

# VALLEY MUNICIPAL UTILITY DISTRICT NO. 2

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

September 30, 2020



**CRI** CARR  
RIGGS &  
INGRAM

CPAs and Advisors

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**Valley Municipal Utility District No. 2**  
**Officers**  
**September 30, 2020**

**OFFICERS**

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

**GENERAL MANAGER**

Mr. Scott Fry

**ATTORNEY**

Kathy Cunningham

**DISTRICT TAX ASSESSOR-COLLECTOR**

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

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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, 2020 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, 2020, 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, 2020, 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 January 18, 2021, 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  
January 18, 2021

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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, 2020. 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 \$993,248. Capital expenditures related to the Clean Water State Revolving Fund, Drinking Water State Revolving Fund and other capital projects caused the General Fund balance to decrease by \$1,244,132.

Revenues were higher than budgeted amounts.

Revenues for water and sewer sales increased 3.7%, when compared to actual revenues in the prior year.

In the District's Debt Service Fund, expenditures were less than revenues by \$23,676. The fund balance of \$464,077 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 \$2,720,251 and \$2,652,722 at September 30, 2020 and September 30, 2019, respectively. An analysis of the District's net position is shown below:

|                                      | September 30,<br>2020 | September 30,<br>2019 |
|--------------------------------------|-----------------------|-----------------------|
| Current and other assets             | \$ 4,430,567          | \$ 6,341,108          |
| Capital assets, net                  | 6,992,512             | 5,592,763             |
| Total assets                         | 11,423,079            | 11,933,871            |
| Total deferred outflows of resources | 115,362               | 160,351               |
| Total liabilities                    | 8,759,949             | 9,391,777             |
| Total deferred inflows of resources  | 58,241                | 49,723                |
| Net position                         |                       |                       |
| Net investment in capital assets     | 1,325,557             | 1,645,688             |
| Restricted                           | 505,064               | 478,514               |
| Unrestricted                         | 889,630               | 528,520               |
| Total net position                   | \$ 2,720,251          | \$ 2,652,722          |

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

Changes in the District's net position can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2020 and September 30, 2019.

|   | September 30,<br>2020 | September 30,<br>2019 |
|---|-----------------------|-----------------------|
| Net operating revenues                                | \$2,353,315           | \$2,279,711           |
| Other revenues  | 141,655               | 210,191               |
| <b>Total revenues</b>                                 | <b>2,494,970</b>      | <b>2,489,902</b>      |
| <b>Operating expenses</b>                             | <b>2,427,441</b>      | <b>2,432,725</b>      |
| Excess/(deficiency) of revenues over (under) expenses | 67,529                | 57,177                |
| Net position at beginning of the year                 | 2,652,722             | 2,595,545             |
| <b>Net position at end of year</b>                    | <b>\$2,720,251</b>    | <b>\$2,652,722</b>    |

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

At the end of 2020, the District had invested \$6,992,512, 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, 2020:

|                                 | October 1,<br>2019  | Additions         | Deletions   | Transfers   | September 30,<br>2020 |
|---------------------------------|---------------------|-------------------|-------------|-------------|-----------------------|
| Buildings                       | \$ 317,369          | \$ -              | \$ -        | \$ -        | \$ 317,369            |
| Utility system and improvements | 16,905,973          | 59,309            | -           | -           | 16,965,282            |
| Automobiles and equipment       | 719,901             | 20,311            | -           | -           | 740,212               |
| Water rights                    | 121,215             | -                 | -           | -           | 121,215               |
| Land                            | 10,000              | -                 | -           | -           | 10,000                |
| Construction in progress        | 1,264,080           | 1,164,512         | -           | -           | 2,428,592             |
|                                 | 19,338,538          | 1,244,132         | -           | -           | 20,582,670            |
| Accumulated depreciation        | (12,997,430)        | (592,728)         | -           | -           | (13,590,158)          |
| <b>Net capital assets</b>       | <b>\$ 6,341,108</b> | <b>\$ 651,404</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 6,992,512</b>   |

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, 2020, the District had various activities in short and long-term debt obligations. The District's bonds presently carry a BBB+ rating with Standard & Poors. No new bonds were issued during the year. The following table summarizes the District's long-term debt for the year ended September 30, 2020:

|                              | October 1,<br>2019  | Additions         | Retirements       | September 30,<br>2020 |
|------------------------------|---------------------|-------------------|-------------------|-----------------------|
| 2011 Series Revenue Bonds    | \$ 1,035,000        | \$ -              | \$ 130,000        | \$ 905,000            |
| 2013 Series Revenue Bonds    | 1,215,000           | -                 | 155,000           | 1,060,000             |
| 2017 Series Refunding Bonds  | 1,291,000           |                   | 78,000            | 1,213,000             |
| 2018A Series Revenue Bonds   | 3,730,000           | -                 | -                 | 3,730,000             |
| 2018B Series Revenue Bonds   | 1,495,000           | -                 | -                 | 1,495,000             |
|                              | <u>8,766,000</u>    | <u>-</u>          | <u>363,000</u>    | <u>8,403,000</u>      |
| Premium on issuance of bonds | 50,341              | -                 | 7,191             | 43,150                |
| Compensated absences         | 19,899              | 33,837            | 27,495            | 26,241                |
| Net pension liability        | 154,683             | 199,429           | 270,907           | 83,205                |
|                              | <u>\$ 8,990,923</u> | <u>\$ 233,266</u> | <u>\$ 668,593</u> | <u>\$ 8,555,596</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 \$1,257,371. 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:*

| <b>General/Operating Fund</b> |                                |                     |
|-------------------------------|--------------------------------|---------------------|
| Balance, beginning of year    | October 1, 2019                | \$ 4,698,204        |
| Revenues                      | Maintenance and operations tax | 327,306             |
|                               | Water and sewer                | 1,276,991           |
|                               | Other income                   | 105,569             |
| Expenses                      | Operations                     | 1,458,982           |
|                               | Capital expenditures           | 1,244,132           |
| Balance, end of year          | September 30, 2020             | <u>\$ 3,704,956</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, 2019                   | \$ | 440,401 |
| Revenues                   | Ad valorem taxes                  |    | 776,432 |
|                            | Interest income                   |    | 4,795   |
| Expenses                   | Administrative and audit expenses |    | 24,315  |
|                            | Bond payments                     |    | 546,463 |
|                            | Purchase commitments              |    | 186,773 |
| <hr/>                      |                                   |    |         |
| Balance, end of year       | September 30, 2020                | \$ | 464,077 |

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

The District's water rates for the year ended 2020 remain consistent with 2019. 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, 2020

| <b>ASSETS</b>  | General<br>Fund  | Debt<br>Service<br>Fund | Total            | Adjustments         | Governmental<br>Activities<br>Statement of<br>Net Position |
|--|------------------|-------------------------|------------------|---------------------|--|
| Cash and cash equivalents  | \$ 851,072       | \$ 474,651              | \$ 1,325,723     | \$ -                | \$ 1,325,723   |
| Restricted cash and cash equivalents                               | 2,805,436        | -                       | 2,805,436        | -                   | 2,805,436  |
| Accounts receivable  | 153,602          | 1,132                   | 154,734          | -                   | 154,734  |
| Taxes receivable (net)   | 15,733           | 39,838                  | 55,571           | -                   | 55,571   |
| Internal receivable  | 9,366            | -                       | 9,366            | -                   | 9,366  |
| Prepaid expenses   | 79,737           | -                       | 79,737           | -                   | 79,737   |
| Capital assets (net of accumulated depreciation)                   |                  |                         |                  |                     |  |
| Non-depreciable assets   | -                | -                       | -                | 2,559,807           | 2,559,807  |
| Depreciable assets   | -                | -                       | -                | 4,432,705           | 4,432,705  |
| <b>Total assets</b>  | <b>3,914,946</b> | <b>515,621</b>          | <b>4,430,567</b> | <b>6,992,512</b>    | <b>11,423,079</b>  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                              |                  |                         |                  |                     |  |
| Deferred charge for refunding                                      | -                | -                       | -                | 16,594              | 16,594   |
| Pension related  | -                | -                       | -                | 98,768              | 98,768   |
| <b>Total deferred outflows of resources</b>                        | <b>-</b>         | <b>-</b>                | <b>-</b>         | <b>115,362</b>      | <b>115,362</b>   |
| <b>LIABILITIES</b>   |                  |                         |                  |                     |  |
| Accounts payable and accrued expenses                              | 193,796          | 1,191                   | 194,987          | -                   | 194,987  |
| Internal payable   | -                | 9,366                   | 9,366            | -                   | 9,366  |
| Long-term liabilities  |                  |                         |                  |                     |  |
| Net pension liability  | -                | -                       | -                | 83,205              | 83,205   |
| Due within one year  | -                | -                       | -                | 447,000             | 447,000  |
| Due after one year   | -                | -                       | -                | 8,025,391           | 8,025,391  |
| <b>Total liabilities</b>   | <b>193,796</b>   | <b>10,557</b>           | <b>204,353</b>   | <b>8,555,596</b>    | <b>8,759,949</b>   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                               |                  |                         |                  |                     |  |
| Pension related  | -                | -                       | -                | 58,241              | 58,241   |
| Unavailable revenue - property taxes (net)                         | 16,194           | 40,987                  | 57,181           | (57,181)            | -  |
| <b>Total deferred inflows of resources</b>                         | <b>16,194</b>    | <b>40,987</b>           | <b>57,181</b>    | <b>1,060</b>        | <b>58,241</b>  |
| <b>FUND BALANCES/NET POSITION</b>                                  |                  |                         |                  |                     |  |
| Fund balances  |                  |                         |                  |                     |  |
| Nonspendable   |                  |                         |                  |                     |  |
| Prepays  | 79,737           | -                       | 79,737           | (79,737)            | -  |
| Restricted   |                  |                         |                  |                     |  |
| Debt service   | -                | 464,077                 | 464,077          | (464,077)           | -  |
| Committed  | 120,000          | -                       | 120,000          | (120,000)           | -  |
| Assigned   |                  |                         |                  |                     |  |
| Capital Projects   | 60,000           | -                       | 60,000           | (60,000)            | -  |
| Unassigned   | 3,445,219        | -                       | 3,445,219        | (3,445,219)         | -  |
| <b>Total fund balances</b>   | <b>3,704,956</b> | <b>464,077</b>          | <b>4,169,033</b> | <b>(4,169,033)</b>  | <b>-</b>   |
| Total liabilities, deferred inflows of resources and fund balances | \$ 3,914,946     | \$ 515,621              | \$ 4,430,567     |                     |  |
| <b>NET POSITION</b>  |                  |                         |                  |                     |  |
| Net investment in capital assets                                   |                  |                         |                  | 1,325,557           | 1,325,557  |
| Restricted for debt service  |                  |                         |                  | 505,064             | 505,064  |
| Unrestricted   |                  |                         |                  | 889,630             | 889,630  |
| <b>Total net position</b>  |                  |                         |                  | <b>\$ 2,720,251</b> | <b>\$ 2,720,251</b>  |

*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, 2020*

|  |              |
|--|--------------|
| Fund balances - total governmental funds   | \$ 4,169,033 |
| 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.  | 6,992,512    |
| Property taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.  | 57,181       |
| Deferred charge for refunding.   | 16,594       |
| 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 \$(83,205), a deferred resource inflow in the amount of \$(58,241), and a deferred resource outflow in the amount of \$98,768. This resulted in a decrease in net position of \$(42,678). | (42,678)     |
| Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.  | (8,472,391)  |
| Net position of governmental activities  | \$ 2,720,251 |

*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, 2020*

| <b>REVENUES</b>  | General<br>Fund | Debt<br>Service<br>Fund | Total        | Adjustments    | Governmental<br>Activities<br>Statement of<br>Activities |
|--|-----------------|-------------------------|--------------|----------------|--|
| Water and sewer service fees                                 | \$ 1,276,991    | \$ -                    | \$ 1,276,991 | \$ -           | \$ 1,276,991   |
| Property taxes (net)   | 306,697         | 765,750                 | 1,072,447    | 3,877          | 1,076,324  |
| Penalties and interest                                       | 20,609          | 10,682                  | 31,291       | -              | 31,291   |
| Tap fees   | 21,600          | -                       | 21,600       | -              | 21,600   |
| Investment earnings  | 38,105          | 4,795                   | 42,900       | -              | 42,900   |
| Other revenues   | 45,864          | -                       | 45,864       | -              | 45,864   |
| Total revenues   | 1,709,866       | 781,227                 | 2,491,093    | 3,877          | 2,494,970  |
| <b>EXPENDITURES</b>  |                 |                         |              |                |  |
| Service operations:  |                 |                         |              |                |  |
| Insurance  | 121,855         | -                       | 121,855      | -              | 121,855  |
| Professional fees  | 61,151          | 10,814                  | 71,965       | -              | 71,965   |
| Salaries   | 725,883         | -                       | 725,883      | 6,341          | 732,224  |
| Contracted services  | 36,818          | 13,501                  | 50,319       | -              | 50,319   |
| Water purchase   | 5,571           | -                       | 5,571        | -              | 5,571  |
| Utilities  | 150,813         | -                       | 150,813      | -              | 150,813  |
| Materials and supplies                                       | 241,729         | -                       | 241,729      | -              | 241,729  |
| Other expenditures   | 54,117          | 186,773                 | 240,890      | -              | 240,890  |
| Capital outlay   | 1,244,132       | -                       | 1,244,132    | (1,244,132)    | -  |
| Debt service   |                 |                         |              |                |  |
| Principal  | -               | 363,000                 | 363,000      | (363,000)      | -  |
| Interest   | -               | 183,463                 | 183,463      | (4,933)        | 178,530  |
| Bond issuance costs  | -               | -                       | -            | -              | -  |
| Pension expense  | 61,045          | -                       | 61,045       | (20,228)       | 40,817   |
| Depreciation   | -               | -                       | -            | 592,728        | 592,728  |
| Total expenditures   | 2,703,114       | 757,551                 | 3,460,665    | (1,033,224)    | 2,427,441  |
| Excess (deficiency) of revenues<br>over (under) expenditures | (993,248)       | 23,676                  | (969,572)    | 1,037,101      | 67,529   |
| sources over (under) expenditures                            | (993,248)       | 23,676                  | (969,572)    | 1,037,101      | 67,529   |
| <b>FUND BALANCE/ NET POSITION</b>                            |                 |                         |              |                |  |
| Beginning of year  | 4,698,204       | 440,401                 | 5,138,605    | (2,485,883)    | 2,652,722  |
| End of year  | \$ 3,704,956    | \$ 464,077              | \$ 4,169,033 | \$ (1,448,782) | \$ 2,720,251   |

*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, 2020*

---

|   |              |
|---|--------------|
| Net change in fund balance - total governmental funds | \$ (969,572) |
|---|--------------|

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

|   |         |
|---|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$592,728 exceeded capital outlay of \$1,244,132 in the current period. | 651,404 |
|---|---------|

|  |       |
|--|-------|
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | 3,877 |
|--|-------|

|  |         |
|--|---------|
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. | 363,000 |
|--|---------|

|  |       |
|--|-------|
| 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. | 6,341 |
|--|-------|

|   |       |
|---|-------|
| Premium and loss amortized on bond issuances. | 4,933 |
|---|-------|

|   |       |
|---|-------|
| GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of December 31, 2019 caused the change in the ending net position to increase in the amount of \$46,666. 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 (\$46,438) net pension expense had to be recorded. The net pension expense increased the change in net position by \$7,318. The result of these changes is to increase the change in net position by \$7,546. | 7,546 |
|---|-------|

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|                            |           |
|----------------------------|-----------|
| Net change in net position | \$ 67,529 |
|----------------------------|-----------|

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*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, 2020, expenditures exceeded appropriations in capital outlay expenditures (the legal level of budgetary control) of the General Fund by \$1,184,132. In addition, water purchases, material and supplies, pension expense, professional fees and other expenditures actual amounts exceeded budgeted amounts by a total of \$97,875. Total actual expenditures exceeded budgeted appropriations by \$1,257,371. 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 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<br/>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, January 18, 2021 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*

In fiscal year 2020, the District implemented GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this statement was to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The Statement extended the effective dates of certain accounting and financial reporting provisions in statements that were first effective for reporting periods beginning after June 15, 2018.

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, 2020, the carrying amount of the District's deposits (cash, and interest bearing savings accounts included in temporary investments) was \$295,441 and the bank balance was \$308,050. In addition to these cash and cash equivalents the District maintains \$3,826,297 in government investment pools. The District's cash deposits at September 30, 2020 and during the year ended September 30, 2020 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, 2020 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.

## 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 \$1,117,290 and \$1,446,751 for IBC and LSNB, respectively.
- c. The highest combined balances of cash deposit accounts amounted to \$433,416 and occurred during the month of August 2020 at IBC. The highest combined balances of cash deposit accounts amounted to \$714,363 and occurred during the month of January 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          | \$ 361,548         | N/A             | Daily       |
| TexSTAR            | N/A          | <u>3,464,749</u>   | N/A             | Daily       |
|                    |              | <u>\$3,826,297</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<br/>Legal Rating</u> | <u>Amount</u>      | <u>Rating</u> | <u>Percentage</u> |
|--------------------|---------------------------------|--------------------|---------------|-------------------|
| TexPool            | AAAm                            | \$ 361,548         | AAAm          | 7%                |
| TexSTAR            | AAAm                            | <u>3,464,749</u>   | AAAm          | <u>93%</u>        |
|                    |                                 | <u>\$3,826,297</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, 2020, 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, 2020, 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, 2020 for property taxes was \$17,481 and \$1,748, respectively for the General Fund. The accounts receivable and allowance for uncollectible accounts at September 30, 2020 for property taxes was \$44,264 and \$4,426, respectively for the Debt Service Fund.

During the year ended September 30, 2020, 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 \$1,077,508 on the taxable valuation of \$307,859,119 for the year ended September 30, 2020. 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<br>Taxes | Debt<br>Service<br>Taxes | Totals<br>(Memorandum<br>Only) |
|---------------------------------------|----------------------|--------------------------|--------------------------------|
| Taxes receivable at beginning of year | \$ 16,116            | \$ 40,874                | \$ 56,990                      |
| 2019 original tax roll                | 307,859              | 769,648                  | 1,077,507                      |
| Tax roll adjustments                  | 608                  | 1,555                    | 2,163                          |
| <b>Total to be accounted for</b>      | <b>324,583</b>       | <b>812,077</b>           | <b>1,136,660</b>               |
| Current year tax collections          | 301,988              | 754,970                  | 1,056,958                      |
| Prior year tax collections            | 5,131                | 12,845                   | 17,976                         |
| <b>Total tax collections</b>          | <b>307,119</b>       | <b>767,815</b>           | <b>1,074,934</b>               |
| <b>Taxes receivable, end of year</b>  | <b>\$ 17,464</b>     | <b>\$ 44,262</b>         | <b>\$ 61,726</b>               |
| Taxes receivable, by years            |                      |                          |                                |
| 2004 and prior                        | \$ 57                | \$ 58                    | \$ 115                         |
| 2005                                  | 185                  | 519                      | 704                            |
| 2006                                  | 148                  | 415                      | 563                            |
| 2007                                  | 188                  | 526                      | 714                            |
| 2008                                  | 223                  | 623                      | 846                            |
| 2009                                  | 293                  | 792                      | 1,085                          |
| 2010                                  | 342                  | 923                      | 1,265                          |
| 2011                                  | 628                  | 1,695                    | 2,323                          |
| 2012                                  | 417                  | 1,126                    | 1,543                          |
| 2013                                  | 417                  | 1,127                    | 1,544                          |
| 2014                                  | 424                  | 1,060                    | 1,484                          |
| 2015                                  | 791                  | 1,978                    | 2,769                          |
| 2016                                  | 1,315                | 3,288                    | 4,603                          |
| 2017                                  | 1,802                | 4,505                    | 6,307                          |
| 2018                                  | 4,220                | 10,551                   | 14,771                         |
| 2019                                  | 6,031                | 15,078                   | 21,109                         |
|                                       | 17,481               | 44,264                   | 61,745                         |
| Allowance for uncollectible           | (1,748)              | (4,426)                  | (6,174)                        |
| <b>Taxes receivable, end of year</b>  | <b>\$ 15,733</b>     | <b>\$ 39,838</b>         | <b>\$ 55,571</b>               |

## 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, 2020:

|  | October 1,<br>2019 | Additions  | Deletions | Transfers | September 30,<br>2020 |
|--|--------------------|------------|-----------|-----------|-----------------------|
| <b>Capital assets, not being depreciated</b> |                    |            |           |           |                       |
| Water rights                                 | \$ 121,215         | \$ -       | \$ -      | \$ -      | \$ 121,215            |
| Land (Birding Center)                        | 10,000             | -          | -         | -         | 10,000                |
| Construction in progress                     | 1,264,080          | 1,164,512  | -         | -         | 2,428,592             |
| Total capital assets, not being depreciated  | 1,395,295          | 1,164,512  | -         | -         | 2,559,807             |
| <b>Capital assets, being depreciated</b>     |                    |            |           |           |                       |
| Buildings                                    | 317,369            | -          | -         | -         | 317,369               |
| Utility system and improvements              | 16,905,973         | 59,309     | -         | -         | 16,965,282            |
| Automobiles and equipment                    | 719,901            | 20,311     | -         | -         | 740,212               |
|  | 17,943,243         | 79,620     | -         | -         | 18,022,863            |
| <b>Less accumulated depreciation for:</b>    |                    |            |           |           |                       |
| Buildings                                    | (239,274)          | (10,485)   | -         | -         | (249,759)             |
| Utility system and improvements              | (12,198,208)       | (555,719)  | -         | -         | (12,753,927)          |
| Automobiles and equipment                    | (559,948)          | (26,524)   | -         | -         | (586,472)             |
| Total accumulated depreciation               | (12,997,430)       | (592,728)  | -         | -         | (13,590,158)          |
| Total capital assets, being depreciated, net | 4,945,813          | (513,108)  | -         | -         | 4,432,705             |
| Capital assets, net                          | \$ 6,341,108       | \$ 651,404 | \$ -      | \$ -      | \$ 6,992,512          |

#### **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 1<sup>st</sup> of each year. The certificates mature on February 15, 2048.

#### *Refunding*

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

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and related liabilities for the defeased bonds are not included in the District's financial statements. At September 30, 2020, the following outstanding bonds are considered defeased:

| <u>Series</u> | <u>Ending Balance</u> |
|---------------|-----------------------|
| 2001          | \$1,035,000           |
| 2004          | \$1,270,000           |
| 2006          | \$1,350,000           |

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, 2020, \$8,403,000 of the bonds remains outstanding. The following is a schedule of bonds outstanding at September 30, 2020:

| Description   | Interest   |               | Bonds Outstanding<br>September 30, 2020 |
|---|------------|---------------|---|
|   | Rates      | Dates Payable |   |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2011  | 2.50-4.25% | 08/15; 02/15  | \$905,000                               |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2013  | 2.35%      | 08/15; 02/15  | 1,060,000                               |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2017  | 2.47%      | 08/15; 02/15  | 1,213,000                               |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018A | 0.59-1.82% | 08/15; 02/15  | 3,730,000                               |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018B | 0.89-2.12% | 08/15; 02/15  | 1,495,000                               |
|   |            |               | \$8,403,000                             |

**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<br>September 30, | Principal           | Interest            | Total<br>Annual<br>Requirements |
|------------------------------|---------------------|---------------------|---------------------------------|
| 2021                         | \$ 432,000          | \$ 173,018          | \$ 605,018                      |
| 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                         |
| 2026-2030                    | 2,024,000           | 451,662             | 2,475,662                       |
| 2031-2035                    | 1,130,000           | 319,927             | 1,449,927                       |
| 2036-2040                    | 1,175,000           | 219,795             | 1,394,795                       |
| 2041-2045                    | 1,095,000           | 118,118             | 1,213,118                       |
| 2046-2048                    | 705,000             | 20,181              | 725,181                         |
|                              | <b>\$ 8,403,000</b> | <b>\$ 1,873,465</b> | <b>\$ 10,276,465</b>            |

***Changes in Long-Term Liabilities***

Long-term liability activity for the year ended September 30, 2020, was as follows for governmental activities:

| Description   | Balance<br>October 1,<br>0 | Additions   | Retirements       | Balance<br>September 30,<br>2020 | Amount<br>Due<br>Within<br>One Year |
|---|----------------------------|-------------|-------------------|----------------------------------|-------------------------------------|
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2011  | \$ 1,035,000               | \$ -        | \$ 130,000        | \$ 905,000                       | \$ 135,000                          |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2013  | 1,215,000                  | -           | 155,000           | 1,060,000                        | 160,000                             |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2017  | 1,291,000                  | -           | 78,000            | 1,213,000                        | 77,000                              |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018A | 3,730,000                  | -           | -                 | 3,730,000                        | 40,000                              |
| Waterworks and sewer system combination unlimited tax and revenue bonds, Series 2018B | 1,495,000                  | -           | -                 | 1,495,000                        | 20,000                              |
|   | 8,766,000                  | -           | 363,000           | 8,403,000                        | 432,000                             |
| Premium on issuance of bonds  | 50,532                     | -           | 7,191             | 43,341                           | -                                   |
| <b>Total long-term debt</b>   | <b>\$ 8,816,532</b>        | <b>\$ -</b> | <b>\$ 370,191</b> | <b>\$ 8,446,341</b>              | <b>\$ 432,000</b>                   |



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

**NOTE 2: DETAILED NOTES ON ALL FUNDS (Continued)**

***Other Long-Term Liabilities***

|                         | Balance<br>October 1,<br>2019 | Additions | Retirements | Balance<br>September 30,<br>2020 | Amount<br>Due<br>Within<br>One Year |
|-------------------------|-------------------------------|-----------|-------------|----------------------------------|-------------------------------------|
| Governmental Activities |                               |           |             |                                  |                                     |
| Compensated absences    | \$ 19,899                     | \$ 33,837 | \$ 27,495   | \$ 26,241                        | \$ 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 | \$ 6,992,512     |
| Less related liabilities (bonds)                | (8,472,391)      |
| Restricted cash (unexpended bond proceeds)      | 2,805,436        |
| <u>Net investment in capital assets - total</u> | <u>1,325,557</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 9.19% for the months of the accounting years in 2019 and 2018, respectively. The deposit rate payable by the employee members was 7% and 7% for calendar years 2019 and 2018, 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, 2019 valuation was as follows:

|  | <b>Number of<br/>Employees</b> |
|--|--------------------------------|
| Inactive employees or beneficiaries currently receiving benefits | 7                              |
| Inactive employees entitled to but not yet receiving benefits    | 2                              |
| Active employees   | 15                             |
| Total  | 24                             |

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

### NOTE 3: RETIREMENT PLANS (Continued)

#### **Net Pension Liability**

|  | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Total pension liability                                  | 1,307,355         | 1,134,350         |
| Fiduciary net position                                   | 1,224,150         | 979,667           |
| Net pension liability                                    | 83,205            | 154,683           |
| Fiduciary net position as a % of total pension liability | 93.64%            | 86.36%            |
| Pensionable covered payroll*                             | 661,780           | 642,845           |
| Net pension liability as % of covered payroll            | 12.57%            | 24.06%            |

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

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

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

#### **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 2019 information for a 10 year time horizon.

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

## 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 <sup>(1)</sup> | Geometric Real Rate of Return <sup>(2)</sup> |
|------------------------------------|--|----------------------------------|--|
| U.S. Equities                      | Dow Jones U.S. Total Stock Market Index  | 14.50%                           | 5.20%  |
| Private Equity                     | Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>  | 20.00%                           | 8.20%  |
| Global Equities                    | MSCI World (net) Index   | 2.50%                            | 5.50%  |
| Int'l Equities - Developed Markets | MSCI World Ex USA (net)  | 7.00%                            | 5.20%  |
| Int'l Equities - Emerging Markets  | MSCI EM Standard (net) Index   | 7.00%                            | 5.70%  |
| Investment-Grade Bonds             | Bloomberg Barclays U.S. Aggregate Bond Index                                       | 3.00%                            | -0.20%                                       |
| Strategic Credit                   | FTSE High-Yield Cash-Pay Capped Index  | 12.00%                           | 3.14%  |
| Direct Lending                     | S&P/LSTA Leveraged Loan Index  | 11.00%                           | 7.16%  |
| Distressed Debt                    | Cambridge Associates Distressed Securities Index <sup>(4)</sup>                    | 4.00%                            | 6.90%  |
| REIT Equities                      | 67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index | 3.00%                            | 4.50%  |
| Master Limited Partnerships (MLPs) | Alerian MLP Index  | 2.00%                            | 8.40%  |
| Private Real Estate Partnerships   | Cambridge Associates Real Estate Index <sup>(5)</sup>                              | 6.00%                            | 5.50%  |
| Hedge Funds                        | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index                     | 8.00%                            | 2.30%  |

<sup>(1)</sup> Target asset allocation adopted at the June 2020 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80%, per Cliffwater's 2020 capital market assumptions.

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

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

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

#### 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<br>Liability (a) | Fiduciary Net<br>Position (b) | Net Pension<br>Liability (a-b) |
|--|--------------------------------|-------------------------------|--------------------------------|
| Balances as of December 31, 2018                   | \$ 1,134,350                   | \$ 979,667                    | \$ 154,683                     |
| Changes for the year:                              |                                |                               | -                              |
| Service cost                                       | 71,110                         | -                             | 71,110                         |
| Interest on total pension liability <sup>(1)</sup> | 96,630                         | -                             | 96,630                         |
| Effect of plan changes <sup>(2)</sup>              | -                              | -                             | -                              |
| Effect of economic/demographic gains or losses     | 30,755                         | -                             | 30,755                         |
| Effect of assumptions changes in inputs            | -                              | -                             | -                              |
| Refund of contributions                            | -                              | -                             | -                              |
| Benefit payments                                   | (25,490)                       | (25,490)                      | -                              |
| Administrative expenses                            | -                              | (933)                         | 933                            |
| Member contributions                               | -                              | 46,325                        | (46,325)                       |
| Net investment income                              | -                              | 160,798                       | (160,798)                      |
| Employer contributions                             | -                              | 60,818                        | (60,818)                       |
| Other <sup>(3)</sup>                               | -                              | 2,965                         | (2,965)                        |
| Balances as of December 31, 2019                   | \$ 1,307,355                   | \$ 1,224,150                  | \$ 83,205                      |

(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<br>October 1,<br>2019 | Additions | Retirements | Balance<br>September 30,<br>2020 |
|-----------------------|-------------------------------|-----------|-------------|----------------------------------|
| Net Pension Liability | 154,683                       | 199,429   | 270,907     | 83,205                           |

## 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%<br>Decrease<br>7.10% | Current<br>Discount<br>Rate<br>8.10% | 1%<br>Increase<br>9.10% |
|-------------------------------|-------------------------|--------------------------------------|-------------------------|
| Total pension liability       | \$ 1,500,135            | \$ 1,307,355                         | \$ 1,146,211            |
| Fiduciary net position        | 1,224,150               | 1,224,150                            | 1,224,150               |
| Net pension liability/(asset) | \$ 275,985              | \$ 83,205                            | \$ (77,939)             |

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

|   | January 1, 2019 to<br>December 31, 2019 |
|---|---|
| Service cost  | \$ 71,111                               |
| Interest on total pension liability <sup>(1)</sup>    | 96,630                                  |
| Effect of plan changes                                | -                                       |
| Administrative expenses                               | 933                                     |
| Member contributions                                  | (46,325)                                |
| Expected investment return net of investment expenses | (82,676)                                |
| Recognition of deferred inflows/outflows of resources |   |
| Recognition of economic/demographic gains or losses   | (2,418)                                 |
| Recognition of assumption changes or inputs           | 2,083                                   |
| Recognition of investment gains or losses             | 4,445                                   |
| Other <sup>(2)</sup>                                  | (2,966)                                 |
| <b>Pension expense/(income)</b>                       | <b>\$ 40,817</b>                        |

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

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

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

**NOTE 3: RETIREMENT PLANS (Continued)**

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

As of December 31, 2019, the deferred inflows and outflows of resources are as follows:

|  | Deferred Inflows<br>of Resources | Deferred Outflows<br>of Resources |
|--|----------------------------------|-----------------------------------|
| Differences between expected and actual experience   | \$ 35,102                        | \$ 45,464                         |
| Changes of assumptions                               | -                                | 6,638                             |
| Net difference between projected and actual earnings | 23,139                           | -                                 |
| Contributions made subsequent to measurement date    | N/A                              | 46,666                            |
| <b>Total Deferred Inflows/Outflows of Resources</b>  | <b>\$ 58,241</b>                 | <b>\$ 98,768</b>                  |

\$46,666 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:   |            |
|---------------------------|------------|
| 2020                      | \$ (5,139) |
| 2021                      | (9,828)    |
| 2022                      | 10,748     |
| 2023                      | (10,707)   |
| 2023                      | 4,394      |
| Thereafter <sup>(4)</sup> | 4,391      |

<sup>(4)</sup> Total remaining balance to be recognized in future years, if any. Note that additional future deferred inflows and outflows of resources may impact these numbers.



## 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<br>Amount | Date<br>Established | Original<br>Recognition<br>Period <sup>(1)</sup> | Amount<br>Recognized<br>in<br>12/31/2019<br>Expense <sup>(1)</sup> | Balance<br>Deferred<br>Inflows<br>12/31/2019 | Balance<br>Deferred<br>Outflows<br>12/31/2019 |
|--|--------------------|---------------------|--|--|--|---|
| Investment (gains) or losses                                     | \$ (78,122)        | 12/31/2019          | 5  | \$ (15,624)  | \$ 62,498                                    | \$ -  |
|  | 95,670             | 12/31/2018          | 5  | 19,134   | -  | 57,402  |
|  | (48,643)           | 12/31/2017          | 5  | (9,729)  | 19,457                                       | -   |
|  | 7,073              | 12/31/2016          | 5  | 1,415  | -  | 1,414   |
|  | 46,245             | 12/31/2015          | 5  | 9,249  | -  | -   |
|  | 8,473              | 12/31/2014          | 5  | -  | -  | -   |
| Economic/demographic<br>(gains) or losses                        | 30,755             | 12/31/2019          | 7  | 4,394  | -  | 26,361  |
|  | (17,573)           | 12/31/2018          | 6  | (2,929)  | 11,715                                       | -   |
|  | 15,521             | 12/31/2017          | 7  | 2,217  | -  | 8,869   |
|  | 16,233             | 12/31/2016          | 7  | 2,319  | -  | 6,957   |
|  | (81,847)           | 12/31/2015          | 7  | (11,692)   | 23,386                                       | -   |
|  | 22,914             | 12/31/2014          | 7  | 3,273  | -  | 3,274   |
| Assumption changes or inputs                                     | -                  | 12/31/2019          | 7  | -  | -  | -   |
|  | -                  | 12/31/2018          | 6  | -  | -  | -   |
|  | 8,657              | 12/31/2017          | 7  | 1,237  | -  | 4,946   |
|  | -                  | 12/31/2016          | 7  | -  | -  | -   |
|  | 5,922              | 12/31/2015          | 7  | 846  | -  | 1,692   |
|  | -                  | 12/31/2014          | 7  | -  | -  | -   |
| Employer contributions made<br>subsequent to measurement<br>date | 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  |

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

#### 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, 2020, the District's other employee benefit costs totaled \$70,554.

#### 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, 2020, 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 \$102,272, debt service expenditures totaled \$57,098 and capital expenditures totaled \$13,805.

## 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 – professional fees, water purchases, 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<br>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, 2020*

| <b>REVENUES</b>  | Original<br>Budget  | Final<br>Amended<br>Budget | Actual              | Variance<br>Positive<br>(Negative) |
|--|---------------------|----------------------------|---------------------|------------------------------------|
| Maintenance service property tax                                 | \$ 307,000          | \$ 307,000                 | 306,697             | \$ (303)                           |
| Raw water and flat rate  | 60,223              | 60,223                     | 68,694              | 8,471                              |
| Water and sewer service fees                                     | 1,125,000           | 1,125,000                  | 1,208,297           | 83,297                             |
| Penalty and interest   | 14,000              | 14,000                     | 20,609              | 6,609                              |
| Other revenues   | 40,500              | 40,500                     | 83,969              | 43,469                             |
| Tap fees   | 16,500              | 16,500                     | 21,600              | 5,100                              |
| <b>Total revenues</b>  | <b>1,563,223</b>    | <b>1,563,223</b>           | <b>1,709,866</b>    | <b>146,643</b>                     |
| <b>EXPENDITURES</b>  |                     |                            |                     |                                    |
| Current  |                     |                            |                     |                                    |
| Insurance  | 122,400             | 122,400                    | 121,855             | 545                                |
| Professional fees  | 32,700              | 32,700                     | 61,151              | (28,451)                           |
| Salaries   | 730,497             | 730,497                    | 725,883             | 4,614                              |
| Contracted services  | 48,370              | 48,370                     | 36,818              | 11,552                             |
| Water purchases  | -                   | -                          | 5,571               | (5,571)                            |
| Utilities  | 153,100             | 153,100                    | 150,813             | 2,287                              |
| Material and supplies  | 178,586             | 178,586                    | 241,729             | (63,143)                           |
| Pension expense  | 60,335              | 60,335                     | 61,045              | (710)                              |
| Capital outlay   | 60,000              | 60,000                     | 1,244,132           | (1,184,132)                        |
| Other expenditures   | 59,755              | 59,755                     | 54,117              | 5,638                              |
| <b>Total expenditures</b>  | <b>1,445,743</b>    | <b>1,445,743</b>           | <b>2,703,114</b>    | <b>(1,257,371)</b>                 |
| <b>Excess (deficiency) of revenues over (under) expenditures</b> | <b>117,480</b>      | <b>117,480</b>             | <b>(993,248)</b>    | <b>(1,110,728)</b>                 |
| Fund balance, beginning of year                                  | 5,716,801           | 5,716,801                  | 4,698,204           | (1,018,597)                        |
| <b>Fund balance, end of year</b>                                 | <b>\$ 5,834,281</b> | <b>\$ 5,834,281</b>        | <b>\$ 3,704,956</b> | <b>\$ (2,129,325)</b>              |

## Valley Municipal Utility District No. 2

### Notes to Required Supplementary Information

#### Stewardship, compliance, and accountability

##### Budgetary information

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

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

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

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

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

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

##### Expenditures Over Appropriations

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

|                       | Budget    | Actual    | Variance    |
|-----------------------|-----------|-----------|-------------|
| Professional fees     | \$ 32,700 | \$ 61,151 | \$ (28,451) |
| Water purchases       | -         | 5,571     | (5,571)     |
| Material and supplies | 178,586   | 241,729   | (63,143)    |
| Pension expense       | 60,335    | 61,045    | (710)       |
| Capital outlay        | 60,000    | 1,244,132 | (1,184,132) |

Valley Municipal Utility District No. 2  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
September 30, 2020

|   | Year Ended December 31, |                     |                     |                   |                   |                   |            |            |            |            |
|---|-------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|------------|------------|------------|------------|
|   | 2019                    | 2018                | 2017                | 2016              | 2015              | 2014              | 2013       | 2012       | 2011       | 2010       |
| <b>Total Pension Liability</b>                                  |                         |                     |                     |                   |                   |                   |            |            |            |            |
| Service cost  | \$ 71,111               | \$ 70,884           | \$ 61,529           | \$ 52,183         | \$ 47,884         | \$ 46,087         | N/A        | N/A        | N/A        | N/A        |
| Interest on total pension liability                             | 96,630                  | 88,410              | 72,656              | 59,938            | 58,767            | 51,373            | N/A        | N/A        | N/A        | N/A        |
| Effect of plan changes  | -                       | -                   | 66,666              | 35,721            | (11,425)          | -                 | N/A        | N/A        | N/A        | N/A        |
| Effect of assumption changes or inputs                          | -                       | -                   | 8,657               | -                 | 5,922             | -                 | N/A        | N/A        | N/A        | N/A        |
| Effect of economic/demographic (gains) or losses                | 30,755                  | (17,573)            | 15,521              | 16,233            | (81,847)          | 22,914            | N/A        | N/A        | N/A        | N/A        |
| Benefit payments/refunds of contributions                       | (25,490)                | (54,871)            | (25,490)            | (25,490)          | (28,771)          | (25,825)          | N/A        | N/A        | N/A        | N/A        |
| <b>Net change in total pension liability</b>                    | <b>173,006</b>          | <b>86,850</b>       | <b>199,539</b>      | <b>138,585</b>    | <b>(9,470)</b>    | <b>94,549</b>     | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Total pension liability, beginning</b>                       | <b>1,134,349</b>        | <b>1,047,499</b>    | <b>847,960</b>      | <b>709,375</b>    | <b>718,845</b>    | <b>624,296</b>    | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Total pension liability, ending (a)</b>                      | <b>\$ 1,307,355</b>     | <b>\$ 1,134,349</b> | <b>\$ 1,047,499</b> | <b>\$ 847,960</b> | <b>\$ 709,375</b> | <b>\$ 718,845</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Fiduciary Net Position</b>                                   |                         |                     |                     |                   |                   |                   |            |            |            |            |
| Employer contributions  | \$ 60,818               | \$ 60,299           | \$ 42,072           | \$ 30,334         | \$ 29,466         | \$ 30,423         | N/A        | N/A        | N/A        | N/A        |
| Member contributions  | 46,325                  | 44,999              | 44,220              | 41,717            | 41,038            | 39,437            | N/A        | N/A        | N/A        | N/A        |
| Investment income net of investment expenses                    | 160,798                 | (17,051)            | 113,515             | 49,830            | 7,427             | 38,549            | N/A        | N/A        | N/A        | N/A        |
| Benefit payments/refunds of contributions                       | (25,490)                | (54,871)            | (25,490)            | (25,490)          | (28,771)          | (25,825)          | N/A        | N/A        | N/A        | N/A        |
| Administrative expenses   | (933)                   | (787)               | (629)               | (554)             | (478)             | (459)             | N/A        | N/A        | N/A        | N/A        |
| Other   | 2,966                   | 1,597               | 807                 | (9,421)           | (1,189)           | 2,876             | N/A        | N/A        | N/A        | N/A        |
| <b>Net change in fiduciary net position</b>                     | <b>244,484</b>          | <b>34,186</b>       | <b>174,495</b>      | <b>86,416</b>     | <b>47,493</b>     | <b>85,001</b>     | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Fiduciary net position, beginning</b>                        | <b>979,666</b>          | <b>945,480</b>      | <b>770,985</b>      | <b>684,569</b>    | <b>637,076</b>    | <b>552,075</b>    | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Fiduciary net position, ending (b)</b>                       | <b>\$ 1,224,150</b>     | <b>\$ 979,666</b>   | <b>\$ 945,480</b>   | <b>\$ 770,985</b> | <b>\$ 684,569</b> | <b>\$ 637,076</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Net pension liability / (asset), ending = (a) - (b)</b>      | <b>\$ 83,205</b>        | <b>\$ 154,683</b>   | <b>\$ 102,019</b>   | <b>\$ 76,975</b>  | <b>\$ 24,806</b>  | <b>\$ 81,769</b>  | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Fiduciary net position as a % of total pension liability</b> | <b>93.64%</b>           | <b>86.36%</b>       | <b>90.26%</b>       | <b>90.92%</b>     | <b>96.50%</b>     | <b>88.62%</b>     | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Pensionable covered payroll</b>                              | <b>\$ 661,780</b>       | <b>\$ 642,845</b>   | <b>\$ 631,709</b>   | <b>\$ 595,953</b> | <b>\$ 592,333</b> | <b>\$ 563,383</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |
| <b>Net pension liability as a % of covered payroll</b>          | <b>12.57%</b>           | <b>24.06%</b>       | <b>16.15%</b>       | <b>12.92%</b>     | <b>4.19%</b>      | <b>14.51%</b>     | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> | <b>N/A</b> |



Valley Municipal Utility District No. 2  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
September 30, 2020

| Year<br>Ending<br>December 31 | Actuarially<br>Determined<br>Contribution <sup>(1)</sup> | Actual<br>Employer<br>Contribution <sup>(1)</sup> | Contribution<br>Deficiency<br>(Excess) | Pensionable<br>Covered<br>Payroll <sup>(2)</sup> | Actual Contribution<br>as a % of Covered<br>Payroll |
|-------------------------------|--|---|--|--|---|
| 2010                          | 14,362   | 14,362  | -                                      | 469,351  | 3.1%  |
| 2011                          | 14,272   | 14,272  | -                                      | 466,423  | 3.1%  |
| 2012                          | 25,857   | 25,857  | -                                      | 464,224  | 5.6%  |
| 2013                          | 27,785   | 27,785  | -                                      | 502,438  | 5.5%  |
| 2014                          | 30,366   | 30,423  | (57)                                   | 563,383  | 5.4%  |
| 2015                          | 29,466   | 29,466  | -                                      | 592,333  | 5.0%  |
| 2016                          | 30,334   | 30,334  | -                                      | 595,953  | 5.1%  |
| 2017                          | 42,072   | 42,072  | -                                      | 631,709  | 6.7%  |
| 2018                          | 60,299   | 60,299  | -                                      | 642,845  | 9.4%  |
| 2019                          | 60,818   | 60,818  | -                                      | 661,780  | 9.2%  |

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

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

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

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

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

|                               |   |
|-------------------------------|---|
| Actuarial Cost Method         | Entry age   |
| Amortization Method           | Level percentage of payroll, closed   |
| Remaining Amortization Period | 10.7 years (based on contribution rate calculated in 12/31/2019 valuation)  |
| Asset Valuation Method        | 5-yr smoothed market  |
| Inflation                     | 2.75%   |
| Salary Increases              | Varies by age and service. 4.9% average over career including inflation.  |
| Investment Rate of Return     | 8.0%, net of investment expenses, including inflation.  |
| Retirement Age                | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.                         |
| Mortality                     | 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):**

|        | <u>Minimum Charge</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1000 Gallons</u> | <u>Usage Levels</u> |
|--------|-----------------------|----------------------|------------------------------|---------------------|
| 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>259</u>               | <u>259</u>                | x1.0               | <u>259</u>          |
| <3/4"             | <u>1,242</u>             | <u>1,222</u>              | x1.0               | <u>1,222</u>        |
| 1"                | <u>53</u>                | <u>53</u>                 | x2.5               | <u>132.5</u>        |
| 1 1/2"            | <u>0</u>                 | <u>0</u>                  | x5.0               | <u>0</u>            |
| 2"                | <u>20</u>                | <u>20</u>                 | x8.0               | <u>160</u>          |
| Total Water       | <u>1,574</u>             | <u>1,554</u>              |                    | <u>1,778.5</u>      |
| Total Wastewater  | <u>1,574</u>             | <u>1,554</u>              |                    | <u>1,778.5</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: 173,922,050                      Water Accountability Ratio\*:  
(Gallons billed / Gallons distributed)

Gallons billed to customers: 154,326,000                      88.73%

\*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) | \$ 786,928   |
| Professional fees:                          |              |
| Auditing                                    | 10,813       |
| Legal                                       | 8,462        |
| Computer service                            | 6,951        |
| Lab and inspection                          | 34,925       |
|   | 61,151       |
| Contracted services                         | 36,818       |
| Utilities                                   | 150,813      |
| Water purchase                              | 5,571        |
| Materials and supplies                      | 237,203      |
| Administrative expenditures:                |              |
| Insurance                                   | 121,855      |
| Office supplies                             | 4,526        |
| Miscellaneous administrative expenses       | 50,092       |
| Other expenditures                          | 4,025        |
| Capital outlay:                             |              |
| Capitalized assets                          | 1,244,132    |
|   | 1,244,132    |
| Total expenditures                          | \$ 2,703,114 |

Number of persons employed by the District: 15 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<br/>or Certificate<br/>Number</u> | <u>Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> | <u>Balance<br/>at End<br/>of Year</u> | <u>Accumulated<br/>Interest<br/>Receivable<br/>at End<br/>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, 2020*

|                                       | Maintenance<br>Taxes | Debt<br>Service<br>Taxes | Totals<br>(Memorandum<br>Only) |
|---------------------------------------|----------------------|--------------------------|--------------------------------|
| Taxes receivable at beginning of year | \$ 16,116            | \$ 40,874                | \$ 56,990                      |
| 2019 original tax roll                | 307,859              | 769,648                  | 1,077,507                      |
| Tax roll adjustments                  | 608                  | 1,555                    | 2,163                          |
| Total to be accounted for             | 324,583              | 812,077                  | 1,136,660                      |
| Current year tax collections          | 301,988              | 754,970                  | 1,056,958                      |
| Prior year tax collections            | 5,131                | 12,845                   | 17,976                         |
| Total tax collections                 | 307,119              | 767,815                  | 1,074,934                      |
| Taxes receivable, end of year         | \$ 17,464            | \$ 44,262                | \$ 61,726                      |

### Taxes receivable, by years

|                               |           |           |           |
|-------------------------------|-----------|-----------|-----------|
| 2004 and prior                | \$ 57     | \$ 58     | \$ 115    |
| 2005                          | 185       | 519       | 704       |
| 2006                          | 148       | 415       | 563       |
| 2007                          | 188       | 526       | 714       |
| 2008                          | 223       | 623       | 846       |
| 2009                          | 293       | 792       | 1,085     |
| 2010                          | 342       | 923       | 1,265     |
| 2011                          | 628       | 1,695     | 2,323     |
| 2012                          | 417       | 1,126     | 1,543     |
| 2013                          | 417       | 1,127     | 1,544     |
| 2014                          | 424       | 1,060     | 1,484     |
| 2015                          | 791       | 1,978     | 2,769     |
| 2016                          | 1,315     | 3,288     | 4,603     |
| 2017                          | 1,802     | 4,505     | 6,307     |
| 2018                          | 4,220     | 10,551    | 14,771    |
| 2019                          | 6,031     | 15,078    | 21,109    |
|                               | 17,481    | 44,264    | 61,745    |
| Allowance for uncollectible   | (1,748)   | (4,426)   | (6,174)   |
| Taxes receivable, end of year | \$ 15,733 | \$ 39,838 | \$ 55,571 |

|                           | 2019           | 2018           | 2017           | 2016           |
|---------------------------|----------------|----------------|----------------|----------------|
| Property valuations       |                |                |                |                |
| Land improvements         | \$ 307,859,119 | \$ 299,902,778 | \$ 290,180,434 | \$ 283,957,759 |
| Total property valuations | \$ 307,859,119 | \$ 299,902,778 | \$ 290,180,434 | \$ 283,957,759 |

### 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:                            | \$ 1,077,507 | \$ 1,049,660 | \$ 1,015,632 | \$ 993,853 |
| Percent of taxes collected to<br>levied taxes | 99.76%       | 97.73%       | 98.08%       | 97.77%     |

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

| Due<br>During<br>Fiscal<br>Years | Series 2011       |                   |                     | Series 2013         |                  |                     |
|----------------------------------|-------------------|-------------------|---------------------|---------------------|------------------|---------------------|
|                                  | Principal Due     | Interest Due      |                     | Principal Due       | Interest Due     |                     |
|                                  | 2-15              | 8-15, 2-15        | Total               | 2-15                | 8-15, 2-15       | Total               |
| Ending                           |                   |                   |                     |                     |                  |                     |
| 2021                             | \$ 135,000        | \$ 34,326         | \$ 169,326          | \$ 160,000          | \$ 23,030        | \$ 183,030          |
| 2022                             | 140,000           | 28,826            | 168,826             | 165,000             | 19,211           | 184,211             |
| 2023                             | 145,000           | 23,126            | 168,126             | 175,000             | 15,216           | 190,216             |
| 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             |
| <b>Totals</b>                    | <b>\$ 905,000</b> | <b>\$ 117,643</b> | <b>\$ 1,022,643</b> | <b>\$ 1,060,000</b> | <b>\$ 77,549</b> | <b>\$ 1,137,549</b> |

| Due<br>During<br>Fiscal<br>Years | Series 2017         |                   |                     | Series 2018A        |                     |                     |
|----------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
|                                  | Principal Due       | Interest Due      |                     | Principal Due       | Interest Due        |                     |
|                                  | 2-15                | 8-15, 2-15        | Total               | 2-15                | 8-15, 2-15          | Total               |
| Ending                           |                     |                   |                     |                     |                     |                     |
| 2021                             | \$ 77,000           | \$ 29,011         | \$ 106,011          | \$ 40,000           | \$ 58,993           | \$ 98,993           |
| 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           |
| <b>Totals</b>                    | <b>\$ 1,213,000</b> | <b>\$ 174,521</b> | <b>\$ 1,387,521</b> | <b>\$ 3,730,000</b> | <b>\$ 1,041,096</b> | <b>\$ 4,771,096</b> |

| Due<br>During<br>Fiscal<br>Years | Series 2018B        |                   |                     | Annual Requirements for All Series |                          |  |
|----------------------------------|---------------------|-------------------|---------------------|------------------------------------|--------------------------|--|
|                                  | Principal Due       | Interest Due      |                     | Total<br>Principal<br>Due          | Total<br>Interest<br>Due | Total Principal<br>and Interest<br>Due |
|                                  | 2-15                | 8-15, 2-15        | Total               |                                    |                          |  |
| Ending                           |                     |                   |                     |                                    |                          |  |
| 2021                             | \$ 20,000           | \$ 27,658         | \$ 47,658           | \$ 432,000                         | \$ 173,018               | \$ 605,018                             |
| 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                              |
| <b>Totals</b>                    | <b>\$ 1,495,000</b> | <b>\$ 462,656</b> | <b>\$ 1,957,656</b> | <b>\$ 8,403,000</b>                | <b>\$ 1,873,465</b>      | <b>\$ 10,276,465</b>                   |

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

|  | Compensated<br>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                       | \$ 19,899               | \$ 1,035,000 | \$ 1,215,000 | \$ 1,291,000 | \$ 3,730,000 | \$ 1,495,000 | \$ 8,785,899 |
| New debt   | 33,646                  | -            | -            | -            | -            | -            | 33,646       |
| Retirements during the current year                        | 27,304                  | 130,000      | 155,000      | 78,000       | -            | -            | 390,304      |
| Bonds and notes payable outstanding at end of current year | \$ 26,241               | \$ 905,000   | \$ 1,060,000 | \$ 1,213,000 | \$ 3,730,000 | \$ 1,495,000 | \$ 8,429,241 |
| Interest paid during the current year                      |                         | \$ 39,219    | \$ 26,559    | \$ 30,828    | \$ 59,110    | \$ 27,747    | \$ 183,463   |

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<br>Bonds        | Refunding<br>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, 2020: \$474,651

Average annual debt service payments (principal and interest) for remaining term of all debt: \$367,017

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

|  | <u>2020</u>         | <u>%</u>        | <u>2019</u>        | <u>%</u>      |
|--|---------------------|-----------------|--------------------|---------------|
| <b><u>GENERAL FUND REVENUES</u></b>  |                     |                 |                    |               |
| Service revenues and maintenance tax   | \$ 1,583,688        | 92.6            | 1,527,034          | 94.1          |
| Tap connection fees and other  | 67,464              | 3.9             | 52,504             | 3.2           |
| Penalty and interest revenues  | 20,609              | 1.2             | 17,900             | 1.1           |
| Interest on investments  | 38,105              | 2.2             | 118,895            | 7.3           |
| Total general fund revenues  | <u>1,709,866</u>    | <u>100.0</u>    | <u>1,716,333</u>   | <u>105.7</u>  |
| <b><u>GENERAL FUND EXPENDITURES</u></b>  |                     |                 |                    |               |
| Plumbing materials and chemicals   | 241,729             | 14.1            | 235,430            | 14.5          |
| Repairs and maintenance  | 4,025               | 0.2             | 8,471              | 0.5           |
| Professional fees  | 61,151              | 3.6             | 40,902             | 2.5           |
| Office expense and printing  | 28,596              | 1.7             | 25,993             | 1.6           |
| Utilities  | 139,540             | 8.2             | 132,244            | 8.1           |
| Telephone  | 11,273              | 0.7             | 10,841             | 0.7           |
| Insurance  | 121,855             | 7.1             | 123,831            | 7.6           |
| Contracted services  | 36,818              | 2.2             | 49,908             | 3.1           |
| Salaries   | 725,306             | 42.4            | 718,264            | 44.2          |
| Payroll expense  | 61,622              | 3.6             | 60,335             | 3.7           |
| General expense  | -                   | -               | -                  | -             |
| Dues and publications  | 5,496               | 0.3             | 10,262             | 0.6           |
| Taxes, permits and inspections   | 16,000              | 0.9             | 14,809             | 0.9           |
| Capital expenditures   | 1,244,132           | 72.8            | 1,315,098          | 81.0          |
| Water purchase   | 5,571               | 0.3             | 5,571              | 0.3           |
| Bond issuance costs  | -                   | -               | -                  | -             |
| Total general fund expenditures  | <u>2,703,114</u>    | <u>158.1</u>    | <u>2,751,959</u>   | <u>169.5</u>  |
| Excess (deficit) general fund revenue<br>over (under) expenditures                       | (993,248)           | (58.1)          | (1,035,626)        | (63.8)        |
| <b><u>GENERAL FUND OTHER FINANCING SOURCES/USES</u></b>                                  |                     |                 |                    |               |
| Proceeds from debt issuance  | -                   | -               | -                  | -             |
| Total general fund other financing sources/uses  | <u>-</u>            | <u>-</u>        | <u>-</u>           | <u>-</u>      |
| Excess (deficiency) of revenues and other financing<br>sources over (under) expenditures | \$ <u>(993,248)</u> | <u>(58.1) %</u> | <u>(1,035,626)</u> | <u>(63.8)</u> |
| <b><u>DEBT SERVICE FUND REVENUES</u></b>   |                     |                 |                    |               |
| Tax revenues   | \$ 765,750          | 98.0            | 740,447            | 100.0         |
| Penalty and interest   | 10,682              | 1.4             | 9,247              | 1.2           |
| Interest on investments  | 4,795               | 0.6             | 11,645             | 1.6           |
| Total debt service fund revenues   | <u>781,227</u>      | <u>100.0</u>    | <u>761,339</u>     | <u>102.8</u>  |
| <b><u>DEBT SERVICE FUND EXPENDITURES</u></b>   |                     |                 |                    |               |
| Tax collection expenditures  | 211,077             | 27.0            | 209,462            | 28.3          |
| Bond issuance costs  | -                   | -               | -                  | -             |
| Debt service interest and fees   | 183,463             | 23.5            | 205,024            | 27.7          |
| Debt service principal   | 363,000             | 46.5            | 355,000            | 47.9          |
| Total debt service fund expenditures   | <u>757,540</u>      | <u>97.0</u>     | <u>769,486</u>     | <u>103.9</u>  |
| <b><u>DEBT SERVICE FUND OTHER FINANCING SOURCES/USES</u></b>                             |                     |                 |                    |               |
| 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>      |
| Excess (deficit) debt service revenue<br>over (under) expenditures                       | \$ <u>23,687</u>    | <u>3.0 %</u>    | <u>(8,147)</u>     | <u>-1.1</u>   |
| Total active retail water and/or wastewater<br>connections                               | <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 Months<br>Ended<br>2016 | %            |
|------------------|--------------|---------------------|-----------------|----------------------------------|--------------|
| 1,504,740        | 92.7         | \$ 1,481,047        | 92.2            | \$ 1,497,703                     | 91.5         |
| 63,900           | 3.9          | 98,392              | 6.1             | 112,607                          | 6.9          |
| 20,914           | 1.3          | 22,313              | 1.4             | 25,875                           | 1.6          |
| 33,745           | 2.1          | 4,448               | 0.3             | 1,073                            | 0.1          |
| <u>1,623,299</u> | <u>100.0</u> | <u>1,606,200</u>    | <u>100.0</u>    | <u>1,637,258</u>                 | <u>100.0</u> |
| 245,862          | 15.1         | 251,340             | 15.6            | 252,951                          | 15.4         |
| 5,548            | 0.3          | 6,953               | 0.4             | 73,403                           | 4.5          |
| 149,604          | 9.2          | 31,801              | 2.0             | 29,574                           | 1.8          |
| 56,060           | 3.5          | 30,569              | 1.9             | 4,616                            | 0.3          |
| 132,621          | 8.2          | 120,963             | 7.5             | 129,309                          | 7.9          |
| 10,424           | 0.6          | 10,424              | 0.6             | 11,769                           | 0.7          |
| 104,279          | 6.4          | 98,087              | 6.1             | 121,358                          | 7.4          |
| 42,388           | 2.6          | 50,481              | 3.1             | 32,032                           | 2.0          |
| 690,356          | 42.5         | 670,475             | 41.7            | 725,316                          | 44.3         |
| 55,833           | 3.4          | 39,302              | 2.4             | 35,286                           | 2.2          |
| -                | -            | 27,639              | 1.7             | 52,602                           | 3.2          |
| 8,820            | 0.5          | 6,226               | 0.4             | 8,483                            | 0.5          |
| 14,447           | 0.9          | 14,403              | 0.9             | 14,929                           | 0.9          |
| 144,559          | 8.9          | 418,475             | 26.1            | 32,899                           | 2.0          |
| 5,571            | 0.3          | 5,571               | 0.3             | 5,571                            | 0.3          |
| 99,118           | 6.1          | -                   | -               | -                                | -            |
| <u>1,765,490</u> | <u>108.8</u> | <u>1,782,709</u>    | <u>111.0</u>    | <u>1,530,098</u>                 | <u>93.5</u>  |
| (142,191)        | (8.8)        | (176,509)           | (11.0)          | 107,160                          | 6.5          |
| 5,225,000        | -            | -                   | -               | -                                | -            |
| <u>5,082,809</u> | <u>(8.8)</u> | <u>\$ (176,509)</u> | <u>(11.0) %</u> | <u>\$ 107,160</u>                | <u>6.5 %</u> |
| 721,031          | 97.4         | \$ 716,787          | 97.5            | \$ 686,995                       | 97.2         |
| 12,164           | 1.6          | 15,118              | 2.1             | 19,060                           | 2.7          |
| 7,686            | 1.0          | 3,096               | 0.4             | 483                              | 0.1          |
| <u>740,881</u>   | <u>100.0</u> | <u>735,001</u>      | <u>100.0</u>    | <u>706,538</u>                   | <u>100.0</u> |
| 215,733          | 29.1         | 201,815             | 27.5            | 191,793                          | 27.1         |
| -                | -            | 17,565              | 2.4             | -                                | -            |
| 126,917          | 17.1         | 119,195             | 16.2            | 158,389                          | 22.4         |
| 314,000          | 42.4         | 330,000             | 44.9            | 320,000                          | 45.3         |
| <u>656,650</u>   | <u>88.6</u>  | <u>668,575</u>      | <u>91.0</u>     | <u>670,182</u>                   | <u>94.9</u>  |
| -                | -            | 1,425,000           | 193.90          | -                                | -            |
| -                | -            | (1,436,935)         | (195.50)        | -                                | -            |
| -                | -            | (11,935)            | (1.6)           | -                                | -            |
| <u>84,231</u>    | <u>11.4</u>  | <u>\$ 54,491</u>    | <u>10.6</u>     | <u>\$ 36,356</u>                 | <u>5.1 %</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<br/>(Elected or<br/>Appointed)<br/>or Date Hired</u> | <u>Fees of<br/>Office Paid<br/>(09/30/20)</u> | <u>Expense<br/>Reimbursements<br/>(09/30/20)</u> | <u>Title at<br/>Year End</u> |
|---|--|---|--|------------------------------|
| <b><u>Board Members</u></b>                                       |  |   |  |                              |
| Roger Nelson<br>850 Wabash River<br>Brownsville, Texas 78520      | 05/20 - 05/24  | None  | None   | President                    |
| James Tipton<br>701 Santa Ana Avenue<br>Rancho Viejo, Texas 78575 | 05/18 – 05/22  | None  | None   | Vice-<br>President           |
| Oscar Gonzales<br>805 Escandon<br>Rancho Viejo, Texas 78575       | 05/18 – 05/22  | None  | None   | Secretary                    |
| Clifford Rowell<br>1301 Tesoro<br>Rancho Viejo, Texas 78575       | 05/18 - 05/22  | None  | None   | Treasurer                    |
| Pat Pace<br>317 Santa Ana Avenue<br>Rancho Viejo, Texas 78575     | 05/20 - 05/24  | None  | None   | Director                     |

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

**Key Administrative Personnel**

|  |                        |           |      |                    |
|--|------------------------|-----------|------|--------------------|
| Scott Fry<br>100 Hidalgo Street<br>Rancho Viejo, Texas 78575 | 09/01/19 -<br>09/30/20 | \$116,157 | None | General<br>Manager |
|--|------------------------|-----------|------|--------------------|



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

| <u>Name and Address</u>   | <u>Term of Office<br/>(Elected or<br/>Appointed)<br/>or Date Hired</u> | <u>Fees of<br/>Office Paid<br/>(09/30/20)</u> | <u>Expense<br/>Reimbursements<br/>(09/30/20)</u> | <u>Title at<br/>Year End</u>       |
|---|--|---|--|------------------------------------|
| <b><u>Consultants</u></b>   |  |   |  |                                    |
| Cunningham Law SPI, PC<br>211 Padre Boulevard<br>Port Isabel, Texas 78578   | 06/09/81   | \$8,462                                       | \$ -   | General<br>Counsel                 |
| Cameron County Appraisal<br>District<br>2021 Amistad Drive<br>San Benito, Texas 78586                                 | 10/01/82   | \$13,501                                      | \$ -   | Tax<br>Appraisers                  |
| Cameron County Tax Assessor-<br>Collector<br>Mr. Tony Yzaguirre, Jr.<br>964 East Harrison<br>Brownsville, Texas 78520 | 06/23/97   | \$10,875                                      | \$ -   | District Tax<br>Assessor-Collector |
| <b><u>Investment Officers:</u></b>  |  |   |  |                                    |
| Scott Fry<br>100 Hidalgo Street<br>Rancho Viejo, Texas 78575  | 09/01/19 -<br>09/30/20   | None  | None   | General<br>Manager                 |
| Rebecca Martinez<br>100 Hidalgo Street<br>Rancho Viejo, Texas 78575   | 09/01/19 -<br>09/30/20   | None  | None   | Financial<br>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, 2020, 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 January 18, 2021.

**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) to determine the 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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## **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 determination of financial statement amounts. 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.

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

Harlingen, Texas  
January 18, 2021

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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, 2020. 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, 2020.

### **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.

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

Harlingen, Texas  
January 18, 2021

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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:

| <i>CFDA Number(s)</i> | <i>Name of Federal Program or Cluster</i>  |
|-----------------------|--|
| 66.458                | Clean Water State Revolving Fund Cluster Capitalization Grants for Clean Water State Revolving Funds       |
| 66.468                | 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?                                   | ___ yes   | ___X___ 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, 2020**

| (1)<br>FEDERAL GRANTOR/<br>PASS-THROUGH GRANTOR/<br>PROGRAM OR CLUSTER TITLE | (2)<br>Federal<br>CFDA<br>Number | (3)<br>Pass-through<br>Entity Identifying<br>Number | (4)<br>Provided<br>to<br>Subrecipients | (5)<br>Federal<br>Expenditures |
|--|----------------------------------|---|--|--------------------------------|
| <b>U.S. Environmental Protection Agency</b>                                  |                                  |   |  |                                |
| Passed through Texas Water Development Board                                 |                                  |   |  |                                |
| Clean Water State Revolving Fund Cluster                                     |                                  |   |  |                                |
| * Capitalization Grants for Clean Water State Revolving Funds                | 66.458                           | 73793   | \$ -                                   | \$ 841,303                     |
| Total Clean Water State Revolving Fund Cluster                               |                                  |   | -                                      | 841,303                        |
| Drinking Water State Revolving Fund Cluster                                  |                                  |   |  |                                |
| * Capitalization Grants for Drinking Water State Revolving Funds             | 66.468                           | 62781   | -                                      | 323,209                        |
| Total Drinking Water State Revolving Fund Cluster                            |                                  |   | -                                      | 323,209                        |
| Total Passed through Texas Water Development Board                           |                                  |   | -                                      | 1,164,512                      |
| <b>Total U.S. Environmental Protection Agency</b>                            |                                  |   | -                                      | 1,164,512                      |
| <b>Total Expenditures of Federal Awards</b>                                  |                                  |   | \$ -                                   | \$ 1,164,512                   |

\* Clustered programs

**Valley Municipal Utility District No. 2**  
**Notes on Accounting Policies for Federal Awards**  
**For the Year Ended September 30, 2020**

**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, 2020. 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, 2020, the District had no sub-recipients.



**Valley Municipal Utility District No. 2**  
**Notes on Accounting Policies for Federal Awards**  
**For the Year Ended September 30, 2020**

**NOTE 4- FEDERAL LOANS AND LOAN GUARANTEES**

During the year ended September 30, 2020, the District had no outstanding federal loans payable or loan guarantees.

**NOTE 5- FEDERALLY FUNDED INSURANCE**

During the year ended September 30, 2020, the District had no federally funded insurance.

**NOTE 6- NONCASH AWARDS**

During the year ended September 30, 2020, 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.