

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

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

**FOR THE YEAR ENDED
DECEMBER 31, 2018**

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

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BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

Annual Financial Report
For the Year Ended December 31, 2018

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF BASTROP }

I, Mary Beth O'Hanlon 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 18th day of April, 2019, 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 18, 2019

By: Mary Beth O'Hanlon

Sworn to and subscribed to before me this 18th day of April 2019.

(Seal)



Notary: Alma L. Rodriguez

My Commission expires on: May 2, 2022, 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, 2018

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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, 2018, 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, 2018, 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, 2019

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2018

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, 2018. 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 reconstruction 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 \$5.0 million at December 31, 2018. This is a decrease of \$360 thousand from the previous year.
- During the year, the District generated approximately \$4.4 million in total revenues.
- Total expenses in the Proprietary Funds for the District’s water and wastewater operations were approximately \$2.6 million for the year ended December 31, 2018. Total standby and road reconstruction and maintenance expenses, which are accounted for in the Special Revenue Funds, were approximately \$2.1 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.

Management complies with Sec 11001.012 of the District’s Road Powers by producing an annual financial report which also acts as a conveyance of information to each state representative and state senator who represents the area in the district’s jurisdiction.

In 2018, the following roads were conveyed to the Bastrop County or City:

Ulupau Circle (Phase 1 & Phase 2)
Kalama Drive
Kai Court

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2018

In 2018, \$ 551,430, was spent in the performance of road maintenance and \$630,101, was spent on road reconstruction. The following roads were reconstructed with the use of contracted labor, WCID2 labor and support of the Bastrop County or Bastrop City via Interlocal Agreements.

At the end of 2018, the following roads were still reported as not conveyed to the Bastrop County or Bastrop City because they were not yet complete or still within the warranty period:

Lamaloa Lane	Papaloa Lane	Pele Court
N and S Kaupo Drive	N and S Kanaio Drive	Puu Waa Waa Lane
Konhuanui Lane	Kokomo Lane	E and W Maunalua Drive
Homonu Court	Upola Court	Kaenapapa Lane
Kamaiki Drive	Haliimaile Lane	Haou Court
Pahoiki Lane	Kou Court	Kulua Court
Kimo Court	Ahumoa Drive	N Pahihi
Kaena Lane	Papawai Drive	Koae Court
Huelo Court	Kaliu Court	Olaa
Awehi Lane	Ohana Court	Pahala Court

On March 30, 2019, at the annual road meeting, the 1992 Master plan was updated and communicated to the District residents, the Bastrop County and Bastrop City for the change in road inventory, roads to be reconstructed in 2019, future plans and cost estimates to complete. Our current estimate of costs to complete the project of 100% conveyance of roads to the Bastrop County or Bastrop City is \$8 Million.

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

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2018

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, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Summary Statement of Net Position

(in thousands)

	Governmental Activities		Business-Type Activities		Total		
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Current and Other Assets	\$ 845	\$ 719	\$ 2,742	\$ 2,790	\$ 3,587	\$ 3,509	\$ 78
Capital and Non-Current Assets	<u>1,776</u>	<u>2,271</u>	<u>7,684</u>	<u>7,518</u>	<u>9,460</u>	<u>9,789</u>	<u>(329)</u>
Total Assets	<u>2,621</u>	<u>2,990</u>	<u>10,426</u>	<u>10,308</u>	<u>13,047</u>	<u>13,298</u>	<u>251</u>
Current Liabilities	2,172	1,858	586	541	2,758	2,399	359
Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>5,320</u>	<u>5,570</u>	<u>5,320</u>	<u>5,570</u>	<u>(250)</u>
Total Liabilities	<u>2,172</u>	<u>1,858</u>	<u>5,906</u>	<u>6,111</u>	<u>8,078</u>	<u>7,969</u>	<u>109</u>
Capital Assets, Net of Debt	300	472	2,114	1,703	2,414	2,175	239
Restricted for Debt Service	-	-	220	65	220	65	155
Unassigned	<u>149</u>	<u>660</u>	<u>2,186</u>	<u>2,429</u>	<u>2,335</u>	<u>3,089</u>	<u>(754)</u>
Total Net Position	<u>\$ 449</u>	<u>\$ 1,132</u>	<u>\$ 4,520</u>	<u>\$ 4,197</u>	<u>\$ 4,969</u>	<u>\$ 5,329</u>	<u>\$ (360)</u>

The District's total assets were approximately \$13.0 million as of December 31, 2018. Of this amount, approximately \$2.8 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 \$2.3 million.

BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2018

Summary Statement of Activities

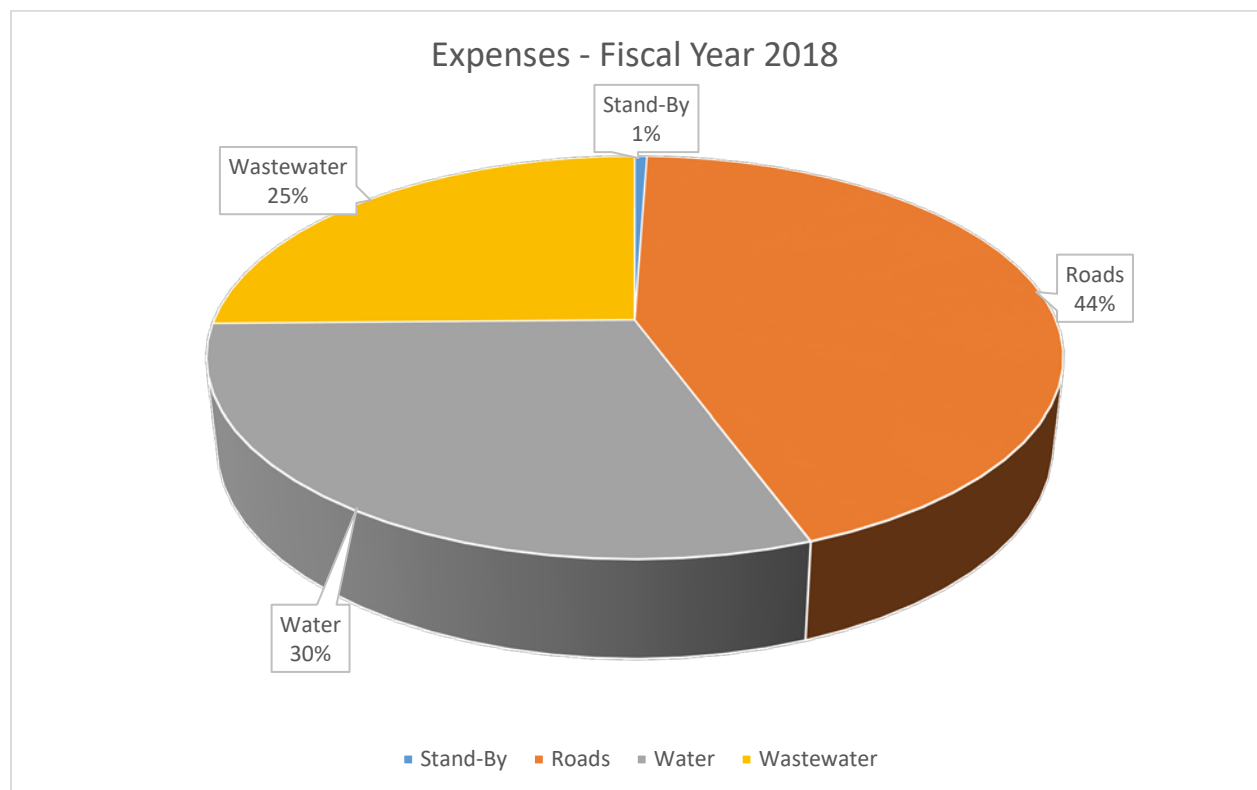
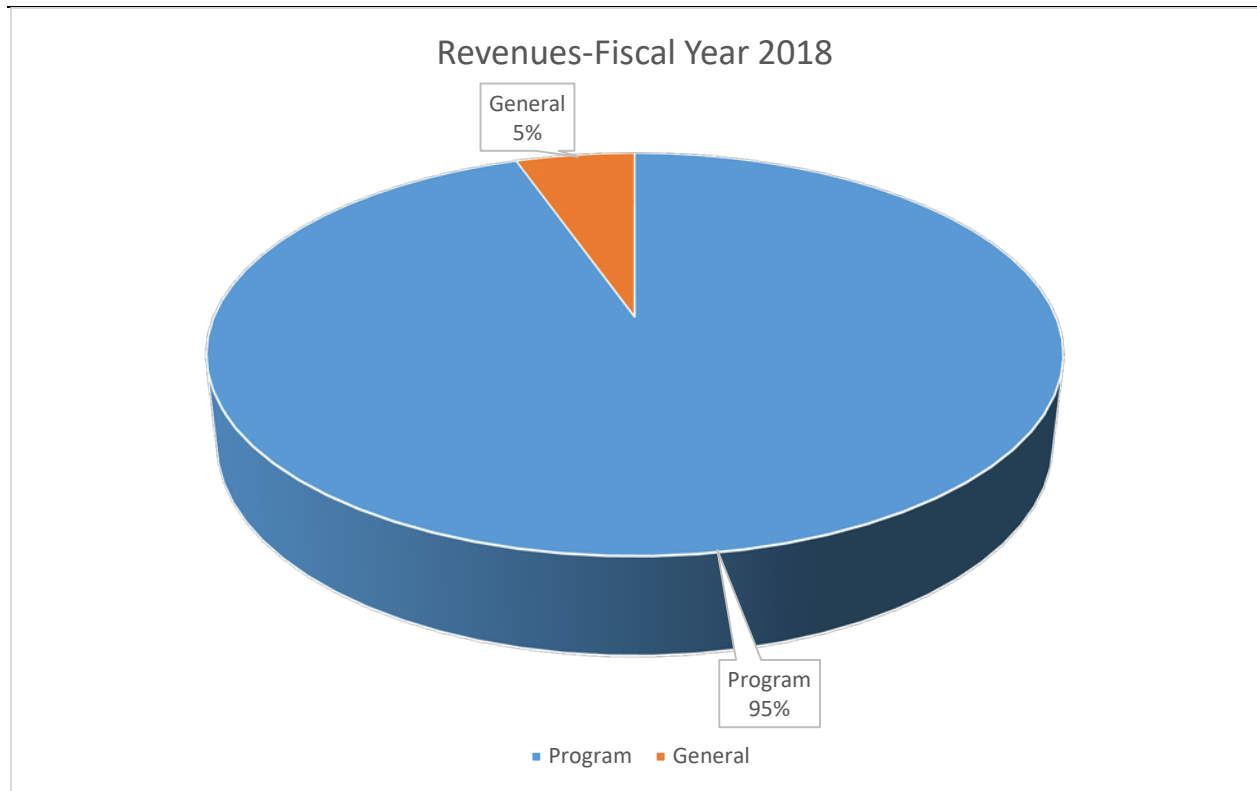
(in thousands)

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2018	2017	2018	2017	2018	2017	
Program	\$ 1,235	\$ 1,259	\$ 2,893	\$ 2,503	\$ 4,128	\$ 3,762	\$ 366
General	178	233	56	64	234	297	(63)
Total Revenues	1,413	1,492	2,949	2,567	4,362	4,059	303
Stand-By	26	20	-	-	26	20	6
Roads	2,070	1,794	-	-	2,070	1,794	276
Water	-	-	1,432	1,134	1,432	1,134	298
Wastewater	-	-	1,194	860	1,194	860	334
Total Expenses	2,096	1,814	2,626	1,994	4,722	3,808	914
Change In Net Position	(683)	(322)	323	573	(360)	251	(611)
Beginning Net Position	1,132	1,454	4,197	3,624	5,329	5,078	251
Ending Net Position	\$ 449	\$ 1,132	\$ 4,520	\$ 4,197	\$ 4,969	\$ 5,329	\$ (360)

Revenues were approximately \$4.4 million for the year ended December 31, 2018. Expenses were approximately \$4.7 million for the year ended December 31, 2018. Net position decreased \$360 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, 2018



BASTROP COUNTY WATER CONTROL & IMPROVEMENT DISTRICT NO. 2

Management Discussion and Analysis For the Year Ended December 31, 2018

BUDGETARY HIGHLIGHTS

The Standby Fund finished the year over budget by approximately \$26 thousand primarily due to reduced revenue compared to budget. The Road Fund finished the year over budget by approximately \$602 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 \$15.1 million in infrastructure. A summary of these assets is listed below:

Summary of Capital Assets

(in thousands)

	2018	2017	Increase (Decrease)
Land	\$ 445	\$ 607	\$ (162)
Construction in Progress	-	-	-
Water and Wastewater Improvements	11,550	10,853	697
Road Improvements	1,475	1,799	(324)
Buildings	423	416	7
Machinery and Equipment	811	762	49
Vehicles	383	265	118
Total Capital Assets	15,087	14,702	385
Accumulated Depreciation	(5,627)	(4,913)	(714)
Total Capital Assets (Net)	\$ 9,460	\$ 9,789	\$ (329)

LONG TERM DEBT

The District issued no new debt during the year. Bonded indebtedness of the District at year end was \$5.570 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, 2018

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.

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BASIC FINANCIAL STATEMENTS

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

GOVERNMENT-WIDE STATEMENT OF NET POSITION

DECEMBER 31, 2018

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	STATEMENT OF NET POSITION
<u>ASSETS</u>			
Cash	\$ 181,901	\$ 264,932	\$ 446,833
Investments			
Unrestricted	-	2,175,780	2,175,780
Restricted	-	219,783	219,783
Receivables			
Assessments Receivable, Net	334,135	-	334,135
Service Accounts Receivable, Net	-	22,116	22,116
FEMA Receivable	358,134	23,500	381,634
Accrued Interest Receivable	-	5,109	5,109
Internal Balances	(29,364)	29,364	-
Utility Deposits	-	1,690	1,690
Capital Assets, Net			
Land	269,074	176,166	445,240
Water and Wastewater Improvements	-	6,914,505	6,914,505
Road Improvements	1,475,268	-	1,475,268
Buildings	-	210,419	210,419
Machinery and Equipment	28,081	253,956	282,037
Vehicles	3,084	129,358	132,442
TOTAL ASSETS	2,620,313	10,426,678	13,046,991
<u>LIABILITIES</u>			
Accounts Payable	18,823	75,809	94,632
Accrued Liabilities	1,475,268	19,768	1,495,036
Deferred Assessment Revenue	319,184	-	319,184
Deferred FEMA Revenue	358,134	23,500	381,634
Customer Deposits	-	217,900	217,900
Long-term Liabilities			
Due Within One Year	-	250,000	250,000
Due After One Year	-	5,320,000	5,320,000
TOTAL LIABILITIES	2,171,409	5,906,977	8,078,386
NET POSITION			
Invested in Capital Assets (Net of Related Debt)	300,239	2,114,404	2,414,643
Restricted for Debt Service	-	219,783	219,783
Unrestricted	148,665	2,185,514	2,334,179
TOTAL NET POSITION	\$ 448,904	\$ 4,519,701	\$ 4,968,605

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, 2018

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	STATEMENT OF ACTIVITIES
<u>REVENUES</u>			
Water and Wastewater Service	\$ -	\$ 2,065,669	\$ 2,065,669
Tap Fees	-	673,394	673,394
Debt Service Reserve Fee	-	152,069	152,069
Standby Charges	21,090	-	21,090
Road Assessment Fees	1,205,250	-	1,205,250
FEMA Grants	8,613	2,224	10,837
Other	178,464	43,045	221,509
TOTAL REVENUES	1,413,417	2,936,401	4,349,818
<u>EXPENSES</u>			
Service Operations			
Payroll and Related expenses	95,965	778,995	874,960
Operations	311,454	344,034	655,488
Repairs and Maintenance	35,982	282,928	318,910
Contract Services	590,420	-	590,420
Consumable Supplies	121,140	137,749	258,889
Professional Services	105,682	109,860	215,542
Office	23,406	53,952	77,358
Insurance	10,307	25,840	36,147
Depreciation	10,114	704,408	714,522
Debt Service:			
Interest	-	188,902	188,902
Cost of Lots Sold	162,190	-	162,190
Loss on Road Conveyance Obligation	630,101	-	630,101
TOTAL EXPENSES	2,096,761	2,626,668	4,723,429
<u>NON-OPERATING REVENUES</u>			
Rental Income	-	3,300	3,300
Interest and Other	-	9,823	9,823
TOTAL NON-OPERATING REVENUES	-	13,123	13,123
CHANGE IN NET POSITION	(683,344)	322,856	(360,488)
<u>NET POSITION</u>			
Beginning of Year	1,132,248	4,196,845	5,329,093
End of Year	\$ 448,904	\$ 4,519,701	\$ 4,968,605

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

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FUND FINANCIAL STATEMENTS

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

BALANCE SHEET-GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	STANDBY	ROAD	TOTAL	ADJUST- MENTS	STATEMENT OF NET POSITION
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 132,743	\$ 49,158	\$ 181,901	\$ -	\$ 181,901
Assessments Receivable, Net	14,950	319,185	334,135	-	334,135
FEMA Receivable	-	358,134	358,134	-	358,134
Capital Assets, Net					
Land	-	-	-	269,074	269,074
Road Improvements	-	-	-	1,475,268	1,475,268
Machinery and Equipment	-	-	-	28,081	28,081
Vehicles	-	-	-	3,084	3,084
TOTAL ASSETS	\$ 147,693	\$ 726,477	\$ 874,170	\$ 1,775,507	\$ 2,649,677
<u>LIABILITIES</u>					
Accounts Payable	\$ -	\$ 18,823	\$ 18,823	\$ -	\$ 18,823
Obligation to Transfer Roads to County	-	-	-	1,475,268	1,475,268
Due to Proprietary Fund	1,068	28,296	29,364	-	29,364
Deferred Assessment Revenue	-	319,184	319,184	-	319,184
Deferred FEMA Revenue	-	358,134	358,134	-	358,134
TOTAL LIABILITIES	1,068	724,437	725,505	1,475,268	2,200,773
<u>FUND BALANCES</u>					
Assigned Fund Balance	146,625	2,040	148,665	(148,665)	-
TOTAL FUND BALANCES	146,625	2,040	148,665	(148,665)	-
<u>TOTAL LIABILITIES AND FUND BALANCES</u>					
	\$ 147,693	\$ 726,477	\$ 874,170		
<u>NET POSITION</u>					
Invested in Capital Assets (Net of Related Debt)				300,239	300,239
Unrestricted				148,665	148,665
TOTAL NET POSITION				\$ 448,904	\$ 448,904

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, 2018

	STANDBY	ROAD	TOTAL	ADJUST- MENTS	STATEMENT OF ACTIVITIES
<u>REVENUES</u>					
Stanby Charges	\$ 21,090	\$ -	\$ 21,090	\$ -	\$ 21,090
Road Assessment Fees	-	1,205,250	1,205,250	-	1,205,250
FEMA Grants	-	8,613	8,613	-	8,613
Interest and Other	5,654	172,810	178,464	-	178,464
TOTAL REVENUES	26,744	1,386,673	1,413,417	-	1,413,417
<u>EXPENDITURES</u>					
Service Operations					
Salary Allocation	-	95,965	95,965	-	95,965
Operations	-	311,454	311,454	-	311,454
Repairs and Maintenance	-	35,982	35,982	-	35,982
Contract Services	-	590,420	590,420	-	590,420
Consumable Supplies	-	121,140	121,140	-	121,140
Professional Fees	19,215	86,467	105,682	-	105,682
Office	7,231	16,175	23,406	-	23,406
Insurance	-	10,307	10,307	-	10,307
Capital Expenditures	-	630,101	630,101	(630,101)	-
Depreciation	-	-	-	10,114	10,114
Cost of Lots Sold	-	-	-	162,190	162,190
Loss on Road Conveyance Obligation	-	-	-	630,101	630,101
TOTAL EXPENDITURES	26,446	1,898,011	1,924,457	172,304	2,096,761
Excess (Deficit) of Revenues Over Expenditures	298	(511,338)	(511,040)		
CHANGE IN NET POSITION	-	-	-	(172,304)	(683,344)
FUND BALANCES/NET POSITION					
Beginning of Year	146,327	513,378	659,705	472,543	1,132,248
End of Year	\$ 146,625	\$ 2,040	\$ 148,665	\$ 300,239	\$ 448,904

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, 2018**

	WATER WASTEWATER	TOTAL PROPRIETARY
<u>ASSETS</u>		
Cash	\$ 264,932	\$ 264,932
Investments		
Unrestricted	2,175,780	2,175,780
Restricted	219,783	219,783
Service Accounts Receivable, Net	22,116	22,116
FEMA Receivable	23,500	23,500
Accrued Interest Receivable	5,109	5,109
Due from Other Funds	29,364	29,364
Utility Deposits and Prepaid Expenses	1,690	1,690
Capital Assets, Net		
Land	176,166	176,166
Water and Wastewater Improvements	6,914,505	6,914,505
Road Improvements	-	-
Buildings	210,419	210,419
Machinery and Equipment	253,956	253,956
Vehicles	129,358	129,358
TOTAL ASSETS	10,426,678	10,426,678
<u>LIABILITIES</u>		
Accounts Payable	75,809	75,809
Accrued Liabilities	19,768	19,768
Deferred FEMA Revenue	23,500	23,500
Due to Other Funds	-	-
Customer Deposits	217,900	217,900
Long-term Liabilities		
Due Within One Year	250,000	250,000
Due After One Year	5,320,000	5,320,000
TOTAL LIABILITIES	5,906,977	5,906,977
NET POSITION		
Invested in Capital Assets (Net of Related Debt)	2,114,404	2,114,404
Restricted for Debt Service	219,783	219,783
Unrestricted	2,185,514	2,185,514
TOTAL NET POSITION	\$ 4,519,701	\$ 4,519,701

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, 2018

	WATER WASTEWATER	TOTAL PROPRIETARY
<u>REVENUES</u>		
Water and Wastewater Service	\$ 2,065,669	\$ 2,065,669
Tap Fees	673,394	673,394
Reserve Fee	152,069	152,069
FEMA Grants	2,224	2,224
Other	43,045	43,045
TOTAL REVENUES	2,936,401	2,936,401
<u>EXPENSES</u>		
Service Operations		
Payroll and Related expenses	778,995	778,995
Operations	344,034	344,034
Repairs and Maintenance	282,928	282,928
Contract Services	-	-
Consumable Supplies	137,749	137,749
Professional Services	109,860	109,860
Office	53,952	53,952
Insurance	25,840	25,840
Depreciation	704,408	704,408
Debt Service:		
Interest	188,902	188,902
TOTAL EXPENSES	2,626,668	2,626,668
NET OPERATING INCOME	309,733	309,733
NON-OPERATING REVENUES		
Rental Income	3,300	3,300
Interest and Other	9,823	9,823
TOTAL NON-OPERATING REVENUES	13,123	13,123
CHANGE IN NET POSITION	322,856	322,856
NET POSITION		
Beginning of Year	4,196,845	4,196,845
End of Year	\$ 4,519,701	\$ 4,519,701

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, 2018

	WATER WASTEWATER	TOTAL PROPRIETARY
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Customers	\$ 2,946,495	\$ 2,946,495
Cash Paid to Employees and Suppliers	(1,726,415)	(1,726,415)
Interest Paid	(188,902)	(188,902)
Net Cash Provided by Operating Activities	1,031,178	1,031,178
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Net Effect of Interfund Balances	13,291	13,291
Net Cash Provided by (Used in) Non-Capital Financing Activities	13,291	13,291
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>		
Proceeds from Notes Payable	-	-
Principal Payments on Notes Payable	(245,000)	(245,000)
Net Cash Provided by (Used in) Capital Financing Activities	(245,000)	(245,000)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Investments	165,339	165,339
Purchase of Capital Assets	(870,763)	(870,763)
Rental Income	3,300	3,300
Interest and Other Income	9,823	9,823
Net Cash Provided by (Used in) Investing Activities	(692,301)	(692,301)
NET CHANGE IN CASH	107,168	107,168
Cash and Cash Equivalents-Beginning of Year	157,764	157,764
Cash and Cash Equivalents-End of Year	\$ 264,932	\$ 264,932
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 309,733	\$ 309,733
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	704,408	704,408
Decrease in Service Accounts Receivable	(6,497)	(6,497)
Increase in Accrued Interest Receivable	(5,109)	(5,109)
Increase in Prepaid Expenses	11,675	11,675
Increase in Accounts Payable	12,440	12,440
Decrease in Accrued Liabilities	(17,172)	(17,172)
Increase in Customer Deposits	21,700	21,700
Net Cash Provided by Operating Activities	\$ 1,031,178	\$ 1,031,178

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, 2018

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 reconstruction, 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, 2018

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 collection of charges to customers within the District to help fund and pay for general operations of the District. These charges have been discontinued as of this fiscal year. 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 reconstruction 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, 2018

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, 2018

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 participates in the Texas County & District Retirement System (TCDRS) which covers substantially all full- and part-time non-temporary employees. TCDRS is a statewide, agent multiple-employer, public employee retirement system that provides retirement, disability and survivor benefits.

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, 2018

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	1,760,000
Water	10,177
Wastewater	4,414
Total Government-wide	<u>\$ 2,283,125</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, 2018

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, 2018

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	\$ 903,053
Money Market	1	AAA	1 Day	\$1,272,727
Restricted-				
Money Market	1	AAA	1 Day	\$ 219,783

The District has restricted \$219,783 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, 2018

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 counterparty'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, 2018

3. Capital Assets

During the year the District used operating funds to reconstruct \$630,101 in Road Improvements and acquire \$870,763 in Water and Wastewater System Improvements and other supporting assets 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 \$10,114 and \$704,408 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>1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2018</u>
<u>Governmental Activities:</u>				
Land	\$ 431,264	\$ -	\$ (162,190)	\$ 269,074
Road Improvements	1,798,627	630,101	(953,460)	1,475,268
Machinery & Equipment	70,077	-	-	70,077
Vehicles	10,278	-	-	10,278
Total	<u>2,310,246</u>	<u>630,101</u>	<u>(1,115,650)</u>	<u>1,824,697</u>
<u>Accumulated Depreciation:</u>				
Road Improvements	-	-	-	-
Machinery & Equipment	(33,937)	-	(8,059)	(41,996)
Vehicles	(5,139)	-	(2,055)	(7,194)
Total	<u>(39,076)</u>	<u>-</u>	<u>(10,114)</u>	<u>(49,190)</u>
Road Capital Assets (Net)	<u>\$ 2,271,170</u>	<u>\$ 630,101</u>	<u>\$(1,125,764)</u>	<u>\$ 1,775,507</u>
<u>Business-Type Activities:</u>				
Land	\$ 176,166	\$ -	\$ -	\$ 176,166
W/WW Improvements	10,853,470	697,142	-	11,550,612
Buildings	415,741	6,858	-	422,599
Machinery & Equipment	691,825	48,737	-	740,562
Vehicles	254,659	118,026	-	372,685
Total	<u>12,391,861</u>	<u>870,763</u>	<u>-</u>	<u>13,262,624</u>
<u>Accumulated Depreciation:</u>				
W/WW Improvements	(4,031,222)	-	(604,885)	(4,636,107)
Buildings	(201,384)	-	(10,796)	(212,180)
Machinery & Equipment	(433,888)	-	(52,718)	(486,606)
Vehicles	(207,318)	-	(36,009)	(243,327)
Total	<u>(4,873,812)</u>	<u>-</u>	<u>(704,408)</u>	<u>(5,578,220)</u>
W/WW Capital Assets (Net)	<u>\$ 7,518,049</u>	<u>\$ 870,763</u>	<u>\$(704,408)</u>	<u>\$ 7,684,404</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018, the District was in compliance with these deposit and reserve requirements.

	Balance			Balance
<u>Bonds:</u>	<u>1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2018</u>
Revenue Bonds, Series 2016	\$ 5,815,000	-	(245,000)	\$ 5,570,000
Total Bond Indebtedness	\$ 5,815,000	\$ -	\$ (245,000)	\$ 5,570,000

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>
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
2024-2028	1,575,000	685,161	2,260,161
2029-2033	1,835,000	388,282	2,223,282
2034-2038	820,000	50,679	870,679
Totals	\$ 5,570,000	\$ 1,998,851	\$ 7,568,851

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 2022. The leases had initial terms of one to five years. Total rent expense was \$15,270. Future minimum annual rentals under noncancelable leases were \$5,422 per year for 2019-2021 and \$4,067 for 2022.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2019, 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	\$ 148,665
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>300,239</u>
Total Net Position	<u>\$ 448,904</u>

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

Governmental Funds Excess of Revenues over Expenditures	\$ (511,040)
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	630,101
Depreciation Expense	(10,114)
Cost of Lots Sold	(162,190)
Loss on Road Conveyance Obligation	<u>(630,101)</u>
Change in Net Position	<u>\$ (683,344)</u>

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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, 2018**

	ORIGINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
Standby Charges	\$ 48,500	\$ 21,090	\$ (27,410)
Interest and Other	3,100	5,654	2,554
TOTAL REVENUES	51,600	26,744	(24,856)
<u>EXPENDITURES</u>			
Service Operations			
Salary Allocation	-	-	-
Operations	-	-	-
Repairs and Maintenance	-	-	-
Contract Services	-	-	-
Consumable Supplies	-	-	-
Professional Fees	11,500	19,215	(7,715)
Office	13,900	7,231	6,669
Insurance	-	-	-
TOTAL EXPENDITURES	25,400	26,446	(1,046)
Excess (Deficit) of			
Revenues over Expenditures	26,200	298	(25,902)
FUND BALANCE			
Beginning of Year	146,327	146,327	-
End of Year	<u>\$ 172,527</u>	<u>\$ 146,625</u>	<u>\$ (25,902)</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 BALANCE

ROAD FUND

BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2018

	ORIGINAL BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
Road Assessment Fees	\$ 1,104,000	\$ 1,205,250	\$ 101,250
FEMA Grants	-	8,613	8,613
Interest and Other	295,100	172,810	(122,290)
TOTAL REVENUES	1,399,100	1,386,673	(12,427)
<u>EXPENDITURES</u>			
Service Operations			
Salary Allocation	104,000	95,965	8,035
Operations	216,500	311,454	(94,954)
Repairs and Maintenance	3,000	35,982	(32,982)
Contract Services	260,000	590,420	(330,420)
Consumable Supplies	36,700	121,140	(84,440)
Professional Fees	63,500	86,467	(22,967)
Office	19,000	16,175	2,825
Insurance	-	10,307	(10,307)
Capital Expenditures	606,000	630,101	(24,101)
TOTAL EXPENDITURES	1,308,700	1,898,011	(589,311)
Excess (Deficit) of			
Revenues over Expenditures	90,400	(511,338)	(601,738)
FUND BALANCE			
Beginning of Year	513,378	513,378	-
End of Year	<u>\$ 603,778</u>	<u>\$ 2,040</u>	<u>\$ (601,738)</u>

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, 2018

(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
SERVICES AND RATES
DECEMBER 31, 2018**

1. Services Provided by the District:

Retail Water Roads
Retail Wastewater

2. Retail Rates Based on 5/8" Meter

			Flat	Rate per first	Rate per add'l
	Minimum	Minimum	Rate	1000 Gallons	1000 Gallons
	Charge	Usage	Y/N	Over Minimum	Over Minimum
Water:	\$ 32.50	-0-	N	\$ 4.38	\$ 4.38-7.70
Wastewater:	\$ 86.00	-0-	Y	\$ -0-	\$ -0-
Surcharge:	-0-				

Total water and wastewater charges per 10,000 gallons usage: \$ 170.13

3. Retail Service Provided: Number of retail water and/or wastewater connections.

			Inactive
	Active	Active	Connections
	Connections	EFSC	(EFSC)
Single Family & Total	1,740	1,740	0

4. Total Water Consumption During the Fiscal Year:

Gallons pumped into system: 136,135,570

Gallons billed to customers: 121,515,377

5. Standby Fees: The District ceased assessing standby fees after 2017.

6. Anticipated sources of funds to be used for debt service payments: Water & Wastewater Revenue

7. Location of District:

The District is located entirely within Bastrop County.

The District is located partially within the City of Bastrop.

The District is located entirely within the City of Bastrop ETJ.

The general membership of the Board is not appointed by an office outside the District.

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

**SCHEDULE OF WATER AND WASTEWATER FUND EXPENSES
YEAR ENDED DECEMBER 31, 2018**

Personnel expenditures (including benefits)	\$ 778,995
Purchased Services for Resale	
Water	-
Wastewater	-
	<u>-</u>
Professional Fees	
Audit	17,000
Engineering	36,210
Legal	25,440
Appraisal	-
	<u>78,650</u>
Contracted Services	
Accounting	31,209
Repairs	-
	<u>31,209</u>
Administrative	
Director Salaries and Payroll Taxes	-
Insurance	25,840
Office Supplies	53,952
Other	278,874
	<u>358,666</u>
Maintenance	
Repairs and Maintenance	282,929
Supplies	137,749
Utilities	65,160
	<u>485,838</u>
Depreciation	<u>704,408</u>
Interest	<u>188,902</u>
TOTAL EXPENDITURES	<u>\$ 2,626,668</u>

Number of persons employed by the District: 12
(Does not include independent contractors or consultants)

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

TEMPORARY INVESTMENTS

DECEMBER 31, 2018

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	11861274	1.25%	1/9/2019	\$ 150,000	\$ 1,849
Certificate of Deposit	425	2.10%	3/5/2019	150,000	1,001
Certificate of Deposit	83188631	2.00%	2/10/2019	150,000	1,184
Certificate of Deposit	3216000326	2.37%	4/4/2019	150,000	545
Certificate of Deposit	6344	2.49%	5/6/2019	150,000	256
Certificate of Deposit	74188	2.51%	6/2/2019	153,053	274
Money Market	831041	Variable	N/A	625,427	-
Money Market	2065076	0.25%	N/A	70,934	-
Money Market	2134385	0.25%	N/A	503,100	-
Money Market	5643903	0.25%	N/A	63,525	-
Money Market	567248	0.25%	N/A	115,508	-
Money Market	573543	0.25%	N/A	114,016	-
Total				<u>2,395,563</u>	<u>5,109</u>
TOTALS - ALL FUNDS				<u><u>\$ 2,395,563</u></u>	<u><u>\$ 5,109</u></u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**GENERAL LONG TERM DEBT SERVICE REQUIREMENTS-BY YEARS****YEAR ENDED DECEMBER 31, 2018**

DUE DURING FISCAL YEARS ENDING	ANNUAL REQUIREMENTS FOR SERIES 2016		
	TOTAL PRINCIPAL DUE	TOTAL INTEREST DUE	TOTAL PRINCIPAL AND INTEREST DUE
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>\$ 5,570,000</u>	<u>\$ 1,998,851</u>	<u>\$ 7,568,851</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**GENERAL LONG TERM DEBT SERVICE REQUIREMENTS-BY YEARS
YEAR ENDED DECEMBER 31, 2018**

DUE DURING FISCAL YEARS ENDING	ANNUAL REQUIREMENTS FOR ALL SERIES		
	TOTAL PRINCIPAL DUE	TOTAL INTEREST DUE	TOTAL PRINCIPAL AND INTEREST DUE
2019	250,000	185,349	435,349
2020	260,000	180,999	440,999
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2033	390,000	49,259	439,259
2034	405,000	33,581	438,581
2035	415,000	17,098	432,098
2036	-	-	-
	<u>\$ 5,570,000</u>	<u>\$ 1,998,851</u>	<u>\$ 7,568,851</u>

BASTROP COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

ANALYSIS OF CHANGES IN GENERAL LONG TERM DEBT YEAR ENDED DECEMBER 31, 2018

	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	\$ 5,815,000	\$ 5,815,000
Bonds Sold During the Year	-	-
Bonds Defeased During the Year	-	-
Retirements During the Year	(245,000)	(245,000)
Bonds at End of Year	<u>\$ 5,570,000</u>	<u>\$ 5,570,000</u>
Interest Paid During the Year	\$ 188,902	\$ 188,902
Change in Accrued Interest	-	-
Interest Expense	<u>\$ 188,902</u>	<u>\$ 188,902</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, 2018	<u>\$ 503,100</u>	(b)
Average annual debt service payment (principal & interest) for remaining term of all debt	<u>\$ 445,227</u>	

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

(b) The majority of the amount (\$219,783) 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 DECEMBER 31, 2018**

	AMOUNTS				
	2018	2017	2016	2015	2014
<u>REVENUES</u>					
Water and Wastewater Service	2,065,669	1,844,975	1,853,629	1,780,463	1,572,742
Tap Connection Fees	673,394	469,814	496,397	341,481	221,861
Debt Service Reserve Fee	152,069	143,542	45,984	-	-
Standby Charges	21,090	47,150	48,665	28,512	29,052
Road Assessment Fees	1,205,250	919,061	736,217	741,066	720,387
FEMA Grants	10,837	336,399	88,190	-	-
Interest and Other	234,632	298,659	104,934	485,718	109,338
TOTAL REVENUES	4,362,941	4,059,600	3,374,016	3,377,240	2,653,380
<u>EXPENDITURES</u>					
Salary Allocation	874,960	690,772	663,350	558,296	471,198
Operations	655,488	528,467	503,304	584,587	538,748
Repairs and Maintenance	318,910	100,275	102,076	362,498	279,609
Contract Services	590,420	211,026	51,629	8,464	3,000
Consumable Supplies	258,889	357,851	172,396	-	-
Professional Fees	215,542	192,991	238,115	319,028	240,151
Office	77,358	51,916	75,359	88,690	79,733
Insurance and Other	36,147	26,697	29,573	36,310	178,820
Capital Expenditures	630,101	661,618	281,926	873,170	294,556
Depreciation	714,522	649,339	589,825	232,098	225,694
Interest	188,902	191,964	91,532	27,635	21,924
TOTAL EXPENDITURES	4,561,239	3,662,916	2,799,085	3,090,776	2,333,433
Excess (Deficit) of					
Revenues over Expenditures	<u>(198,298)</u>	<u>396,684</u>	<u>574,931</u>	<u>286,464</u>	<u>319,947</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,740</u>	<u>1,644</u>	<u>1,556</u>	<u>1,475</u>	<u>1,379</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>698</u>	<u>648</u>	<u>605</u>	<u>569</u>	<u>525</u>

PERCENT OF REVENUES				
2018	2017	2016	2015	2014
47%	45%	55%	53%	59%
15%	12%	15%	10%	8%
3%	4%	1%	0%	0%
0%	1%	1%	1%	1%
28%	23%	22%	22%	27%
0%	8%	3%	0%	0%
5%	7%	3%	14%	4%
100%	100%	100%	100%	100%
20%	17%	20%	17%	18%
15%	13%	15%	17%	20%
7%	2%	3%	11%	11%
14%	5%	2%	0%	0%
6%	9%	5%	0%	0%
5%	5%	7%	9%	9%
2%	1%	2%	3%	3%
1%	1%	1%	1%	7%
14%	16%	8%	26%	11%
16%	16%	17%	7%	9%
4%	5%	3%	1%	1%
105%	90%	83%	92%	88%
-5%	10%	17%	8%	12%

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 12/31/18</u>	<u>REIMBURSEMENTS FYE 12/31/18</u>	<u>TITLE AT YEAR END</u>
<u>DIRECTORS</u>				
Mary Beth O'Hanlon	Elected 5/18-5/22	\$ -	\$ -	President
Bruce Carmack	Elected 5/18-5/22	-	-	Vice-President
Scott Ferguson	Appointed 8/18-5/20	-	-	Secretary
Sam Kier	Elected 5/18-5/22	-	-	Treasurer
Karen Pinard	Elected 5/16-5/20	-	-	Director
		<u>\$ -</u>	<u>\$ -</u>	

CONSULTANTS

McLean & Howard	\$ 31,263	\$ -	Attorneys
McCreary, Veselka, Bragg & Allen	\$ 8,307		Attorneys
Befco Engineering	\$ 57,578	\$ -	Engineers
Municipal Accounts & Consulting	\$ 45,826	\$ -	Accountants
West, Davis & Company	\$ 25,000	\$ -	Auditor