

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Bend County Fresh Water
Supply District No. 2
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Fresh Water Supply District No. 2 (the "District"), as of and for the year ended September 30, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2019, and the respective changes in financial position 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 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, and the schedule of expenditures of federal awards, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 4, 2020

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Management’s discussion and analysis of the financial performance of Fort Bend County Fresh Water Supply District No. 2 (the “District”) provides an overview of the District’s financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District’s annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District’s overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all the District’s assets, liabilities, and, if applicable, deferred outflows of resources and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District’s net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, ad valorem taxes, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for resources restricted, committed or assigned for servicing bond debt. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$16,536,328 as of September 30, 2019. A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities less any debt used to acquire those assets that are still outstanding). The following is a comparative analysis of government-wide changes in net position:

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 6,306,646	\$ 5,305,217	\$ 1,001,429
Capital Assets (Net of Accumulated Depreciation)	19,296,962	19,799,893	(502,931)
Total Assets	\$ 25,603,608	\$ 25,105,110	\$ 498,498
Bonds Payable	\$ 8,686,000	\$ 8,769,000	\$ 83,000
Other Liabilities	381,280	356,222	(25,058)
Total Liabilities	\$ 9,067,280	\$ 9,125,222	\$ 57,942
Net Position:			
Net Investment in Capital Assets	\$ 10,781,925	\$ 11,198,773	\$ (416,848)
Restricted	234,316	200,686	33,630
Unrestricted	5,520,087	4,580,429	939,658
Total Net Position	\$ 16,536,328	\$ 15,979,888	\$ 556,440

The following table provides a summary of the District's operations for the years ending September 30, 2019, and September 30, 2018. The District's net position increased by \$556,440.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 949,117	\$ 806,102	\$ 143,015
Charges for Services	1,215,104	1,294,053	(78,949)
Other Revenues	160,967	97,098	63,869
Total Revenues	\$ 2,325,188	\$ 2,197,253	\$ 127,935
Expenses for Services	1,768,748	1,575,401	(193,347)
Change in Net Position	\$ 556,440	\$ 621,852	\$ (65,412)
Net Position, Beginning of Year	15,979,888	15,358,036	621,852
Net Position, End of Year	\$ 16,536,328	\$ 15,979,888	\$ 556,440

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2019, were \$5,789,022, an increase of \$900,579 from the prior year.

The General Fund fund balance increased by \$863,866, primarily due to operating revenues exceeding operating costs, and a significant increase in property tax revenues due to increased taxable valuation.

The Debt Service Fund fund balance increased by \$33,630.

The Capital Projects Fund fund balance increased by \$3,083.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the fiscal year to increase service fees, inspection fees, penalties and interest fees, interest income and FEMA reimbursement; to decrease connection fees; to increase contracted services costs, repairs and maintenance costs and miscellaneous costs; and to decrease professional costs. Actual revenues were \$158,978 more than budgeted revenues primarily due to higher than expected tap revenues, service revenues and investment revenues. Actual expenditures were \$4,335 less than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of September 30, 2019, total \$19,296,962, and include land, engineering and construction costs related to the water system, the District's capacity in the Kingsbridge Municipal Utility District ("Kingsbridge") water plant, the District's capacity in the Fort Bend County Municipal Utility District No. 25 ("MUD No. 25") wastewater treatment plant and the District's capacity in the Royal Valley Utilities, Inc. ("RVU") wastewater treatment plant. Additional information on the District's capital assets can be found in Note 6 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 281,379	\$ 281,379	\$
Capital Assets, Net of Accumulated Depreciation:			
Water System	3,820,377	3,940,626	(120,249)
Wastewater System	15,195,206	15,577,888	(382,682)
Total Net Capital Assets	\$ 19,296,962	\$ 19,799,893	\$ (502,931)

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

LONG-TERM DEBT ACTIVITY

As of September 30, 2019, the District had total bond debt payable of \$8,686,000. The changes in the debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows:

Bond Debt Payable, October 1, 2018	\$ 8,769,000
Less: Bond Principal Paid	<u>83,000</u>
Bond Debt Payable, September 30, 2019	<u><u>\$ 8,686,000</u></u>

The District's bonds do not have insured ratings nor does the District carry an underlying rating.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Fort Bend County Fresh Water Supply District No. 2, c/o Sechrist-Duckers LLP, 6300 West Loop South, Suite 415, Bellaire, TX 77401.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2019

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 234,443	\$
Investments	5,265,692	234,316
Cash with Tax Assessor	2,157	
Receivables:		
Property Taxes	162,381	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$5,000)	128,247	
Accrued Interest	16,433	
Prepaid Costs	1,732	
Advance for Water Plant Operations	36,747	
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 5,847,832	\$ 234,316

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 101	\$ 234,544	\$	\$ 234,544
170,862	5,670,870		5,670,870
	2,157		2,157
	162,381		162,381
		53,535	53,535
	128,247		128,247
	16,433		16,433
	1,732		1,732
	36,747		36,747
		281,379	281,379
		19,015,583	19,015,583
\$ 170,963	\$ 6,253,111	\$ 19,350,497	\$ 25,603,608

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

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2019

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 141,565	\$
Accrued Interest Payable		
Security Deposits	160,143	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 301,708	\$ -0-
 DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 162,381	\$ -0-
 FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 1,732	\$
For Water Plant Operations	36,747	
Restricted for Authorized Construction		
Restricted for Debt Service		234,316
Unassigned	5,345,264	
TOTAL FUND BALANCES	\$ 5,383,743	\$ 234,316
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,847,832	\$ 234,316
 NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 141,565	\$	\$ 141,565
	160,143	79,572	79,572
			160,143
		104,000	104,000
		<u>8,582,000</u>	<u>8,582,000</u>
<u>\$ -0-</u>	<u>\$ 301,708</u>	<u>\$ 8,765,572</u>	<u>\$ 9,067,280</u>
<u>\$ -0-</u>	<u>\$ 162,381</u>	<u>\$ (162,381)</u>	<u>\$ -0-</u>
\$	\$ 1,732	\$ (1,732)	\$
	36,747	(36,747)	
170,963	170,963	(170,963)	
	234,316	(234,316)	
	<u>5,345,264</u>	<u>(5,345,264)</u>	
<u>\$ 170,963</u>	<u>\$ 5,789,022</u>	<u>\$ (5,789,022)</u>	<u>\$ - 0 -</u>
<u>\$ 170,963</u>	<u>\$ 6,253,111</u>		
		\$ 10,781,925	\$ 10,781,925
		234,316	234,316
		<u>5,520,087</u>	<u>5,520,087</u>
		<u>\$ 16,536,328</u>	<u>\$ 16,536,328</u>

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

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Total Fund Balances - Governmental Funds	\$	5,789,022
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		19,296,962
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		215,916
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Accrued Interest Payable	\$ (79,572)	
Bonds Payable	<u>(8,686,000)</u>	<u>(8,765,572)</u>

Total Net Position - Governmental Activities	\$	<u>16,536,328</u>
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The accompanying notes to the financial statements are an integral part of this report.

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FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 896,798	\$
Water Service	424,183	
Wastewater Service	392,171	
Groundwater Reduction Plan Revenues	169,916	
Penalty and Interest	78,780	
Tap Connection and Inspection Fees	127,464	
Investment and Miscellaneous Revenues	155,051	2,756
TOTAL REVENUES	\$ 2,244,363	\$ 2,756
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 232,700	\$
Contracted Services	143,346	
Purchased Water Service	211,765	
Purchased Wastewater Service	115,329	
Utilities	42,602	
Groundwater Reduction Plan Fees	27,953	
Repairs and Maintenance	166,878	
Depreciation		
Other	135,410	126
Debt Service:		
Bond Principal	83,000	
Bond Interest	190,514	
TOTAL EXPENDITURES/EXPENSES	\$ 1,349,497	\$ 126
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 894,866	\$ 2,630
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	\$ (31,000)	\$ 31,000
NET CHANGE IN FUND BALANCES	\$ 863,866	\$ 33,630
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - OCTOBER 1, 2018	4,519,877	200,686
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2019	\$ 5,383,743	\$ 234,316

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 896,798	\$ 52,319	\$ 949,117
	424,183		424,183
	392,171		392,171
	169,916		169,916
	78,780	22,590	101,370
	127,464		127,464
3,160	160,967		160,967
<u>\$ 3,160</u>	<u>\$ 2,250,279</u>	<u>\$ 74,909</u>	<u>\$ 2,325,188</u>
\$	\$ 232,700	\$	\$ 232,700
	143,346		143,346
	211,765		211,765
	115,329		115,329
	42,602		42,602
	27,953		27,953
	166,878		166,878
		502,931	502,931
77	135,613		135,613
	83,000	(83,000)	
	190,514	(883)	189,631
<u>\$ 77</u>	<u>\$ 1,349,700</u>	<u>\$ 419,048</u>	<u>\$ 1,768,748</u>
<u>\$ 3,083</u>	<u>\$ 900,579</u>	<u>\$ (344,139)</u>	<u>\$ 556,440</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ 3,083	\$ 900,579	\$ (900,579)	\$
		556,440	556,440
167,880	4,888,443	11,091,445	15,979,888
<u>\$ 170,963</u>	<u>\$ 5,789,022</u>	<u>\$ 10,747,306</u>	<u>\$ 16,536,328</u>

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

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net Change in Fund Balances - Governmental Funds	\$	900,579
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		52,319
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Governmental funds report penalty and interest revenues on delinquent property taxes when collected. However, in the Statement of Activities, revenues are recorded when penalty and interest are assessed.		22,590
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(502,931)
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Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		83,000
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		883
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Change in Net Position - Governmental Activities	\$	<u>556,440</u>
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The accompanying notes to the financial statements are an integral part of this report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1. CREATION OF DISTRICT

Fort Bend County Fresh Water Supply District No. 2 was created on January 23, 2001, by order of the Fort Bend County Commissioner's Court in response to a petition for creation and pursuant to the Texas Water Code, Chapters 49 and 53. On August 4, 2009, the District was converted into a municipal utility district and now operates pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water and the collection, transportation and treatment of wastewater. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

The District has entered into a joint venture with Kingsbridge Municipal Utility District ("Kingsbridge") for water service through the Kingsbridge water plant. Kingsbridge has oversight responsibility over the water plant. Additional disclosure concerning this joint venture is provided in Note 8. The joint water plant's financial information is included in the financial statements for Kingsbridge. Copies of the financial statements can be obtained from the auditor for Kingsbridge.

The District purchased wastewater treatment capacity from Fort Bend County Municipal Utility District No. 25 ("MUD No. 25") to serve the area in the District known as Four Corners. Additional disclosure concerning this joint venture is provided in Note 12.

The District purchased wastewater treatment capacity from Royal Valley Utilities, Inc. ("RVU") to serve the area in the District known as Rio Brazos. Additional disclosure concerning this joint venture is provided in Note 12.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District’s policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District’s Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District’s fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Governmental Funds Balance Sheet and a Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each of them to be major funds.

General Fund - To account for resources not required to be accounted for in another fund, property tax revenues, maintenance and operating costs and general expenditures.

Debt Service Fund – To account for financial resources restricted, committed or assigned for servicing bond debt.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include the taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. During the current fiscal year, the General Fund transferred \$31,000 to the Debt Service Fund to meet the reserve requirement stated in the bond resolutions for the Series 2004, Series 2005, and Series 2013 bonds.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life of over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Water System	10-45
Wastewater System	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that the board directors are considered to be “employees” for federal payroll tax purposes only.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. LONG-TERM DEBT

	<u>Series 2004</u>	<u>Series 2005</u>	<u>Series 2013</u>
Amount Outstanding – September 30, 2019	\$ 724,000	\$ 396,000	\$ 7,566,000
Interest Rates	4.25%	4.25%	1.875%
Maturity Dates - Serially Beginning/Ending	November 1, 2019/2044	November 1, 2019/2044	November 1, 2019/2052
Interest Payment Dates	November 1/ May 1	November 1/ May 1	November 1/ May 1
Callable Dates	November 1, 2011*	November 1, 2011*	November 1, 2017*

* Or any interest payment date thereafter, at the option of the District, in whole or in part, at par plus accrued interest to the date fixed for redemption.

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2019:

	<u>October 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2019</u>
Bonds Payable	<u>\$ 8,769,000</u>	<u>\$ -0-</u>	<u>\$ 83,000</u>	<u>\$ 8,686,000</u>
		Amount Due Within One Year		\$ 104,000
		Amount Due After One Year		<u>8,582,000</u>
		Bonds Payable		<u>\$ 8,686,000</u>

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

As of September 30, 2019, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 104,000	\$ 188,213	\$ 292,213
2021	105,000	185,672	290,672
2022	106,000	183,087	289,087
2023	108,000	180,441	288,441
2024	109,000	177,731	286,731
2025-2029	663,000	842,938	1,505,938
2030-2034	1,052,000	743,330	1,795,330
2035-2039	1,359,000	602,796	1,961,796
2040-2044	1,705,000	425,763	2,130,763
2045-2049	1,849,000	231,103	2,080,103
2050-2053	1,526,000	57,482	1,583,482
	<u>\$ 8,686,000</u>	<u>\$ 3,818,556</u>	<u>\$ 12,504,556</u>

The Series 2004 and Series 2005 bonds are payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks system as defined in the bond resolutions. The Series 2013 bonds are payable from and secured by a lien on and pledge of net revenues to be received from the operation of the District's sanitary sewer system as defined in the bond resolution.

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

The Series 2004, Series 2005, and Series 2013 Bond Resolutions state that the District is to create a Reserve Fund. The Reserve Fund will be in an amount equal to the average annual debt service installment. The Reserve Fund shall be funded through monthly deposits which will accumulate at the rate of one-tenth of the reserve amount each year.

The Series 2004, Series 2005, and Series 2013 Bond Resolutions state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six (6) months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS
(Continued)

For the Series 2004, Series 2005, and Series 2013 bond issues, the District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue and will continue each 5th year thereafter until the debt is retired.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District’s deposits was \$2,234,544 and the bank balance was \$2,184,341. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2019, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 234,443	\$ 2,000,000	\$ 2,234,443
CAPITAL PROJECTS FUND	101		101
TOTAL DEPOSITS	\$ 234,544	\$ 2,000,000	\$ 2,234,544

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), an external investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

The District also records investments in certificates of deposit at acquisition cost.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than One Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 3,265,692	\$ 3,265,692
Certificates of Deposit	2,000,000	2,000,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	234,316	234,316
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	<u>170,862</u>	<u>170,862</u>
TOTAL INVESTMENTS	<u>\$ 5,670,870</u>	<u>\$ 5,670,870</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2019, the District's investment in Texas CLASS was rated AAAM by Standard and Poor's. The District also manages credit risk by investing in certificates of deposit covered by FDIC insurance and pledged collateral.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in Texas CLASS to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for debt service. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 is as follows:

	October 1, 2018	Increases	Decreases	September 30, 2019
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 281,379	\$ - 0 -	\$ - 0 -	\$ 281,379
Capital Assets Subject to Depreciation				
Water System	\$ 5,060,813	\$	\$	\$ 5,060,813
Wastewater System	17,310,641			17,310,641
Total Capital Assets Subject to Depreciation	<u>\$ 22,371,454</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 22,371,454</u>
Accumulated Depreciation				
Water System	\$ 1,120,187	\$ 120,249	\$	\$ 1,240,436
Wastewater System	1,732,753	382,682		2,115,435
Total Accumulated Depreciation	<u>\$ 2,852,940</u>	<u>\$ 502,931</u>	<u>\$ - 0 -</u>	<u>\$ 3,355,871</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,518,514</u>	<u>\$ (502,931)</u>	<u>\$ - 0 -</u>	<u>\$ 19,015,583</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,799,893</u>	<u>\$ (502,931)</u>	<u>\$ - 0 -</u>	<u>\$ 19,296,962</u>

NOTE 7. MAINTENANCE TAX

The voters of the District originally authorized the levy and collection of a maintenance tax in an amount not to exceed \$0.25 per \$100 of assessed valuation. At an election held May 12, 2007, the voters approved an operation and maintenance tax in an amount not to exceed \$0.85 per \$100 of assessed valuation. During the year ended September 30, 2019, the District levied an ad valorem maintenance tax rate of \$0.5521 per \$100 of assessed valuation, which resulted in a tax levy of \$921,917 on the adjusted taxable valuation of \$166,381,282 for the 2018 tax year.

The District's tax calendar is as follows:

- Levy Date - October 1 or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8. WATER SUPPLY AGREEMENT

On June 29, 2005, the District entered into a contract with Kingsbridge for the purpose of providing water supply capacity to the Four Corners area of the District. This agreement has been subsequently amended. Upon receipt of funds from the Rural Utilities Services of the U.S. Department of Agriculture (the “USDA”), the District paid to Kingsbridge \$442,756 for 198,450 gallons-per-day in the water supply plant. Legal title to the water plant remains with Kingsbridge. Each party’s current pro rata share in the water plant is as follows:

	Percentage Ownership
Fort Bend County Fresh Water Supply District No. 2	8.82%
Kingsbridge Municipal Utility District	<u>91.18</u>
Total	<u>100.00%</u>

The District has acquired, and constructed, at its sole cost and expense, the District’s water distribution system, including any water distribution lines necessary to receive water from the Kingsbridge water supply plant at the point of delivery. The interconnect facilities with Kingsbridge were constructed and are maintained by the District.

The District pays for its pro-rata share of operation and maintenance expenses. Kingsbridge has established and maintains a joint operating account and bills each district monthly. Operations and maintenance expense are calculated as follows: surface water fees are calculated based on water usage; maintenance, chemical and utilities costs are calculated based on the number of active connections in each district during the month; and all other costs are calculated based on each district’s pro-rata share of ownership in the water plant. During the current fiscal year, the District recorded expenses of \$211,765 related to this agreement. The District also has advanced \$36,747 as an operating reserve with Kingsbridge.

The following summary is based on preliminary information and is subject to change. Summary financial activities of the plant as of September 30, 2019, and for the fiscal year then ended are as follows:

Total Assets	\$ 431,844
Total Liabilities	<u>15,212</u>
Total Net Position	<u>\$ 416,632</u>
Total Operating Revenues	\$ 1,648,602
Total Operating Expenses	<u>1,648,602</u>
Change in Net Position	\$ -0-
Net Position - October 1, 2018	<u>416,632</u>
Net Position - September 30, 2019	<u>\$ 416,632</u>

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 9. GROUNDWATER REDUCTION PLAN PARTICIPATION AGREEMENT

On February 2, 2010, the District entered into a Groundwater Reduction Plan Participation Agreement with the City of Rosenberg (the “City”). The Fort Bend Subsidence District (the “Subsidence District”) was created by the Texas Legislature to reduce subsidence by regulating the withdrawal of groundwater within Fort Bend County. The Subsidence District adopted its Regulatory Plan in 2003 to control groundwater withdrawal rights. The City is developing a groundwater reduction plan (“GRP”) on behalf of their customers to comply with the Regulatory Plan. The District pays the City a water well pumpage fee, based on the amount of water pumped from all well(s) owned and operated by the District. The District incurred costs of \$27,953 during the current fiscal year in relation to this agreement. The term of this agreement is for as long as the City’s Regulatory Plan is in effect.

NOTE 10. 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, and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, pollution liability, public officials’ liability and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML’s management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three (3) years.

NOTE 11. EMERGENCY WATER SUPPLY AGREEMENTS

On July 26, 2010, the District entered into an Emergency Water Supply Agreement with Kingsbridge and Fort Bend County Municipal Utility District No. 134A (“MUD No. 134A”). MUD No. 134A is responsible for all costs associated with construction of the water interconnect facilities to be connected to the District’s system and for maintaining the interconnect line for the term of this agreement. The rates to be charged by each district for emergency water service is \$1.00 per 1,000 gallons plus any pumpage fee that may be imposed on the supplying district by a governmental entity including, but not limited to, the North Fort Bend Water Authority. The term of this agreement is thirty (30) years from the execution date of the agreement.

On March 7, 2011, the District executed an Emergency Water Supply Contract with Fort Bend County Municipal Utility District No. 41 (“MUD No. 41”). The contract provides that under emergency conditions water can be supplied by the other district for up to fifteen (15) days. The contract calls for payment at the rate of \$1.00 per 1,000 gallons of “average daily usage” for the number of days water is supplied. In the event that the supplying district has converted to use of surface water in whole or in part, or if additional fees are imposed upon the supplying district by a regional water authority, other governmental entity or contractual arrangement relative to conversion of surface water, the rate per 1,000 gallons will be 125% of the actual cost to the supplying district to purchase surface water. The term is thirty (30) years from the date of the contract.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 12. WASTEWATER TREATMENT SERVICE AGREEMENTS

Royal Valley Utilities, Inc.

On February 15, 2011, RVU and the District entered into an agreement for the District to acquire 48,000 gpd of wastewater treatment capacity in the RVU sewer plant in order to provide wastewater service to the Rio Brazos area within the District. In accordance with the agreement, the District paid RVU \$240,000 for 48,000 gpd in reserved capacity. In addition to the reserved capacity purchase price, the District paid RVU \$64,020 for the purchase of capacity in the portion of RVU's collection system used to convey wastewater from Rio Brazos to the sewer plant. The District also constructed, at its sole cost and expense, the collection system necessary to transport wastewater to RVU's plant. The term of this agreement is fifty (50) years. Service to the District began February 27, 2014. The District incurred \$50,112 for purchased wastewater service costs during the current fiscal year.

Fort Bend County Municipal Utility District No. 25

On June 8, 2010, MUD No. 25 and the District entered into an Amended and Restated Waste Disposal Agreement (the "Restated Agreement") for the District to acquire 329 equivalent single family connections ("ESFC") in MUD No. 25's 500,000 gallon per day wastewater treatment plant (the "MUD No. 25 Plant") in addition to the 200 ESFC acquired by the District pursuant to an agreement with MUD No. 25 dated April 16, 2008. In accordance with the Restated Agreement, the District will pay MUD No. 25 \$4.50 per gallon for the 300 gallons per day allocated to each ESFC. In a prior year, the District paid \$595,350 for 441 ESFCs in the MUD No. 25 Plant. In addition to the reserved capacity purchase price, the District is required to pay to MUD No. 25 31.74% of the monthly operation and maintenance expenses of the MUD No. 25 Plant. The District also constructed, at its sole cost and expense, the collection system necessary to transport wastewater to the MUD No. 25 Plant. The term of the agreement is fifty (50) years. Service to the District began May 2014. The District incurred \$65,217 for purchased wastewater service costs during the current fiscal year.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 895,000	\$ 895,000	\$ 896,798	\$ 1,798
Water Service	384,000	394,000	424,183	30,183
Wastewater Service	336,000	370,000	392,171	22,171
Groundwater Reduction Plan Revenues	185,000	185,000	169,916	(15,084)
Penalty and Interest	37,000	74,500	78,780	4,280
Tap Connection and Inspection Fees	27,500	35,500	127,464	91,964
Investment and Miscellaneous Revenues	40,500	131,385	155,051	23,666
TOTAL REVENUES	<u>\$ 1,905,000</u>	<u>\$ 2,085,385</u>	<u>\$ 2,244,363</u>	<u>\$ 158,978</u>
EXPENDITURES				
Services Operations:				
Professional Fees	\$ 171,000	\$ 166,000	\$ 232,700	\$ (66,700)
Contracted Services	126,600	165,150	143,346	21,804
Purchased Water Service	250,000	250,000	211,765	38,235
Purchased Wastewater Service	130,000	130,000	115,329	14,671
Utilities	40,000	40,000	42,602	(2,602)
Groundwater Reduction Plan Fees	30,000	30,000	27,953	2,047
Repairs and Maintenance	185,000	191,260	166,878	24,382
Other	100,150	107,900	135,410	(27,510)
Bond Principal	83,000	83,000	83,000	
Bond Interest	190,522	190,522	190,514	8
TOTAL EXPENDITURES	<u>\$ 1,306,272</u>	<u>\$ 1,353,832</u>	<u>\$ 1,349,497</u>	<u>\$ 4,335</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 598,728</u>	<u>\$ 731,553</u>	<u>\$ 894,866</u>	<u>\$ 163,313</u>
OTHER FINANCING SOURCES(USES)				
Transfers In (Out)	<u>\$ (31,000)</u>	<u>\$ (31,000)</u>	<u>\$ (31,000)</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	\$ 567,728	\$ 700,553	\$ 863,866	\$ 163,313
FUND BALANCE - OCTOBER 1, 2018	<u>4,519,877</u>	<u>4,519,877</u>	<u>4,519,877</u>	
FUND BALANCE - SEPTEMBER 30, 2019	<u>\$ 5,087,605</u>	<u>\$ 5,220,430</u>	<u>\$ 5,383,743</u>	<u>\$ 163,313</u>

See accompanying independent auditor's report.

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FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

SEPTEMBER 30, 2019

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A SINGLE FAMILY RESIDENTIAL CUSTOMER:

Based on the Rate Order effective August 6, 2019.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$35.00	2,000	N	\$1.50 \$1.75 \$2.00 \$2.25 \$2.50 \$2.75	2,001 to 4,000 4,001 to 6,000 6,001 to 8,000 8,001 to 10,000 10,001 to 12,000 12,001 and up
WASTEWATER:	\$35.00	2,000	N	\$1.75	2,001 and up

SURCHARGE:

Commission
Regulatory Assessments
Surface Water Assessment*

Included in rates above

Total monthly charges per 10,000 gallons usage: Water: \$50.00 Wastewater: \$49.00

* In addition to the charges set out in the rate schedules listed above, each Customer of the District's System within the Four Corners area is assessed an amount equal to the surface water fees charged to the District by the North Fort Bend Water Authority, plus ten percent (10%).

In addition to the charges set out in the rate schedules listed above, each Customer of the District's System within the Rio Brazos area is assessed an amount equal to the fee charged to the District pursuant to a groundwater reduction plan agreement with the City of Rosenberg, plus ten percent (10%).

See accompanying independent auditor's report.

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	<u>858</u>	<u>691</u>	x 1.0	<u>691</u>
1"	<u>10</u>	<u>9</u>	x 2.5	<u>23</u>
1½"	<u>3</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>23</u>	<u>23</u>	x 8.0	<u>184</u>
3"			x 15.0	
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	<u>3</u>	<u>3</u>	x 50.0	<u>150</u>
8"	<u>1</u>	<u>1</u>	x 80.0	<u>80</u>
10"			x 115.0	
Total Water Connections	<u><u>900</u></u>	<u><u>732</u></u>		<u><u>1.193</u></u>
Total Wastewater Connections	<u><u>749</u></u>	<u><u>643</u></u>	x 1.0	<u><u>643</u></u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped into system:	12,734,000	Water Accountability Ratio: 84.8% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	48,538,000	
Gallons purchased:	44,520,000	From: <u>Kingsbridge Municipal Utility District</u>

See accompanying independent auditor's report.

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Fort Bend County, Texas

Is the District located within a city?

Entirely Partly Not at all

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely Partly Not at all

ETJ's in which District is located:

City of Houston, Texas; City of Rosenberg, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

PROFESSIONAL FEES:	
Auditing	\$ 16,000
Engineering	119,319
Legal	53,974
Delinquent Tax Attorney	11,707
Other Professional Fees	<u>31,700</u>
TOTAL PROFESSIONAL FEES	<u>\$ 232,700</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 211,765
Purchased Wastewater Service	<u>115,329</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 327,094</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 7,314
Bookkeeping	32,237
Operations and Billing	103,275
Tax Collector	<u>520</u>
TOTAL CONTRACTED SERVICES	<u>\$ 143,346</u>
UTILITIES:	
Electricity	\$ 31,648
Telephone	<u>10,954</u>
TOTAL UTILITIES	<u>\$ 42,602</u>
REPAIRS AND MAINTENANCE	<u>\$ 166,878</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 13,607
Insurance	10,394
Office Supplies and Postage	5,068
Travel and Meetings	7,984
Other	<u>23,730</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 60,783</u>

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

TAP CONNECTIONS	\$ <u>49,637</u>
OTHER EXPENDITURES:	
Chemicals	\$ 1,207
Laboratory Fees	9,150
Permit Fees	2,172
Easement Fees	5,351
Inspection Fees	3,492
Groundwater Reduction Plan Fees	27,953
Regulatory Assessment	<u>3,618</u>
TOTAL OTHER EXPENDITURES	\$ <u>52,943</u>
DEBT SERVICE:	
Bond Principal	\$ 83,000
Bond Interest	<u>190,514</u>
TOTAL DEBT SERVICE	\$ <u>273,514</u>
TOTAL EXPENDITURES	\$ <u>1,349,497</u>

See accompanying independent auditor's report.

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
INVESTMENTS
SEPTEMBER 30, 2019**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 3,265,692	\$
Certificate of Deposit	XXXX2163	2.60%	07/11/20	240,000	1,385
Certificate of Deposit	XXXX1755	2.50%	11/15/19	200,000	2,247
Certificate of Deposit	XXXX1715	2.60%	10/01/19	240,000	1,949
Certificate of Deposit	XXXX8585	2.65%	05/27/20	240,000	2,196
Certificate of Deposit	XXXX2273	2.44%	10/17/19	200,000	2,981
Certificate of Deposit	XXXX4261	2.75%	04/16/20	200,000	2,516
Certificate of Deposit	XXXX8507	2.60%	03/11/20	200,000	2,379
Certificate of Deposit	XXXX2233	2.22%	08/20/20	240,000	584
Certificate of Deposit	XXXX5581	2.10%	09/16/20	240,000	196
TOTAL GENERAL FUND				<u>\$ 5,265,692</u>	<u>\$ 16,433</u>
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 234,316	\$ - 0 -
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	\$ 170,862	\$ - 0 -
TOTAL - ALL FUNDS				<u>\$ 5,670,870</u>	<u>\$ 16,433</u>

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Maintenance Taxes	
TAXES RECEIVABLE -		
OCTOBER 1, 2018	\$ 110,062	
Adjustments to Beginning		
Balance	27,200	\$ 137,262
Original 2018 Tax Levy	\$ 937,632	
Adjustment to 2018 Tax Levy	(15,715)	921,917
TOTAL TO BE		
ACCOUNTED FOR		\$ 1,059,179
 TAX COLLECTIONS:		
Prior Years	\$ 32,826	
Current Year	863,972	896,798
 TAXES RECEIVABLE -		
SEPTEMBER 30, 2019		\$ 162,381
 TAXES RECEIVABLE BY		
YEAR:		
2018		\$ 57,945
2017		28,606
2016		20,873
2015		15,507
2014		12,544
2013 and prior		26,906
TOTAL		\$ 162,381

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	2018	2017	2016	2015
PROPERTY VALUATIONS:				
Land	\$ 95,157,932	\$ 67,933,015	\$ 42,427,863	\$ 42,263,730
Improvements	80,867,793	83,761,818	82,113,940	68,719,415
Personal Property	29,527,460	21,320,520	26,013,710	24,682,650
Exemptions	(39,171,903)	(26,602,143)	(32,627,833)	(24,922,023)
TOTAL PROPERTY VALUATIONS	\$ 166,381,282	\$ 146,413,210	\$ 117,927,680	\$ 110,743,772
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.0000	\$ 0.0000	\$ 0.0000	\$ 0.000
Maintenance	0.5521	0.5521	0.5521	0.557
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.5521	\$ 0.5521	\$ 0.5521	\$ 0.557
ADJUSTED TAX LEVY*	\$ 921,917	\$ 810,303	\$ 651,319	\$ 619,821
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	93.71 %	96.47 %	96.80 %	97.50 %

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.85 per \$100 of assessed valuation approved by voters on May 12, 2007.

See accompanying independent auditor’s report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

S E R I E S - 2 0 0 4					
Due During Fiscal Years Ending September 30	Principal Due November 1		Interest Due November 1/ May 1		Total
2020	\$	16,000	\$	30,433	\$ 46,433
2021		16,000		29,753	45,753
2022		17,000		29,051	46,051
2023		18,000		28,308	46,308
2024		19,000		27,522	46,522
2025		19,000		26,715	45,715
2026		20,000		25,886	45,886
2027		21,000		25,015	46,015
2028		22,000		24,101	46,101
2029		23,000		23,145	46,145
2030		24,000		22,147	46,147
2031		25,000		21,106	46,106
2032		26,000		20,022	46,022
2033		27,000		18,896	45,896
2034		28,000		17,728	45,728
2035		30,000		16,495	46,495
2036		31,000		15,199	46,199
2037		32,000		13,861	45,861
2038		33,000		12,479	45,479
2039		35,000		11,035	46,035
2040		36,000		9,527	45,527
2041		38,000		7,955	45,955
2042		39,000		6,319	45,319
2043		41,000		4,618	45,618
2044		43,000		2,826	45,826
2045		45,000		956	45,956
2046					
2047					
2048					
2049					
2050					
2051					
2052					
2053					
		<u>\$ 724,000</u>		<u>\$ 471,098</u>	<u>\$ 1,195,098</u>

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

S E R I E S - 2 0 0 5			
Due During Fiscal Years Ending September 30	Principal Due November 1	Interest Due November 1/ May 1	Total
2020	\$ 8,000	\$ 16,661	\$ 24,661
2021	9,000	16,301	25,301
2022	9,000	15,918	24,918
2023	10,000	15,514	25,514
2024	10,000	15,090	25,090
2025	11,000	14,643	25,643
2026	11,000	14,176	25,176
2027	12,000	13,687	25,687
2028	12,000	13,177	25,177
2029	12,000	12,667	24,667
2030	13,000	12,136	25,136
2031	14,000	11,562	25,562
2032	14,000	10,967	24,967
2033	15,000	10,351	25,351
2034	16,000	9,693	25,693
2035	16,000	9,013	25,013
2036	16,000	8,332	24,332
2037	18,000	7,611	25,611
2038	19,000	6,825	25,825
2039	19,000	6,017	25,017
2040	20,000	5,188	25,188
2041	20,000	4,338	24,338
2042	22,000	3,448	25,448
2043	23,000	2,491	25,491
2044	23,000	1,509	24,509
2045	24,000	510	24,510
2046			
2047			
2048			
2049			
2050			
2051			
2052			
2053			
	\$ 396,000	\$ 257,825	\$ 653,825

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

S E R I E S - 2 0 1 3			
Due During Fiscal Years Ending September 30	Principal Due November 1	Interest Due November 1/ May 1	Total
2020	\$ 80,000	\$ 141,119	\$ 221,119
2021	80,000	139,618	219,618
2022	80,000	138,118	218,118
2023	80,000	136,619	216,619
2024	80,000	135,119	215,119
2025	90,000	133,526	223,526
2026	90,000	131,838	221,838
2027	100,000	130,057	230,057
2028	100,000	128,183	228,183
2029	120,000	126,122	246,122
2030	120,000	123,872	243,872
2031	160,000	121,249	281,249
2032	180,000	118,064	298,064
2033	190,000	114,596	304,596
2034	200,000	110,941	310,941
2035	200,000	107,190	307,190
2036	200,000	103,440	303,440
2037	220,000	99,505	319,505
2038	240,000	95,193	335,193
2039	250,000	90,601	340,601
2040	260,000	85,820	345,820
2041	270,000	80,852	350,852
2042	280,000	75,696	355,696
2043	290,000	70,353	360,353
2044	300,000	64,823	364,823
2045	320,000	59,012	379,012
2046	340,000	52,826	392,826
2047	360,000	46,265	406,265
2048	380,000	39,330	419,330
2049	380,000	32,204	412,204
2050	380,000	25,079	405,079
2051	380,000	17,954	397,954
2052	380,000	10,830	390,830
2053	386,000	3,619	389,619
	\$ 7,566,000	\$ 3,089,633	\$ 10,655,633

See accompanying independent auditor's report.

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FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 104,000	\$ 188,213	\$ 292,213
2021	105,000	185,672	290,672
2022	106,000	183,087	289,087
2023	108,000	180,441	288,441
2024	109,000	177,731	286,731
2025	120,000	174,884	294,884
2026	121,000	171,900	292,900
2027	133,000	168,759	301,759
2028	134,000	165,461	299,461
2029	155,000	161,934	316,934
2030	157,000	158,155	315,155
2031	199,000	153,917	352,917
2032	220,000	149,053	369,053
2033	232,000	143,843	375,843
2034	244,000	138,362	382,362
2035	246,000	132,698	378,698
2036	247,000	126,971	373,971
2037	270,000	120,977	390,977
2038	292,000	114,497	406,497
2039	304,000	107,653	411,653
2040	316,000	100,535	416,535
2041	328,000	93,145	421,145
2042	341,000	85,463	426,463
2043	354,000	77,462	431,462
2044	366,000	69,158	435,158
2045	389,000	60,478	449,478
2046	340,000	52,826	392,826
2047	360,000	46,265	406,265
2048	380,000	39,330	419,330
2049	380,000	32,204	412,204
2050	380,000	25,079	405,079
2051	380,000	17,954	397,954
2052	380,000	10,830	390,830
2053	386,000	3,619	389,619
	<u>\$ 8,686,000</u>	<u>\$ 3,818,556</u>	<u>\$ 12,504,556</u>

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Description	Original Bonds Issued	Bonds Outstanding October 1, 2018
Fort Bend County Fresh Water Supply District No. 2 Waterworks System Revenue Bonds - Series 2004	\$ 870,000	\$ 739,000
Fort Bend County Fresh Water Supply District No. 2 Waterworks System Revenue Bonds - Series 2005	476,000	404,000
Fort Bend County Fresh Water Supply District No. 2 Sewer System Revenue Bonds - Series 2013	<u>7,806,000</u>	<u>7,626,000</u>
TOTAL	<u>\$ 9,152,000</u>	<u>\$ 8,769,000</u>

(2)

Bond Authority:	<u>Revenue Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 8,000,000	\$ 12,000,000
Amount Issued	<u>8,000,000</u>	<u> </u>
Remaining to be Issued	<u>\$ - 0 -</u>	<u>\$ 12,000,000</u>

(1)

Debt Service Fund cash balance as of September 30, 2019: \$ 234,316

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 367,781

See Note 3 for interest rates, interest payment dates and maturity dates.

(1) Voters have authorized the issuance of refunding bonds in the amount of 1½ times the amount of original bonds issued.

(2) The District was a fresh water supply district when it issued its Series 2004 and Series 2005 Bonds. Fresh water supply districts are statutorily required to obtain voter approval before issuing revenue bonds. On August 4, 2009, the District converted to a municipal utility district. Pursuant to Section 54.505 of the Texas Water Code, municipal utility districts may issue bonds payable solely from revenues by resolution or order of the board without an election.

See accompanying independent auditor's report.

<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 15,000	\$ 31,089	\$ 724,000	Wells Fargo Bank N.A. Houston, TX
	8,000	17,000	396,000	Wells Fargo Bank N.A. Houston, TX
	60,000	142,425	7,566,000	U.S. Bank N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 83,000</u>	<u>\$ 190,514</u>	<u>\$ 8,686,000</u>	

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 896,798	\$ 792,843	\$ 638,497
Water Service	424,183	360,470	364,006
Wastewater Service	392,171	326,113	322,830
Groundwater Reduction Fee Revenues	169,916	165,973	147,890
Penalty and Interest	78,780	45,072	43,034
Tap Connection and Inspection Fees	127,464	390,656	26,904
Investment and Miscellaneous Revenues	155,051	95,123	68,991
TOTAL REVENUES	\$ 2,244,363	\$ 2,176,250	\$ 1,612,152
EXPENDITURES			
Professional Fees	\$ 232,700	\$ 148,360	\$ 130,157
Contracted Services	143,346	89,439	95,908
Purchased Water Service	211,765	203,621	179,360
Purchased Wastewater Service	115,329	103,935	103,826
Utilities	42,602	29,865	24,198
Groundwater Reduction Plan Fees	27,953	23,507	22,931
Repairs and Maintenance	166,878	60,255	67,050
Other	135,410	221,544	128,079
Capital Outlay			
Debt Service:			
Bond Principal	83,000	82,000	82,000
Bond Interest	190,514	192,595	194,655
TOTAL EXPENDITURES	\$ 1,349,497	\$ 1,155,121	\$ 1,028,164
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 894,866	\$ 1,021,129	\$ 583,988
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ (31,000)	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 863,866	\$ 1,021,129	\$ 583,988
BEGINNING FUND BALANCE	4,519,877	3,498,748	2,914,760
ENDING FUND BALANCE	\$ 5,383,743	\$ 4,519,877	\$ 3,498,748

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015	2019	2018	2017	2016	2015
\$ 613,323	\$ 551,586	40.0 %	36.3 %	39.5 %	36.8 %	32.4 %
361,929	359,542	18.9	16.6	22.6	21.8	21.1
330,345	302,383	17.5	15.0	20.0	19.9	17.8
136,085	109,042	7.6	7.6	9.2	8.2	6.4
42,893	52,697	3.5	2.1	2.7	2.6	3.1
66,736	309,829	5.6	18.0	1.7	4.0	18.2
111,144	17,623	6.9	4.4	4.3	6.7	1.0
<u>\$ 1,662,455</u>	<u>\$ 1,702,702</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 129,936	\$ 147,934	10.4 %	6.8 %	8.1 %	7.8 %	8.7 %
94,089	96,247	6.4	4.1	5.9	5.7	5.7
186,114	154,565	9.4	9.4	11.1	11.2	9.1
104,248	114,867	5.1	4.8	6.5	6.4	6.8
24,506	21,414	1.9	1.4	1.5	1.5	1.3
26,086	22,277	1.2	1.1	1.4	1.6	1.3
173,195	117,777	7.4	2.8	4.2	10.4	6.9
136,193	140,115	6.0	10.2	7.9	8.2	8.2
	74,603					4.4
81,000	20,000	3.7	3.8	5.1	4.9	1.2
196,694	198,128	8.5	8.8	12.1	11.8	11.6
<u>\$ 1,152,061</u>	<u>\$ 1,107,927</u>	<u>60.0 %</u>	<u>53.2 %</u>	<u>63.8 %</u>	<u>69.5 %</u>	<u>65.2 %</u>
<u>\$ 510,394</u>	<u>\$ 594,775</u>	<u>40.0 %</u>	<u>46.8 %</u>	<u>36.2 %</u>	<u>30.5 %</u>	<u>34.8 %</u>
<u>\$ (4,351)</u>	<u>\$ (40,585)</u>					
\$ 506,043	\$ 554,190					
2,408,717	1,854,527					
<u>\$ 2,914,760</u>	<u>\$ 2,408,717</u>					

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Investment and Miscellaneous Revenues	\$ 2,756	\$ 1,434	\$ 361
EXPENDITURES			
Debt Service Interest and Fees	\$ 126	\$ -	\$ 616
TOTAL EXPENDITURES	\$ 126	\$ - 0 -	\$ 616
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 2,630	\$ 1,434	\$ (255)
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 31,000	\$ - 0 -	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ 33,630	\$ 1,434	\$ (255)
BEGINNING FUND BALANCE	200,686	199,252	199,507
ENDING FUND BALANCE	\$ 234,316	\$ 200,686	\$ 199,252
TOTAL ACTIVE RETAIL WATER CONNECTIONS	732	712	694
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	643	620	668

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2016</u>	<u>2015</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>\$ 242</u>	<u>\$ 168</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
<u>\$ 616</u>	<u>\$ 682</u>	<u>4.6 %</u>	<u>0.0 %</u>	<u>170.6 %</u>	<u>254.5 %</u>	<u>406.0 %</u>
<u>\$ 616</u>	<u>\$ 682</u>	<u>4.6 %</u>	<u>0.0 %</u>	<u>170.6 %</u>	<u>254.5 %</u>	<u>406.0 %</u>
<u>\$ (374)</u>	<u>\$ (514)</u>	<u>95.4 %</u>	<u>100.0 %</u>	<u>(70.6) %</u>	<u>(154.5) %</u>	<u>(306.0) %</u>
<u>\$ 42,000</u>	<u>\$ 43,340</u>					
<u>\$ 41,626</u>	<u>\$ 42,826</u>					
<u>157,881</u>	<u>115,055</u>					
<u>\$ 199,507</u>	<u>\$ 157,881</u>					
<u>697</u>	<u>724</u>					
<u>551</u>	<u>692</u>					

See accompanying independent auditor's report.

FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2019

District Mailing Address - Fort Bend County Fresh Water Supply District No. 2
c/o Sechrist·Duckers LLP
6300 West Loop South, Suite 415
Bellaire, TX 77401

District Telephone Number - (713) 395-4200

Board Members	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended September 30, 2019</u>	<u>Expense Reimbursements for the year ended September 30, 2019</u>	<u>Title</u>
Carmen Martinez	05/16 05/20 (Elected)	\$ 2,100	\$ -0-	President
Rufus Green	05/18 05/22 (Elected)	\$ 2,100	\$ -0-	First Vice President/ Assistant Secretary
Suntera Scott	05/16 05/20 (Elected)	\$ 2,100	\$ -0-	Secretary
Alex Arias	05/18 05/22 (Elected)	\$ 3,600	\$ 2,012	2nd Vice President/ Assistant Secretary
Stewart Goldie	05/16 05/20 (Elected)	\$ 2,400	\$ -0-	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form: May 1, 2019.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on April 17, 2007. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**FORT BEND COUNTY FRESH WATER SUPPLY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2019</u>	<u>Title</u>
Sechrist-Duckers LLP	11/07/06	\$ 59,193	General Counsel
McCall Gibson Swedlund Barfoot PLLC	02/19/08	\$ 16,000	Auditor
Municipal Accounts & Consulting, L.P.	11/06/18	\$ 32,716 \$ -0-	Bookkeeper/ Investment Officer
Linebarger Goggan Blair & Sampson, L.L.P.	04/01/05	\$ 11,707	Delinquent Tax Attorney
Sherrington-Humble L.L.C.	06/11/08	\$ 127,716	Engineer
Blitch Associates, Inc.	12/01/09	\$ -0-	Financial Advisor
Environmental Development Partners, LLC	01/01/08	\$ 299,641	Operator
Patsy Schultz	10/25/00	\$ 520	Tax Assessor/ Collector

See accompanying independent auditor's report.

