

**VALLEY MUNICIPAL UTILITY DISTRICT NO. 2**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

September 30, 2018



**CRI** CARR  
RIGGS &  
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**Valley Municipal Utility District No. 2**  
**Officers**  
**September 30, 2018**

**OFFICERS**

Mr. Roger Nelson	President
Mr. James Tipton	Vice-President
Mr. Oscar Gonzales	Secretary
Mr. Clifford Rowell	Treasurer
Mr. Pat Pace	Director

**GENERAL MANAGER**

Mr. Scott Fry

**ATTORNEY**

Kathy Cunningham

**DISTRICT TAX ASSESSOR-COLLECTOR**

Mr. Tony Yzaguirre, Jr.  
County Tax Assessor-Collector

**Valley Municipal Utility District No. 2**  
**Table of Contents**  
**September 30, 2018**

	<u>Page</u>
<b>ANNUAL FILING AFFIDAVIT</b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position and Governmental Funds Balance Sheet	8
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances	9
Notes to Financial Statements	11
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule General Fund	37
Notes to Required Supplementary Information	38
Schedule of Changes in Net Pension Liability and Related Ratios	39
Schedule of Employer Contributions	40
Notes to Schedule of Contributions	41
<b>TEXAS SUPPLEMENTARY INFORMATION (TSI)</b>	
TSI-1.    Services and Rates	44
TSI-2.    General Fund Expenditures	47
TSI-3.    Temporary Investments	48
TSI-4.    Taxes Levied and Receivable	49
TSI-5.    Long-Term Debt Service Requirements by Years	50
TSI-6.    Changes in Long-Term Bonded Debt	51
TSI-7.    Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund	52
TSI-8.    Board Members, Key Personnel and Consultants	54

**ANNUAL FILING AFFIDAVIT**

THE STATE OF TEXAS     )  
COUNTY OF CAMERON    )

I, \_\_\_\_\_ of the  
(Name of Duly Authorized District Representative)

Valley Municipal Utility District No. 2 hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the \_\_\_\_\_ its annual audit report for the fiscal period ended September 30, 2018 and that copies of the annual audit report have been filed in the District's office, located at 100 Hidalgo St., Rancho Viejo, Texas 78575.  
(Address of the District's Office)

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: \_\_\_\_\_, \_\_\_\_\_

By: \_\_\_\_\_  
(Signature of District Representative)

\_\_\_\_\_  
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this \_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

(SEAL)

\_\_\_\_\_  
(Signature of Notary)

My Commission Expires On: \_\_\_\_\_, \_\_\_\_\_.  
Notary Public in the State of Texas.



# REPORT



## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Valley Municipal Utility District No. 2

We have audited the accompanying financial statements of the governmental activities and each major fund of Valley Municipal Utility District No. 2 as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 Valley Municipal Utility District No. 2, as of September 30, 2018, 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 on pages 3–7, budgetary comparison information on page 37, schedule of changes in net pension liability and related ratios on page 39 and schedule of employer contributions on page 40 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 financial information listed as Texas Supplementary Information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The financial information listed as Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Texas Supplementary Information (TSI) as required by the Texas Commission on Environmental Quality (TCEQ) has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Carri Riggs & Ingram, L.L.C.*

Harlingen, Texas  
January 29, 2019



## Valley Municipal Utility District No. 2 Management's Discussion and Analysis

This section of Valley Municipal Utility District No. 2's annual financial report presents our discussion and analysis of the District's financial performance during the year ended September 30, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

### ***Financial Highlights***

In the District's General Fund, revenues were less than expenditures by \$142,191. Proceeds received from the issuance of the 2018A and 2018B Revenues Bonds were \$5,225,000 causing the General Fund fund balance to increase by \$5,082,809.

Revenues were higher than budgeted amounts.

Revenues for water and sewer sales increased 1.9%, when compared to actual revenues in the prior year.

In the District's Debt Service Fund, revenues exceeded expenditures by \$84,231. The fund balance of \$448,548 at year end is available for the interest and principal due on the 2011, 2013 and 2017 series bonds.

### ***Overview of the Financial Statements***

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements and supplementary information*. The basic financial statements present District operations in two categories:

1. General Fund, which includes all income and expenditures from operations. This fund also includes capital expenditures paid from the sale of bonds, such as truck and equipment purchases and construction projects.
2. Debt Service Fund, which includes property tax revenues and expenditures for payment of bonded debt. The fund also includes payment to Southmost Regional Water Authority for bonded debt and water purchases.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *supplementary information* that further explains and supports the information in the financial statements.



## Valley Municipal Utility District No. 2 Management's Discussion and Analysis

### ***Basic Financial Statement Analysis***

The basic financial statements report information about the District using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, liabilities and net position. All of the current year's revenues, expenses and changes in the net position are accounted for in the statements of revenues, expenses and changes in net position regardless of when cash is received or paid.

The basic financial statements report the District's net position, and how they have changed. Net position - the difference between the District's assets, deferred outflows, liabilities and deferred inflows - is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating.

The District's net position was \$2,595,545 and \$2,829,918 at September 30, 2018 and September 30, 2017, respectively. An analysis of the District's net position is shown below:

	September 30, 2018	September 30, 2017
Capital assets, net	\$5,622,189	\$6,081,417
Current and other assets	6,402,215	1,324,378
<b>Total assets</b>	<b>12,024,404</b>	<b>7,405,795</b>
Total deferred outflows of resources	112,286	125,661
Total liabilities	9,479,894	4,643,075
Total deferred inflows of resources	61,251	58,463
<b>Net position</b>		
Net investment in capital assets	1,189,675	1,802,676
Restricted	478,040	390,343
Unrestricted	927,830	636,899
<b>Total net position</b>	<b>\$2,595,545</b>	<b>\$2,829,918</b>

## Valley Municipal Utility District No. 2 Management's Discussion and Analysis

Changes in the District's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2018 and September 30, 2017.

	September 30, 2018	September 30, 2017
Net operating revenues	\$2,228,360	\$2,186,242
Other revenues	138,409	143,367
<b>Total revenues</b>	<b>2,366,769</b>	<b>2,329,609</b>
<b>Operating expenses</b>	<b>2,601,142</b>	<b>2,331,075</b>
Excess/(deficiency) of revenues over (under) expenses	(234,373)	(1,466)
Net position at beginning of the year	2,829,918	2,831,384
<b>Net position at end of year</b>	<b>\$2,595,545</b>	<b>\$2,829,918</b>

### ***Analysis of Changes in Capital Assets and Long-Term Debt***

At the end of 2018, the District had invested \$5,622,189, net of depreciation, in a broad range of capital assets, including buildings, vehicles, equipment, water rights, and utility system and improvements.

The following table summarizes the District's capital assets, net of accumulated depreciation, for the year ended September 30, 2018:

	October 1, 2017	Additions	Deletions	Transfers	September 30, 2018
Buildings	\$ 307,514	\$ -	\$ -	\$ -	\$ 307,514
Utility system and improvements	16,489,452	45,959	-	-	16,535,411
Automobiles and equipment	690,600	13,800	-	-	704,400
Water rights	121,215	-	-	-	121,215
Land	10,000	-	-	-	10,000
Construction in progress	260,100	84,800	-	-	344,900
	17,878,881	144,559	-	-	18,023,440
Accumulated depreciation	(11,797,464)	(603,787)	-	-	(12,401,251)
<b>Net capital assets</b>	<b>\$ 6,081,417</b>	<b>\$ (459,228)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,622,189</b>

Additional information on the District's capital assets can be found in Note 7 of this report.

## Valley Municipal Utility District No. 2 Management's Discussion and Analysis

### *Analysis of Changes in Capital Assets and Long-Term Debt (Continued)*

At September 30, 2018, the District had various activities in short and long-term debt obligations. The District's bonds presently carry a BBB+ rating with Standard & Poors. New bonds in the amounts of \$3,730,000 and \$1,495,000 were issued during the year. The following table summarizes the District's long-term debt for the year ended September 30, 2018:

	October 1, 2017	Additions	Retirements	September 30, 2018
2011 Series Revenue Bonds	\$ 1,280,000	\$ -	\$ 120,000	\$ 1,160,000
2013 Series Revenue Bonds	1,505,000	-	140,000	1,365,000
2017 Series Refunding Bonds	1,425,000		54,000	1,371,000
2018A Series Revenue Bonds	-	3,730,000	-	3,730,000
2018B Series Revenue Bonds	-	1,495,000	-	1,495,000
	4,210,000	5,225,000	314,000	9,121,000
Premium on issuance of bonds	64,723	-	7,191	57,532
Compensated absences	18,540	28,625	26,585	20,580
Net pension liability	76,975	225,660	200,616	102,019
	\$ 4,370,238	\$ 5,479,285	\$ 548,392	\$ 9,301,131

Additional information on the District's long-term debt can be found in Note 8 of this report.

### **General Fund Budgetary Highlights**

Actual expenditures were higher than budgeted expenditures by \$248,562. Funds are allocated each year to reserve and committed funds for the District's ongoing projects. For this year, \$60,000 was allocated to assigned funds and \$120,000 was allocated to committed funds.

*A summary of changes in governmental fund balances:*

#### **General/Operating Fund**

Balance, beginning of year	October 1, 2017	\$ 651,021
Revenues	Maintenance and operations tax	287,857
	Water and sewer	1,216,883
	Other income	118,559
	Proceeds from bond issuance	5,225,000
Expenses	Operations	1,620,931
	Capital expenditures	144,559
<b>Balance, end of year</b>	<b>September 30, 2018</b>	<b>\$5,733,830</b>

## Valley Municipal Utility District No. 2 Management's Discussion and Analysis

*A summary of changes in governmental fund balances (continued):*

**Debt Service Fund**

Balance, beginning of year	October 1, 2017	\$ 364,317
Revenues	Ad valorem taxes	733,195
	Interest income	7,686
Expenses	Administrative and audit expenses	42,124
	Bond payments	440,917
	Purchase commitments (Note 16)	173,609
<u>Balance, end of year</u>	<u>September 30, 2018</u>	<u>\$ 448,548</u>

***Economic Factors and Next Year's Budgets and Rates***

The District's water rates for the year ended 2019 remain consistent with 2018. Ad valorem tax rates remained the same at \$0.35 per \$100.00 of valuation. The tax base of the District remains very stable. There continues to be construction activity within established sections of Rancho Viejo.

***Contacting the District's Financial Management***

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office.



# FINANCIAL STATEMENTS

**Valley Municipal Utility District No. 2**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**

September 30, 2018

<b>ASSETS</b>	General Fund	Debt Service Fund	Total	Adjustments (Note 3)	Governmental Activities Statement of Net Position
Cash and cash equivalents	\$ 934,712	\$ 450,346	\$ 1,385,058	\$ -	\$ 1,385,058
Restricted cash and cash equivalents	4,752,076	-	4,752,076	-	4,752,076
Accounts receivable	127,271	-	127,271	-	127,271
Taxes receivable (net)	11,507	29,306	40,813	-	40,813
Internal receivable	1,612	-	1,612	-	1,612
Prepaid expenses	95,385	-	95,385	-	95,385
Capital assets (net of accumulated depreciation)					
Non-depreciable assets	-	-	-	476,115	476,115
Depreciable assets	-	-	-	5,146,074	5,146,074
<b>Total assets</b>	<b>5,922,563</b>	<b>479,652</b>	<b>6,402,215</b>	<b>5,622,189</b>	<b>12,024,404</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred charge for refunding	-	-	-	21,110	21,110
Pension related	-	-	-	91,176	91,176
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112,286</b>	<b>112,286</b>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	177,151	-	177,151	-	177,151
Internal payable	-	1,612	1,612	-	1,612
Long-term liabilities					
Net pension liability	-	-	-	102,019	102,019
Due within one year	-	-	-	329,000	329,000
Due after one year	-	-	-	8,870,112	8,870,112
<b>Total liabilities</b>	<b>177,151</b>	<b>1,612</b>	<b>178,763</b>	<b>9,301,131</b>	<b>9,479,894</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension related	-	-	-	61,251	61,251
Unavailable revenue - property taxes (net)	11,582	29,492	41,074	(41,074)	-
<b>Total deferred inflows of resources</b>	<b>11,582</b>	<b>29,492</b>	<b>41,074</b>	<b>20,177</b>	<b>61,251</b>
<b>FUND BALANCES/NET POSITION</b>					
Fund balances					
Nonspendable					
Prepays	95,385	-	95,385	(95,385)	-
Restricted					
Debt service	-	448,548	448,548	(448,548)	-
Committed	120,000	-	120,000	(120,000)	-
Assigned					
Capital Projects	60,000	-	60,000	(60,000)	-
Unassigned	5,458,445	-	5,458,445	(5,458,445)	-
<b>Total fund balances</b>	<b>5,733,830</b>	<b>448,548</b>	<b>6,182,378</b>	<b>(6,182,378)</b>	<b>-</b>
Total liabilities, deferred inflows of resources and fund balances	\$ 5,922,563	\$ 479,652	\$ 6,402,215		
<b>NET POSITION</b>					
Net investment in capital assets				1,189,675	1,189,675
Restricted for debt service				478,040	478,040
Unrestricted				927,830	927,830
<b>Total net position</b>				<b>\$ 2,595,545</b>	<b>\$ 2,595,545</b>

*The accompanying notes are an integral part of this financial statement.*

**Valley Municipal Utility District No. 2**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**

*For the year ended September 30, 2018*

	General	Debt Service		Adjustments	Governmental Activities Statement of
<b>REVENUES</b>	Fund	Fund	Total	(Note 4)	Activities
Water and sewer service fees	\$ 1,216,883	\$ -	\$ 1,216,883	\$ -	\$ 1,216,883
Property taxes (net)	287,857	721,031	1,008,888	2,589	1,011,477
Penalties and interest	20,914	12,164	33,078	-	33,078
Tap fees	15,520	-	15,520	-	15,520
Investment earnings	33,745	7,686	41,431	-	41,431
Other revenues	48,380	-	48,380	-	48,380
Total revenues	1,623,299	740,881	2,364,180	2,589	2,366,769
<b>EXPENDITURES</b>					
Service operations:					
Insurance	104,279	-	104,279	-	104,279
Professional fees	149,604	21,445	171,049	-	171,049
Salaries	690,356	-	690,356	2,040	692,396
Contracted services	42,388	12,053	54,441	-	54,441
Water purchase	5,571	-	5,571	-	5,571
Utilities	143,045	-	143,045	-	143,045
Materials and supplies	245,862	-	245,862	-	245,862
Other expenditures	84,875	182,235	267,110	-	267,110
Capital outlay	144,559	-	144,559	(144,559)	-
Debt service					
Principal	-	314,000	314,000	(314,000)	-
Interest	-	126,917	126,917	(4,933)	121,984
Bond issuance costs	99,118	-	99,118	-	99,118
Pension expense	55,833	-	55,833	36,667	92,500
Depreciation	-	-	-	603,787	603,787
Total expenditures	1,765,490	656,650	2,422,140	179,002	2,601,142
Excess (deficiency) of revenues over (under) expenditures	(142,191)	84,231	(57,960)	(176,413)	(234,373)
Other financing sources/uses:					
Proceeds from bond issuance	5,225,000	-	5,225,000	(5,225,000)	-
Total other financing sources/uses	5,225,000	-	5,225,000	(5,225,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	5,082,809	84,231	5,167,040	(5,401,413)	(234,373)
<b>FUND BALANCE/ NET POSITION</b>					
Beginning of year	651,021	364,317	1,015,338	1,814,580	2,829,918
End of year	\$ 5,733,830	\$ 448,548	\$ 6,182,378	\$ (3,586,833)	\$ 2,595,545

*The accompanying notes are an integral part of this financial statement.*

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**NOTES TO FINANCIAL  
STATEMENTS**

## Valley Municipal Utility District No. 2

### Notes to the Financial Statements

#### **NOTE 1: CREATION OF DISTRICT**

Valley Municipal Utility District No. 2, a tax exempt entity, was created by an order of the Texas Water Rights Commission (Predecessor to the Texas Natural Resource Conservation Commission), effective March 15, 1972, in accordance with the Texas Water Code Chapter 54 as amended. The Board of Directors held its first meeting on May 1, 1972 and the first bonds were sold September 28, 1973, in the amount of \$2.6 million. The District provides water and sewer services to approximately 4,277 acres of land that includes the Town of Rancho Viejo, Texas and a development known as River Bend Resorts. The District also furnishes irrigation water to land areas within and outside the District's boundaries.

As a conservation and reclamation District, the District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities, any plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts after approval by the Texas Natural Resource Conservation Commission and the voters of the District. As a result of applying the component unit definition criteria in GASB Statement No. 14 and as amended by GASB Statement No. 61, no organizations are required to be discretely presented in this financial report.

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### *Basis of Presentation*

##### **Government-Wide Statements**

The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities.

##### **Fund Financial Statements**

The fund financial statements provide information about the District's funds, with separate columns presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the following major governmental funds:

*General Fund* - This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

*Debt Service Fund* - To account for the accumulation of financial resources for the payment of general long-term debt principal, interest and expenditures paid principally from property tax revenue levied by the District.

#### *Basis of Accounting*

#### **Government-wide Financial Statements**

These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

#### **Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding and interest revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors have provided otherwise in its commitment or assignment actions.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Governmental Fund Financial Statements (Continued)

Unavailable revenue is reported in the governmental funds when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the government before it has a legal claim to them as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unavailable revenue is removed and revenue is recognized.

#### *Recently Issued Accounting Pronouncements*

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

In March 2018, the GASB issued *GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, this Statement will improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Management is evaluating the effects that the full implementation of GASB Statement No. 88 will have on its financial statements for the year ended September 30, 2019.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Capital Assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The capitalization threshold established by the District is \$3,000.

<u>Assets Class</u>	<u>Estimated Useful Lives</u>
Buildings	30
Utility system and improvements	20-40
Autos and equipments	5-20

#### *Budgets*

The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The annual budget appropriations lapse at the fiscal year end. The adopted budget is not a spending limitation under law but rather an operating plan.

The District does not use the encumbrance system; therefore purchase orders, contracts and other commitments for the expenditure of resources are not recorded as a reserve of fund balance.

#### *Cash and Cash Equivalents*

For purposes of the basic financial statements, cash and cash equivalents include all highly liquid investments with a maturity of three months or less and external investment pools.

#### *Fund Balances*

The District provides for two major types of fund balances, which are nonspendable and spendable. GASB 54 establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

**Nonspendable fund balances** will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances will be inventory and prepaid items.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

**Restricted fund balances** will exist when constraints are placed on the use of those resources that are either externally imposed or imposed by law. In general most reserve funds will fall into this category.

**Committed fund balances** are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors of Valley Municipal Utility District No. 2.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Assigned fund balances** will be amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted, nor committed. The intent can be made by either the Board of Directors of Valley Municipal Utility District No. 2 or an official to whom which the District has delegated the authority to. Appropriated fund balance will be reclassified into the assigned category.

**Unassigned fund balances** will represent those funds that have not been assigned, committed, restricted or considered nonspendable. The general fund will be the only fund that will report unassigned fund balance, unless a deficit fund balance resulting from overspending in other funds exist. Fund balance in other funds will either be assigned, committed, restricted or nonspendable unless the fund reports a deficit.

#### *Interfund Activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

#### *Property Taxes*

Ad valorem taxes and penalties and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of that year.

Property taxes attach as an enforceable lien on property as of January 31. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied on October 1 become delinquent on February 1 at which time the applicable property is assessed penalty and interest until paid. On July 1, the property is subject to lien plus penalties and interest until paid.

The annual tax levy is recorded as a charge to taxes receivable and a credit to deferred revenues, after subtracting that portion estimated to be uncollectible. As taxes are collected monthly, the deferred revenue account is reduced and revenue from tax collections is recognized. Uncollectible taxes are recorded in such a manner so as to reflect the amount of taxes reasonably estimated to be uncollectible based on prior experience.

#### *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 certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the period. Actual results could differ from those estimates.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Fair Value Measurements*

GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

There are three general valuation techniques that may be used to measure fair value. The market approach uses prices generated by market transactions involving identical or comparable assets or liabilities. The cost approach uses the amount that currently would be required to replace the service capacity of an asset (replacement cost). The income approach uses valuation techniques to convert future amounts to present amounts based on current market expectations.

#### *Net Position*

The District's net position is classified as follows:

Net investment in capital assets: consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets.

Restricted: consists of net position that is subject to a legally enforceable restriction on its use.

Unrestricted: consists of all other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

#### *Deferred Outflows and Inflows of Resources*

**GASB Statement No. 63**, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

**GASB Statement No. 65**, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District has an accounting loss on refunding bonds which is a deferred resource outflow and also has unavailable revenues from property taxes which are deferred resource inflows under this standard.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Pensions*

**GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

**GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

### NOTE 3: RECONCILIATION OF THE STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

Fund balances - total governmental funds	\$ 6,182,378
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,622,189
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	41,074
Deferred charge for refunding.	21,110
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$(102,019), a deferred resource inflow in the amount of \$(61,251), and a deferred resource outflow in the amount of \$91,176. This resulted in a decrease in net position of \$(72,094).	(72,094)
Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(9,199,112)
Net position of governmental activities	\$ 2,595,545



## Valley Municipal Utility District No. 2

### Notes to the Financial Statements

#### NOTE 4: RECONCILIATION OF THE STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Net change in fund balance - total governmental funds \$ 5,167,040

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$603,787 exceeded capital outlay of \$144,559 in the current period. (459,228)

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. 2,589

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 314,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds. Any change in compensated absences payable during the year are reported as an increase or decrease to expenditures in the Statement of Activities but not in the governmental funds. (2,040)

Bond proceeds are recorded as other financing sources in the governmental funds while they are recorded as long term debt in the Statement of Net Position. (5,225,000)

Premium and loss amortized on bond issuances. 4,933

GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of December 31, 2017 caused the change in the ending net position to increase in the amount of \$45,651. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$31,981) net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by (\$50,337). The result of these changes is to decrease the change in net position by (\$36,667). (36,667)

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Net change in net position \$ (234,373)

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## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 5: DEPOSITS AND INVESTMENTS

#### *Deposits*

At September 30, 2018, the carrying amount of the District's deposits (cash, and interest bearing savings accounts included in temporary investments) was \$266,478 and the bank balance was \$276,228. In addition to these cash and cash equivalents the District maintains \$5,870,156 in government investment pools. The District's cash deposits at September 30, 2018 and during the year ended September 30, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The District's cash deposits at September 30, 2018 are maintained at International Bank of Commerce. These deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: International Bank of Commerce
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,725,558.
- c. The highest combined balances of cash deposit accounts amounted to \$717,472 and occurred during the month of August 2018.
- d. The amount of FDIC coverage at the time of the largest combined balance was \$250,000.

#### *Temporary Investments*

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered substantially to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The District's management believes that it has complied in all material respects with the requirements of the act and the District's investment policies.

State statutes and the District's investment policy authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies and external investment pools and certificates of deposit provided that approved securities are pledged to secure those funds.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the District’s investment policy, and Government Code Chapter 2257 “Collateral For Public Funds” contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than .0995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity:

<u>Description</u>	<u>CUSIP</u>	<u>Amount</u>	<u>Maturity</u>	<u>Days</u>
TexPool	N/A	\$ 350,095	N/A	Daily
TexSTAR	N/A	<u>5,520,061</u>	N/A	Daily
		<u>\$5,870,156</u>		

### Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the District’s investment policy and the Texas Public Fund Investment Act and the actual rating as of year-end for each investment.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

<u>Description</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating</u>	<u>Percentage</u>
TexPool	AAAm	\$ 350,095	AAAm	6%
TexSTAR	AAAm	<u>5,520,061</u>	AAAm	<u>94%</u>
		<u>\$5,870,156</u>		<u>100%</u>

#### Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

#### Public Funds Investment Pools

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies, federally insured certificates of deposit issued by Texas banks or savings and loans, and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

For purposes of the Statement of Net Position, the District considers its investment in public funds investment pools to be cash equivalents.

Texas Short Term Asset Reserve Program ("TexSTAR") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools.

Under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, if a participant has an investment in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost it should disclose the presence of any limitations or restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) in notes to the financial statements. As of September 30, 2018, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit the District's access to 100 percent of their account value in either external investment pool.

## Valley Municipal Utility District No. 2

### Notes to the Financial Statements

#### NOTE 6: AD VALOREM TAXES AND COMPLIANCE WITH DEBT SERVICE REQUIREMENTS

During the year ended September 30, 2018, the District levied an ad valorem debt service tax at the rate of \$0.25 per \$100 of assessed valuation, and a maintenance tax of \$0.10 per \$100 of assessed valuation which resulted in a total tax levy of \$1,015,632 on the taxable valuation of \$290,180,434 for the year ended September 30, 2018. The Bond resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due including the cost of assessing and collecting taxes. All the billings and collections for these taxes are done by the Cameron County Tax Assessor and Collector on behalf of the District.

Schedule of Taxes Receivable				
September 30, 2018				
	Year	Debt Service Tax	Maintenance Tax	Total
Taxes receivable, by year	2002 and prior	\$ 49	\$ 38	\$ 87
	2003	4	10	14
	2004	4	10	14
	2005	185	519	704
	2006	148	415	563
	2007	188	526	714
	2008	236	661	897
	2009	293	792	1,085
	2010	349	943	1,292
	2011	696	1,880	2,576
	2012	481	1,299	1,780
	2013	443	1,195	1,638
	2014	623	1,557	2,180
	2015	1,317	3,293	4,610
	2016	2,084	5,210	7,294
	2017	5,694	14,235	19,929
		12,794	32,583	45,377
Allowance for uncollectible		(1,287)	(3,277)	(4,564)
Taxes receivable, at end of year		\$ 11,507	\$ 29,306	\$ 40,813

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 is as follows:

	October 1, 2017	Additions	Deletions	Transfers	September 30, 2018
Capital assets, not being depreciated					
Water rights	\$ 121,215	\$ -	\$ -	\$ -	\$ 121,215
Land (Birding Center)	10,000	-	-	-	10,000
Construction in progress	260,100	84,800	-	-	344,900
Total capital assets, not being depreciated	391,315	84,800	-	-	476,115
Capital assets, being depreciated					
Buildings	307,514	-	-	-	307,514
Utility system and improvements	16,489,451	45,959	-	-	16,535,410
Automobiles and equipment	690,601	13,800	-	-	704,401
Total capital assets, being depreciated	17,487,566	59,759	-	-	17,547,325
Less accumulated depreciation for:					
Buildings	(218,833)	(10,158)	-	-	(228,991)
Utility system and improvements	(11,091,064)	(552,694)	-	-	(11,643,758)
Automobiles and equipment	(487,567)	(40,935)	-	-	(528,502)
Total accumulated depreciation	(11,797,464)	(603,787)	-	-	(12,401,251)
Total capital assets, being depreciated, net	5,690,102	(544,028)	-	-	5,146,074
Capital assets, net	\$ 6,081,417	\$ (459,228)	\$ -	\$ -	\$ 5,622,189

### NOTE 8: LONG-TERM LIABILITIES

#### *Bonds Payable:*

Five series of bonds have been issued under 2011, 2013, 2017, and 2018 bond orders. A total of \$81,800,000 of bonds were authorized by the voters. As of September 30, 2018, \$9,121,000 of the bonds remains outstanding. The following is a schedule of bonds outstanding at September 30, 2018.

Description	Interest		Bonds Outstanding September 30, 2017
	Rates	Dates Payable	
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2011	2.50-4.25%	08/15; 02/15	\$1,160,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2013	2.50-4.25%	08/15; 02/15	1,365,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2017	2.47%	08/15; 02/15	1,371,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018A	0.59%-1.82%	08/15; 02/15	3,730,000
Waterworks and sewer system Combination unlimited tax and Revenue bonds, Series 2018B	0.89%-2.12%	08/15; 02/15	1,495,000
			\$9,121,000

## Valley Municipal Utility District No. 2

### Notes to the Financial Statements

#### NOTE 8: LONG-TERM LIABILITIES (Continued)

Principal and interest on the bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District and additionally from net revenues derived from the operation of the District's water and wastewater system.

The Series 2011 bonds maturing on February 15, 2021 and thereafter are subject to redemption, in whole or, from time to time in part, at the option of the District, prior to their maturity date, on February 15, 2020 or any date thereafter. Upon redemption, the bonds will be payable at a price of par plus accrued interest to the date of redemption. If less than all of the bonds of a given maturity are to be redeemed, the particular bonds to be redeemed shall be selected by the Paying Agent/Registrar by random method (or while the bonds are in Book-Entry Only form by DTC in accordance with its procedures). Additionally, the bonds maturing in the years 2020, 2022, 2024, and 2026 are subject to mandatory redemption.

The Series 2013 bonds maturing on February 15, 2026 and thereafter are subject to redemption, in whole or, from time to time in part, at the option of the District, prior to their maturity date, on February 15, 2020 or any date thereafter. Upon redemption, the bonds will be payable at a price of par plus accrued interest to the date of redemption. If less than all of the bonds of a given maturity are to be redeemed, the particular bonds to be redeemed shall be selected by the Paying Agent/Registrar by random method (or while the bonds are in Book-Entry Only form by DTC in accordance with its procedures). Additionally, the bonds maturing in the years 2020, 2022, 2024 and 2026 are subject to mandatory redemption.

In June 2018 the District authorized the issuance of the 2018-A and 2018-B Combination Unlimited Tax Waterworks and Sewer System Revenue Bonds in the amounts of \$3,730,000 and \$1,495,000. The certificates were issued for the purposes of funding water and sewer improvements within the District. The certificates bear interest of 0.59 - 1.82% and 0.89 - 2.12% and interest is payable annually on February and August 1<sup>st</sup> of each year. The certificates mature on February 15, 2048.

#### *Refunding*

On April 4, 2017 the District issued \$1,425,000, Revenue Refunding Bonds, Series 2017 to provide resources to cover costs of issuance and for refunding all of the then outstanding 2006 Series Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District's financial statements. The refunding bond issuance costs of \$17,565 have been expensed in accordance with GASB No. 65. Principal payments are due annually on February 15, of each year until maturity on February 15, 2026. Interest payments are due semi-annually on February 15, and August 15, of each year at an interest rate of 2.47%.

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and related liabilities for the defeased bonds are not included in the District's financial statements. At September 30, 2018, the following outstanding bonds are considered defeased:

<u>Series</u>	<u>Ending Balance</u>
2001	\$1,155,000
2004	\$1,415,000
2006	\$1,425,000

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 8: LONG-TERM LIABILITIES (Continued)

The following is a summary of the total annual long-term debt requirements to maturity:

Years Ended September 30,	Principal	Interest	Total Annual Requirements
2019	\$ 355,000	\$ 170,763	\$ 525,763
2020	363,000	160,925	523,925
2021	432,000	150,417	582,417
2022	441,000	138,464	579,464
2023	455,000	126,160	581,160
2024-2028	2,308,000	441,769	2,749,769
2029-2033	1,327,000	253,765	1,580,765
2034-3038	1,180,000	181,461	1,361,461
2039-2043	1,105,000	109,845	1,214,845
2044-2048	1,155,000	42,414	1,197,414
	<u>\$ 9,121,000</u>	<u>\$ 1,775,983</u>	<u>\$ 10,896,983</u>

During the year ended September 30, 2018, the following changes occurred in liabilities reported in the basic long-term debt:

Description	Balance October 1, 2017	Additions	Retirements	Balance September 30, 2018	Amount Due Within One Year
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2011	1,280,000	-	120,000	1,160,000	125,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2013	1,505,000	-	140,000	1,365,000	150,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2017	1,425,000	-	54,000	1,371,000	80,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018A	-	3,730,000	-	3,730,000	-
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018B	-	1,495,000	-	1,495,000	-
	<u>4,210,000</u>	<u>5,225,000</u>	<u>314,000</u>	<u>9,121,000</u>	<u>355,000</u>
Premium on issuance of bonds	64,723	-	7,191	57,532	-
Compensated absences	18,540	28,625	26,585	20,580	15,000
	<u>4,293,263</u>	<u>5,253,625</u>	<u>347,776</u>	<u>9,199,112</u>	<u>370,000</u>
Long-term debt	4,293,263	5,253,625	347,776	9,199,112	370,000
Net pension liability	76,975	225,660	200,616	102,019	-
Total long-term liabilities	<u>\$ 4,370,238</u>	<u>\$ 5,479,285</u>	<u>\$ 548,392</u>	<u>\$ 9,301,131</u>	<u>\$ 370,000</u>



## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 9: WATER AND SEWER SERVICE RATES

The District bills customers monthly for utility service and will not provide water or sewer service to any person without charge.

The District has set the following monthly charges effective January 1, 2016:

For Standard Retail Customers:

Base rate:	\$19.00
Tier 1:	\$ 2.00 per 1,000 gallons from 0 to 10,000
Tier 2:	\$ 2.25 per 1,000 gallons from 10,001 to 15,000
Tier 3:	\$ 2.75 per 1,000 gallons from 15,001 to 25,000
Tier 4:	\$ 3.50 per 1,000 gallons from 25,001 and up

For Condo Customers:

\$12.00 times dwelling units  
Plus \$2.75 per 1,000 gallons

River Bend RV Lots:

\$19.00 combined water and wastewater charges:

\$12.00 water

\$7.00 wastewater

#### Wastewater Rates

For Standard Retail Customers:

Base rate:	\$15.00
Tier 1:	\$1.75 per 1,000 gallons from 0 to 15,000
	No charge over 15,000 gallons (assumed irrigation use)

For Condo Customers:

\$15 times dwelling units  
Plus \$1.75 per 1,000 gallons

#### Outside of District Rates

For customers outside of the VMUD#2 District, the amount billed will be determined by the above rates and multiplied by a factor of two. New customers must make a deposit of one month's estimated billing before service is turned on and the district will retain the deposit for one year.

#### **Tap fees**

Water and sewer:

Residential and commercial tap fees:

5/8 inch tap	\$1,500
Over 5/8 in tap	\$1,500 plus cost of meter

*Commercial:*

For commercial connections, other specific rates apply.

*Raw Water:*

The District sells raw water for irrigation at a cost per acre foot.

## Valley Municipal Utility District No. 2

### Notes to the Financial Statements

#### **NOTE 10: OTHER EMPLOYEE BENEFITS**

The District provides medical and life insurance benefits for its employees through a group insurance plan provided by Blue Cross/Blue Shield. The plan features medical and life insurance benefits to all participants.

Contributions to the plan are based on the marital and family status of an employee. For the year ended September 30, 2018, the District's other employee benefit costs totaled \$57,248.

#### **NOTE 11: OTHER CONTRACTUAL RELATIONSHIPS**

The District has contracts to purchase water from Military Highway Water Supply Corporation and the Olmito Water Supply Corporation in case of emergencies. The District has no relationships except purchases or sales of water through interconnect. This relationship is neither a joint venture, nor a component unit as described by TCEQ.

As discussed in Note 16, the District also has a contract to receive water from the Southmost Regional Water Authority.

The District, on August 26, 2002, entered into a water supply contract with Southmost Regional Water Authority to secure an additional source of supply of treated subsurface ground water for the District's water distribution system in order to serve the present inhabitants and to provide growth in the future. The agreement authorized the District to levy an annual ad valorem tax on all taxable property within the District to make certain payments required to Southmost Regional Water Authority.

#### **NOTE 12: SHARED FACILITIES**

The District owns and leases a building to the Town of Rancho Viejo for the purpose of storing equipment. The design and construction costs of the building were shared by the parties pro-rata according to the interior square footage of the structure as follows:

Valley Municipal Utility District #2 - 70%; Town - 30%. The building is the property of Valley Municipal Utility District #2 which leases to the Town.

#### **NOTE 13: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

Unavailable revenues from property taxes in the general fund and the debt service fund at September 30, 2018 were \$11,582 and \$29,492, respectively.

See Note 15 for information related to deferred outflows and inflows of resources related to pensions.

#### **NOTE 14: RISK MANAGEMENT**

The District is exposed to various risks of loss related to intentional and unintentional torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; health and dental benefits to employees; and employee accidents and injuries for which the District carries commercial insurance. There have been no significant reductions in insurance coverage from the previous year; no settlements have exceeded insurance coverage in any of the past three years. The District participates in the Texas Municipal League Intergovernmental Risk Pool. The District is not aware of any pending claims for which expected liability would exceed the limits of the commercial insurance coverage.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 15: EMPLOYEE RETIREMENT PLAN

#### *Plan Description*

Valley Municipal Utility District No. 2 provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year BASIC. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

#### *Funding Policy*

The employer has elected the annually determined contribution rate (Variable Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 9.38% and 6.66% for the months of the accounting years in 2017 and 2016, respectively. The deposit rate payable by the employee members was 7% and 7% for calendar years 2017 and 2016, respectively, as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Valley Municipal Utility District No. 2**  
**Notes to the Financial Statements**

**NOTE 15: EMPLOYEE RETIREMENT PLAN (Continued)**

	<b>Number of Employees</b>
Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	2
Active employees	14
Total	23

**Net Pension Liability**

	December 31, 2016	December 31, 2017
Total pension liability	\$ 847,960	\$ 1,047,499
Fiduciary net position	770,985	945,480
Net pension liability	76,975	102,019
Fiduciary net position as a % of total pension liability	90.92%	90.26%
Pensionable covered payroll <sup>(1)</sup>	595,953	631,709
Net pension liability as a % of covered payroll	12.92%	16.15%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

<sup>(1)</sup>Payroll is calculated based on contributions as reported to TCDRS.

**Discount Rate**

Discount rate <sup>(2)</sup>	8.10%	8.10%
Long-term expected rate of return, net of investment expense <sup>(2)</sup>	8.10%	8.10%
Municipal bond rate <sup>(3)</sup>	Does not apply	Does not apply

<sup>(2)</sup>This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68.

<sup>(3)</sup>The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 15: EMPLOYEE RETIREMENT PLAN (Continued)

#### Long-Term Expected Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2013 – December 31, 2016 for more details.

Asset Class	Benchmark	Target Allocation <sup>(1)</sup>	Geometric Real Rate of Return <sup>(2)</sup>
U.S. Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
Int'l Equities - Developed Markets	MSCI World Ex USA (net)	11.00%	4.55%
Int'l Equities - Emerging Markets	MSCI EM Standard (net) Index	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	18.00%	4.10%

<sup>(1)</sup> Target asset allocation adopted at the April 2018 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 15: EMPLOYEE RETIREMENT PLAN (Continued)

#### Depletion of Plan Assets/GASB Discount Rates

The discount rate is the single rate of return that, when applied to all projected benefit payments result in an actuarial present value of projected benefit payments that equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

## Valley Municipal Utility District No. 2 Notes to the Financial Statements

### NOTE 15: EMPLOYEE RETIREMENT PLAN (Continued)

#### Depletion of Plan Assets/GASB Discount Rates - Continued

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

#### Changes in Net Pension Liability

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a-b)
Balances as of December 31, 2016	\$ 847,960	\$ 770,985	\$ 76,975
Changes for the year:			
Service cost	61,529	-	61,529
Interest on total pension liability <sup>(1)</sup>	72,656	-	72,656
Effect of plan changes <sup>(2)</sup>	66,666	-	66,666
Effect of economic/demographic gains or losses	15,521	-	15,521
Effect of assumptions changes in inputs	8,657	-	8,657
Refund of contributions	-	-	-
Benefit payments	(25,490)	(25,490)	-
Administrative expenses	-	(629)	629
Member contributions	-	44,220	(44,220)
Net investment income	-	113,515	(113,515)
Employer contributions	-	42,072	(42,072)
Other <sup>(3)</sup>	-	807	(807)
Balances as of December 31, 2017	\$ 1,047,499	\$ 945,480	\$ 102,019

<sup>(1)</sup> Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

<sup>(2)</sup> Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

<sup>(3)</sup> Relates to allocation of system-wide items.

**Valley Municipal Utility District No. 2**  
**Notes to the Financial Statements**

**NOTE 15: EMPLOYEE RETIREMENT PLAN (Continued)**

**Sensitivity Analysis**

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the Valley Municipal Utility District No. 2 – Cameron County net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$1,201,816	\$1,047,499	\$918,514
Fiduciary net position	945,480	945,480	945,480
Net pension liability/(asset)	\$256,336	\$102,019	(\$26,966)

**Pension Expense/(Income)**

	January 1, 2017 to December 31, 2017
Service cost	\$ 61,529
Interest on total pension liability <sup>(1)</sup>	72,656
Effect of plan changes	66,666
Administrative expenses	629
Member contributions	(44,220)
Expected investment return net of investment expenses	(64,783)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(3,883)
Recognition of assumption changes or inputs	2,083
Recognition of investment gains or losses	2,630
Other <sup>(2)</sup>	(807)
<b>Pension expense/(income)</b>	<b>\$ 92,500</b>

<sup>(1)</sup> Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

<sup>(2)</sup> Relates to allocation of system-wide items.



## Valley Municipal Utility District No. 2

### Notes to the Financial Statements

#### NOTE 15: EMPLOYEE RETIREMENT PLAN (Continued)

As of December 31, 2017, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows <sup>L</sup> of Resources
Differences between expected and actual experience	\$ 46,770	\$ 34,719
Changes of assumptions	-	10,805
Net difference between projected and actual earnings	14,481	-
Contributions made subsequent to measurement date	N/A	45,652

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended December 31:	
2018	\$ 830
2019	(865)
2020	(10,114)
2021	(14,802)
2022	5,773
Thereafter <sup>(3)</sup>	3,454

<sup>(3)</sup> Total remaining balance to be recognized in future years, if any. Note that additional future deferred inflows and outflows of resources may impact these numbers.

#### Schedule of Deferred Inflows and Outflows of Resources

	Original Amount	Date Established	Original Recognition Period <sup>(1)</sup>	Amount Recognized in 12/31/2017 Expense <sup>(1)</sup>	Balance of Deferred Inflows 12/31/2017	Balance of Deferred Outflows 12/31/2017
Investment (gains) or losses	\$(48,643)	12/31/2017	5.0	\$(9,729)	\$38,915	\$ -
	7,073	12/31/2016	5.0	1,415	-	4,244
	46,245	12/31/2015	5.0	9,249	-	18,498
	8,473	12/31/2014	5.0	1,695	-	1,695
Economic/demographic (gains) or losses	\$15,521	12/31/2017	7.0	2,217	-	13,303
	16,233	12/31/2016	7.0	2,319	-	11,595
	(81,847)	12/31/2015	7.0	(11,692)	46,770	-
	22,914	12/31/2014	7.0	3,273	-	9,820
Assumption changes or inputs	\$ 8,657	12/31/2017	7.0	1,237	-	7,420
	-	12/31/2016	7.0	-	-	-
	5,922	12/31/2015	7.0	846	-	3,384
	-	12/31/2014	7.0	-	-	-
Employer contributions made subsequent to measurement date	\$45,652	09/30/2018	N/A	-	-	45,652
	\$34,260	09/30/2017	N/A	-	-	34,260
	\$25,293	09/30/2016	N/A	-	-	25,293

<sup>(1)</sup> Investment (gains)/losses are recognized in pension expense over a period of five years; economic/demographic ((gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active, inactive, and retired members.

## Valley Municipal Utility District No. 2

### Notes to the Financial Statements

#### **NOTE 16: RELATED PARTY TRANSACTIONS**

As of September 30, 2018, the District is a participating entity of the Southmost Regional Water Authority (the Authority). The District's allocated percentage of interest is 2.51% and entitles the District's governing body to appoint an individual as a director of the Authority.

The District will be assessed a yearly maintenance and operating assessment in addition to the annual debt service by Southmost Regional Water Authority to enable the District to receive its allotment of water. During the year, the District's share of maintenance and operating expenditures for Southmost Regional Water Authority totaled \$103,863, debt service expenditures totaled \$55,937 and capital expenditures totaled \$13,809.

#### **NOTE 17: CONTINGENCIES**

The District is periodically involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. The ultimate resolution of these actions is not expected to have a material adverse effect on the District's financial position.

#### **NOTE 18: COMPLIANCE AND ACCOUNTABILITY**

a. Finance-Related Legal and Contractual Provision

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Expenditures exceeded appropriations in the following categories – professional fees, water purchases, utilities, material and supplies, bond issuance costs and other expenditures. Total actual expenditures exceeded total budgeted expenditures. The District will closely monitor its budget to ensure expenditures do not exceed appropriations.

b. Deficit Fund Balance or Fund Net Position of Individual Funds

No deficit fund balances were reported in the current year.

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**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**Valley Municipal Utility District No. 2**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**

*For the year ended September 30, 2018*

<b>REVENUES</b>	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
Maintenance service property tax	\$ 290,700	\$ 290,700	\$ 287,857	\$ (2,843)
Raw water and flat rate	50,222	50,222	45,252	(4,970)
Water and sewer service fees	1,100,000	1,100,000	1,171,631	71,631
Penalty and interest	15,000	15,000	20,914	5,914
Other revenues	31,000	31,000	82,125	51,125
Tap fees	15,000	15,000	15,520	520
<b>Total revenues</b>	<b>1,501,922</b>	<b>1,501,922</b>	<b>1,623,299</b>	<b>121,377</b>
<b>EXPENDITURES</b>				
Current				
Insurance	110,359	110,359	104,279	6,080
Professional fees	27,400	27,400	149,604	(122,204)
Salaries	712,346	712,346	690,356	21,990
Contracted services	57,770	57,770	42,388	15,382
Water purchases	-	-	5,571	(5,571)
Utilities	138,200	138,200	143,045	(4,845)
Material and supplies	175,870	175,870	245,862	(69,992)
Pension expense	60,638	60,638	55,833	4,805
Capital outlay	180,000	180,000	144,559	35,441
Bond issuance costs	-	-	99,118	(99,118)
Other expenditures	54,345	54,345	84,875	(30,530)
<b>Total expenditures</b>	<b>1,516,928</b>	<b>1,516,928</b>	<b>1,765,490</b>	<b>(248,562)</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(15,006)</b>	<b>(15,006)</b>	<b>(142,191)</b>	<b>(127,185)</b>
Proceeds from bond issuance	-	-	5,225,000	(5,225,000)
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures</b>	<b>(15,006)</b>	<b>(15,006)</b>	<b>5,082,809</b>	<b>5,097,815</b>
Fund balance, beginning of year	651,021	651,021	651,021	-
<b>Fund balance, end of year</b>	<b>\$ 636,015</b>	<b>\$ 636,015</b>	<b>\$ 5,733,830</b>	<b>\$ 5,097,815</b>

## Valley Municipal Utility District No. 2

### Notes to Required Supplementary Information

#### Stewardship, compliance, and accountability

##### Budgetary information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund and Debt Service Fund. All annual appropriations lapse at fiscal year end. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

Formal budgetary integration is employed as a management control device during the year for the General Fund and Debt Service Fund. This budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The Board Members approve total budget appropriations. The Board Members approve transfers of budget amounts between accounts within the General Fund and Debt Service Fund and any revisions that alter the total appropriations of any account. The level of budgetary responsibility is by total appropriations.

Before the end fiscal year, the General Manager prepares the budget by account, and includes information on the past year, current year estimates and total appropriations for the next fiscal year.

Before September 30, the proposed budget is presented to the Board for review. During the board meeting the Board may add to, subtract from or change appropriations.

##### Expenditures Over Appropriations

Instances were noted in which expenditures exceeded budgeted amounts within the General Fund as detailed in the Budgetary Comparison Schedule - General Fund:

##### General Fund

	Budget	Actual	Variance
Professional fees	\$ 27,400	\$ 149,604	\$ (122,204)
Water purchases	-	5,571	(5,571)
Utilities	138,200	143,045	(4,845)
Material and supplies	175,870	245,862	(69,992)
Other expenditures	54,345	84,875	(30,530)
Bond issuance costs	-	99,118	(99,118)

Valley Municipal Utility District No. 2  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
September 30, 2018

	Year Ended December 31,										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	
<b>Total Pension Liability</b>											
Service cost	\$ 61,529	\$ 52,183	\$ 47,884	\$ 46,087	N/A	N/A	N/A	N/A	N/A	N/A	
Interest on total pension liability	72,656	59,938	58,767	51,373	N/A	N/A	N/A	N/A	N/A	N/A	
Effect of plan changes	66,666	35,721	(11,425)	-	N/A	N/A	N/A	N/A	N/A	N/A	
Effect of assumption changes or inputs	8,657	-	5,922	-	N/A	N/A	N/A	N/A	N/A	N/A	
Effect of economic/demographic (gains) or losses	15,521	16,233	(81,847)	22,914	N/A	N/A	N/A	N/A	N/A	N/A	
Benefit payments/refunds of contributions	(25,490)	(25,490)	(28,771)	(25,825)	N/A	N/A	N/A	N/A	N/A	N/A	
Net change in total pension liability	199,539	138,585	(9,470)	94,549	N/A	N/A	N/A	N/A	N/A	N/A	
Total pension liability, beginning	847,960	709,375	718,845	624,296	N/A	N/A	N/A	N/A	N/A	N/A	
Total pension liability, ending (a)	\$ 1,047,499	\$ 847,960	\$ 709,375	\$ 718,845	N/A	N/A	N/A	N/A	N/A	N/A	
<b>Fiduciary Net Position</b>											
Employer contributions	\$ 42,072	\$ 30,334	\$ 29,466	\$ 30,423	N/A	N/A	N/A	N/A	N/A	N/A	
Member contributions	44,220	41,717	41,038	39,437	N/A	N/A	N/A	N/A	N/A	N/A	
Investment income net of investment expenses	113,515	49,830	7,427	38,549	N/A	N/A	N/A	N/A	N/A	N/A	
Benefit payments/refunds of contributions	(25,490)	(25,490)	(28,771)	(25,825)	N/A	N/A	N/A	N/A	N/A	N/A	
Administrative expenses	(629)	(554)	(478)	(459)	N/A	N/A	N/A	N/A	N/A	N/A	
Other	807	(9,421)	(1,189)	2,876	N/A	N/A	N/A	N/A	N/A	N/A	
Net change in fiduciary net position	174,495	86,416	47,493	85,001	N/A	N/A	N/A	N/A	N/A	N/A	
Fiduciary net position, beginning	770,985	684,569	637,076	552,075	N/A	N/A	N/A	N/A	N/A	N/A	
Fiduciary net position, ending (b)	\$ 945,480	\$ 770,985	\$ 684,569	\$ 637,076	N/A	N/A	N/A	N/A	N/A	N/A	
Net pension liability / (asset), ending = (a) - (b)	\$ 102,019	\$ 76,975	\$ 24,806	\$ 81,769	N/A	N/A	N/A	N/A	N/A	N/A	
Fiduciary net position as a % of total pension liability	90.26%	90.92%	96.50%	88.62%	N/A	N/A	N/A	N/A	N/A	N/A	
Pensionable covered payroll	\$ 631,709	\$ 595,953	\$ 592,333	\$ 563,383	N/A	N/A	N/A	N/A	N/A	N/A	
Net pension liability as a % of covered payroll	16.15%	12.92%	4.19%	14.51%	N/A	N/A	N/A	N/A	N/A	N/A	

Valley Municipal Utility District No. 2  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
September 30, 2018

Year Ending December 31	Actuarially Determined Contribution <sup>(1)</sup>	Actual Employer Contribution <sup>(1)</sup>	Contribution Deficiency (Excess)	Pensionable Covered Payroll <sup>(2)</sup>	Actual Contribution as a % of Covered Payroll
2008	\$12,041	\$12,041	\$0	\$428,509	2.8%
2009	12,405	12,405	-	439,880	2.8%
2010	14,362	14,362	-	469,351	3.1%
2011	14,272	14,272	-	466,423	3.1%
2012	25,857	25,857	-	464,224	5.6%
2013	27,785	27,785	-	502,438	5.5%
2014	30,366	30,423	(57)	563,383	5.4%
2015	29,466	29,466	-	592,333	5.0%
2016	30,334	30,334	-	595,953	5.1%
2017	42,072	42,072	-	631,709	6.7%

<sup>(1)</sup> TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

<sup>(2)</sup> Payroll is calculated based on contributions as reported to TCDRS.



## Valley Municipal Utility District No. 2 Notes to Schedule of Contributions

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	1.8 years
Asset Valuation Method	5-yr smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

**Other Information:** There were no benefit changes during the year.

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**TEXAS SUPPLEMENTARY  
INFORMATION (TSI)**



## Valley Municipal Utility District No. 2 Texas Supplementary Information (TSI)

- 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
- TSI-6. Changes in Long-Term Bonded Debt
- TSI-7. Comparative Schedule of Revenues and Expenditures –  
General Fund and Debt Service Fund – Five Years
- TSI-8. Board Members, Key Personnel and Consultants

## Valley Municipal Utility District No. 2 TSI-1. Services and Rates

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

- |   |   |  |
|---|---|--|
| <input checked="" type="checkbox"/> Retail Water      | <input type="checkbox"/> Wholesale Water      | <input checked="" type="checkbox"/> Drainage   |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input checked="" type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation             | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Security              |
| <input type="checkbox"/> Solid Waste/Garbage          | <input type="checkbox"/> Flood Control        | <input type="checkbox"/> Roads                 |

Participates in joint venture, regional system, and/or wastewater service

Other (specify): \_\_\_\_\_

### 2. Retail Service Providers

#### a. Retail Rates for a 5/8" meter (or equivalent):

	Minimum Charge	Flat Rate Y/N	Rate per 1000 Gallons	Usage Levels
WATER:	<u>\$19.00</u>	<u>N</u>	<u>\$2.00</u>	<u>0 to 10,000</u>
			<u>2.25</u>	<u>10,001 to 15,000</u>
			<u>2.75</u>	<u>15,001 to 25,000</u>
			<u>3.50</u>	<u>25,001 to and up</u>

#### Condo Customers:

	\$12.00	times dwelling units
Plus	\$ 2.75	per 1,000 gallons

WASTEWATER:	<u>\$15.00</u>	<u>N</u>	<u>1.75</u>	0 to 15,000
-------------	----------------	----------	-------------	-------------

#### Condo Customers:

	\$15.00	times dwelling units
Plus	1.75	per 1,000 gallons

SURCHARGE: \_\_\_\_\_ to \_\_\_\_\_

District employs winter averaging for wastewater usage? Yes  No

Total charges per 10,000 gallons usage: Water: \$39.00 Wastewater: \$32.50

**Valley Municipal Utility District No. 2**  
**TSI-1. Services and Rates**

**b. Water and Wastewater Retail Connections:**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	<u>259</u>	<u>259</u>	x1.0	<u>259</u>
<3/4"	<u>1,204</u>	<u>1,184</u>	x1.0	<u>1,184</u>
1"	<u>51</u>	<u>51</u>	x2.5	<u>127.5</u>
1½"	<u>0</u>	<u>0</u>	x5.0	<u>5</u>
2"	<u>20</u>	<u>20</u>	x8.0	<u>160</u>
Total Water	<u>1,534</u>	<u>1,514</u>		<u>1,514</u>
Total Wastewater	<u>1,534</u>	<u>1,514</u>		<u>1,514</u>

**3. Total Water Consumption during the Fiscal Year** (rounded to the nearest thousand):  
(You may omit this information if your district does not provide water)

Gallons distributed from the Water Plant and SRWA: 184,482,075                      Water Accountability Ratio\*:  
(Gallons billed / Gallons distributed)

Gallons billed to customers: 151,841,000    81.88%

\*Water accountability ratio does not account for fire department use or line flushing.

**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: \_\_\_\_\_

**5. Location of District** (required for first audit year or when information changes, otherwise this information may be omitted):

County(ies) in which the District is located: Cameron

Is the District located entirely within one county?    Yes     No

Is the District located within a city? Entirely     Partly     Not at all

**Valley Municipal Utility District No. 2**  
**TSI-1. Services and Rates**

City(ies) in which the District is located: Town of Rancho Viejo and Brownsville

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

Entirely  Partly  Not at all

ETJs in which the District is located: Town of Rancho Viejo and Brownsville

Are Board members appointed by an office outside the district? Yes  No

If Yes, by whom? \_\_\_\_\_

**Valley Municipal Utility District No. 2**  
**TSI-2. General Fund Expenditures**

Personnel expenditures (including benefits)	\$ 746,189
Professional fees:	
Auditing	7,200
Legal	11,834
Bond counsel and advisor fees	112,665
Computer service	4,183
Lab and inspection	13,722
	149,604
Bond issuance costs	99,118
Contracted services	42,388
Utilities	143,045
Water purchase	5,571
Materials and supplies	240,224
Administrative expenditures:	
Insurance	104,279
Office supplies	5,638
Miscellaneous administrative expenses	79,327
Other expenditures	5,548
Capital outlay:	
Capitalized assets	144,559
	144,559
<b>Total expenditures</b>	<b>\$ 1,765,490</b>

Number of persons employed by the District: 14 Full-Time 0 Part-Time  
(Not including independent contractors or consultants)



**Valley Municipal Utility District No. 2**  
**TSI-3. Temporary Investments**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accumulated Interest Receivable at End of Year</u>
<u>General Fund</u>	None				
<u>Debt Service Fund</u>	None				

## Valley Municipal Utility District No. 2 TSI-4. Taxes Levied and Receivable

*For the year ended September 30, 2018*

	Maintenance Taxes	Debt Service Taxes	Totals (Memorandum Only)
Taxes receivable at beginning of year	\$ 9,707	\$ 24,750	\$ 34,457
2017 original tax roll	290,181	725,451	1,015,632
Tax roll adjustments	991	2,589	3,580
Total to be accounted for	300,879	752,790	1,053,669
Current year tax collections	285,489	713,721	999,210
Prior year tax collections	3,883	9,763	13,646
Total tax collections	289,372	723,484	1,012,856
Taxes receivable, end of year	\$ 11,507	\$ 29,306	\$ 40,813

### Taxes receivable, by years

2002 and prior	\$ 49	\$ 38	\$ 87
2003	4	10	14
2004	4	10	14
2005	185	519	704
2006	148	415	563
2007	188	526	714
2008	236	661	897
2009	293	792	1,085
2010	349	943	1,292
2011	696	1,880	2,576
2012	481	1,299	1,780
2013	443	1,195	1,638
2014	623	1,557	2,180
2015	1,317	3,293	4,610
2016	2,084	5,210	7,294
2017	5,694	14,235	19,929
	12,794	32,583	45,377
Allowance for uncollectible	(1,287)	(3,277)	(4,564)
Taxes receivable, end of year	\$ 11,507	\$ 29,306	\$ 40,813

	2017	2016	2015	2014
Property valuations				
Land improvements	\$ 290,180,434	\$ 283,957,759	\$ 270,981,820	\$ 264,675,622
Total property valuations	\$ 290,180,434	\$ 283,957,759	\$ 270,981,820	\$ 264,675,622
Tax rates per \$100 valuations				
Debt service tax rates	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25
Maintenance tax rates *	0.10	0.10	0.10	0.10
Total tax rates per \$100 valuations	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35
Original tax levy:	\$ 1,015,632	\$ 993,853	\$ 948,437	\$ 926,365
Percent of taxes collected to levied taxes	98.38%	98.08%	97.77%	97.19%

**Valley Municipal Utility District No. 2**  
**TSI-5. Long-term Debt Service Requirements by Years**

Due During Fiscal Years Ending	Series 2011			Series 2013		
	Principal Due	Interest Due	Total	Principal Due	Interest Due	Total
	2-15	8-15, 2-15		2-15	8-15, 2-15	
2019	\$ 125,000	\$ 43,522	\$ 168,522	\$ 150,000	\$ 30,315	\$ 180,315
2020	130,000	39,219	169,219	155,000	26,731	181,731
2021	135,000	34,326	169,326	160,000	23,030	183,030
2022	140,000	28,826	168,826	165,000	19,211	184,211
2023	145,000	23,126	168,126	175,000	15,216	190,216
Thereafter	485,000	31,365	516,365	560,000	20,092	580,092
<b>Totals</b>	<b>\$ 1,160,000</b>	<b>\$ 200,384</b>	<b>\$ 1,360,384</b>	<b>\$ 1,365,000</b>	<b>\$ 134,595</b>	<b>\$ 1,499,595</b>

Due During Fiscal Years Ending	Series 2017			Series 2018A		
	Principal Due	Interest Due	Total	Principal Due	Interest Due	Total
	2-15	8-15, 2-15		2-15	8-15, 2-15	
2019	\$ 80,000	\$ 32,876	\$ 112,876	\$ -	\$ 42,522	\$ 42,522
2020	78,000	30,925	108,925	-	42,522	42,522
2021	77,000	29,011	106,011	40,000	42,522	82,522
2022	76,000	27,121	103,121	40,000	42,066	82,066
2023	75,000	25,256	100,256	40,000	41,610	81,610
Thereafter	985,000	93,133	1,078,133	3,610,000	599,184	4,209,184
<b>Totals</b>	<b>\$ 1,371,000</b>	<b>\$ 238,322</b>	<b>\$ 1,609,322</b>	<b>\$ 3,730,000</b>	<b>\$ 810,426</b>	<b>\$ 4,540,426</b>

Due During Fiscal Years Ending	Series 2018B			Annual Requirements for All Series		
	Principal Due	Interest Due	Total	Total	Total	Total Principal and Interest Due
	2-15	8-15, 2-15		Principal Due	Interest Due	
2019	\$ -	\$ 21,528	\$ 21,528	\$ 355,000	\$ 170,763	\$ 525,763
2020	-	21,528	21,528	363,000	160,925	523,925
2021	20,000	21,528	41,528	432,000	150,417	582,417
2022	20,000	21,240	41,240	441,000	138,464	579,464
2023	20,000	20,952	40,952	455,000	126,160	581,160
Thereafter	1,435,000	285,480	1,720,480	7,075,000	1,029,254	8,104,254
<b>Totals</b>	<b>\$ 1,495,000</b>	<b>\$ 392,256</b>	<b>\$ 1,887,256</b>	<b>\$ 9,121,000</b>	<b>\$ 1,775,983</b>	<b>\$ 10,896,983</b>

## Valley Municipal Utility District No. 2 TSI-6. Changes in Long-term Bonded Debt

	Compensated Balances	Series 2011	Series 2013	Series 2017	Series 2018A	Series 2018B
Interest rate		2.50 – 4.25%	2.50 – 4.25%	2.47%	0.59%-1.82%	0.89%-2.12%
Dates interest payable		8/15; 2/15	8/15; 2/15	8/15; 2/15	8/15; 2/15	8/15; 2/15
Maturity dates		2/15/2026	2/15/2026	2/15/2029	2/15/2048	2/15/2048
Balance at beginning of current year	\$ 18,540	\$ 1,280,000	\$ 1,505,000	\$ 1,425,000	\$ -	\$ -
New debt	28,625	-	-	-	3,730,000	1,495,000
Retirements during the current year	26,585	120,000	140,000	54,000	-	-
<b>Bonds and notes payable outstanding at end of current year</b>	<b>\$ 20,580</b>	<b>\$ 1,160,000</b>	<b>\$ 1,365,000</b>	<b>\$ 1,371,000</b>	<b>\$ 3,730,000</b>	<b>\$ 1,495,000</b>
Interest paid during the current year		\$ 47,431	\$ 33,723	\$ 45,763	\$ -	\$ -

Paying agent's name and city:

Series 2011: Regions Bank, Houston, Texas 77057  
 Series 2013: Compass Bank, Houston, Texas 77056  
 Series 2017: JP Morgan Chase, New York, New York 10017  
 Series 2018A: Regions Bank, Houston, Texas 77057  
 Series 2018B: Regions Bank, Houston, Texas 77057

Bond authority:

	Tax Bonds	Refunding Bonds
Amount authorized by voters	\$81,800,000	\$2,030,000
Amount issued	<u>13,970,000</u>	<u>2,030,000</u>
Remaining to be issued	<u>\$67,830,000</u>	<u>\$ _____</u>

Debt service fund cash and temporary investments balances as of September 30, 2018: \$450,346

Average annual debt service payments (principal and interest) for remaining term of all debt: \$363,232

## Valley Municipal Utility District No. 2 TSI-7. Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
<b><u>GENERAL FUND REVENUES</u></b>				
Service revenues and maintenance tax	\$ 1,504,740	92.7	\$ 1,481,047	92.2
Tap connection fees and other	63,900	3.9	98,392	6.1
Penalty and interest revenues	20,914	1.3	22,313	1.4
Interest on investments	<u>33,745</u>	<u>2.1</u>	<u>4,448</u>	<u>0.3</u>
Total general fund revenues	1,623,299	100.0	1,606,200	100.0
<b><u>GENERAL FUND EXPENDITURES</u></b>				
Plumbing materials and chemicals	245,862	15.1	251,340	15.6
Repairs and maintenance	5,548	0.3	6,953	0.4
Professional fees	149,604	9.2	31,801	2.0
Office expense and printing	56,060	3.5	30,569	1.9
Utilities	132,621	8.2	120,963	7.5
Telephone	10,424	0.6	10,424	0.6
Insurance	104,279	6.4	98,087	6.1
Contracted services	42,388	2.6	50,481	3.1
Salaries	690,356	42.5	670,475	41.7
Payroll expense	55,833	3.4	39,302	2.4
General expense	-	-	27,639	1.7
Dues and publications	8,820	0.5	6,226	0.4
Taxes, permits and inspections	14,447	0.9	14,403	0.9
Capital expenditures	144,559	8.9	418,475	26.1
Water purchase	5,571	0.3	5,571	0.3
Bond issuance costs	<u>99,118</u>	<u>6.7</u>	<u>-</u>	<u>-</u>
Total general fund expenditures	<u>1,765,490</u>	<u>108.8</u>	<u>1,782,709</u>	<u>111.0</u>
Excess (deficit) general fund revenue over (under) expenditures	(142,191)	(8.8)	(176,509)	(11.0)
<b><u>GENERAL FUND OTHER FINANCING SOURCES/USES</u></b>				
Proceeds from debt issuance				
Total general fund other financing sources/uses	<u>5,225,000</u>	<u>321.9</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ 5,082,809</u>	<u>313.1 %</u>	<u>\$ (176,509)</u>	<u>(11.0) %</u>
<b><u>DEBT SERVICE FUND REVENUES</u></b>				
Tax revenues	\$ 721,031	97.3	\$ 716,787	97.5
Penalty and interest	12,164	1.6	15,118	2.1
Interest on investments	<u>7,686</u>	<u>1.0</u>	<u>3,096</u>	<u>0.4</u>
Total debt service fund revenues	740,881	99.9	735,001	100.0
<b><u>DEBT SERVICE FUND EXPENDITURES</u></b>				
Tax collection expenditures	215,733	29.1	201,815	27.5
Bond issuance costs	-	-	17,565	2.4
Debt service interest and fees	126,917	17.1	119,195	16.2
Debt service principal	<u>314,000</u>	<u>42.4</u>	<u>330,000</u>	<u>44.9</u>
Total debt service fund expenditures	656,650	88.6	668,575	91.0
<b><u>DEBT SERVICE FUND OTHER FINANCING SOURCES/USES</u></b>				
Proceeds from debt refunding	-	-	1,425,000	193.90
Payment to refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>(1,436,935)</u>	<u>(195.50)</u>
Total debt service fund other financing sources/uses	<u>-</u>	<u>-</u>	<u>(11,935)</u>	<u>(1.6)</u>
Excess (deficit) debt service revenue over (under) expenditures	<u>\$ 84,231</u>	<u>11.3 %</u>	<u>\$ 54,491</u>	<u>10.6</u>
Total active retail water and/or wastewater connections	<u>1,514</u>		<u>1,504</u>	

## Valley Municipal Utility District No. 2 TSI-7. Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund

Thirteen Months Ended					
2016	%	2015	%	2014	%
\$ 1,497,703	91.5	\$ 1,368,003	93.5	\$ 1,339,404	90.8
112,607	6.9	74,883	5.1	117,955	8.0
25,875	1.6	19,351	1.3	17,127	1.2
1,073	0.1	640	-	242	-
<u>1,637,258</u>	<u>100.0</u>	<u>1,462,877</u>	<u>100.0</u>	<u>1,474,728</u>	<u>100.0</u>
252,951	15.4	185,762	12.7	210,243	14.3
73,403	4.5	75,230	5.1	261,298	17.7
29,574	1.8	23,344	1.6	32,305	2.2
4,616	0.3	4,070	0.3	9,857	0.7
129,309	7.9	129,771	8.9	154,123	10.5
11,769	0.7	11,021	0.8	12,014	0.8
121,358	7.4	111,609	7.6	109,690	7.4
32,032	2.0	40,708	2.8	31,369	2.1
725,316	44.3	645,494	44.1	593,657	40.3
35,286	2.2	30,868	2.1	28,763	2.0
52,602	3.2	34,515	2.4	39,410	2.7
8,483	0.5	7,071	0.5	7,212	0.5
14,929	0.9	16,224	1.1	12,882	0.9
32,899	2.0	31,185	2.1	123,071	8.3
5,571	0.3	5,571	0.4	5,571	0.4
-	-	-	-	-	-
<u>1,530,098</u>	<u>93.5</u>	<u>1,352,443</u>	<u>92.5</u>	<u>1,631,465</u>	<u>110.6</u>
107,160	6.5	110,434	7.5	(156,737)	(10.6)
-	-	-	-	-	-
<u>\$ 107,160</u>	<u>6.5 %</u>	<u>\$ 110,434</u>	<u>7.5 %</u>	<u>\$ (156,737)</u>	<u>(10.6) %</u>
\$ 686,995	97.2	\$ 666,946	97.6	\$ 681,891	97.8
19,060	2.7	16,272	2.4	13,238	1.9
483	0.1	295	-	2,282	0.3
<u>706,538</u>	<u>100.0</u>	<u>683,513</u>	<u>100.0</u>	<u>697,411</u>	<u>100.0</u>
191,793	27.1	183,024	26.8	191,045	27.4
158,389	22.4	167,109	24.4	234,268	33.6
<u>320,000</u>	<u>45.3</u>	<u>310,000</u>	<u>45.4</u>	<u>245,000</u>	<u>35.1</u>
670,182	94.9	660,133	96.6	670,313	96.1
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 36,356</u>	<u>5.1 %</u>	<u>\$ 23,380</u>	<u>3.4 %</u>	<u>\$ 27,098</u>	<u>3.9 %</u>
<u>1,494</u>		<u>1,476</u>		<u>1,468</u>	

**Valley Municipal Utility District No. 2**  
**TSI-8. Board Members, Key Personnel and Consultants**

Complete District Mailing Address: Valley Municipal Utility District No. 2  
 100 Hidalgo Street  
 Rancho Viejo, Texas 78575

District Business Telephone: (956) 350-4136

<u>Name and Address</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid (09/30/18)</u>	<u>Expense Reimbursements (09/30/18)</u>	<u>Title at Year End</u>
<b><u>Board Members</u></b>				
Roger Nelson 850 Wabash River Brownsville, Texas 78520	05/16 - 05/20	None	None	President
James Tipton 701 Santa Ana Avenue Rancho Viejo, Texas 78575	05/18 – 05/22	None	None	Vice- President
Oscar Gonzales 805 Escandon Rancho Viejo, Texas 78575	05/18 – 05/22	None	None	Secretary
Clifford Rowell 1301 Tesoro Rancho Viejo, Texas 78575	05/18 - 05/22	None	None	Treasurer
Pat Pace 317 Santa Ana Avenue Rancho Viejo, Texas 78575	05/16 - 05/20	None	None	Director

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

**Key Administrative Personnel**

Scott Fry 100 Hidalgo Street Rancho Viejo, Texas 78575	09/01/17 - 09/30/18	\$112,500	None	General Manager
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**Valley Municipal Utility District No. 2**  
**TSI-8. Board Members, Key Personnel and Consultants**

<u>Name and Address</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid (09/30/18)</u>	<u>Expense Reimbursements (09/30/18)</u>	<u>Title at Year End</u>
<b><u>Consultants</u></b>				
Cunningham Law SPI, PC 211 Padre Boulevard Port Isabel, Texas 78578	06/09/81	\$9,812	\$ -	General Counsel
Cameron County Appraisal District 2021 Amistad Drive San Benito, Texas 78586	10/01/82	\$12,053	\$ -	Tax Appraisers
Cameron County Tax Assessor- Collector Mr. Tony Yzaguirre, Jr. 964 East Harrison Brownsville, Texas 78520	06/23/97	\$10,255	\$ -	District Tax Assessor-Collector
Hilltop Securities Inc. 100 East Nolana Loop Pharr, Texas 78577	05/2018	\$82,941	\$ -	Financial Advisor
<b><u>Investment Officers:</u></b>				
Scott Fry 100 Hidalgo Street Rancho Viejo, Texas 78575	09/01/17 - 09/30/18	None	None	General Manager
Rebecca Martinez 100 Hidalgo Street Rancho Viejo, Texas 78575	09/01/17 - 09/30/18	None	None	Financial Operations