

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

**FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

WEST, DAVIS & COMPANY, LLP
Certified Public Accountants
Austin, Texas

This page intentionally left blank.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

Annual Financial Report
For the Year Ended December 31, 2017

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF BASTROP }

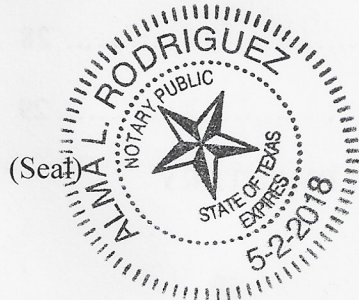
I, JOHN CREAMER PRESIDENT of the Bastrop County Water Control and Improvement District No. 2 hereby swear, or affirm, that the district named above has reviewed and approved at a meeting of the Board of Directors of the District on the 19th day of April, 2018, its annual audit report for the fiscal year ended December 31, 2017, and that copies of the annual report have been filed in the district office, located at 106 Conference Drive, Bastrop, Texas.

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: April 19, 2018

By: *John Creamer*

Sworn to and subscribed to before me this 19th day of April 2018.



Notary: *Alma L Rodriguez*

My Commission expires on: May 2, 2018, Notary Public in and for the State of Texas.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

Annual Financial Report
For the Year Ended December 31, 2017

TABLE OF CONTENTS

Page

FINANCIAL SECTION

Independent Auditor’s Report on Financial Statements 1

Management’s Discussion & Analysis (Required Supplementary Information) 3

Basic Financial Statements

Government-wide Statement of Net Position 10

Government-wide Statement of Activities 11

Fund Financial Statements

Balance Sheet-Governmental Funds12

Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds 13

Statement of Net Position-Proprietary Funds 14

Statement of Revenues, Expenses and Changes in Net Position-Proprietary Funds 15

Statement of Cash Flows-Proprietary Funds 16

Notes to the Financial Statements 17

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – Standby Fund 28

Budgetary Comparison Schedule – Road Fund 29

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY SUPPLEMENTARY INFORMATION

Index of Supplemental Schedules Required by the
Texas Commission on Environmental Quality 30

Supplemental Schedules 31

FINANCIAL SECTION

WEST, DAVIS & COMPANY

A LIMITED LIABILITY PARTNERSHIP

Independent Auditor's Report

Board of Directors
Bastrop County Water Control & Improvement District No. 2
Bastrop County, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Bastrop County Water Control & Improvement District No. 2 (the District) as of and for the year ended December 31, 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 evaluation the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the District at December 31, 2017, and the 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, identified as Required Supplementary Information in the table of contents, 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.

Texas Commission on Environmental Quality Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedules required by the Texas Commission on Environmental Quality are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules required by the Texas Commission on Environmental Quality are the responsibility of management and were derived from and relate 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 our 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 supplemental schedules required by the Texas Commission on Environmental Quality are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

West, Davis + Company

Austin, Texas
March 31, 2018

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2017

In accordance with Governmental Accounting Standards Board Statement 34 (“GASB 34”), the management of Bastrop County Water Control & Improvement District No. 2 (the “District”) offers the following discussion and analysis to provide an overview of the District’s financial activities for the year ended December 31, 2017. Since this information is designed to focus on current year’s activities, resulting changes, and currently known facts, it should be read 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 standby fee 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, 2017. This is an increase of \$251 thousand from the previous year.
- During the year, the District generated approximately \$4.1 million in total revenues.
- Total expenses in the Proprietary Funds for the District’s water and wastewater operations were approximately \$2.0 million for the year ended December 31, 2017. Total standby and road construction and maintenance expenses, which are accounted for in the Special Revenue Funds, were approximately \$1.9 million for the year.

OVERVIEW OF THE DISTRICT

The District, a political subdivision of the State of Texas, was created by the Bastrop County Commissioners Court in 1985. The District was created and organized for the purpose of providing water and wastewater services to customers within its boundaries and in the surrounding area. In 1989, the State of Texas granted the District the additional powers and duties of a road utility district.

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2017

USING THIS ANNUAL REPORT

The District's reporting is comprised of five parts:

- Management's Discussion and Analysis (this section)
- Basic Financial Statements
 - Government-wide Statement of Net Position
 - Government-wide Statement of Activities
 - Balance Sheet-Governmental Funds
 - Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds
 - Statement of Net Position-Proprietary Funds
 - Statement of Revenues, Expenses and changes in Net Position-Proprietary Funds
 - Statement of Cash Flows-Proprietary Funds
- Notes to the Financial Statements
- Required Supplementary Information
- Texas Commission on Environmental Quality Supplementary Information

The Government-wide financial statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. These statements 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.

The Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These statements show how services were financed in the short term as well as what resources remain for future spending.

The Proprietary Fund financial statements 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 the Financial Statements provide additional information that is essential to a full understanding of the information presented in the Government-wide statements and the Fund financial statements.

The Required Supplementary Information presents a comparison statement between the District's adopted budget and its actual results. These schedules are required for the Special Revenue Funds of the District.

The Texas Commission on Environmental Quality Supplementary Information provides additional information and is required to be presented by the TCEQ.

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

**Management Discussion and Analysis
For the Year Ended December 31, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Summary Statement of Net Position

(in thousands)

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	
Current and Other Assets	\$ 719	\$ 838	\$ 2,790	\$ 2,307	\$ 3,509	\$ 3,145	\$ 364
Capital and Non-Current Assets	2,271	618	7,518	7,691	9,789	8,309	1,480
Total Assets	2,990	1,456	10,308	9,998	13,298	11,454	1,844
Current Liabilities	1,858	2	541	559	2,399	561	1,838
Long-Term Liabilities	-	-	5,570	5,815	5,570	5,815	(245)
Total Liabilities	1,858	2	6,111	6,374	7,969	6,376	1,593
Capital Assets, Net of Debt	472	618	1,703	1,641	2,175	2,259	(84)
Restricted for Debt Service	-	-	65	65	65	65	-
Unassigned	660	836	2,429	1,918	3,089	2,754	335
Total Net Position	\$ 1,132	\$ 1,454	\$ 4,197	\$ 3,624	\$ 5,329	\$ 5,078	\$ 251

The District's total assets were approximately \$13.3 million as of December 31, 2017. Of this amount, approximately \$3.3 million is accounted for by cash and short-term investments. The District had outstanding liabilities of approximately \$8.0 million. The District's unassigned net assets, which can be used to finance day to day operations, totaled \$3.1 million.

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

**Management Discussion and Analysis
For the Year Ended December 31, 2017**

Summary Statement of Activities

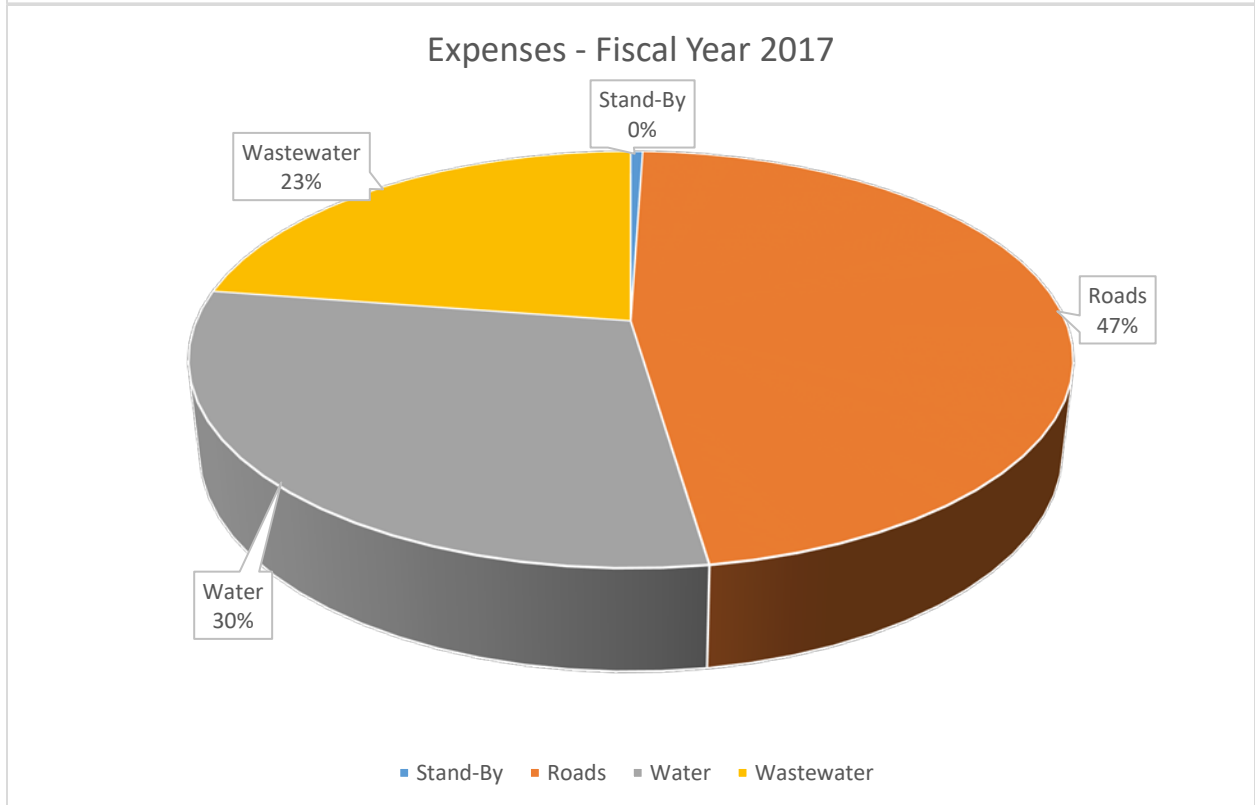
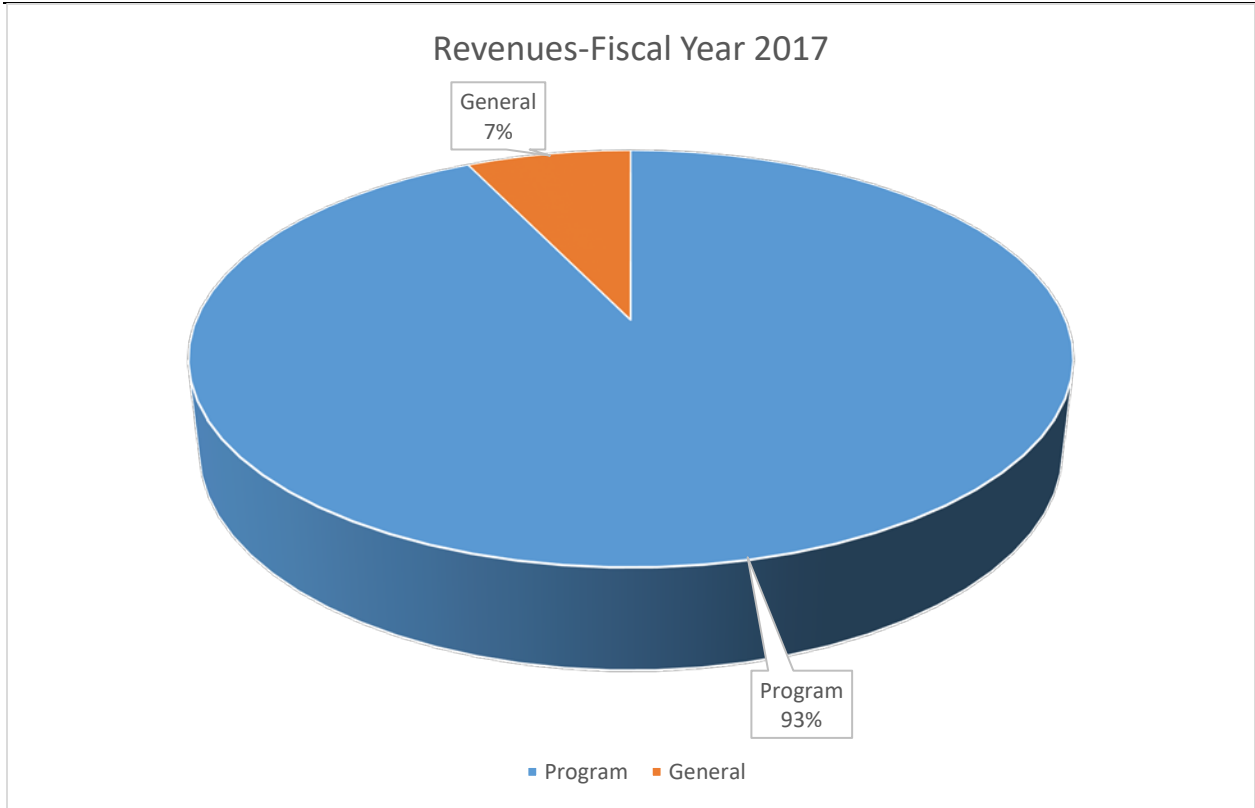
(in thousands)

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2017	2016	2017	2016	2017	2016	
Program	\$ 1,259	\$ 785	\$2,503	\$2,420	\$3,762	\$3,205	\$ 557
General	233	158	64	10	297	168	129
Total Revenues	1,492	943	2,567	2,430	4,059	3,373	686
Stand-By	20	37	-	-	20	37	(17)
Roads	1,794	992	-	-	1,794	992	802
Water	-	-	1,134	1,126	1,134	1,126	8
Wastewater	-	-	860	945	860	945	(85)
Total Expenses	1,814	1,029	1,994	2,071	3,808	3,100	708
Change In Net Position	(322)	(86)	573	359	251	273	(22)
Beginning Net Position	1,454	1,540	3,624	3,265	5,078	4,805	273
Ending Net Position	\$ 1,132	\$ 1,454	\$4,197	\$3,624	\$5,329	\$5,078	\$ 251

Revenues were approximately \$4.1 million for the year ended December 31, 2017. Expenses were approximately \$3.9 million for the year ended December 31, 2017. Net position increased \$251 thousand from current year activities. The following charts summarize the sources of revenue and areas of expenses.

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

**Management Discussion and Analysis
For the Year Ended December 31, 2017**



BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2017

BUDGETARY HIGHLIGHTS

The Standby Fund finished the year ahead of budget by approximately \$20 thousand primarily due to reduced expenditures compared to budget. The Road Fund finished the year over budget by approximately \$125 thousand also primarily due to an increase in operations and supplies expenditures compared to budget. More detailed information about the District's budgetary comparison is presented in the Required Supplementary Information section.

CAPITAL ASSETS

The District has invested \$14.7 million in infrastructure. A summary of these assets is listed below:

Summary of Capital Assets

(in thousands)

	2017	2016	Increase (Decrease)
Land	\$ 607	\$ 607	\$ -
Construction in Progress	-	-	-
Water and Wastewater Improvements	10,853	10,523	330
Road Improvements	1,799	940	859
Buildings	416	413	3
Machinery and Equipment	762	648	114
Vehicles	265	235	30
Total Capital Assets	14,702	13,366	1,336
Accumulated Depreciation	(4,913)	(5,057)	144
Total Capital Assets (Net)	\$ 9,789	\$ 8,309	\$ 1,480

LONG TERM DEBT

The District issued no new debt during the year. Bonded indebtedness of the District at year end was \$5.815 million. More detailed information about the District's long-term debt is presented in the Notes to the Basic Financial Statements.

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

**Management Discussion and Analysis
For the Year Ended December 31, 2017**

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 PO 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, 2017**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	STATEMENT OF NET POSITION
<u>ASSETS</u>			
Cash	\$ 630,836	\$ 157,764	\$ 788,600
Investments			
Unrestricted	-	2,277,908	2,277,908
Restricted	-	282,994	282,994
Receivables			
Assessments Receivable, Net	87,908	-	87,908
Service Accounts Receivable, Net	-	15,619	15,619
Internal Balances	(42,655)	42,655	-
Utility Deposits	-	13,365	13,365
Capital Assets, Net			
Land	431,264	176,166	607,430
Water and Wastewater Improvements	-	6,822,248	6,822,248
Road Improvements	1,798,627	-	1,798,627
Buildings	-	214,357	214,357
Machinery and Equipment	36,140	257,937	294,077
Vehicles	5,139	47,341	52,480
TOTAL ASSETS	2,947,259	10,308,354	13,255,613
<u>LIABILITIES</u>			
Accounts Payable	16,384	63,369	79,753
Accrued Liabilities	1,798,627	36,940	1,835,567
Customer Deposits	-	196,200	196,200
Long-term Liabilities			
Due Within One Year	-	245,000	245,000
Due After One Year	-	5,570,000	5,570,000
TOTAL LIABILITIES	1,815,011	6,111,509	7,926,520
NET POSITION			
Invested in Capital Assets (Net of Related Debt)	472,543	1,703,049	2,175,592
Restricted for Debt Service	-	65,000	65,000
Unrestricted	659,705	2,428,796	3,088,501
TOTAL NET POSITION	\$ 1,132,248	\$ 4,196,845	\$ 5,329,093

The accompanying notes are an integral part of these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	STATEMENT OF ACTIVITIES
REVENUES			
Water and Wastewater Service	\$ -	\$ 1,844,975	\$ 1,844,975
Tap Fees	-	469,814	469,814
Debt Service Reserve Fee	-	143,542	143,542
Stanby Charges	47,150	-	47,150
Road Assessment Fees	919,061	-	919,061
FEMA Grants	292,199	44,200	336,399
Other	233,448	58,129	291,577
TOTAL REVENUES	1,491,858	2,560,660	4,052,518
EXPENSES			
Service Operations			
Payroll and Related expenses	98,070	592,702	690,772
Operations	287,415	241,052	528,467
Repairs and Maintenance	23,062	77,213	100,275
Contract Services	211,026	-	211,026
Consumable Supplies	209,966	147,885	357,851
Professional Services	133,912	59,079	192,991
Office	37,831	14,085	51,916
Insurance	5,569	21,129	26,698
Depreciation	10,919	649,339	660,258
Debt Service:			
Interest	-	191,964	191,964
Loss on Road Conveyances	796,424	-	796,424
TOTAL EXPENSES	1,814,194	1,994,448	3,808,642
NON-OPERATING REVENUES			
Rental Income	-	3,300	3,300
Interest and Other	-	3,782	3,782
TOTAL NON-OPERATING REVENUES	-	7,082	7,082
CHANGE IN NET POSITION	(322,336)	573,294	250,958
NET POSITION			
Beginning of Year	1,454,584	3,623,551	5,078,135
End of Year	\$ 1,132,248	\$ 4,196,845	\$ 5,329,093

The accompanying notes are an integral part of these financial statements.

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

BALANCE SHEET-GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	<u>STANDBY</u>	<u>ROAD</u>	<u>TOTAL</u>	<u>ADJUST- MENTS</u>	<u>STATEMENT OF NET POSITION</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 126,990	\$ 503,846	\$ 630,836	\$ -	\$ 630,836
Assessments Receivable, Net	23,118	64,790	87,908	-	87,908
Due from Proprietary Fund	-	-	-	-	-
Capital Assets, Net					
Land	-	-	-	431,264	431,264
Road Improvements	-	-	-	1,798,627	1,798,627
Machinery and Equipment	-	-	-	36,140	36,140
Vehicles	-	-	-	5,139	5,139
TOTAL ASSETS	<u>\$ 150,108</u>	<u>\$ 568,636</u>	<u>\$ 718,744</u>	<u>\$ 2,271,170</u>	<u>\$ 2,989,914</u>
<u>LIABILITIES</u>					
Accounts Payable	\$ 200	\$ 16,184	\$ 16,384	\$ -	\$ 16,384
Obligation to Transfer Roads to County	-	-	-	1,798,627	1,798,627
Due to Proprietary Fund	3,581	39,074	42,655	-	42,655
TOTAL LIABILITIES	<u>3,781</u>	<u>55,258</u>	<u>59,039</u>	<u>1,798,627</u>	<u>1,857,666</u>
<u>FUND BALANCES</u>					
Assigned Fund Balance	146,327	513,378	659,705	(659,705)	-
TOTAL FUND BALANCES	<u>146,327</u>	<u>513,378</u>	<u>659,705</u>	<u>(659,705)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 150,108</u>	<u>\$ 568,636</u>	<u>\$ 718,744</u>		
<u>NET POSITION</u>					
Invested in Capital Assets (Net of Related Debt)				472,543	472,543
Unrestricted				659,705	659,705
TOTAL NET POSITION				<u>\$ 1,132,248</u>	<u>\$ 1,132,248</u>

The accompanying notes are an integral part of these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>STANDBY</u>	<u>ROAD</u>	<u>TOTAL</u>	<u>ADJUST- MENTS</u>	<u>STATEMENT OF ACTIVITIES</u>
<u>REVENUES</u>					
Stanby Charges	\$ 47,150	\$ -	\$ 47,150	\$ -	\$ 47,150
Road Assessment Fees	-	919,061	919,061	-	919,061
FEMA Grants	-	292,199	292,199	-	292,199
Interest and Other	7,021	226,427	233,448	-	233,448
TOTAL REVENUES	54,171	1,437,687	1,491,858	-	1,491,858
<u>EXPENDITURES</u>					
Service Operations					
Salary Allocation	-	98,070	98,070	-	98,070
Operations	-	287,415	287,415	-	287,415
Repairs and Maintenance	-	23,062	23,062	-	23,062
Contract Services	-	211,026	211,026	-	211,026
Consumable Supplies	-	209,966	209,966	-	209,966
Professional Fees	7,966	125,946	133,912	-	133,912
Office	12,486	25,345	37,831	-	37,831
Insurance	-	5,569	5,569	-	5,569
Capital Expenditures	-	661,618	661,618	(661,618)	-
Depreciation	-	-	-	10,919	10,919
Loss on Road conveyances	-	-	-	796,424	796,424
TOTAL EXPENDITURES	20,452	1,648,017	1,668,469	145,725	1,814,194
Excess (Deficit) of Revenues Over Expenditures	33,719	(210,330)	(176,611)		
CHANGE IN NET POSITION	-	-	-	(145,725)	(322,336)
<u>FUND BALANCES/NET POSITION</u>					
Beginning of Year	112,608	723,708	836,316	618,268	1,454,584
End of Year	\$ 146,327	\$ 513,378	\$ 659,705	\$ 472,543	\$ 1,132,248

The accompanying notes are an integral part of these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF NET POSITION-PROPRIETARY FUNDS

DECEMBER 31, 2017

	WATER WASTEWATER	TOTAL PROPRIETARY
<u>ASSETS</u>		
Cash	\$ 157,764	\$ 157,764
Investments		
Unrestricted	2,277,908	2,277,908
Restricted	282,994	282,994
Service Accounts Receivable, Net	15,619	15,619
Due from Other Funds	42,655	42,655
Utility Deposits and Prepaid Expenses	13,365	13,365
Capital Assets, Net		
Land	176,166	176,166
Water and Wastewater Improvements	6,822,248	6,822,248
Road Improvements	-	-
Buildings	214,357	214,357
Machinery and Equipment	257,937	257,937
Vehicles	47,341	47,341
TOTAL ASSETS	10,308,354	10,308,354
<u>LIABILITIES</u>		
Accounts Payable	63,369	63,369
Accrued Liabilities	36,940	36,940
Due to Other Funds	-	-
Customer Deposits	196,200	196,200
Long-term Liabilities		
Due Within One Year	245,000	245,000
Due After One Year	5,570,000	5,570,000
TOTAL LIABILITIES	6,111,509	6,111,509
NET POSITION		
Invested in Capital Assets (Net of Related Debt)	1,703,049	1,703,049
Restricted for Debt Service	65,000	65,000
Unrestricted	2,428,796	2,428,796
TOTAL NET POSITION	\$ 4,196,845	\$ 4,196,845

The accompanying notes are an integral part of these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	WATER WASTEWATER	TOTAL PROPRIETARY
REVENUES		
Water and Wastewater Service	\$ 1,844,975	\$ 1,844,975
Tap Fees	469,814	469,814
Debt Service Reserve Fee	143,542	143,542
FEMA Grants	44,200	44,200
Other	58,129	58,129
TOTAL REVENUES	2,560,660	2,560,660
EXPENSES		
Service Operations		
Payroll and Related expenses	592,702	592,702
Operations	241,052	241,052
Repairs and Maintenance	77,213	77,213
Contract Services	-	-
Consumable Supplies	147,885	147,885
Professional Services	59,079	59,079
Office	14,085	14,085
Insurance	21,129	21,129
Depreciation	649,339	649,339
Debt Service:		
Interest	191,964	191,964
TOTAL EXPENSES	1,994,448	1,994,448
NET OPERATING INCOME	566,212	566,212
NON-OPERATING REVENUES		
Rental Income	3,300	3,300
Interest and Other	3,782	3,782
TOTAL NON-OPERATING REVENUES	7,082	7,082
CHANGE IN NET POSITION	573,294	573,294
NET POSITION		
Beginning of Year	3,623,551	3,623,551
End of Year	\$ 4,196,845	\$ 4,196,845

The accompanying notes are an integral part of these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	WATER WASTEWATER	TOTAL PROPRIETARY
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 2,589,605	\$ 2,589,605
Cash Paid to Employees and Suppliers	(1,210,333)	(1,210,333)
Interest Paid	(191,964)	(191,964)
Net Cash Provided by Operating Activities	1,187,308	1,187,308
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Net Effect of Interfund Balances	(50,027)	(50,027)
Net Cash Provided by (Used in) Non-Capital Financing Activities	(50,027)	(50,027)
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>		
Proceeds from Notes Payable	-	-
Principal Payments on Notes Payable	(235,000)	(235,000)
Net Cash Provided by (Used in) Capital Financing Activities	(235,000)	(235,000)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Investments	(1,562,854)	(1,562,854)
Purchase of Capital Assets	(476,611)	(476,611)
Rental Income	3,300	3,300
Interest and Other Income	3,782	3,782
Net Cash Provided by (Used in) Investing Activities	(2,032,383)	(2,032,383)
NET CHANGE IN CASH	(1,130,102)	(1,130,102)
Cash and Cash Equivalents-Beginning of Year	1,287,866	1,287,866
Cash and Cash Equivalents-End of Year	\$ 157,764	\$ 157,764
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 566,212	\$ 566,212
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	649,339	649,339
Decrease in Service Accounts Receivable	12,145	12,145
Increase in Prepaid Expenses	(12,445)	(12,445)
Increase in Accounts Payable	10,433	10,433
Decrease in Accrued Liabilities	(55,176)	(55,176)
Increase in Customer Deposits	16,800	16,800
Net Cash Provided by Operating Activities	\$ 1,187,308	\$ 1,187,308

The accompanying notes are an integral part of these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies

The combined financial statements of Bastrop County Water Control and Improvement District No. 2 (the District) have been prepared in conformity with accounting principles applicable to governmental units that are generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Bastrop County Water Control and Improvement District No. 2 (the District), a political subdivision of the State of Texas, was created by the Bastrop County Commissioner’s Court under Chapter 51 of the Texas Water Code on September 23, 1985. The District was created and organized for the purpose of providing water and wastewater services to customers within its boundaries and in the surrounding area. The District’s first Board of Directors meeting was held 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 roads within 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.

Most recently, Senate Bill No. 749 was enacted effective September 1, 2017, setting the District’s maximum monthly charge for road construction and maintenance at \$21 for each developed or undeveloped lot, tract, or reserve in the District. These laws restrict to 10% the amount the District may use for administrative purposes and requires that not less than 15% of the charges be used for road maintenance.

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 of Directors (the Board) that has been elected by District residents. The funds presented in this report are within the oversight responsibility of the Board, in accordance with Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting. There are no component units of the District, nor is the District a component unit of any other entity.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

A. Basis of Presentation, Basis of Accounting

Government-wide Financial Statements:

The government-wide financial statements, 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 is removed from these statements. Governmental activities, supported by standby and road construction and maintenance assessments, are reported separately from business-type activities, which rely primarily on fees and charges for water and wastewater services.

Fund Financial Statements:

The governmental fund financial statement columns are labeled **Government Funds Balance Sheet** and **Governmental Funds Revenue, Expenditures and Changes in Fund Balance**. In the fund financial statements, the accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The District reports the following major governmental funds:

Special Revenue Funds

Standby Fund: The Standby 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.

Road Construction and Maintenance Fund: The Road Construction and Maintenance Fund includes charges to property owners within the District to fund road construction and maintenance within the District. It is a budgeted fund.

Proprietary Funds

Water Fund: The Water Fund is an enterprise fund used to account for the operations of the District's water service system, including maintenance of and capital improvements to the system.

Wastewater Fund: The Wastewater Fund is an enterprise fund used to account for the operations of the District's wastewater collection system, including maintenance of and capital improvements to the system.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies (continued)

B. Measurement Focus, Basis of Accounting

The Government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund financial statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the liability is incurred, except for principal and interest on long term debt, which is recognized as an expenditure to the extent that it has matured. General capital asset acquisitions are reported as expenditures in major governmental funds. Proceeds of general long-term debt are reported as other financing sources.

C. Fund Balances

The District has adopted 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.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies (continued)

Assigned – For the General Fund, amounts that are appropriated by the Board or Board designee, if any, that are to be used for specific purposes. For all other 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 the District’s General Fund.

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 not delegated the authority to assign fund balance.

D. Budget

The Board adopted an annual budget for the Standby Fund and Road Fund on the basis consistent with generally accepted accounting principles. The District does not prepare budgets for other funds. The District’s Board of Directors utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year end.

E. Pensions

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 were \$8,946.

F. Cash and Cash Equivalents

These include cash on deposit as well as investments with maturities of three months or less at the time of purchase. The investments, consisting of certificates of deposit are recorded at cost, which approximates fair market value.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. Summary of Significant Accounting Policies (continued)

G. Assessment and Service 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 the end of the year, the allowance for uncollectible accounts was as follows:

<u>Fund</u>	<u>Allowance for Doubtful Accounts</u>
Standby	\$ 508,534
Road	2,193,543
Water	10,177
Wastewater	4,414
Total Government-wide	<u>\$ 2,716,668</u>

H. Capital Assets

Capital assets, which include Land, Administrative Facilities and Equipment, Water Production and Distribution System, Wastewater Collection System, Road Improvements, Vehicles, and Machinery and Equipment are reported in the applicable governmental or business-type activities columns in the Government-wide financial statements. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated fair market value at the time received. 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 are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Water and Wastewater Improvements	7-39
Buildings and Improvements	7-39
Road Improvements	25
Machinery and Equipment	5-25
Vehicles	5

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies (continued)

I. Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivable and payables if there is intent to repay that amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

J. Accrued 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.

K. 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.

L. Deferred Outflows and Inflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period. GASB Statement No. 63 became effective for fiscal years beginning after December 15, 2011 and has been implemented in the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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 is effective for fiscal years beginning after December 15, 2012 and has been implemented in these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

2. Cash and Investments

The investment policies of the District are governed by State statute and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's Investment Policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third-party trustees.

Cash – At year end, deposits were held by the District's depository bank in accounts that were secured at the balance sheet date by Federal Deposit Insurance Corporation (FDIC) coverage or by pledged collateral held by the District's agent bank in the District's name.

Investments - The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restriction, (1) obligations of the US Treasury, certain US Agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

<u>Investment</u>	<u>Fair Value Level</u>	<u>Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
Unrestricted-				
Certificate of Deposit	2	AAA	1 Year	\$ 153,053
Money Market	1	AAA	1 Day	\$2,124,855
Restricted-				
Money Market	1	AAA	1 Day	\$ 282,994

The District has restricted \$282,994 of investments in accordance with Texas Water Development Board (the "TWDB") note requirements for future debt service payments.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. Cash and Investments (continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Analysis of Specific Cash and Investment Risks – GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and, if so, the reporting of certain related disclosures.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterpart or the counterpart’s trust department or agent but not in the District’s name. At year end, the District was not exposed to custodial credit risk.

Concentration of Credit Risk – This risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

Foreign Currency Risk – This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy – The District’s general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments which have a remaining term of one year or less at time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

3. Capital Assets

During the year the District used operating funds to construct \$858,638 in Road Improvements and \$476,611 in Water and Wastewater System Improvements serving the District's residents. All of the District's facilities, other than Road Improvements, are being depreciated over their estimated useful lives. Depreciation in the amount of \$10,919 and \$649,339 has been charged to governmental activities and business-type activities, respectively. The majority of governmental activities capital assets are road and related improvements that will be conveyed to the County in the future.

	<u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2017</u>
<u>Governmental Activities:</u>				
Land	\$ 431,264	\$ -	\$ -	\$ 431,264
Road Improvements	939,989	858,638	-	1,798,627
Machinery & Equipment	70,077	-	-	70,077
Vehicles	10,278	-	-	10,278
Total	<u>1,451,608</u>	<u>858,638</u>	<u>-</u>	<u>2,310,246</u>
<u>Accumulated Depreciation:</u>				
Road Improvements	(805,183)	-	805,183	-
Machinery & Equipment	(25,074)	-	(8,863)	(33,937)
Vehicles	(3,083)	-	(2,056)	(5,139)
Total	<u>(833,340)</u>	<u>-</u>	<u>794,264</u>	<u>(39,076)</u>
Road Capital Assets (Net)	<u>\$ 618,268</u>	<u>\$ 858,638</u>	<u>\$ 794,264</u>	<u>\$ 2,271,170</u>
 <u>Business-Type Activities:</u>				
Land	\$ 176,166	\$ -	\$ -	\$ 176,166
W/WW Improvements	10,522,912	330,558	-	10,853,470
Buildings	413,241	2,500	-	415,741
Machinery & Equipment	577,767	114,058	-	691,825
Vehicles	225,164	29,495	-	254,659
Total	<u>11,915,250</u>	<u>476,611</u>	<u>-</u>	<u>12,391,861</u>
<u>Accumulated Depreciation:</u>				
W/WW Improvements	(3,443,498)	-	(587,724)	(4,031,222)
Buildings	(190,670)	-	(10,714)	(201,384)
Machinery & Equipment	(390,496)	-	(43,392)	(433,888)
Vehicles	(199,809)	-	(7,509)	(207,318)
Total	<u>(4,224,473)</u>	<u>-</u>	<u>(649,339)</u>	<u>(4,873,812)</u>
W/WW Capital Assets (Net)	<u>\$ 7,690,777</u>	<u>\$ 476,611</u>	<u>\$(649,339)</u>	<u>\$ 7,518,049</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

4. Long-Term Debt

On June 23, 2016, the District issued \$6,345,000 of revenue notes funded by TWDB. The notes 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. The debt agreement with the TWDB requires certain deposits and reserves in place to cover future debt service payments. At December 31, 2017, the District was in compliance with these deposit and reserve requirements.

	<u>Balance</u>			<u>Balance</u>
<u>Bonds:</u>	<u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2017</u>
Revenue Bonds, Series 2016	\$ 6,050,000	-	(235,000)	\$ 5,815,000
Total Bond Indebtedness	\$ 6,050,000	\$ -	\$ (235,000)	\$ 5,815,000

Debt service requirements on long-term debt as of the end of the year are as follows:

<u>Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 245,000	\$ 188,902	\$ 433,902
2019	250,000	185,349	435,349
2020	260,000	180,999	440,999
2021	270,000	175,747	445,747
2022	275,000	169,672	444,672
2023-2027	1,525,000	731,585	2,256,585
2028-2032	1,780,000	455,561	2,235,561
2033-2037	1,210,000	99,938	1,309,938
Totals	\$ 5,815,000	\$ 2,187,753	\$ 8,002,753

5. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the year, the District obtained liability coverage to address this risk.

6. Commitments and Contingencies

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 \$4,816. Future minimum annual rentals under noncancelable leases were \$4,766 for 2018, and \$794 for 2019.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

7. Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

8. Subsequent Events

The District has evaluated subsequent events as of March 31, 2018, the date the financial statements were available to be issued.

9. 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 Balances	\$ 659,705
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	472,543
Total Net Position	<u>\$ 1,132,248</u>

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

Governmental Funds Excess of Revenues over Expenditures	\$ (176,611)
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 or losses on road conveyances	
Capital Outlay	661,618
Depreciation Expense	(10,919)
Loss of Road Conveyances	(796,424)
Change in Net Position	<u>\$ (322,336)</u>

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

STANDBY FUND

BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2017

	ORIGINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
Standby Charges	\$ 41,000	\$ 47,150	\$ 6,150
Interest and Other	2,400	7,021	4,621
TOTAL REVENUES	43,400	54,171	10,771
<u>EXPENDITURES</u>			
Service Operations			
Salary Allocation	-	-	-
Operations	-	-	-
Repairs and Maintenance	-	-	-
Contract Services	-	-	-
Consumable Supplies	-	-	-
Professional Fees	15,700	7,966	7,734
Office	14,100	12,486	1,614
Insurance	-	-	-
TOTAL EXPENDITURES	29,800	20,452	9,348
Excess (Deficit) of			
Revenues over Expenditures	13,600	33,719	20,119
FUND BALANCE			
Beginning of Year	112,608	112,608	-
End of Year	\$ 126,208	\$ 146,327	\$ 20,119

The accompanying notes are an integral part of these financial statements.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

ROAD FUND

BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2017

	ORIGINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
Road Assessment Fees	\$ 889,400	\$ 919,061	\$ 29,661
FEMA Grants	-	292,199	292,199
Interest and Other	308,550	226,427	(82,123)
TOTAL REVENUES	1,197,950	1,437,687	239,737
<u>EXPENDITURES</u>			
Service Operations			
Salary Allocation	111,500	98,070	13,430
Operations	169,100	287,415	(118,315)
Repairs and Maintenance	-	23,062	(23,062)
Contract Services	400,000	211,026	188,974
Consumable Supplies	83,100	209,966	(126,866)
Professional Fees	121,000	125,946	(4,946)
Office	18,200	25,345	(7,145)
Insurance	-	5,569	(5,569)
Capital Expenditures	380,000	661,618	(281,618)
TOTAL EXPENDITURES	1,282,900	1,648,017	(365,117)
Excess (Deficit) of			
Revenues over Expenditures	(84,950)	(210,330)	(125,380)
FUND BALANCE			
Beginning of Year	723,708	723,708	-
End of Year	\$ 638,758	\$ 513,378	\$ (125,380)

The accompanying notes are an integral part of these financial statements.

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
SUPPLEMENTARY INFORMATION

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
INDEX OF SUPPLEMENTAL SCHEDULES REQUIRED
BY THE TEXAS WATER COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2017

(Schedules included are checked; explanatory notes are provided for omitted schedules).

- Schedule of Services and Rates
- Schedule of General Fund Expenditures
- Temporary Investments
- Analysis of Taxes Levied and Receivable
 - None
- General Long Term Debt Service Requirements by Years
- Analysis of Changes in General Long Term Debt
- Comparative Schedule of Revenues and Expenditures – All Funds
- Board Members, Key Personnel, and Consultants

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**SCHEDULE OF WATER AND WASTEWATER FUND EXPENSES
YEAR ENDED DECEMBER 31, 2017**

Personnel expenditures (including benefits)	\$ 592,702
Purchased Services for Resale	
Water	-
Wastewater	-
	<u>-</u>
Professional Fees	
Audit	16,250
Engineering	7,458
Legal	10,605
Appraisal	-
	<u>34,313</u>
Contracted Services	
Accounting	24,766
Repairs	-
	<u>24,766</u>
Administrative	
Director Salaries and Payroll Taxes	-
Insurance	21,129
Office Supplies	14,085
Other	175,422
	<u>210,636</u>
Maintenance	
Repairs and Maintenance	77,213
Supplies	147,885
Utilities	65,630
	<u>290,728</u>
Depreciation	<u>649,339</u>
Interest	<u>191,964</u>
TOTAL EXPENDITURES	<u>\$ 1,994,448</u>

Number of persons employed by the District: 11
(Does not include independent contractors or consultants)

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TEMPORARY INVESTMENTS

DECEMBER 31, 2017

FUNDS	IDENTIFICATION OR CERTIFICATE NUMBER	INTEREST RATE	MATURITY DATE	BALANCE AT END OF YEAR	ACCRUED INTEREST RECEIVABLE AT END OF YEAR
<u>WATER FUND</u>					
Certificate of Deposit	74188	1.05%	11/18/2018	\$ 153,053	\$ -
Money Market	831041	Variable	N/A	617,160	-
Money Market	192781	0.25%	N/A	9,695	-
Money Market	2065076	0.25%	N/A	970,681	-
Money Market	2134385	0.25%	N/A	282,994	-
Money Market	5643903	0.25%	N/A	154,938	-
Money Market	567248	0.25%	N/A	50,217	-
Money Market	573543	0.25%	N/A	322,164	-
Total				<u>2,560,902</u>	<u>-</u>
TOTALS - ALL FUNDS				<u>\$ 2,560,902</u>	<u>\$ -</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**GENERAL LONG TERM DEBT SERVICE REQUIREMENTS-BY YEARS
YEAR ENDED DECEMBER 31, 2017**

DUE DURING FISCAL YEARS ENDING	ANNUAL REQUIREMENTS FOR SERIES 2016		
	TOTAL PRINCIPAL DUE	TOTAL INTEREST DUE	TOTAL PRINCIPAL AND INTEREST DUE
2018	245,000	188,902	433,902
2019	250,000	185,349	435,349
2020	260,000	180,999	440,999
2021	270,000	175,747	445,747
2022	275,000	169,672	444,672
2023	285,000	162,962	447,962
2024	295,000	155,666	450,666
2025	305,000	147,318	452,318
2026	315,000	137,954	452,954
2027	325,000	127,685	452,685
2028	335,000	116,538	451,538
2029	345,000	104,544	449,544
2030	355,000	91,814	446,814
2031	365,000	78,395	443,395
2032	380,000	64,270	444,270
2033	390,000	49,259	439,259
2034	405,000	33,581	438,581
2035	415,000	17,098	432,098
2036	-	-	-
	<u>\$ 5,815,000</u>	<u>\$ 2,187,753</u>	<u>\$ 8,002,753</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**GENERAL LONG TERM DEBT SERVICE REQUIREMENTS-BY YEARS
YEAR ENDED DECEMBER 31, 2017**

DUE DURING FISCAL YEARS ENDING	ANNUAL REQUIREMENTS FOR ALL SERIES		
	TOTAL PRINCIPAL DUE	TOTAL INTEREST DUE	TOTAL PRINCIPAL AND INTEREST DUE
2018	245,000	188,902	433,902
2019	250,000	185,349	435,349
2020	260,000	180,999	440,999
2021	270,000	175,747	445,747
2022	275,000	169,672	444,672
2023	285,000	162,962	447,962
2024	295,000	155,666	450,666
2025	305,000	147,318	452,318
2026	315,000	137,954	452,954
2027	325,000	127,685	452,685
2028	335,000	116,538	451,538
2029	345,000	104,544	449,544
2030	355,000	91,814	446,814
2031	365,000	78,395	443,395
2032	380,000	64,270	444,270
2033	390,000	49,259	439,259
2034	405,000	33,581	438,581
2035	415,000	17,098	432,098
2036	-	-	-
	<u>\$ 5,815,000</u>	<u>\$ 2,187,753</u>	<u>\$ 8,002,753</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**ANALYSIS OF CHANGES IN GENERAL LONG TERM DEBT
YEAR ENDED DECEMBER 31, 2017**

	SERIES 2016	TOTALS
Interest Rate	1.15- 4.12%	
Dates Interest Payable	6/1 : 12/1	
Maturity Dates	12/1/2035	
Bonds at Beginning of Year	\$ 6,050,000	\$ 6,050,000
Bonds Sold During the Year	-	-
Bonds Defeased During the Year	-	-
Retirements During the Year	<u>(235,000)</u>	<u>(235,000)</u>
Bonds at End of Year	<u>\$ 5,815,000</u>	<u>\$ 5,815,000</u>
Interest Paid During the Year	\$ 191,964	\$ 191,964
Change in Accrued Interest	<u>-</u>	<u>-</u>
Interest Expense	<u>\$ 191,964</u>	<u>\$ 191,964</u>
Paying Agent	TWDB	
	<u>Revenue Bonds</u>	
Bond Authority:		
Bonds	\$ 7,090,000	(a)
Amount Issued	\$ 7,090,000	
Remaining To Be Issued	\$ -	
Debt Service Fund Cash and Temporary Investments balances as of December 31, 2017		<u>\$ 282,994</u> (b)
Average annual debt service payment (principal & interest) for remaining term of all debt		<u>\$ 444,597</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 TWDB debt.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS
FOR THE FIVE YEARS ENDED SEPTEMBER 30, 2016**

	AMOUNTS				
	2017	2016	2015	2014	2013
REVENUES					
Water and Wastewater Service	1,844,975	1,853,629	1,780,463	1,572,742	1,352,442
Tap Connection Fees	469,814	496,397	341,481	221,861	184,802
Debt Service Reserve Fee	143,542	45,984	-	-	-
Standby Charges	47,150	48,665	28,512	29,052	26,460
Road Assessment Fees	919,061	736,217	741,066	720,387	542,873
FEMA Grants	336,399	88,190	-	-	-
Interest and Other	298,659	104,934	485,718	109,338	340,401
TOTAL REVENUES	4,059,600	3,374,016	3,377,240	2,653,380	2,446,978
EXPENDITURES					
Salary Allocation	690,772	663,350	558,296	471,198	488,759
Operations	528,467	503,304	584,587	538,748	360,217
Repairs and Maintenance	100,275	102,076	362,498	279,609	241,717
Contract Services	211,026	51,629	8,464	3,000	19,702
Consumable Supplies	357,851	172,396	-	-	-
Professional Fees	192,991	238,115	319,028	240,151	174,381
Office	51,916	75,359	88,690	79,733	79,910
Insurance and Other	26,697	29,573	36,310	178,820	125,920
Capital Expenditures	661,618	281,926	873,170	294,556	96,102
Depreciation	649,339	589,825	232,098	225,694	272,527
Interest	191,964	91,532	27,635	21,924	23,490
TOTAL EXPENDITURES	3,662,916	2,799,085	3,090,776	2,333,433	1,882,725
Excess (Deficit) of Revenues over Expenditures	<u>396,684</u>	<u>574,931</u>	<u>286,464</u>	<u>319,947</u>	<u>564,253</u>
TOTAL ACTIVE RETAIL CONNECTIONS	<u>1,644</u>	<u>1,556</u>	<u>1,475</u>	<u>1,379</u>	<u>1,300</u>

PERCENT OF REVENUES				
2017	2016	2015	2014	2013
45%	55%	53%	59%	55%
12%	15%	10%	8%	8%
4%	1%	0%	0%	0%
1%	1%	1%	1%	1%
23%	22%	22%	27%	22%
8%	3%	0%	0%	0%
7%	3%	14%	4%	14%
100%	100%	100%	100%	100%
17%	20%	17%	18%	20%
13%	15%	17%	20%	15%
2%	3%	11%	11%	10%
5%	2%	0%	0%	1%
9%	5%	0%	0%	0%
5%	7%	9%	9%	7%
1%	2%	3%	3%	3%
1%	1%	1%	7%	5%
16%	8%	26%	11%	4%
16%	17%	7%	9%	11%
5%	3%	1%	1%	1%
90%	83%	92%	88%	77%
10%	17%	8%	12%	23%
1,644	1,556	1,475	1,379	1,300

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
YEAR ENDED DECEMBER 31, 2017**

DISTRICT MAILING ADDRESS: PO Box 708, Bastrop, Texas 78602

DISTRICT BUSINESS TELEPHONE NUMBER: (512) 321-1688

LIMITS ON FEES OF OFFICE THAT A DIRECTOR MAY RECEIVE DURING A FISCAL YEAR: \$7,200

<u>NAMES AND ADDRESSES</u>	<u>TERM OF OFFICE</u>	<u>SALARY FYE 12/31/17</u>	<u>REIMBURSEMENTS FYE 12/31/17</u>	<u>TITLE AT YEAR END</u>
<u>DIRECTORS</u>				
John Creamer	Elected 5/14-5/18	\$ -	\$ -	President
Karen Pinard	Elected 5/16-5/20	-	-	Vice-President
Mary Beth O'Hanlon	Appointed 11/17-5/18	-	-	Secretary
Sam Kier	Elected 5/14-5/18	-	-	Treasurer
Victor Gonzalez	Elected 5/16-5/20	-	-	Director
		<u>\$ -</u>	<u>\$ -</u>	

CONSULTANTS

McLean & Howard		\$ 10,605	\$ -	Attorneys
Befco Engineering		\$ 7,458	\$ -	Engineers
Municipal Accounts & Consulting		\$ 24,766	\$ -	Accountants
West, Davis & Company		\$ 32,500	\$ -	Auditor