



VALLEY MUNICIPAL UTILITY DISTRICT NO. 2

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2021



OFFICERS

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

GENERAL MANAGER

Mr. Scott Fry

ATTORNEY

Kathy Cunningham

DISTRICT TAX ASSESSOR-COLLECTOR

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



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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, 2021 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

Report on the Financial Statements

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, 2021, and the related notes to the financial statements, which collectively comprise Valley Municipal Utility District No. 2'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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, 2021, 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, Budgetary Comparison Schedule – General Fund, Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions on pages 5–9 and 45-49 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 Valley Municipal Utility District No. 2's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Texas Supplementary Information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in 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 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2022, on our consideration of Valley Municipal Utility District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valley Municipal Utility District No. 2's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Valley Municipal Utility District No. 2's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

Harlingen, Texas
February 10, 2022

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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, 2021. 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 \$810,380. Capital expenditures related to the Clean Water State Revolving Fund, Drinking Water State Revolving Fund and other capital projects totaled \$1,216,381.

Revenues were higher than budgeted amounts.

Revenues for water and sewer sales increased 15.3%, when compared to actual revenues in the prior year. This is due to the addition of two apartment complexes that are located outside of the District and charged at higher rates.

In the District's Debt Service Fund, expenditures were less than revenues by \$6,053. The fund balance of \$470,130 at year-end is available for the interest and principal due on the 2011, 2013, 2017 and 2018 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

Financial Statement Analysis

The government-wide 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 \$3,025,212 and \$2,720,251 at September 30, 2021 and September 30, 2020, respectively. An analysis of the District's net position is shown below:

	September 30, 2021	September 30, 2020
Current and other assets	\$ 4,269,836	\$ 4,430,567
Capital assets, net	7,649,183	6,992,512
Total assets	11,919,019	11,423,079
Total deferred outflows of resources	188,076	115,362
Total liabilities	9,023,474	8,759,949
Total deferred inflows of resources	58,409	58,241
Net position		
Net investment in capital assets	2,004,696	1,325,557
Restricted	506,550	505,064
Unrestricted	513,966	889,630
Total net position	\$ 3,025,212	\$ 2,720,251

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 years ended September 30, 2021 and September 30, 2020.

	September 30, 2021	September 30, 2020
Net operating revenues	\$2,566,831	\$2,353,315
Other revenues	147,961	141,655
Total revenues	2,714,792	2,494,970
Operating expenses	2,409,831	2,427,441
Excess/(deficiency) of revenues over (under) expenses	304,961	67,529
Net position at beginning of the year	2,720,251	2,652,722
Net position at end of year	\$3,025,212	\$2,720,251

Analysis of Changes in Capital Assets and Long-term Debt

At the end of 2021, the District had invested \$7,649,183, 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, 2021:

	October 1, 2020	Additions	Deletions	Transfers	September 30, 2021
Buildings	\$ 317,369	\$ -	\$ -	\$ -	\$ 317,369
Utility system and improvements	16,965,282	73,706	-	-	17,038,988
Automobiles and equipment	740,212	136,498	-	-	876,710
Water rights	121,215	-	-	-	121,215
Land	10,000	-	-	-	10,000
Construction in progress	2,428,592	1,006,177	-	-	3,434,769
	20,582,670	1,216,381	-	-	21,799,051
Accumulated depreciation	(13,590,158)	(559,710)	-	-	(14,149,868)
Net capital assets	\$ 6,992,512	\$ 656,671	\$ -	\$ -	\$ 7,649,183

Additional information on the District's capital assets can be found in Note 2 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, 2021, the District had various activities in short and long-term debt obligations. The District's bonds presently carry a BBB+ rating with Standard & Pooors. No new bonds were issued during the year. The following table summarizes the District's long-term debt for the year ended September 30, 2021:

	October 1, 2020	Additions	Retirements	September 30, 2021
2011 Series Revenue Bonds	\$ 905,000	\$ -	\$ 135,000	\$ 770,000
2013 Series Revenue Bonds	1,060,000	-	160,000	900,000
2017 Series Refunding Bonds	1,213,000	-	77,000	1,136,000
2018A Series Revenue Bonds	3,730,000	-	40,000	3,690,000
2018B Series Revenue Bonds	1,495,000	-	20,000	1,475,000
	<u>8,403,000</u>	<u>-</u>	<u>432,000</u>	<u>7,971,000</u>
Premium on issuance of bonds	43,341	-	7,191	36,150
Compensated absences	26,241	32,278	36,382	22,137
Net pension liability	83,205	298,963	242,308	139,860
	<u>\$ 8,555,787</u>	<u>\$ 331,241</u>	<u>\$ 717,881</u>	<u>\$ 8,169,147</u>

Additional information on the District's long-term debt can be found in Note 2 of this report.

General Fund Budgetary Highlights

Actual expenditures were higher than budgeted expenditures by \$1,096,807. 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, 2020	\$	3,704,956
Revenues	Maintenance and operations tax		343,757
	Water and sewer		1,472,821
	Other income		106,386
Expenses	Operations		1,516,963
	Capital expenditures		1,216,381
Balance, end of year	September 30, 2021	\$	<u>2,894,576</u>

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, 2020	\$	464,077
Revenues	Ad valorem taxes		797,208
	Interest income		998
Expenses	Administrative and audit expenses		25,650
	Bond payments		604,947
	Purchase commitments		161,556
<hr/>			
Balance, end of year	September 30, 2021	\$	470,130
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Economic Factors and Next Year's Budgets and Rates

The District's water rates for the year ended 2021 remain consistent with 2020. 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 at 100 Hidalgo Ave., Rancho Viejo, Texas 78575.



FINANCIAL STATEMENTS



Valley Municipal Utility District No. 2 Statement of Net Position and Governmental Funds Balance Sheet

September 30, 2021

	General Fund	Debt Service Fund	Total	Adjustments	Governmental Activities Statement of Net Position
ASSETS					
Cash and cash equivalents	\$ 1,067,934	\$ 493,388	\$ 1,561,322	\$ -	\$ 1,561,322
Accounts receivable	193,212	-	193,212	-	193,212
Taxes receivable (net)	14,383	36,420	50,803	-	50,803
Internal receivable	22,066	-	22,066	-	22,066
Prepaid expenses	79,770	-	79,770	-	79,770
Restricted cash and cash equivalents	2,362,663	-	2,362,663	-	2,362,663
Capital assets (net of accumulated depreciation)					
Non-depreciable assets	-	-	-	3,565,984	3,565,984
Depreciable assets	-	-	-	4,083,199	4,083,199
Total assets	3,740,028	529,808	4,269,836	7,649,183	11,919,019
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge for refunding	-	-	-	10,793	10,793
Pension related	-	-	-	177,283	177,283
Total deferred outflows of resources	-	-	-	188,076	188,076
LIABILITIES					
Accounts payable and accrued expenses	831,069	1,192	832,261	-	832,261
Internal payable	-	22,066	22,066	-	22,066
Long-term liabilities					
Net pension liability	-	-	-	139,860	139,860
Due within one year	-	-	-	456,000	456,000
Due after one year	-	-	-	7,573,287	7,573,287
Total liabilities	831,069	23,258	854,327	8,169,147	9,023,474
DEFERRED INFLOWS OF RESOURCES					
Pension related	-	-	-	58,409	58,409
Unavailable revenue - property taxes (net)	14,383	36,420	50,803	(50,803)	-
Total deferred inflows of resources	14,383	36,420	50,803	7,606	58,409
FUND BALANCES/NET POSITION					
Fund balances					
Nonspendable					
Prepays	79,770	-	79,770	(79,770)	-
Restricted					
Debt service	-	470,130	470,130	(470,130)	-
Committed	120,000	-	120,000	(120,000)	-
Assigned					
Capital Projects	60,000	-	60,000	(60,000)	-
Unassigned	2,634,806	-	2,634,806	(2,634,806)	-
Total fund balances	2,894,576	470,130	3,364,706	(3,364,706)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 3,740,028	\$ 529,808	\$ 4,269,836		
NET POSITION					
Net investment in capital assets				2,004,696	2,004,696
Restricted for debt service				506,550	506,550
Unrestricted				513,966	513,966
Total net position				\$ 3,025,212	\$ 3,025,212

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

**Valley Municipal Utility District No. 2
Reconciliation of the Governmental Fund Balance
Sheet to the Statement of Net Position**

September 30, 2021

Fund balances - total governmental funds	\$ 3,364,706
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.	7,649,183
Property taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	50,803
Deferred charge for refunding.	10,793
Included in the long-term liabilities is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$(139,860), a deferred resource inflow in the amount of \$(58,409), and a deferred resource outflow in the amount of \$177,283. This resulted in a decrease in net position of \$(20,986).	(20,986)
Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(8,029,287)
Net position of governmental activities	\$ 3,025,212

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, 2021

	General Fund	Debt Service Fund	Total	Adjustments	Governmental Activities Statement of Activities
REVENUES					
Water and sewer service fees	\$ 1,472,821	\$ -	\$ 1,472,821	\$ -	\$ 1,472,821
Property taxes (net)	314,437	785,951	1,100,388	(6,378)	1,094,010
Penalties and interest	29,320	11,257	40,577	-	40,577
Tap fees	48,115	-	48,115	-	48,115
Investment earnings	1,142	998	2,140	-	2,140
Other revenues	57,129	-	57,129	-	57,129
Total revenues	1,922,964	798,206	2,721,170	(6,378)	2,714,792
EXPENDITURES					
Service operations:					
Insurance	121,213	-	121,213	-	121,213
Professional fees	38,312	11,750	50,062	-	50,062
Salaries	782,601	-	782,601	(3,913)	778,688
Contracted services	48,366	13,900	62,266	-	62,266
Water purchase	5,571	-	5,571	-	5,571
Utilities	129,198	-	129,198	-	129,198
Materials and supplies	262,149	-	262,149	-	262,149
Other expenditures	65,914	161,556	227,470	-	227,470
Capital outlay	1,216,381	-	1,216,381	(1,216,381)	-
Debt service					
Principal	-	432,000	432,000	(432,000)	-
Interest	-	172,947	172,947	(1,390)	171,557
Bond issuance costs	-	-	-	-	-
Pension expense	63,639	-	63,639	(21,692)	41,947
Depreciation	-	-	-	559,710	559,710
Total expenditures	2,733,344	792,153	3,525,497	(1,115,666)	2,409,831
Excess (deficiency) of revenues over (under) expenditures	(810,380)	6,053	(804,327)	1,109,288	304,961
FUND BALANCE/ NET POSITION					
Beginning of year	3,704,956	464,077	4,169,033	(1,448,782)	2,720,251
End of year	\$ 2,894,576	\$ 470,130	\$ 3,364,706	\$ (339,494)	\$ 3,025,212

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

Valley Municipal Utility District No. 2
Reconciliation of the Governmental Fund Statement of Revenues,
Expenditures and Changes in Fund Balances to the
Statement of Activities

For the year ended September 30, 2021

Net change in fund balance - total governmental funds	\$ (804,327)
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 capital outlay of \$1,216,381 exceeded depreciation of \$559,710 in the current period.	656,671
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	(6,378)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	432,000
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.	3,913
Premium and loss amortized on bond issuances.	1,390
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, 2020 caused the change in the ending net position to increase in the amount of \$46,208. 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 (\$46,666) net pension expense had to be recorded. The net pension expense increased the change in net position by \$22,150. The result of these changes is to increase the change in net position by \$21,692.	21,692
Net change in net position	\$ 304,961

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: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Reporting Entity

The Board of Valley Municipal Utility District (Board), a five member group consisting of one at large member who serves as President and four members elected from precincts, is the level of government which has governance responsibilities over all activities within the jurisdiction of the Valley Municipal Utility District. Local funding is derived primarily from water and wastewater services, property taxes, and interest earned on invested cash. The Board is not included in any other governmental "reporting entity" as defined in Section 2100 Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public, have decision making authority, the power to designate management, the responsibility to influence significant operations and primary accountability for fiscal matters. The District does not include the financial statements of any other entity as a component unit. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applied to governmental units. The more significant accounting policies used by the District are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. Governmental revenues are supported by taxes, intergovernmental revenues, and other nonexchange transactions and rely to a significant extent on fees and charges to external customers for support.

Valley Municipal Utility District No. 2

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

The District engages in a single governmental program which allows the fund financial statements and the government-wide statements to be combined. As such, the District's financial statements include the governmental fund column followed by an adjustments column which reconciles the amounts by individual accounts reported in the governmental funds to the accrual basis of accounting as shown on the Statement of Net Position.

The statement of activities demonstrates the degree to which the direct expenses, by natural classification, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific classification. Revenues include water and wastewater service fees, property tax and related revenues, tap fees, and other miscellaneous revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Other revenues are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Property taxes, water and wastewater service fees, tap fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The adjustments column incorporates data from governmental funds.

Fund Financial Statements

The fund financial statements provide information about the District's financial condition and results of the operations for the general fund and debt service fund. Government resources in the fund financial statements are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements.

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.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Budgetary Information

Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The appropriated budget is prepared by individual revenue/expenditure accounts. The Executive Director may make transfers of appropriations within revenue and expenditure accounts. Transfers of appropriations between accounts require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the level for total appropriations.

Excess of expenditures over appropriations

For the year ended September 30, 2021, expenditures exceeded appropriations in capital outlay expenditures (the legal level of budgetary control) of the General Fund by \$1,036,381. In addition, salaries, contracted services, material and supplies, pension expense, and other expenditures actual amounts exceeded budgeted amounts by a total of \$92,712. Total actual expenditures exceeded budgeted appropriations by \$1,096,807. The overspending of appropriations are considered budgetary violations.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Equity (Continued)

Investments

Investments for the District are reported at fair value (generally based on quoted market prices) except for external investment pools. The external pools meet all of the specific criteria in Section 150: Investments to qualify to elect to measure their investments at amortized cost. Accordingly, the fair value of the District's position in the pools are equal to the value of the pooled shares. The District considers its investments in public fund external investment pools to be cash equivalents.

Receivables and payables

Accounts receivables – Amounts due for property taxes and for water and wastewater service fee billings that have not been collected. Receivables relating to property taxes are shown net of an allowance for uncollectible accounts.

Allowance for uncollectible accounts – Property tax accounts receivables have been reported net of the allowance for uncollectible accounts. An allowance for tax receivable accounts within the General and Debt Service Funds are based on historical experience in collecting taxes.

Unearned revenue – Unearned revenue recorded on the governmental fund balance sheet represents amounts received before eligibility requirements are met.

Interfund Activities and Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” within the fund financial statements. Long-term borrowings between funds are classified as “advances to other funds” or “advances from other funds” in the fund financial statements. These amounts are eliminated in the governmental columns of the statement of net position, except for any residual balance outstanding between the governmental activities at the end of the fiscal year, which are reported in the government-wide financial statements as internal balances.

Interfund transactions are reflected as services provided, reimbursements, or transfers. Services provided, deemed to be at or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when on fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are funds that are netted as part of the reconciliation to the government-wide presentation.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets

Certain assets of the District are classified as restricted assets on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors or laws or regulations of other governments. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets as follows:

Restricted cash and cash equivalents –The portion of unused bond proceeds held in escrow accounts designated for capital projects.

Capital Assets

Capital assets, which include water rights, property, buildings, autos and equipment, and utility system and improvement assets (e.g. storm drains, water tanks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

The District has two (2) items that qualify for reporting as deferred outflows of resources, the *deferred amount on refunding* and the *deferred outflows related to pensions*, both reported in the government-wide funds statements of net position. The deferred amount on refunding results from debt refinancing, whereby the reacquisition price of the funding debt instruments exceed their net carrying amount. The deferred amount on refunding is amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Codification Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. The deferred outflows related to pensions will be recognized as either pension expense or a reduction in the net pension liability in future reporting years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two (2) items that qualify for reporting as deferred inflows of resources. The *deferred inflows* related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Codification Section P20: *Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria*. The deferred inflows related to pensions will be recognized as a reduction to pension expense in future reporting years.

Unavailable revenue, which arises only under a modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Valley Municipal Utility District No. 2

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Accumulated sick leave lapses when employees leave the employ of the District and, accordingly upon separation from service, no monetary obligation exists.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds and is recorded as an adjustment to interest expense. Bonds payable are reported net of the applicable bond premium or discount. In accordance with GASB Codification Section 130: *Interest Costs – Imputation*, bond issuance costs are expensed in the period incurred except for prepaid insurance costs.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Categories and Classifications of Fund Equity

Net position flow assumption – Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Categories and Classifications of Fund Equity (Continued)

Fund balance flow assumptions – Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, specifies the following classifications:

Nonspendable fund balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned fund balance – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors (Board) has by resolution authorized the finance director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Categories and Classifications of Fund Equity (Continued)

Unassigned fund balance – Unassigned fund balance is the residual classification for the General Fund.

Revenues and Expenditures/Expenses

Program revenues and expenses – Program revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. Amounts reported as program revenues include 1) water and sewer service fees and 2) tap fees. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes – Property taxes attach as an enforceable lien on real property and are levied as of October 1st. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed.

Encumbrances

Encumbrance accounting which uses purchase orders, contracts, and other commitments for the expenditures of resources is not utilized in the Governmental Funds of the District. Expenditures are recognized when the goods purchased are received or when the services have been performed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 10, 2022 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Implemented Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

The District is evaluating the requirements of the above statement and the impact on reporting.

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

At September 30, 2021, the carrying amount of the District's deposits (cash, and interest bearing savings accounts included in temporary investments) was \$475,419 and the bank balance was \$542,034. In addition to these cash and cash equivalents the District maintains \$3,448,566 in government investment pools. The District's cash deposits at September 30, 2021 and during the year ended September 30, 2021 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, 2021 are maintained at International Bank of Commerce and Lone Star National Bank. These deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank.

	General Fund	Debt Service Fund	Total
Cash and cash equivalents:			
Unrestricted	\$ 1,067,934	\$ 493,388	\$ 1,561,322
Restricted	2,362,663	-	2,362,663
	<u>\$ 3,430,597</u>	<u>\$ 493,388</u>	<u>\$ 3,923,985</u>

Valley Municipal Utility District No. 2

Notes to the Financial Statements

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

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

- a. Depository: International Bank of Commerce (IBC) and Lone Star National Bank (LSNB)
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,160,482 and \$806,527 for IBC and LSNB, respectively.
- c. The highest combined balances of cash deposit accounts amounted to \$278,032 and occurred during the month of August 2021 at IBC. The highest combined balances of cash deposit accounts amounted to \$908,735 and occurred during the month of November 2020 at LSNB.
- d. The amount of FDIC coverage at the time of the largest combined balance was \$250,000 for both institutions.

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

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

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	\$ 361,728	N/A	Daily
TexSTAR	N/A	<u>3,086,838</u>	N/A	Daily
		<u>\$3,448,566</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.

<u>Description</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating</u>	<u>Percentage</u>
TexPool	AAAm	\$ 361,728	AAAm	7%
TexSTAR	AAAm	<u>3,086,838</u>	AAAm	<u>93%</u>
		<u>\$3,448,566</u>		<u>100%</u>

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

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

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, 2021, 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 2: DETAILED NOTES ON ALL FUNDS (Continued)

Accounts Receivable

Water and sewer service fees are billed on a monthly basis. The amount of services delivered for the period from the last billing date to September 30, 2021, is accrued at year end. The District deems all amounts collectible therefore an allowance for doubtful accounts is not necessary. If payments are not received from customers, services are shut off, and security deposits are applied against negative balances.

All account receivables are shown net of allowances for uncollectible accounts for the District. The accounts receivable and allowance for uncollectible accounts at September 30, 2021 for property taxes was \$16,131 and \$1,748, respectively for the General Fund. The accounts receivable and allowance for uncollectible accounts at September 30, 2021 for property taxes was \$40,846 and \$4,426, respectively for the Debt Service Fund.

During the year ended September 30, 2021, 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 \$1,083,093 on the taxable valuation of \$309,455,144 for the year ended September 30, 2021. 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.

	Maintenance Taxes	Debt Service Taxes	Totals (Memorandum Only)
Taxes receivable at beginning of year	\$ 17,481	\$ 44,264	\$ 61,745
2020 original tax roll	309,455	773,638	1,083,093
Tax roll adjustments	4,491	11,192	15,683
Total to be accounted for	331,427	829,094	1,160,521
Current year tax collections	308,459	771,148	1,079,607
Prior year tax collections	6,837	17,100	23,937
Total tax collections	315,296	788,248	1,103,544
Taxes receivable, end of year	\$ 16,131	\$ 40,846	\$ 56,977
Taxes receivable, by years			
2005 and prior	\$ 242	\$ 577	\$ 819
2006	123	345	468
2007	163	457	620
2008	199	556	755
2009	255	688	943
2010	342	923	1,265
2011	628	1,695	2,323
2012	398	1,075	1,473
2013	400	1,079	1,479
2014	313	784	1,097
2015	709	1,772	2,481
2016	1,251	3,127	4,378
2017	1,093	2,731	3,824
2018	2,110	5,275	7,385
2019	2,366	5,915	8,281
2020	5,539	13,847	19,386
	16,131	40,846	56,977
Allowance for uncollectible	(1,748)	(4,426)	(6,174)
Taxes receivable, net, end of year	\$ 14,383	\$ 36,420	\$ 50,803

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

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

The following is a summary of changes in capital assets during the year ended September 30, 2021:

	October 1, 2020	Additions	Deletions	Transfers	September 30, 2021
Capital assets, not being depreciated					
Water rights	\$ 121,215	\$ -	\$ -	\$ -	\$ 121,215
Land (Birding Center)	10,000	-	-	-	10,000
Construction in progress	2,428,592	1,006,177	-	-	3,434,769
Total capital assets, not being depreciated	2,559,807	1,006,177	-	-	3,565,984
Capital assets, being depreciated					
Buildings	317,369	-	-	-	317,369
Utility system and improvements	16,965,282	73,706	-	-	17,038,988
Automobiles and equipment	740,212	136,498	-	-	876,710
	18,022,863	210,204	-	-	18,233,067
Less accumulated depreciation for:					
Buildings	(249,759)	(10,436)	-	-	(260,195)
Utility system and improvements	(12,753,927)	(527,644)	-	-	(13,281,571)
Automobiles and equipment	(586,472)	(21,630)	-	-	(608,102)
Total accumulated depreciation	(13,590,158)	(559,710)	-	-	(14,149,868)
Total capital assets, being depreciated, net	4,432,705	(349,506)	-	-	4,083,199
Capital assets, net	\$ 6,992,512	\$ 656,671	\$ -	\$ -	\$ 7,649,183

Long-Term Debt and Liabilities

Bonds Payable

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.

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

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and Liabilities (Continued)

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 1st 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, 2021, the following outstanding bonds are considered defeased:

<u>Series</u>	<u>Ending Balance</u>
2001	\$780,000
2004	\$955,000
2006	\$1,200,000

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, 2021, \$7,971,000 of the bonds remains outstanding. The following is a schedule of bonds outstanding at September 30, 2021:

Description	Interest		Bonds Outstanding September 30, 2021
	Rates	Dates Payable	
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2011	2.50-4.25%	08/15; 02/15	\$770,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2013	2.35%	08/15; 02/15	900,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2017	2.47%	08/15; 02/15	1,136,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018A	0.59-1.82%	08/15; 02/15	3,690,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018B	0.89-2.12%	08/15; 02/15	1,475,000
			\$7,971,000

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

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt and 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
2022	\$ 441,000	\$ 161,362	\$ 602,362
2023	455,000	149,286	604,286
2024	469,000	136,684	605,684
2025	477,000	123,432	600,432
2026	496,000	109,474	605,474
2027-2031	1,748,000	413,299	2,161,299
2032-2036	1,145,000	301,264	1,446,264
2037-2041	1,150,000	198,954	1,348,954
2042-2046	1,115,000	97,653	1,212,653
2047-2049	475,000	9,039	484,039
	\$ 7,971,000	\$ 1,700,447	\$ 9,671,447

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2021, was as follows for governmental activities:

Description	Balance October 1, 0	Additions	Retirements	Balance September 30, 2021	Amount Due Within One Year
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2011	\$ 905,000	\$ -	\$ 135,000	\$ 770,000	\$ 140,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2013	1,060,000	-	160,000	900,000	165,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2017	1,213,000	-	77,000	1,136,000	76,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018A	3,730,000	-	40,000	3,690,000	40,000
Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018B	1,495,000	-	20,000	1,475,000	20,000
	8,403,000	-	432,000	7,971,000	441,000
Premium on issuance of bonds	43,341	-	7,191	36,150	-
Total long-term debt	\$ 8,446,341	\$ -	\$ 439,191	\$ 8,007,150	\$ 441,000

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

NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)

Other Long-Term Liabilities

Governmental Activities	Balance October 1, 2020	Additions	Retirements	Balance September 30, 2021	Amount Due Within One Year
Compensated absences	\$ 26,241	\$ 32,278	\$ 36,382	\$ 22,137	\$ 15,000

Compensated absences and the net pension liability will be liquidated in future periods primarily by the General Fund for governmental activities.

Net Investment in Capital Assets

The elements of this calculation are as follows:

Net investment in capital assets:	
Capital assets, net of accumulated depreciation	\$ 7,649,183
Less related liabilities (bonds)	(8,007,150)
Restricted cash (unexpended bond proceeds)	2,362,663
<u>Net investment in capital assets - total</u>	<u>\$ 2,004,696</u>

NOTE 3: RETIREMENT PLANS

Description of Plan

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.

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

NOTE 3: RETIREMENT PLANS (Continued)

Description of Plan (Continued)

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 9.10% and 9.10% for the months of the accounting years in 2020 and 2019, respectively. The deposit rate payable by the employee members was 7% and 7% for calendar years 2020 and 2019, 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.

Plan Membership

The makeup of plan participants as of the December 31, 2020 valuation was as follows:

	Number of Employees
Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	3
Active employees	13
Total	23

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

NOTE 3: RETIREMENT PLANS (Continued)

Net Pension Liability

	December 31, 2020	December 31, 2019
Total pension liability	1,565,218	1,307,355
Fiduciary net position	1,425,358	1,224,150
Net pension liability	139,860	83,205
Fiduciary net position as a % of total pension liability	91.06%	93.64%
Pensionable covered payroll*	704,368	661,780
Net pension liability as % of covered payroll	19.86%	12.57%

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.

* Payroll is calculated based on contributions as reported to TCDRS.

Discount Rate

Discount rate ⁽²⁾	8.10%	7.60%
Long-term expected rate of return, net of investment expense ⁽²⁾	8.10%	7.60%
Municipal bond rate ⁽³⁾	Does not apply	Does not apply

⁽²⁾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.

⁽³⁾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.

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 2021 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 TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. Milliman relies on the expertise of Cliffwater in this assessment.

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

NOTE 3: RETIREMENT PLANS (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return ⁽²⁾
U.S. Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.25%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	25.00%	7.25%
Global Equities	MSCI World (net) Index	2.50%	4.55%
Int'l Equities - Developed Markets	MSCI World Ex USA (net)	5.00%	4.25%
Int'l Equities - Emerging Markets	MSCI EM Standard (net) Index	6.00%	4.75%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.85%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	2.11%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.70%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	5.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	3.45%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.10%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	4.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	1.85%

⁽¹⁾ Target asset allocation adopted at the June 2020 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0%, per Cliffwater's 2021 capital market assumptions.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

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.

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

NOTE 3: RETIREMENT PLANS (Continued)

Depletion of Plan Assets/GASB Discount Rates (Continued)

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.

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.

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

NOTE 3: RETIREMENT PLANS (Continued)

Depletion of Plan Assets/GASB Discount Rates (Continued)

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, 2019	\$ 1,307,355	\$ 1,224,150	\$ 83,205
Changes for the year:			-
Service cost	75,578	-	75,578
Interest on total pension liability ⁽¹⁾	110,427	-	110,427
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	14,151	-	14,151
Effect of assumptions changes in inputs	97,764	-	97,764
Refund of contributions	-	-	-
Benefit payments	(40,057)	(40,057)	-
Administrative expenses	-	(1,043)	1,043
Member contributions	-	49,306	(49,306)
Net investment income	-	126,613	(126,613)
Employer contributions	-	64,098	(64,098)
Other ⁽³⁾	-	2,291	(2,291)
Balances as of December 31, 2020	\$ 1,565,218	\$ 1,425,358	\$ 139,860

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

(2) *No plan changes valued.*

(3) *Relates to allocation of system-wide items.*

	Balance October 1, 2020	Additions	Retirements	Balance September 30, 2021
Net Pension Liability	\$ 83,205	\$ 298,963	\$ 242,308	\$ 139,860

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

NOTE 3: RETIREMENT PLANS (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	\$ 1,800,890	\$ 1,565,218	\$ 1,368,692
Fiduciary net position	1,425,358	1,425,358	1,425,358
Net pension liability/(asset)	\$ 375,532	\$ 139,860	\$ (56,666)

Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions

	January 1, 2020 to December 31, 2020
Service cost	\$ 75,578
Interest on total pension liability ⁽¹⁾	110,427
Effect of plan changes	-
Administrative expenses	1,043
Member contributions	(49,306)
Expected investment return net of investment expenses	(102,118)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(58)
Recognition of assumption changes or inputs	18,377
Recognition of investment gains or losses	(9,704)
Other ⁽²⁾	(2,292)
Pension expense/(income)	\$ 41,947

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

⁽²⁾ Relates to allocation of system-wide items.

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

NOTE 3: RETIREMENT PLANS (Continued)

Pension Expense and Deferred Inflows/Outflows of Resources Related to Pensions (Continued)

As of December 31, 2020, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 45,050	\$ 20,481
Changes of assumptions	86,025	-
Net difference between projected and actual earnings	-	37,928
Contributions made subsequent to measurement date	46,208	-
Total Deferred Inflows/Outflows of Resources	\$ 177,283	\$ 58,409

\$46,208 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. 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:	
2022	\$ 3,926
2023	24,502
2024	3,048
2025	18,149
2026	23,041
Thereafter ⁽⁴⁾	-

⁽⁴⁾ 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.

Valley Municipal Utility District No. 2

Notes to the Financial Statements

NOTE 3: RETIREMENT PLANS (Continued)

Schedule of Deferred Inflows and Outflows of Resources

	Original Amount	Date Established	Original Recognition Period ⁽¹⁾	Amount Recognized in 12/31/2020 Expense ⁽¹⁾	Balance Deferred Inflows 12/31/2020	Balance Deferred Outflows 12/31/2020
Investment (gains) or losses	\$ (24,494)	12/31/2020	5	\$ (4,899)	\$ 19,595	\$ -
	(78,122)	12/31/2019	5	(15,624)	46,874	-
	95,670	12/31/2018	5	19,134	-	38,268
	(48,643)	12/31/2017	5	(9,729)	9,728	-
	7,073	12/31/2016	5	1,414	-	-
Economic/demographic (gains) or losses	14,151	12/31/2020	6	2,359	-	11,792
	30,755	12/31/2019	7	4,394	-	21,967
	(17,573)	12/31/2018	6	(2,929)	8,786	-
	15,521	12/31/2017	7	2,217	-	6,652
	16,233	12/31/2016	7	2,319	-	4,638
	(81,847)	12/31/2015	7	(11,692)	11,694	-
	22,914	12/31/2014	7	3,274	-	-
Assumption changes or inputs	97,764	12/31/2020	6	16,294	-	81,470
	-	12/31/2019	7	-	-	-
	-	12/31/2018	6	1,237	-	-
	8,657	12/31/2017	7	-	-	3,709
	-	12/31/2016	7	846	-	-
	5,922	12/31/2015	7	-	-	846
	-	12/31/2014	7	-	-	-
Employer contributions made subsequent to measurement date	46,208	9/30/2020	N/A	-	-	46,208
	46,666	9/30/2020	N/A	-	-	46,666
	46,438	9/30/2019	N/A	-	-	46,438
	46,652	9/30/2018	N/A	-	-	45,652
	34,260	9/30/2017	N/A	-	-	34,260
	25,293	9/30/2016	N/A	-	-	25,293

⁽¹⁾ *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.*

NOTE 4: 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, 2021, the District's other employee benefit costs totaled \$68,944.

NOTE 5: 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 6: 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 7: 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 9, 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 8: 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 No. 2 - 70%; Town - 30%. The building is the property of Valley Municipal Utility District No. 2 which leases to the Town.

NOTE 9: RELATED PARTY TRANSACTIONS

As of September 30, 2021, 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 \$106,983, debt service expenditures totaled \$38,746 and capital expenditures totaled \$3,422.

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

NOTE 10: 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 – salaries, contracted services, material and supplies, pension expense, capital outlay 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.

NOTE 11: 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

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

NOTE 11: WATER AND SEWER SERVICE RATES (Continued)

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.

NOTE 12: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the District. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.



REQUIRED SUPPLEMENTARY INFORMATION



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

For the year ended September 30, 2021

REVENUES	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
Maintenance service property tax	\$ 311,000	\$ 311,000	314,437	\$ 3,437
Raw water and flat rate	62,000	62,000	45,876	(16,124)
Water and sewer service fees	1,180,000	1,180,000	1,426,945	246,945
Penalty and interest	16,000	16,000	29,320	13,320
Other revenues	48,000	48,000	58,271	10,271
Tap fees	19,500	19,500	48,115	28,615
Total revenues	1,636,500	1,636,500	1,922,964	286,464
EXPENDITURES				
Current				
Insurance	130,430	130,430	121,213	9,217
Professional fees	42,800	42,800	38,312	4,488
Salaries	757,970	757,970	782,601	(24,631)
Contracted services	40,300	40,300	48,366	(8,066)
Water purchases	6,050	6,050	5,571	479
Utilities	147,300	147,300	129,198	18,102
Material and supplies	217,500	217,500	262,149	(44,649)
Pension expense	62,182	62,182	63,639	(1,457)
Capital outlay	180,000	180,000	1,216,381	(1,036,381)
Other expenditures	52,005	52,005	65,914	(13,909)
Total expenditures	1,636,537	1,636,537	2,733,344	(1,096,807)
Excess (deficiency) of revenues over (under) expenditures	(37)	(37)	(810,380)	(810,343)
Fund balance, beginning of year	5,834,281	5,834,281	3,704,956	(2,129,325)
Fund balance, end of year	\$ 5,834,244	\$ 5,834,244	\$ 2,894,576	\$ (2,939,668)

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:

	Budget	Actual	Variance
Salaries	\$ 757,970	\$ 782,601	\$ (24,631)
Contracted services	40,300	48,366	(8,066)
Material and supplies	217,500	262,149	(44,649)
Pension expense	62,182	63,639	(1,457)
Capital outlay	180,000	1,216,381	(1,036,381)
Other expenditures	52,005	65,914	(13,909)

Valley Municipal Utility District No. 2
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
September 30, 2021

	Year Ended December 31,									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total Pension Liability										
Service cost	\$ 75,578	\$ 71,111	\$ 70,884	\$ 61,529	\$ 52,183	\$ 47,884	\$ 46,087	N/A	N/A	N/A
Interest on total pension liability	110,427	96,630	88,410	72,656	59,938	58,767	51,373	N/A	N/A	N/A
Effect of plan changes	-	-	-	66,666	35,721	(11,425)	-	N/A	N/A	N/A
Effect of assumption changes or inputs	97,764	-	-	8,657	-	5,922	-	N/A	N/A	N/A
Effect of economic/demographic (gains) or losses	14,151	30,755	(17,573)	15,521	16,233	(81,847)	22,914	N/A	N/A	N/A
Benefit payments/refunds of contributions	(40,057)	(25,490)	(54,871)	(25,490)	(25,490)	(28,771)	(25,825)	N/A	N/A	N/A
Net change in total pension liability	257,863	173,006	86,850	199,539	138,585	(9,470)	94,549	N/A	N/A	N/A
Total pension liability, beginning	1,307,355	1,134,349	1,047,499	847,960	709,375	718,845	624,296	N/A	N/A	N/A
Total pension liability, ending (a)	\$ 1,565,218	\$ 1,307,355	\$ 1,134,349	\$ 1,047,499	\$ 847,960	\$ 709,375	\$ 718,845	N/A	N/A	N/A
Fiduciary Net Position										
Employer contributions	\$ 64,098	\$ 60,818	\$ 60,299	\$ 42,072	\$ 30,334	\$ 29,466	\$ 30,423	N/A	N/A	N/A
Member contributions	49,306	46,325	44,999	44,220	41,717	41,038	39,437	N/A	N/A	N/A
Investment income net of investment expenses	126,613	160,798	(17,051)	113,515	49,830	7,427	38,549	N/A	N/A	N/A
Benefit payments/refunds of contributions	(40,057)	(25,490)	(54,871)	(25,490)	(25,490)	(28,771)	(25,825)	N/A	N/A	N/A
Administrative expenses	(1,043)	(933)	(787)	(629)	(554)	(478)	(459)	N/A	N/A	N/A
Other	2,291	2,966	1,597	807	(9,421)	(1,189)	2,876	N/A	N/A	N/A
Net change in fiduciary net position	201,208	244,484	34,186	174,495	86,416	47,493	85,001	N/A	N/A	N/A
Fiduciary net position, beginning	1,224,150	979,666	945,480	770,985	684,569	637,076	552,075	N/A	N/A	N/A
Fiduciary net position, ending (b)	\$ 1,425,358	\$ 1,224,150	\$ 979,666	\$ 945,480	\$ 770,985	\$ 684,569	\$ 637,076	N/A	N/A	N/A
Net pension liability / (asset), ending = (a) - (b)	\$ 139,860	\$ 83,205	\$ 154,683	\$ 102,019	\$ 76,975	\$ 24,806	\$ 81,769	N/A	N/A	N/A
Fiduciary net position as a % of total pension liability	91.06%	93.64%	86.36%	90.26%	90.92%	96.50%	88.62%	N/A	N/A	N/A
Pensionable covered payroll	\$ 704,368	\$ 661,780	\$ 642,845	\$ 631,709	\$ 595,953	\$ 592,333	\$ 563,383	N/A	N/A	N/A
Net pension liability as a % of covered payroll	19.86%	12.57%	24.06%	16.15%	12.92%	4.19%	14.51%	N/A	N/A	N/A

Valley Municipal Utility District No. 2
SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2021

Year Ending December 31	Actuarially Determined Contribution ⁽¹⁾	Actual Employer Contribution ⁽¹⁾	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽²⁾	Actual Contribution as a % of Covered Payroll
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%
2018	60,299	60,299	-	642,845	9.4%
2019	60,818	60,818	-	661,780	9.2%
2020	64,098	64,098	-	704,368	9.1%

⁽¹⁾ 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.

⁽²⁾ 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	20.0 years (based on contribution rate calculated in 12/31/2020 valuation)
Asset Valuation Method	5-yr smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.6% average over career including inflation.
Investment Rate of Return	7.50%, net of administrative and 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	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate Scale after 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>	0 to 10,000
			<u>2.25</u>	10,001 to 15,000
			<u>2.75</u>	15,001 to 25,000
			<u>3.50</u>	25,001 to and up

b. Retail Rates for 1" meter

WATER:	<u>\$38.00</u>	<u>N</u>	<u>\$2.00</u>	0 to 10,000
			<u>2.25</u>	10,000 to 15,000
			<u>2.75</u>	15,001 to 25,000
			<u>3.50</u>	25,001 to and up

c. Retail Rates for 1 1/2 " meter

WATER:	<u>\$95.00</u>	<u>N</u>	<u>\$2.00</u>	0 to 10,000
			<u>2.25</u>	10,000 to 15,000
			<u>2.75</u>	15,001 to 25,000
			<u>3.50</u>	25,001 to and up

d. Retail Rates for 2" meter

WATER:	<u>\$152.00</u>	<u>N</u>	<u>\$2.00</u>	0 to 10,000
			<u>2.25</u>	10,000 to 15,000
			<u>2.75</u>	15,001 to 25,000
			<u>3.50</u>	25,001 to and up

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

Condo Customers:

Plus \$10.00 times dwelling units
\$ 2.75 per 1,000 gallons

WASTEWATER: \$15.00 N 1.75 0 to 15,000

Condo Customers:

Plus 1.75 \$15.00 times dwelling units
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

d. 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>269</u>	<u>269</u>	x1.0	<u>269</u>
≤¾"	<u>1,264</u>	<u>1,240</u>	x1.0	<u>1,240</u>
1"	<u>53</u>	<u>53</u>	x2.5	<u>132.5</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>1,606</u>	<u>1,582</u>		<u>1,806.5</u>
Total Wastewater	<u>1,606</u>	<u>1,582</u>		<u>1,806.5</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: 199,915,752 Water Accountability Ratio*:
(Gallons billed / Gallons distributed)

Gallons billed to customers: 160,524,900 80.30%

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

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

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

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)	\$ 846,240
Professional fees:	
Auditing	11,750
Legal	6,960
Computer service	8,556
Lab and inspection	11,046
	38,312
Contracted services	48,366
Utilities	129,198
Water purchase	5,571
Materials and supplies	256,372
Administrative expenditures:	
Insurance	121,213
Office supplies	5,777
Miscellaneous administrative expenses	59,296
Other expenditures	6,618
Capital outlay:	
Capitalized assets	1,216,381
	1,216,381
Total expenditures	\$ 2,733,344

Number of persons employed by the District: _13_ 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, 2021

	Maintenance Taxes	Debt Service Taxes	Totals (Memorandum Only)
Taxes receivable at beginning of year	\$ 17,481	\$ 44,264	\$ 61,745
2020 original tax roll	309,455	773,638	1,083,093
Tax roll adjustments	4,491	11,192	15,683
Total to be accounted for	331,427	829,094	1,160,521
Current year tax collections	308,459	771,148	1,079,607
Prior year tax collections	6,837	17,100	23,937
Total tax collections	315,296	788,248	1,103,544
Taxes receivable, end of year	\$ 16,131	\$ 40,846	\$ 56,977

Taxes receivable, by years

2005 and prior	\$ 242	\$ 577	\$ 819
2006	123	345	468
2007	163	457	620
2008	199	556	755
2009	255	688	943
2010	342	923	1,265
2011	628	1,695	2,323
2012	398	1,075	1,473
2013	400	1,079	1,479
2014	313	784	1,097
2015	709	1,772	2,481
2016	1,251	3,127	4,378
2017	1,093	2,731	3,824
2018	2,110	5,275	7,385
2019	2,366	5,915	8,281
2020	5,539	13,847	19,386
	16,131	40,846	56,977
Allowance for uncollectible	(1,748)	(4,426)	(6,174)
Taxes receivable, net, end of year	\$ 14,383	\$ 36,420	\$ 50,803

	2020	2019	2018	2017
Property valuations				
Land improvements	\$ 309,455,144	\$ 307,859,119	\$ 299,902,778	\$ 290,180,434
Total property valuations	\$ 309,455,144	\$ 307,859,119	\$ 299,902,778	\$ 290,180,434

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:	\$ 1,083,093	\$ 1,077,507	\$ 1,049,660	\$ 1,015,632
Percent of taxes collected to levied taxes	101.89%	97.73%	98.08%	97.77%

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

Due During Fiscal Years	Series 2011			Series 2013		
	Principal Due	Interest Due		Principal Due	Interest Due	
Ending	2-15	8-15, 2-15	Total	2-15	8-15, 2-15	Total
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
2024	155,000	17,126	172,126	180,000	11,045	191,045
2025	160,000	10,626	170,626	185,000	6,756	191,756
Thereafter	170,000	3,613	173,613	195,000	2,291	197,291
Totals	\$ 770,000	\$ 83,317	\$ 853,317	\$ 900,000	\$ 54,519	\$ 954,519

Due During Fiscal Years	Series 2017			Series 2018A		
	Principal Due	Interest Due		Principal Due	Interest Due	
Ending	2-15	8-15, 2-15	Total	2-15	8-15, 2-15	Total
2022	76,000	27,121	103,121	40,000	58,735	98,735
2023	75,000	25,256	100,256	40,000	58,431	98,431
2024	74,000	23,416	97,416	40,000	58,077	98,077
2025	72,000	21,613	93,613	40,000	57,677	97,677
Thereafter	839,000	48,104	887,104	3,530,000	749,183	4,279,183
Totals	\$ 1,136,000	\$ 145,510	\$ 1,281,510	\$ 3,690,000	\$ 982,103	\$ 4,672,103

Due During Fiscal Years	Series 2018B			Annual Requirements for All Series		
	Principal Due	Interest Due		Total Principal Due	Total Interest Due	Total Principal and Interest Due
Ending	2-15	8-15, 2-15	Total			
2022	20,000	27,469	47,469	441,000	161,362	602,362
2023	20,000	27,257	47,257	455,000	149,286	604,286
2024	20,000	27,020	47,020	469,000	136,684	605,684
2025	20,000	26,760	46,760	477,000	123,432	600,432
Thereafter	1,395,000	326,492	1,721,492	6,129,000	1,129,683	7,258,683
Totals	\$ 1,475,000	\$ 434,998	\$ 1,909,998	\$ 7,971,000	\$ 1,700,447	\$ 9,671,447

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	Totals
Interest rate		2.50 - 4.25%	2.35%	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	\$ 26,241	\$ 905,000	\$ 1,060,000	\$ 1,213,000	\$ 3,730,000	\$ 1,495,000	\$ 8,429,241
New debt	32,278	-	-	-	-	-	32,278
Retirements during the current year	36,382	135,000	160,000	77,000	40,000	20,000	468,382
Bonds and notes payable outstanding at end of current year	\$ 22,137	\$ 770,000	\$ 900,000	\$ 1,136,000	\$ 3,690,000	\$ 1,475,000	\$ 7,993,137
Interest paid during the current year		\$ 34,325	\$ 23,030	\$ 28,941	\$ 58,993	\$ 27,658	\$ 172,947

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>	\$ _____

Debt service fund cash and temporary investments balances as of September 30, 2021: \$493,388

Average annual debt service payments (principal and interest) for remaining term of all debt: \$358,202

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

	2021	%	2020	%	2019
<u>GENERAL FUND REVENUES</u>					
Service revenues and maintenance tax	\$ 1,787,258	92.9	1,583,688	92.6	1,527,034
Tap connection fees and other	105,244	5.5	67,464	3.9	52,504
Penalty and interest revenues	29,320	1.5	20,609	1.2	17,900
Interest on investments	1,142	0.1	38,105	2.3	118,895
Total general fund revenues	<u>1,922,964</u>	<u>100.0</u>	<u>1,709,866</u>	<u>100.0</u>	<u>1,716,333</u>
<u>GENERAL FUND EXPENDITURES</u>					
Plumbing materials and chemicals	262,149	13.6	241,729	14.1	235,430
Repairs and maintenance	7,381	0.4	4,025	0.2	8,471
Professional fees	38,312	2.0	61,151	3.6	40,902
Office expense and printing	32,523	1.7	28,596	1.7	25,993
Utilities	119,353	6.2	139,540	8.2	132,244
Telephone	9,845	0.5	11,273	0.7	10,841
Insurance	121,213	6.3	121,855	7.1	123,831
Contracted services	48,366	2.5	36,818	2.2	49,908
Salaries	779,563	40.5	725,306	42.4	718,264
Payroll expense	65,914	3.4	61,622	3.6	60,335
General expense	-	-	-	-	-
Dues and publications	9,082	0.5	5,496	0.3	10,262
Taxes, permits and inspections	17,691	0.9	16,000	0.1	14,809
Capital expenditures	1,216,381	63.3	1,244,132	72.8	1,315,098
Water purchase	5,571	0.3	5,571	0.3	5,571
Bond issuance costs	-	-	-	-	-
Total general fund expenditures	<u>2,733,344</u>	<u>142.1</u>	<u>2,703,114</u>	<u>158.1</u>	<u>2,751,959</u>
Excess (deficit) general fund revenue over (under) expenditures	(810,380)	(42.1)	(993,248)	(58.1)	(1,035,626)
<u>GENERAL FUND OTHER FINANCING SOURCES/USES</u>					
Proceeds from debt issuance	-	-	-	-	-
Total general fund other financing sources/uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$ (810,380)</u>	<u>(42.1)</u>	<u>(993,248)</u>	<u>(58.1)</u>	<u>(1,035,626)</u>
<u>DEBT SERVICE FUND REVENUES</u>					
Tax revenues	\$ 785,951	98.5	765,750	97.0	740,447
Penalty and interest	11,257	1.4	10,682	1.4	9,247
Interest on investments	998	0.1	4,795	0.6	11,645
Total debt service fund revenues	<u>798,206</u>	<u>100.0</u>	<u>781,227</u>	<u>100.0</u>	<u>761,339</u>
<u>DEBT SERVICE FUND EXPENDITURES</u>					
Tax collection expenditures	187,206	23.5	211,077	27.0	209,462
Bond issuance costs	-	-	-	-	-
Debt service interest and fees	172,947	21.7	183,463	23.5	205,024
Debt service principal	432,000	54.1	363,000	46.5	355,000
Total debt service fund expenditures	<u>792,153</u>	<u>99.2</u>	<u>757,540</u>	<u>97.0</u>	<u>769,486</u>
<u>DEBT SERVICE FUND OTHER FINANCING SOURCES/USES</u>					
Proceeds from debt refunding	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Total debt service fund other financing sources/uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) debt service revenue over (under) expenditures	<u>\$ 6,053</u>	<u>0.8</u>	<u>23,687</u>	<u>3.0</u>	<u>(8,147)</u>
Total active retail water and/or wastewater connections	<u>1,582</u>		<u>1,554</u>		<u>1,551</u>

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

%	2018	%	2017	%	Thirteen Month Ended 2016
94.1	1,504,740	92.7	\$ 1,481,047	92.2	\$ 1,497,703
3.2	63,900	3.9	98,392	6.1	112,607
1.1	20,914	1.3	22,313	1.4	25,875
7.3	33,745	2.1	4,448	0.3	1,073
105.7	<u>1,623,299</u>	100.0	<u>1,606,200</u>	100.0	<u>1,637,258</u>
14.5	245,862	15.1	251,340	15.6	252,951
0.5	5,548	0.3	6,953	0.4	73,403
2.5	149,604	9.2	31,801	2.0	29,574
1.6	56,060	3.5	30,569	1.9	4,616
8.1	132,621	8.2	120,963	7.5	129,309
0.7	10,424	0.6	10,424	0.6	11,769
7.6	104,279	6.4	98,087	6.1	121,358
3.1	42,388	2.6	50,481	3.1	32,032
44.2	690,356	42.5	670,475	41.7	725,316
3.7	55,833	3.4	39,302	2.4	35,286
-	-	-	27,639	1.7	52,602
0.6	8,820	0.5	6,226	0.4	8,483
0.9	14,447	0.9	14,403	0.9	14,929
81.0	144,559	8.9	418,475	26.1	32,899
0.3	5,571	0.3	5,571	0.3	5,571
-	99,118	6.1	-	-	-
169.5	<u>1,765,490</u>	108.8	<u>1,782,709</u>	111.0	<u>1,530,098</u>
(63.8)	(142,191)	(8.8)	(176,509)	(11.0)	107,160
-	5,225,000	-	-	-	-
(63.8)	<u>5,082,809</u>	(8.8)	<u>\$ (176,509)</u>	(11.0) %	<u>\$ 107,160</u>
100.0	721,031	97.4	\$ 716,787	97.5	\$ 686,995
1.2	12,164	1.6	15,118	2.1	19,060
1.6	7,686	1.0	3,096	0.4	483
102.8	<u>740,881</u>	100.0	<u>735,001</u>	100.0	<u>706,538</u>
28.3	215,733	29.1	201,815	27.5	191,793
-	-	-	17,565	2.4	-
27.7	126,917	17.1	119,195	16.2	158,389
47.9	314,000	42.4	330,000	44.9	320,000
103.9	<u>656,650</u>	88.6	<u>668,575</u>	91.0	<u>670,182</u>
-	-	-	1,425,000	193.90	-
-	-	-	(1,436,935)	(195.50)	-
-	-	-	(11,935)	(1.6)	-
-1.1	<u>84,231</u>	11.4	<u>\$ 54,491</u>	10.6	<u>\$ 36,356</u>
	<u>1,514</u>		<u>1,504</u>		<u>1,494</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 (09/30/21)</u>	<u>Expense Reimbursements (09/30/21)</u>	<u>Title at Year End</u>
<u>Board Members</u>				
Roger Nelson 850 Wabash River Brownsville, Texas 78520	05/20 - 05/24	None	None	President
James Tipton 701 Santa Ana Avenue Rancho Viejo, Texas 78575	05/18 – 05/22	None	None	Vice- President
Richard Harse 205 Tesoro Ave Rancho Viejo, Texas 78575	05/18 – 05/22	None	None	Director
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	05/20 - 05/24	None	None	Secretary

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	09/01/20 - 09/30/21	\$117,936	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 (09/30/21)</u>	<u>Expense Reimbursements (09/30/21)</u>	<u>Title at Year End</u>
<u>Consultants</u>				
Cunningham Law SPI, PC 211 Padre Boulevard Port Isabel, Texas 78578	06/09/81	\$7,933	\$ -	General Counsel
Cameron County Appraisal District 2021 Amistad Drive San Benito, Texas 78586	10/01/82	\$13,900	\$ -	Tax Appraisers
Cameron County Tax Assessor- Collector Mr. Tony Yzaguirre, Jr. 964 East Harrison Brownsville, Texas 78520	06/23/97	\$10,787	\$ -	District Tax Assessor-Collector
<u>Investment Officers:</u>				
Scott Fry 100 Hidalgo Street Rancho Viejo, Texas 78575	09/01/19 - 09/30/20	None	None	General Manager
Rebecca Martinez 100 Hidalgo Street Rancho Viejo, Texas 78575	09/01/19 - 09/30/20	None	None	Financial Operations

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COMPLIANCE SECTION



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Valley Municipal Utility District No. 2

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2021, and the related notes to the financial statements, which collectively comprise Valley Municipal Utility District No. 2's basic financial statements, and have issued our report thereon dated February 10, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley Municipal Utility District No. 2's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Municipal Utility District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Municipal Utility District No. 2's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Municipal Utility District No. 2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carly Riggs & Ingram, L.L.C.

Harlingen, Texas
February 10, 2022

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Valley Municipal Utility District No. 2

Report on Compliance for Each Major Federal Program

We have audited Valley Municipal Utility District No. 2's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Valley Municipal Utility District No. 2's major federal programs for the year ended September 30, 2021. Valley Municipal Utility District No. 2's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Valley Municipal Utility District No. 2's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Municipal Utility District No. 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Valley Municipal Utility District No. 2's compliance.

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Opinion on Each Major Federal Program

In our opinion, Valley Municipal Utility District No. 2, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control over Compliance

Management of Valley Municipal Utility District No. 2, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Valley Municipal Utility District No. 2's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Municipal Utility District No. 2's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Casey Riggs & Ingram, L.L.C.

Harlingen, Texas
February 10, 2022

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Valley Municipal Utility District No. 2 Schedule of Findings and Questioned Costs

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
* Material weakness(es) identified?	___ yes	___X___ no
* Significant deficiencies identified that are not considered to be material weakness(es)?	___ yes	___X___ none reported
Noncompliance material to financial statements noted?	___ yes	___X___ no

Federal Awards

Internal control over major programs:		
* Material weakness(es) identified?	___ yes	___X___ no
* Significant deficiencies identified that are not considered to be material weakness(es)?	___ yes	___X___ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance.	___ yes	___X___ no

Identification of major programs:

Federal Assistance Listing Number(s)

66.468

Name of Federal Program or Cluster

Drinking Water State Revolving Fund
Cluster Capitalization Grants for Drinking
Water State Revolving Funds

Dollar threshold used to distinguish between
Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

___X___ yes ___ no

Valley Municipal Utility District No. 2
Schedule of Findings and Questioned Costs – Continued

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

A. Significant Deficiencies in Internal Control

None reported.

B. Compliance Findings

None reported.

Section III – Federal and State Award Findings and Questioned Costs

None reported.

**Valley Municipal Utility District No. 2
Summary Schedule of Prior Audit Findings**

PROGRAM DESCRIPTION

Not applicable

DESCRIPTION

There were no findings reported in the prior year.

Valley Municipal Utility District No. 2
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	(2) Federal Assistance Listing Number	(3) Pass-through Entity Identifying Number	(4) Provided to Subrecipients	(5) Federal Expenditures
U.S. Environmental Protection Agency				
Passed through Texas Water Development Board				
Clean Water State Revolving Fund Cluster				
* Capitalization Grants for Clean Water State Revolving Funds	66.458	73793	\$ -	\$ 431,846
Total Clean Water State Revolving Fund Cluster			-	431,846
Drinking Water State Revolving Fund Cluster				
* Capitalization Grants for Drinking Water State Revolving Funds	66.468	62781	-	437,271
Total Drinking Water State Revolving Fund Cluster			-	437,271
Total Passed through Texas Water Development Board			-	869,117
Total U.S. Environmental Protection Agency			-	869,117
Total Expenditures of Federal Awards			\$ -	\$ 869,117

* Clustered programs

Valley Municipal Utility District No. 2
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

NOTE 1- GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Valley Municipal Utility District No. 2, for the year ended September 30, 2021. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

In accordance with Governmental Accounting Standards Board requirements, the District has reviewed other entities and activities for possible inclusion in the reporting entity and determined that there are none; however, federal financial assistance passed through other governmental agencies is included on the schedule.

NOTE 2- MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The federal and state grant funds were accounted for in the General Fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. With the governmental fund type measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

NOTE 3- SUB-RECIPIENTS

During the year ended September 30, 2021, the District had no sub-recipients.

Valley Municipal Utility District No. 2
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

NOTE 4- FEDERAL LOANS AND LOAN GUARANTEES

During the year ended September 30, 2021, the District had no outstanding federal loans payable or loan guarantees.

NOTE 5- FEDERALLY FUNDED INSURANCE

During the year ended September 30, 2021, the District had no federally funded insurance.

NOTE 6- NONCASH AWARDS

During the year ended September 30, 2021, the District did not receive any non-cash federal awards.

NOTE 7- INDIRECT COST RATE

The District does not utilize the de minimus 10% indirect cost rate. Indirect costs, where applicable, are negotiated with the agency providing the grant award to the District.