

FIRST COLONY  
LEVEE IMPROVEMENT DISTRICT NO. 2  
FORT BEND COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
SEPTEMBER 30, 2020

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February 2, 2021

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
First Colony Levee  
Improvement District No. 2  
Fort Bend County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of First Colony Levee Improvement District No. 2, as of and for the year ended September 30, 2020, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

### **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 of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 assessment of the risk 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 I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of First Colony Levee Improvement District No. 2 as of September 30, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 6 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 16 be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 17 to 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. G. J.", is located in the lower right portion of the page.

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the First Colony Levee Improvement District No. 2 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2020.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is construction and maintenance of levees. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### *Government-Wide Financial Statements*

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

#### *Fund Financial Statements*

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

### **Financial Analysis of the District as a Whole**

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Current and other assets	\$ 1,284,439	\$ 1,033,555	\$ 250,884
Capital assets	14,350,809	14,298,627	52,182
Total assets	<u>15,635,248</u>	<u>15,332,182</u>	<u>303,066</u>
Long-term liabilities	0	0	0
Other liabilities	104,796	214,738	(109,942)
Total liabilities	<u>104,796</u>	<u>214,738</u>	<u>(109,942)</u>
Net position:			
Invested in capital assets, net of related debt	14,350,809	14,298,627	52,182
Unrestricted	1,179,643	818,817	360,826
Total net position	<u>\$ 15,530,452</u>	<u>\$ 15,117,444</u>	<u>\$ 413,008</u>

Summary of Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 1,043,060	\$ 1,076,788	\$ (33,728)
Other revenues	7,559	35,586	(28,027)
Total revenues	<u>1,050,619</u>	<u>1,112,374</u>	<u>(61,755)</u>
Expenses:			
Service operations	637,611	515,602	122,009
Total expenses	<u>637,611</u>	<u>515,602</u>	<u>122,009</u>
Change in net position	413,008	596,772	(183,764)
Net position, beginning of year	<u>15,117,444</u>	<u>14,520,672</u>	<u>596,772</u>
Net position, end of year	<u>\$ 15,530,452</u>	<u>\$ 15,117,444</u>	<u>\$ 413,008</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended September 30, 2020, were \$1,176,823, an increase of \$364,179 from the prior year.

The General Fund balance increased by \$364,179, in accordance with the District's financial plan to increase the fund balance to provide for future repairs and maintenance of District facilities.

*General Fund Budgetary Highlights*

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 16 of this report. The budgetary fund balance as of September 30, 2020, was expected to be \$802,644 and the actual end of year fund balance was \$1,176,823.

## Capital Asset and Debt Administration

### Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u>
Land	\$ 1,688,981	\$ 1,688,981	\$ 0
Levee and detention ponds	9,322,757	9,322,757	0
Construction in progress	0	2,499,066	(2,499,066)
Buildings	313,901	293,681	20,220
Machinery and equipment	0	2	(2)
Drainage facilities	<u>3,025,170</u>	<u>494,140</u>	<u>2,531,030</u>
Totals	<u>\$ 14,350,809</u>	<u>\$ 14,298,627</u>	<u>\$ 52,182</u>

Changes to capital assets during the fiscal year ended September 30, 2020, are summarized as follows:

Additions:		
Pump station and other improvements		\$ 200,618
Decreases:		
Depreciation		<u>(148,436)</u>
Net change to capital assets		<u>\$ 52,182</u>

### Debt

At September 30, 2020, the District had \$1,810,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the drainage system within the District.

At September 30, 2020, there were no developer construction commitments or liabilities.

## OTHER RELEVANT FACTORS

### Property Tax Base

The District's tax base decreased approximately \$16,020,000 for the 2019 tax year (approximately 3%) primarily due to the decrease of the average assessed valuations on existing property.



FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash, including interest-bearing accounts, Note 7	\$ 513,775	\$	\$	\$ 513,775	\$	\$ 513,775
Temporary investments, at cost, Note 7	760,089			760,089		760,089
Receivables:						
Property taxes	2,820			2,820		2,820
Prepaid expenditures	7,755			7,755		7,755
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	11,011,738	11,011,738
Depreciable capital assets				0	3,339,071	3,339,071
<b>Total assets</b>	<b><u>\$1,284,439</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,284,439</u></b>	<b><u>14,350,809</u></b>	<b><u>15,635,248</u></b>
<b>LIABILITIES</b>						
Accounts payable	<u>\$ 104,796</u>	<u>\$</u>	<u>\$</u>	<u>\$ 104,796</u>		<u>104,796</u>
Total liabilities	<u>104,796</u>	<u>0</u>	<u>0</u>	<u>104,796</u>	<u>0</u>	<u>104,796</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property tax revenues	<u>2,820</u>	<u>0</u>	<u>0</u>	<u>2,820</u>	<u>(2,820)</u>	<u>0</u>
<b>FUND BALANCES / NET POSITION</b>						
Fund balances:						
Unassigned	<u>1,176,823</u>			<u>1,176,823</u>	<u>(1,176,823)</u>	<u>0</u>
Total fund balances	<u>1,176,823</u>	<u>0</u>	<u>0</u>	<u>1,176,823</u>	<u>(1,176,823)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$1,284,439</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,284,439</u>		
Net position:						
Invested in capital assets, net of related debt					14,350,809	14,350,809
Unrestricted					<u>1,179,643</u>	<u>1,179,643</u>
<b>Total net position</b>					<b><u>\$ 15,530,452</u></b>	<b><u>\$ 15,530,452</u></b>

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

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>						
Property taxes	\$ 1,038,534	\$	\$	\$ 1,038,534	\$ (1,641)	\$ 1,036,893
Penalty and interest	7,879			7,879	(1,712)	6,167
Interest on deposits and investments	7,559			7,559		7,559
Total revenues	<u>1,053,972</u>	<u>0</u>	<u>0</u>	<u>1,053,972</u>	<u>(3,353)</u>	<u>1,050,619</u>
<b>EXPENDITURES / EXPENSES</b>						
Service operations:						
Professional fees	118,969			118,969		118,969
Contracted services	77,682			77,682		77,682
Repairs, maintenance and other operating expenditures	255,517			255,517		255,517
Administrative expenditures	37,007			37,007		37,007
Depreciation and amortization				0	148,436	148,436
Capital outlay / non-capital outlay	<u>200,618</u>			<u>200,618</u>	<u>(200,618)</u>	<u>0</u>
Total expenditures / expenses	<u>689,793</u>	<u>0</u>	<u>0</u>	<u>689,793</u>	<u>(52,182)</u>	<u>637,611</u>
Excess (deficiency) of revenues over expenditures	<u>364,179</u>	<u>0</u>	<u>0</u>	<u>364,179</u>	<u>48,829</u>	<u>413,008</u>
Net change in fund balances / net position	364,179	0	0	364,179	48,829	413,008
Beginning of year	<u>812,644</u>	<u>0</u>	<u>0</u>	<u>812,644</u>	<u>14,304,800</u>	<u>15,117,444</u>
End of year	<u>\$ 1,176,823</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,176,823</u>	<u>\$ 14,353,629</u>	<u>\$ 15,530,452</u>

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

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

NOTE 1: REPORTING ENTITY

First Colony Levee Improvement District No. 2 (the "District") was created by an order of the Commissioners Court of Fort Bend County on October 7, 1985. The District is a conservation and reclamation district created pursuant to the provisions of Chapter 57 of the Texas Water Code and operates in accordance with Chapters 49 and 57 of the Texas Water Code. The Board of Directors held its first meeting on October 21, 1985, and the first bonds were sold on September 14, 1988. The District is a political subdivision of the State of Texas, governed by a three member Board of Directors appointed by the Commissioners Court of Fort Bend County. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality and the Commissioners Court of Fort Bend County.

The principal functions of the District include constructing and maintaining levees and other improvements on, along and contiguous to rivers, creeks, and these streams; the control and distribution of the waters of rivers and streams within and adjacent to the District by straightening and otherwise improving them; and the provision of proper drainage and other improvements of the reclaimed land within the District.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

#### Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

### Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

### Receivables

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

### Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Equipment	10-20 years
Structures and piping	45 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

**NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 1,176,823
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		14,350,809
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Uncollected property taxes		<u>2,820</u>
Net position, end of year		<u>\$ 15,530,452</u>

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ 364,179
The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	\$ 200,618	
Depreciation	<u>(148,436)</u>	52,182
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:		
Accrued penalty and interest on property taxes receivable	(1,712)	
Uncollected property taxes	<u>(1,641)</u>	<u>(3,353)</u>
Change in net position		<u>\$ 413,008</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and improvements	\$ 1,688,981	\$	\$	\$ 1,688,981
Levee and detention ponds	9,322,757			9,322,757
Construction in progress	2,499,066	103,942	2,603,008	0
Total capital assets not being depreciated	13,510,804	103,942	2,603,008	11,011,738
Depreciable capital assets:				
Buildings	335,636	29,345		364,981
Machinery and equipment	32,137			32,137
Drainage system	809,923	2,670,339		3,480,262
Total depreciable capital assets	1,177,696	2,699,684	0	3,877,380
Less accumulated depreciation for:				
Buildings	(41,955)	(9,125)		(51,080)
Machinery and equipment	(32,135)	(2)		(32,137)
Drainage system	(315,783)	(139,309)		(455,092)
Total accumulated depreciation	(389,873)	(148,436)	0	(538,309)
Total depreciable capital assets, net	787,823	2,551,248	0	3,339,071
Total capital assets, net	\$ 14,298,627	\$ 2,655,190	\$ 2,603,008	\$ 14,350,809
Changes to capital assets:				
Capital outlay		\$ 200,618	\$	
Assets transferred to depreciable assets		2,603,008	2,603,008	
Less depreciation expense for the fiscal year		(148,436)		
Net increases / decreases to capital assets		\$ 2,655,190	\$ 2,603,008	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Developer Construction Commitments and Liabilities

At September 30, 2020, there were no developer construction commitments or liabilities.

Bonds voted	\$ 10,671,000
Bonds approved for sale and sold	8,870,000
Bonds voted and not issued	1,810,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES

The Fort Bend Central Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and are not delinquent until after the following January 31. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

At an election held August 13, 1988, the voters within the District authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On September 3, 2019, the District levied the following ad valorem taxes for the 2019 tax year on the adjusted taxable valuation of \$518,395,865:

	Rate	Amount
Maintenance	\$ 0.2000	\$ 1,036,827

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2019 tax year total property tax levy	\$ 1,036,827
Appraisal district adjustments to prior year taxes	66
Statement of Activities property tax revenues	\$ 1,036,893

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$513,775 and the bank balance was \$514,476. Of the bank balance, \$371,085 was covered by federal insurance and \$143,391 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$760,089.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

## NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2020, the District had physical damage and boiler and machinery coverage of \$2,570,720, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, pollution coverage of \$2,000,000, automobile liability coverage of \$2,000,000, and statutory worker's compensation coverage with the Texas Municipal League Intergovernmental Risk Pool (the "Pool"). The Pool is a public entity risk pool currently operating as a common risk management and insurance program for various Texas public entities. The District pays annual premiums for its general insurance coverage. The Pool purchases reinsurance for protection against catastrophic losses that exceed the Pool's self-insurance retention. This reinsurance is purchased from companies rated A- or higher by A. M. Best Company. At this date, the District also had consultant's crime coverage of \$10,000 and a tax assessor-collector bond of \$25,000.

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 1,015,000	\$ 1,015,000	\$ 1,038,534	\$ 23,534
Penalty and interest	0	0	7,879	7,879
Interest on deposits and investments	30,000	30,000	7,559	(22,441)
<b>TOTAL REVENUES</b>	<u>1,045,000</u>	<u>1,045,000</u>	<u>1,053,972</u>	<u>8,972</u>
<b>EXPENDITURES</b>				
Service operations:				
Professional fees	115,900	115,900	118,969	3,069
Contracted services	58,000	58,000	77,682	19,682
Repairs, maintenance and other operating expenditures	323,970	323,970	255,517	(68,453)
Administrative expenditures	36,100	36,100	37,007	907
Capital outlay	521,030	521,030	200,618	(320,412)
<b>TOTAL EXPENDITURES</b>	<u>1,055,000</u>	<u>1,055,000</u>	<u>689,793</u>	<u>(365,207)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	(10,000)	(10,000)	364,179	374,179
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>812,644</u>	<u>812,644</u>	<u>812,644</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 802,644</u>	<u>\$ 802,644</u>	<u>\$ 1,176,823</u>	<u>\$ 374,179</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
SEPTEMBER 30, 2020

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

- TSI-1. Services and Rates
- TSI-2. General Fund Expenditures
- TSI-3. Temporary Investments
- TSI-4. Taxes Levied and Receivable
- TSI-5. Long-Term Debt Service Requirements by Years  
Not Applicable
- TSI-6. Changes in Long-Term Bonded Debt  
Not Applicable.
- TSI-7. Comparative Schedule of Revenues and Expenditures -  
General Fund and Debt Service Fund - Five Year  
Debt Service Fund not applicable.
- TSI-8. Board Members, Key Personnel and Consultants

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2020

1. Services Provided by the District during the Fiscal Year:

- Retail Water
- Wholesale Water
- Drainage
- Retail Wastewater
- Wholesale Wastewater
- Irrigation
- Parks/Recreation
- Fire Protection
- Security
- Solid Waste/Garbage
- Flood Control
- Roads
- Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
- Other

2. Not Applicable

3. Not Applicable

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

Does the District have Debt Service standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

Does the District have Operation and Maintenance standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 6,900	\$	\$	\$ 6,900
Legal	55,568			55,568
Engineering	<u>56,501</u>			<u>56,501</u>
	<u>118,969</u>	<u>0</u>	<u>0</u>	<u>118,969</u>
Contracted services:				
Bookkeeping	16,310			16,310
Operations	41,961			41,961
Tax assessor-collector	11,067			11,067
Central appraisal district	<u>8,344</u>			<u>8,344</u>
	<u>77,682</u>	<u>0</u>	<u>0</u>	<u>77,682</u>
Repairs, maintenance and other operating expenditures	<u>255,517</u>	<u>0</u>	<u>0</u>	<u>255,517</u>
Administrative expenditures:				
Director's fees	9,750			9,750
Office supplies and postage	2,126			2,126
Insurance	10,135			10,135
Flood management	5,000			5,000
Website	4,283			4,283
Other	<u>5,713</u>			<u>5,713</u>
	<u>37,007</u>	<u>0</u>	<u>0</u>	<u>37,007</u>
CAPITAL OUTLAY				
Authorized expenditures	<u>200,618</u>	<u>0</u>	<u>0</u>	<u>200,618</u>
TOTAL EXPENDITURES	<u>\$ 689,793</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 689,793</u>

See accompanying independent auditor's report.

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2  
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash receipts from revenues	<u>\$ 1,053,972</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,053,972</u>
<b>TOTAL DEPOSITS AND TEMPORARY     INVESTMENTS PROVIDED</b>	<u>1,053,972</u>	<u>0</u>	<u>0</u>	<u>1,053,972</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash disbursements for:				
Current expenditures	468,064			468,064
Capital outlay	<u>330,638</u>	<u>0</u>	<u>0</u>	<u>330,638</u>
<b>TOTAL DEPOSITS AND TEMPORARY     INVESTMENTS APPLIED</b>	<u>798,702</u>	<u>0</u>	<u>0</u>	<u>798,702</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	255,270	0	0	255,270
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>1,018,594</u>	<u>0</u>	<u>0</u>	<u>1,018,594</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$ 1,273,864</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,273,864</u>

See accompanying independent auditor's report.

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2SCHEDULE OF TEMPORARY INVESTMENTSSEPTEMBER 30, 2020

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
TexPool				
No. 2561100001	Market	On demand	\$ <u>760,089</u>	\$ <u>0</u>
Total – All Funds			\$ <u>760,089</u>	\$ <u>0</u>

See accompanying independent auditor's report.

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Maintenance Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 4,461
Additions and corrections to prior year taxes	<u>66</u>
Adjusted receivable, beginning of year	4,527
2019 ADJUSTED TAX ROLL	<u>1,036,827</u>
Total to be accounted for	1,041,354
Tax collections: Current tax year	(1,034,032)
Prior tax years	<u>(4,502)</u>
RECEIVABLE, END OF YEAR	<u>\$ 2,820</u>
RECEIVABLE, BY TAX YEAR	
2014	\$ 25
2019	<u>2,795</u>
RECEIVABLE, END OF YEAR	<u>\$ 2,820</u>

See accompanying independent auditor's report.



FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2020

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 92,344,040	\$ 92,344,030	\$ 92,344,030	\$ 92,344,030
Improvements	427,714,715	444,189,515	440,123,750	448,734,340
Personal property	1,923,080	1,783,950	1,744,380	1,690,850
Less exemptions	<u>(3,585,970)</u>	<u>(3,902,340)</u>	<u>(3,478,870)</u>	<u>(11,288,595)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 518,395,865</u>	 <u>\$ 534,415,155</u>	 <u>\$ 530,733,290</u>	 <u>\$ 531,480,625</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.00000	\$ 0.00000	\$ 0.00000	\$ 0.00000
Maintenance tax rates*	<u>0.20000</u>	<u>0.20000</u>	<u>0.20000</u>	<u>0.20000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.20000</u>	 <u>\$ 0.20000</u>	 <u>\$ 0.20000</u>	 <u>\$ 0.20000</u>
 TAX ROLLS	 <u>\$ 1,036,827</u>	 <u>\$ 1,068,854</u>	 <u>\$ 1,061,491</u>	 <u>\$ 1,062,961</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.7 %</u>	 <u>100 %</u>	 <u>100 %</u>	 <u>100 %</u>

\*Maximum tax rate approved by voters on August 13, 1988: \$0.25

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND  
FOR YEARS ENDED SEPTEMBER 30

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
REVENUES										
Property taxes	\$ 1,038,534	\$ 1,069,305	\$ 1,057,765	\$ 1,061,176	\$ 1,246,611	98.6 %	96.1 %	97.0 %	98.4 %	99.0 %
Penalty and interest	7,879	8,220	8,725	6,286	9,229	0.7	0.7	0.8	0.6	0.7
Interest on deposits and investments	<u>7,559</u>	<u>35,586</u>	<u>24,511</u>	<u>10,721</u>	<u>3,906</u>	<u>0.7</u>	<u>3.2</u>	<u>2.2</u>	<u>1.0</u>	<u>0.3</u>
TOTAL REVENUES	<u>1,053,972</u>	<u>1,113,111</u>	<u>1,091,001</u>	<u>1,078,183</u>	<u>1,259,746</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Service operations:										
Professional fees	118,969	128,497	115,455	116,982	174,883	11.3	11.5	10.6	10.8	13.9
Contracted services	77,682	75,748	71,148	69,002	74,103	7.4	6.8	6.5	6.4	5.9
Repairs, maintenance and other operating expenditures	255,517	232,543	117,092	271,331	316,497	24.2	20.9	10.8	25.2	25.1
Administrative expenditures	37,007	36,427	40,036	26,264	27,893	3.5	3.3	3.7	2.4	2.2
Capital outlay	<u>200,618</u>	<u>2,267,481</u>	<u>555,206</u>	<u>29,221</u>	<u>71,104</u>	<u>19.0</u>	<u>203.7</u>	<u>50.8</u>	<u>2.7</u>	<u>5.6</u>
TOTAL EXPENDITURES	<u>689,793</u>	<u>2,740,696</u>	<u>898,937</u>	<u>512,800</u>	<u>664,480</u>	<u>65.4</u>	<u>246.2</u>	<u>82.4</u>	<u>47.5</u>	<u>52.7</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 364,179</u>	<u>\$(1,627,585)</u>	<u>\$ 192,064</u>	<u>\$ 565,383</u>	<u>\$ 595,266</u>	<u>34.6 %</u>	<u>(146.2) %</u>	<u>17.6 %</u>	<u>52.5 %</u>	<u>47.3 %</u>

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

SEPTEMBER 30, 2020

Complete District Mailing Address: First Colony Levee Improvement District No. 2  
 c/o Coats Rose, P.C.  
 9 Greenway Plaza, Suite 1000  
 Houston, Texas 77046

District Business Telephone No.: 713-651-0111

Submission date of the most recent District Registration Form: August 7, 2018

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Ronald J. Frerich 10 Sterling Court Sugar Land, Texas 77479	Appointed 1/07/20- 1/02/24	\$ 4,350	\$ 0	President/ Investment Officer
Christine M. Lukin 86 Bradford Circle Sugar Land, Texas 77479	Appointed 1/07/20- 1/02/24	2,550	0	Vice President
Zachary Weimer 4423 Knightsbridge Blvd. Sugar Land, Texas 77479	Appointed 1/07/20- 1/02/24	2,850	0	Secretary

FIRST COLONY LEVEE IMPROVEMENT DISTRICT NO. 2BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2020CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	1/15/08	\$ 55,568	Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	Prior to 10/01/92	18,054	Bookkeeper
LID Solutions 12200B Duncan Road Houston, Texas 77066	2/05/13	132,974	Operator
Jones & Carter, Inc. 6330 West Loop South, Suite 150 Bellaire, Texas 77401	5/01/12	146,488	Engineer
Bob Leared 11111 Katy Freeway, Suite 725 Houston, Texas 77079	Replaced 2/04/20	13,225	Tax Assessor- Collector
Fort Bend County TAC 1317 Eugene Heimann Circle Richmond, Texas 77469	2/04/20	0	Tax Assessor- Collector
Fort Bend Central Appraisal District 2801 B. F. Terry Rosenberg, Texas 77471	Legislative Action	8,344	Central Appraisal District
Masterson Advisors, LLC 3 Greenway Plaza, Suite 1100 Houston, Texas 77046	7/03/18	0	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	Prior to 10/01/92	6,900	Independent Auditor

See accompanying independent auditor's report.