2014**

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, 2014**

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 and above
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, 2014**

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	-	-	x 1.0	-
<=3/4"	1,590	1,373	x 1.0	1,373
1"	4	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	1,601	1,379		1,404.5
Total Wastewater	592	530	x 1.0	530

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

Gallons pumped into system:	<u>109,975,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>101,487,000</u>	(Gallons billed/Gallons pumped)
		<u>92.3%</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, 2014**

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, 2014**

Personnel Expenditures (including benefits)	\$ 416,297
Professional Fees:	
Auditing	11,000
Legal	41,862
Engineering	21,015
Financial Advisor	-
Purchased Services For Resale-	
Bulk Water and Wastewater Purchases	-
Contracted Services:	
Bookkeeping	12,990
General Manager	-
Appraisal District	-
Tax Collector	-
Other Contracted Services	-
Utilities	56,679
Repairs and Maintenance	169,391
Administrative Expenditures:	
Directors' Fees	-
Office Supplies	5,834
Insurance	22,865
Other Administrative Expenses	482,715
Capital Outlay:	
Capitalized Assets	-
Expenditures not Capitalized	86,316
Tap Connection Expenditures	3,000
Solid Waste Disposal	1,692
Fire Fighting	-
Parks and Recreation	-
Depreciation	225,694
Other Expenditures	22,217
TOTAL EXPENDITURES	\$ 1,579,567

Number of persons employed by the District: 9 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, 2014**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at December 31, 2014</u>	<u>Accrued Interest Receivable at December 31, 2014</u>
<u>Water Fund:</u>					
Certificate of Deposit	30226	1.97%	4/2/2016	\$ 65,000	-
Certificate of Deposit	74188	0.50%	11/18/2015	150,751	-
Total				<u>\$ 215,751</u>	<u>-</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TSI-5 LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS

DECEMBER 31, 2014

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
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>\$ 320,000</u>	<u>68,150</u>	<u>388,150</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**TSI-6 ANALYSIS OF CHANGES IN LONG-TERM DEBT
DECEMBER 31, 2014**

	<u>Series 2000</u>	
Interest rate	5.80%	
Dates interest payable	2/15; 8/15	
Maturity dates	8/15/2020	
Bonds outstanding, beginning of period	\$ 365,000	
Bonds issued/acquired during current period	-	
Bonds retired during current period	<u>(45,000)</u>	
Bonds outstanding, end of period	<u>\$ 320,000</u>	
Interest paid during current period	<u>\$ 21,924</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, 2014:	<u>\$ 65,000 (b)</u>	
Average annual debt service payments (principal & interest) for remaining term of debt:	<u>\$ 64,692</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, 2014

	AMOUNTS					PERCENT OF FUND TOTAL REVENUES				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
REVENUES:										
Charges for services	\$ 1,572,742	1,352,442	1,237,499	1,542,398	1,183,585	59.3 %	55.3	62.3	67.8	55.7
Stand-by fees	29,052	26,460	50,114	41,867	43,566	1.1	1.1	2.5	1.8	2.1
Tap fees	221,861	184,802	220,263	236,348	268,679	8.4	7.5	11.1	10.4	12.6
Reconnect fees	8,850	7,750	8,300	8,000	9,450	0.3	0.3	0.4	0.4	0.5
Other operating	2,811	2,124	90,619	70,166	231,874	0.1	0.1	4.6	3.1	10.9
Interest and other	97,677	330,527	22,782	4,858	7,079	3.7	13.5	1.1	0.2	0.3
Road assessment fees	720,387	542,873	356,694	370,065	380,019	27.1	22.2	18.0	16.3	17.9
Total	2,653,380	2,446,978	1,986,271	2,273,702	2,124,252	100.0 %	100.0	100.0	100.0	100.0
EXPENDITURES/EXPENSES:										
Office	79,733	79,910	95,920	162,482	169,675	3.0 %	3.3	4.8	7.1	8.0
Payroll	471,198	488,759	484,550	703,550	642,073	17.8	20.0	24.4	30.9	30.2
Contract services	3,000	19,702	57,233	37,684	70,814	0.1	0.8	2.9	1.7	3.3
Professional fees	240,151	174,381	136,056	120,782	146,010	9.1	7.1	6.8	5.3	6.9
Repairs, maintenance, supplies and materials	279,609	241,717	479,556	48,716	21,938	10.5	9.9	24.1	2.1	1.0
Operating expenses	538,748	360,217	338,621	752,314	824,938	20.3	14.7	17.0	33.1	38.8
Bad debt	155,955	73,540	-	-	-	5.9	3.0	0.0	0.0	0.0
Other	22,865	52,380	73,290	-	-	0.9	2.1	3.7	0.0	0.0
Capital outlay	294,556	96,102	58,429	155,716	93,495	11.1	3.9	2.9	6.8	4.4
Depreciation	225,694	272,527	202,850	-	-	8.5	11.1	10.2	6.8	0.0
Debt service	21,924	23,490	29,471	76,705	76,772	0.8	1.0	1.5	3.4	3.6
Total expenditures/expenses	2,333,433	1,882,725	1,955,976	2,057,949	2,045,715	88.0 %	76.9	98.3	90.4	96.2
EXCESS OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 319,947	564,253	30,295	215,753	78,537	12.0 %	23.1	1.7	9.6	3.8
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,379	1,300	1,224	1,150	1,338					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	530	483	443	396	500					

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**TSI-8 BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2014**

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: May 14, 2013
(TWC Sections 36.054 and 49.054)

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

<u>Name and Address</u>	<u>Term of Office Elected & Expires or Date Hired</u>	<u>Fees 12/31/14</u>	<u>Expense Reimbursements 12/31/14</u>	<u>Title at Year End</u>
<u>Board Members:</u>				
John Creamer	Elected 5/14 - 5/18	\$ -	\$ -	President
Karen Pinard	Elected 5/12 - 5/16	-	-	Vice President
Sam Kier	Elected 5/14 - 5/18	-	-	Secretary
Ken Keil	Appointed 6/12 - 5/16	-	-	Treasurer
Tammy Eden	Appointed 12/14 - 5/18	-	-	Director
<u>Former Board Members:</u>				
Brent Golemon	Elected 5/14 - 12/14	-	-	Former Director
Victor Gonzalez	Elected 5/10 - 5/14	-	-	Former Vice President
<u>Key Administrative Personnel</u>				
Tyler Walsh	10/03	64,437	-	Operations Manager
Alma Rodriguez	1/01	61,260	-	District Administrator

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

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

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

DECEMBER 31, 2014

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements 12/31/14</u>	<u>Title at Year End</u>
<u>Consultants:</u>			
Befco Engineering, Inc.	1996	\$ 93,565	Engineers
Lisa Patterson	2010	70,339	Legal Counsel
Spirit Financial, Inc.	2011	32,475	Bookkeeper
Maxwell Locke & Ritter LLP	2013	27,500	Auditor
Samco Capital Markets, Inc.	2000	-	Financial Advisor