

ANNUAL FINANCIAL REPORT  
AND  
INDEPENDENT AUDITORS' REPORT  
**TOWN OF RANCHO VIEJO, TEXAS**

September 30, 2014

Town of Rancho Viejo, Texas  
**ANNUAL FINANCIAL REPORT**  
Year Ended September 30, 2014

**TOWN OFFICIALS**

Mayor	Jean Hager
Aldermen/Alderwomen	Javier Vera
	Bitty Truan
	Lupita Cervantes-Carr
	Maribel Guerrero
	Cyndie Rathbun
Attorney	Daniel Rentfro, Jr.
Municipal Judge	Charles A. Carlson, III
Cameron County Tax Assessor - Collector	Tony Yzaguirre, Jr.
Town Administrator	Alfredo Blanco

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# **FINANCIAL SECTION**

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members  
of the Board of Aldermen  
Town of Rancho Viejo, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Rancho Viejo, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Town'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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Rancho Viejo, Texas, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 11-14 and 39-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Rancho Viejo, Texas' basic financial statements. The accompanying financial information listed as other supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2015, on our consideration of the Town of Rancho Viejo, Texas' 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 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 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 Town of Rancho Viejo, Texas' internal control over financial reporting and compliance.



**LONG CHILTON, LLP**  
*Certified Public Accountants*

Harlingen, Texas  
February 9, 2015

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Town of Rancho Viejo, Texas's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended September 30, 2014. Please read it in conjunction with the Town's financial statements, which follow this section.

### *Financial Highlights*

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$2,064,786 (net position). Of this amount, \$641,924 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The net position for the Town decreased by \$98,548 during the fiscal year, which includes \$292,993 of depreciation expense.
- The general fund balance at September 30, 2014 was \$533,014, an increase of \$117,808 during the fiscal year. Of this amount, \$99,974 is assigned for street rehab, \$2,250 is assigned for security device, and \$3,843 is assigned for beautification contribution.

### *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 Town operations in two categories:

#### **1. Government - wide financial statements**

The Statement of Net Position and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances.

#### **2. Governmental Fund financial statements**

For governmental activities, these statements tell how the services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

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

Non spendable fund balances are balances that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances will be inventory and prepaid items. The Town has no nonspendable fund balance at September 30, 2014.

The spendable fund balances include restricted, committed, assigned and unassigned based upon the hierarchy of spending constraints. **Restricted:** fund balances that are constrained by external parties, or imposed by law; **committed:** fund balances that contain self-imposed constraints of the Town from its highest level of decision making authority (the Board of Alderman of the Town of Rancho Viejo); **assigned:** fund balances that contained self-imposed constraints of the Town to be used for a particular purpose (the Board of Alderman of the Town of Rancho Viejo or an official to whom which the Town has delegated the authority to assign funds for specific purposes); and **unassigned:** fund balance of the general fund that has not been constrained for any particular purpose.

*Basic Financial Statement Analysis*

The basic financial statements report information about the Town using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Town's assets, deferred outflows, liabilities, deferred inflows 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 Town's net position, and how it has changed. Net position - the difference between the Town's assets, deferred outflows, liabilities and deferred inflows - is one way to measure the Town's financial health or position.

Over time, increases or decreases in the Town's net position are an indicator of whether its financial health is improving or deteriorating.

The Town's net position was \$2,064,786 and \$2,163,334 at September 30, 2014 and 2013, respectively. An analysis of the Town's net position is shown below:

	<u>2014</u>	<u>2013</u>
Capital assets, net	\$1,970,735	\$2,260,404
Current and other asset	<u>679,683</u>	<u>544,764</u>
Total assets	<u>2,650,418</u>	<u>2,805,168</u>
Total liabilities	585,632	641,834
Net position		
Net investment in capital assets	1,389,406	1,684,633
Restricted for:		
Police forfeiture funds	30,497	4,368
Debt service	2,959	13,438
Unrestricted	<u>641,924</u>	<u>460,895</u>
Total net position	<u>\$2,064,786</u>	<u>\$2,163,334</u>

Changes in the Town's net position can be determined by reviewing the following condensed Statements of Activities for the year ended September 30,

	<u>2014</u>	<u>2013</u>
Net operating revenues	\$1,255,927	\$1,226,450
Operating expenses	<u>1,354,475</u>	<u>1,413,611</u>
Excess revenues over expenses	(98,548)	(187,161)
Net position at beginning of year	<u>2,163,334</u>	<u>2,350,495</u>
Net position at end of year	<u>\$2,064,786</u>	<u>\$2,163,334</u>

*General Fund Budgetary Highlights*

Actual expenditures were \$74,149 less than budgeted expenditures.

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

At the end of 2014, the Town had invested \$1,970,735, net of depreciation, in a broad range of capital assets, including buildings, vehicles and equipment.

Long-term debt, at the end of 2014, included the General Obligation refunding bonds, Series 2012 and a note with International Bank of Commerce. Private placement debt, General Obligation refunding bonds, Series 2012, is not publicly issued or publicly traded and as a result is not required to be rated by a credit rating agency. The Town paid approximately \$49,980 on these notes which left a balance of \$515,383.

The following table summarizes the Town's capital assets, net of accumulated depreciation, for the year ended September 30, 2014:

	October 1, <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2014</u>
<b>Capital assets, not being depreciated</b>				
Land	\$ 178,580	\$ -	\$ -	\$ 178,580
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	178,580	-	-	178,580
<b>Capital assets, being depreciated</b>				
Buildings	1,190,538	-	-	1,190,538
Improvements	136,478	-	-	136,478
Vehicles and equipment	547,754	3,324	-	551,078
Infrastructure	<u>1,678,860</u>	<u>-</u>	<u>-</u>	<u>1,678,860</u>
	3,553,630	3,324	-	3,556,954
Less accumulated depreciation for				
Buildings	294,658	39,939	-	334,597
Improvements	43,713	3,849	-	47,562
Vehicles and equipment	320,466	80,873	-	401,339
Infrastructure	<u>812,969</u>	<u>168,332</u>	<u>-</u>	<u>981,301</u>
Total accumulated depreciation	<u>1,471,806</u>	<u>292,993</u>	<u>-</u>	<u>1,764,799</u>
Total capital assets, being depreciated, net	<u>2,081,824</u>	<u>(289,669)</u>	<u>-</u>	<u>1,792,155</u>
Governmental activities, capital assets, net	<u>\$2,260,404</u>	<u>\$(289,669)</u>	<u>\$ -</u>	<u>\$1,970,735</u>

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

- The Town's revenue budget and rates for next year's operations appear to be sufficient to provide adequate income during this period. The total revenues budgeted for the year ended September 30, 2015 are \$1,257,275 while total budgeted expenditures are \$1,176,376. Total taxable value for the 2014-2015 fiscal year is \$230,973,465 compared to \$224,929,703 in the 2013-2014 fiscal year. The tax rate for next year was set at .419906/\$100 of assessed valuation.

### *Contacting the Town's Financial Management*

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's business office at (956) 350-4093.

## **BASIC FINANCIAL STATEMENTS**

Town of Rancho Viejo, Texas  
**STATEMENT OF NET POSITION**  
September 30, 2014

	<u>Primary Government</u> Governmental <u>Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 557,467
Receivables	
Taxes, net	54,693
Assessments	54,217
Grant	13,306
Capital assets	
Land	178,580
Buildings and improvements, net	944,857
Vehicles and equipment, net	149,739
Infrastructure, net	<u>697,559</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,650,418</u></b>
<b>LIABILITIES AND NET POSITION</b>	
Liabilities	
Accounts payable	\$ 4,303
Non-current liabilities	
Due in one year	66,356
Due in more than one year	<u>514,973</u>
Total liabilities	585,632
Net position	
Net investment in capital assets	1,389,406
Restricted for	
Police forfeiture funds	30,497
Debt service	2,959
Unrestricted	<u>641,924</u>
Total net position	<u>2,064,786</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 2,650,418</u></b>

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



Town of Rancho Viejo, Texas  
**STATEMENT OF ACTIVITIES**  
For the fiscal year ended September 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position <u>Primary Government</u> Total
<b><u>Functions/Programs</u></b>				
<b>Governmental activities:</b>				
Administration	\$ 197,255	\$ 13,390	\$ -	\$ (183,865)
General	110,158	-	-	(110,158)
General services	57,128	21,462	-	(35,666)
Professional	85,012	-	-	(85,012)
Police and security	742,008	108,865	32,421	(600,722)
Street, lighting and maintenance	140,568	-	-	(140,568)
Debt service	<u>22,346</u>	<u>-</u>	<u>-</u>	<u>(22,346)</u>
 Total governmental activities	 <u>1,354,475</u>	 <u>143,717</u>	 <u>32,421</u>	 <u>(1,178,337)</u>
 Total primary government	 <u>\$ 1,354,475</u>	 <u>\$ 143,717</u>	 <u>\$ 32,421</u>	 <u>\$ (1,178,337)</u>
 <b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				\$ 824,623
Property taxes, levied for debt service				39,809
Sales taxes				68,906
Franchise taxes				115,566
Liquor				5,221
Penalties and interest				24,454
Interest earned				<u>1,210</u>
Total general revenues and special items				<u>1,079,789</u>
Change in net position				(98,548)
Net position--beginning				<u>2,163,334</u>
Net position--ending				<u>\$ 2,064,786</u>

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

Town of Rancho Viejo, Texas  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 524,011	\$ 33,456	\$ 557,467
Receivables			
Taxes (net)	51,520	3,173	54,693
Assessments	54,217	-	54,217
Grant	13,306	-	13,306
Total assets	<u>\$ 643,054</u>	<u>\$ 36,629</u>	<u>\$ 679,683</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	<u>\$ 4,303</u>	<u>\$ -</u>	<u>\$ 4,303</u>
Total liabilities	4,303	-	4,303
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue			
Property taxes (net)	51,520	3,173	54,693
Assessments	<u>54,217</u>	<u>-</u>	<u>54,217</u>
Total deferred inflows of resources	105,737	3,173	108,910
<b>FUND BALANCES</b>			
Fund balances			
Restricted for:			
Police forfeiture funds	-	30,497	30,497
Debt service	-	2,959	2,959
Assigned to:			
Street rehab reserve	99,974	-	99,974
Security device reserve	2,250	-	2,250
Beautification contribution reserve	3,843	-	3,843
Unassigned	<u>426,947</u>	<u>-</u>	<u>426,947</u>
Total fund balances	<u>533,014</u>	<u>33,456</u>	<u>566,470</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 643,054</u>	<u>\$ 36,629</u>	<u>\$ 679,683</u>

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

Town of Rancho Viejo, Texas  
**RECONCILIATION OF THE BALANCE SHEET OF THE  
GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION**  
For the fiscal year ended September 30, 2014

Fund balances -- total governmental funds	\$ 566,470
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,970,735
Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(581,329)
Property taxes receivable and assessments receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred inflows of resources in the fund financials.	<u>108,910</u>
Net position of governmental activities	<u>\$ 2,064,786</u>

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

Town of Rancho Viejo, Texas  
**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

For the fiscal year ended September 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes			
Property (net of discounts)	\$ 820,080	\$ 40,061	\$ 860,141
Sales tax	68,906	-	68,906
Franchise	115,566	-	115,566
Liquor	5,221	-	5,221
Licenses and permits	21,462	-	21,462
Fines and forfeitures	70,719	38,046	108,765
Assessments	623	-	623
Penalties and interest	23,374	1,080	24,454
Interest earned	1,188	22	1,210
Grant revenue	32,421	-	32,421
Administrative costs recovered	11,285	-	11,285
Miscellaneous fees	2,105	-	2,105
Police fund income	100	-	100
Total revenues	<u>1,173,050</u>	<u>79,209</u>	<u>1,252,259</u>
<b>Expenditures</b>			
Current			
Administration	157,135	-	157,135
General	86,002	-	86,002
General services	44,601	-	44,601
Professional	66,370	-	66,370
Police and security	567,374	11,925	579,299
Street, lighting and maintenance	109,744	-	109,744
Capital outlay	3,324	-	3,324
Debt service	20,692	51,634	72,326
Total expenditures	<u>1,055,242</u>	<u>63,559</u>	<u>1,118,801</u>
Excess (deficit) of revenues over (under) expenditures	117,808	15,650	133,458
Fund balance, October 1	<u>415,206</u>	<u>17,806</u>	<u>433,012</u>
Fund balance, September 30	<u>\$ 533,014</u>	<u>\$ 33,456</u>	<u>\$ 566,470</u>

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

Town of Rancho Viejo, Texas  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES**  
For the fiscal year ended September 30, 2014

Net change in fund balances -- total governmental funds	\$ 133,458
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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 (\$292,993) exceeded capital outlay of \$3,324.</p>	(289,669)
<p>Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	49,980
<p>Compensated absences are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.</p>	4,015
<p>Other long term assets, such as assessments receivable, are not available to pay for current period expenditures and therefore are unearned in the funds</p>	<u>3,668</u>
Change in net position of governmental activities	<u>\$ (98,548)</u>

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

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Rancho Viejo, Texas, Texas (Town) is duly incorporated under the general laws type "A" provisions of the State of Texas, which were adopted in an election held on January 19, 1980. The Town operates under an Aldermanic form of government and is authorized to provide the following services in accordance with State statutes: Public safety (police), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

1. *Reporting Entity*

As required by generally accepted accounting principles, these financial statements present the Town of Rancho Viejo, Texas and its component units, entities for which the Town is considered to be financially accountable. The discussion of component units below summarizes the relevant guidelines considered by the Town in determining their operational or financial relationships.

*Blended component units* - Blended component units, although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town of Rancho Viejo, Texas does not have any blended component units.

*Discretely presented component units* - The discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the Town. The Town does not have any discretely presented component units.

Excluded from the reporting entity:

*Valley Municipal Utility District No. 2*

This potential component unit has a separate elected board and provides services to residents, generally within the geographic boundaries of the Town. This potential component unit is excluded from the reporting entity because the Town does not have the ability to exercise influence over its daily operations, approve budgets, or provide funding.

2. *Basis of Presentation*

**Government-Wide Statements**

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

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*2. Basis of Presentation - Continued*

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

**Fund Financial Statements**

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

The Town reports the following major governmental funds:

**General Fund:** This is the Town's primary operating fund. It accounts for all of the financial resources of the general government, except those required to be accounted for in another fund.

In addition, the Town reports the following nonmajor governmental fund types:

**Debt Service Fund:** The Town accounts 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 Town.

**Special Revenue Fund:** The Town accounts for resources restricted to, or assigned for, a specific purpose by the Town or a grantor in a special revenue fund. Most federal and some state financial award programs are accounted for in these funds and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Police Forfeiture Fund is used to account for seizure monies received from the federal government and police department related expenditures.

Governmental funds are used to account for all or most of the Town's general activities. The collection and disbursement of earmarked monies are accounted for in special revenue funds. The General Fund is used to account for all activities of the general government not accounted for in some other fund. However, the Board of Alderman have assigned a portion of the general fund balance for street rehab, security device, and beautification contribution.

*3. Basis of Accounting*

**Government-wide Fund Financial Statements**

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

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Governmental Fund Financial Statements**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this 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 position.

The modified accrual basis of accounting is used by governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

Those revenues susceptible to accrual are property taxes, franchise taxes, licenses, interest revenue and charges for services. Sales taxes collected and held by the state at year end on behalf of the Town also are recognized as revenue. Revenues from fines, permits, and property liens are not susceptible to accrual because generally they are not measurable until received in cash.

The Town reports unearned revenue on its combined balance sheet. Unearned revenues arise when a potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. Unearned revenues also arise when resources are received by the Town before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

*4. Budgets and Budgetary Accounting*

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at fiscal year end.

As required by state law, the Mayor submits to the Aldermen the proposed executive budget for the fiscal year prior to the beginning of such fiscal year. Public hearings are then conducted to obtain taxpayer comments.

The original annual appropriated budgets and any revisions of such budgets that affect the overall fund total expenditures are made through appropriated budget resolutions approved by the Aldermen. The original annual appropriated budgets are adopted by resolutions by the Aldermen prior to the beginning of the fiscal year as required by state law. The final annual amended appropriated budgets are used in this report. The overall fund total of actual expenditures cannot exceed the overall fund total of appropriated expenditures for such funds.



Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the overall fund total of appropriated expenditures of any fund must be approved by the Aldermen.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, several supplementary appropriations were necessary.

5. *Cash and Cash Equivalents*

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

6. *Capital Assets*

Capital assets are reported in the applicable governmental activities column in the governmental-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. A capitalization threshold of \$1,000 has been established by the Town.

Public domain (*infrastructure*) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are capitalized, beginning October 1, 2003 in accordance with GASB 34.

7. *Accumulated Compensated Absences*

It is the Town's policy to permit employees to accumulate an amount of earned but unused vacation and sick leave. Vacation and sick leave are payable upon separation from employment. Any sick leave amount greater than 60 days, will be payable at the end of the year if not yet taken. In governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees. In recognition of this policy, a liability of \$65,946 for vacation and sick leave has been recorded in the government wide financial statements. This amount represents the Town's commitment to fund such costs from current operations.

8. *Fund Balances*

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

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

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

8. *Fund Balances - Continued*

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

Restricted fund balances will exist when constraints are placed on the use of those resources that are either externally imposed or imposed by law.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Alderman of the Town of Rancho Viejo.

Assigned fund balances will be amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted, nor committed. The intent can be made by either the Board of Alderman of the Town of Rancho Viejo or an official to whom which the Town has delegated the authority to. Appropriated fund balance and the majority of encumbrances will be reclassified into the assigned category.

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

9. *Net Position*

The Town's net position is classified as follows:

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

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

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

10. *Deferred Outflows and Inflows of Resources*

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

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

10. *Deferred Outflows and Inflows of Resources - Continued*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

11. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, such estimates may differ from actual results.

**NOTE B – DEPOSITS AND INVESTMENTS**

*Investment Accounting Policy*

The Town 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 Town adhered to the requirements of the Act. Additionally, investment practices of the Town were in accordance with local policies.

The Town’s general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments which have a remaining term of one year or less at time of purchase. The term “nonparticipating” means the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE B - DEPOSITS AND INVESTMENTS - Continued**

The Act determines the types of investments, which are allowable for the Town. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Town's policy authorizes all the State allowable investments.

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

*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 Town'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 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

The Town'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 Town's agent bank, approved pledged securities in an amount sufficient to protect Town 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.

*Cash Deposits*

At September 30, 2014, the carrying amount of the Town's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$557,467 and the bank balance was \$599,853.

The Town's cash deposits at September 30, 2014 are maintained primarily at International Bank of Commerce. These deposits were entirely covered by FDIC insurance or by pledged collateral held by the Town's agent bank. The deposits were collateralized in accordance with Texas Law and the Town maintains copies of all safekeeping receipts in the name of the Town. Deposits were properly secured at all times.

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE B - DEPOSITS AND INVESTMENTS - Continued**

*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. The Town does not own any long-term investments.

*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. The Town does not own any investments other than collateralized bank deposits.

*Concentration of Credit Risk*

The Investment policy of the Town contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act.

*Public Funds Investment Pools*

The Town had no funds in a public funds investment pool.

**NOTE C - RECEIVABLES**

Receivables at September 30, 2014, consist of the following:

	<u>General</u>	<u>Non-Major and Other</u>	<u>Total</u>
Receivables:			
Taxes	\$ 57,244	\$ 3,526	\$ 60,770
Stonegarden grant	13,306	-	13,306
Assessments and other	<u>54,217</u>	<u>-</u>	<u>54,217</u>
Gross receivables	124,767	3,526	128,293
Less allowance for uncollectibles	<u>5,724</u>	<u>353</u>	<u>6,077</u>
Net total receivables	<u>\$119,043</u>	<u>\$ 3,173</u>	<u>\$122,216</u>

During the fiscal year ended September 30, 2009, the Town assessed Section 11 property owners for development and improvements of Section 11 electrical and roadways. The receivable, as of year-end September 30, 2014, was \$54,217 and the Town did not estimate that an allowance was necessary at that time.

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE C – RECEIVABLES - Continued**

*Property Taxes*

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

The Town's ad valorem taxes are collected by the Cameron County tax assessor-collector and are disbursed to the Town each month.

Taxes receivable, by year	Schedule of Taxes Receivable		
	September 30, 2014		
	Debt Service Tax	Maintenance Tax	Total
2000	\$ -	\$ 192	\$ 192
2001	-	17	17
2002	-	16	16
2003	-	16	16
2004	-	53	53
2005	-	690	690
2006	75	798	873
2007	112	1,162	1,274
2008	137	1,496	1,633
2009	165	1,821	1,986
2010	286	3,389	3,675
2011	298	4,030	4,328
2012	1,136	15,680	16,816
2013	<u>1,317</u>	<u>27,884</u>	<u>29,201</u>
	3,526	57,244	60,770
Allowance for uncollectible	<u>(353)</u>	<u>(5,724)</u>	<u>(6,077)</u>
Taxes receivable, at end of year	\$ <u>3,173</u>	\$ <u>51,520</u>	\$ <u>54,693</u>

**NOTE D - DELINQUENT PROPERTY LIENS**

Current and delinquent property liens have not been reported in the financial statements. It is the Town's policy not to record lien revenues until they become available for appropriation. Accordingly, an amount equal to the liens not yet received has not been reported as unearned revenue. On September 30, 2014, total current and delinquent property liens were \$55,626.

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended September 30, 2014 is as follows:

	October 1, 2013	Additions	Deletions	September 30, 2014
<b>Capital assets, not being depreciated</b>				
Land	\$ 178,580	\$ -	\$ -	\$ 178,580
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>178,580</u>	<u>-</u>	<u>-</u>	<u>178,580</u>
<b>Capital assets, being depreciated</b>				
Buildings	1,190,538	-	-	1,190,538
Improvements	136,478	-	-	136,478
Vehicles and equipment	547,754	3,324	-	551,078
Infrastructure	<u>1,678,860</u>	<u>-</u>	<u>-</u>	<u>1,678,860</u>
	3,553,630	3,324	-	3,556,954
Less accumulated depreciation for				
Buildings	294,658	39,939	-	334,597
Improvements	43,713	3,849	-	47,562
Vehicles and equipment	320,466	80,873	-	401,339
Infrastructure	<u>812,969</u>	<u>168,332</u>	<u>-</u>	<u>981,301</u>
Total accumulated depreciation	<u>1,471,806</u>	<u>292,993</u>	<u>-</u>	<u>1,764,799</u>
Total capital assets, being depreciated, net	<u>2,081,824</u>	<u>(289,669)</u>	<u>-</u>	<u>1,792,155</u>
Governmental activities, capital assets, net	<u>\$2,260,404</u>	<u>\$(289,669)</u>	<u>\$ -</u>	<u>\$1,970,735</u>

Depreciation is provided in the funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Site improvements	25-30 years
Buildings	30 years
Furniture and equipment	3-10 years
Vehicles	3 years

Depreciation was charged to government functions as follows:

Administration	\$ 44,135
General	24,156
General services	12,527
Professional	18,642
Police and security	162,709
Street, lighting and maintenance	<u>30,824</u>
Total depreciation - governmental activities	<u>\$292,993</u>

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE F - LONG-TERM DEBT**

*General Obligation Refunding Bonds, Series 2012*

On September 11, 2012, the Town authorized issuance of Town of Rancho Viejo, General Obligation Refunding Bonds, Series 2012 in the amount of \$572,000. The bonds are payable from levying a continuing direct annual ad valorem tax. These bonds were issued for the purpose of providing funds to refinance a portion of the Town's outstanding debt, Town of Rancho Viejo, Texas Tax Note, Series 2005 and to pay costs and expenses of the issuance. Principal payments are due on January 1, and interest payments are due semi-annually, January 1 and July 1 of each year commencing January 1, 2013 and continuing thereafter until maturity in 2027 with interest at rates ranging from 1.75% to 4.10%.

*Note Payable*

On April 6, 2011, the Town signed a promissory note with International Bank of Commerce in the original principal sum of \$60,000, payable in seven monthly interest only payments, beginning May 6, 2011, thirty-five monthly installments of \$1,665, plus interest, beginning December 6, 2011, and a final payment of principal balance plus accrued and unpaid interest at final maturity, November 6, 2014. The interest rate shall be floating at 0% per annum above the New York Prime Rate (Prime Rate) as it fluctuates from time to time; provided, however, that in no event shall the rate of interest to be paid on the unpaid principal of this note be less than 4.25% per annum, nor more than the maximum legal rate allowed by applicable law. The starting interest rate on this note shall be 4.25% per annum. The rate of interest due hereunder shall be computed as of the date of any change in the Prime Rate.

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2014</u>	Amount Due Within <u>One Year</u>
General Obligation Refunding Bonds, Series 2012	\$542,000	\$ -	\$ 30,000	\$512,000	\$ 30,000
Note payable	23,363	-	19,980	3,383	3,383
Compensated absences	<u>69,961</u>	<u>53,591</u>	<u>57,606</u>	<u>65,946</u>	<u>32,973</u>
Total	<u>\$635,324</u>	<u>\$ 53,591</u>	<u>\$107,586</u>	<u>\$581,329</u>	<u>\$ 66,356</u>



Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE F - LONG-TERM DEBT - Continued**

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

Year ended September 30,	General Obligation Refunding Bonds Series 2012		Note Payable		Total Requirements
	Principal	Interest	Principal	Interest	
2015	\$ 30,000	\$ 19,715	\$ 3,383	\$ 18	\$ 53,116
2016	30,000	18,725	-	-	48,725
2017	30,000	17,660	-	-	47,660
2018	35,000	16,580	-	-	51,580
2019	35,000	15,302	-	-	50,302
Thereafter	<u>352,000</u>	<u>68,523</u>	<u>-</u>	<u>-</u>	<u>420,523</u>
	<u>\$512,000</u>	<u>\$156,505</u>	<u>\$ 3,383</u>	<u>\$ 18</u>	<u>\$671,906</u>

**NOTE G - EMPLOYEE RETIREMENT SYSTEM**

*Plan Description*

The Town provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the Town are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive financial annual report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS. Plan provisions for the Town were as follows:

	<u>Plan Year 2013</u>	<u>Plan Year 2012</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (Town to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating,	100% Repeating,
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE G - EMPLOYEE RETIREMENT SYSTEM - Continued**

*Contributions*

Under the state law governing TMRS, the contribution rate for each Town is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that Town. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Town contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Town make contributions monthly. Since the Town needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$45,072
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	45,072
Contributions made	(45,072)
Increase (decrease) in net pension obligation	-
Net pension obligation/(asset), beginning of year	-
Net pension obligation/(asset), end of year	-
	\$ -

**Three-Year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2012	\$42,691	\$42,691	100%	\$ -
2013	40,131	40,131	100%	-
2014	45,072	45,072	100%	-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	<u>December 31, 2011</u>	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Valuation date	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Actuarial cost method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining amortization period	28.4 years; closed period	29.6 years; closed period	29.6 years; closed period
Amortization Period for New Gains/Losses	19 years	19 years	19 years

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE G - EMPLOYEE RETIREMENT SYSTEM – Continued**

	<u>December 31, 2011</u>	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	0.0%	0.0%	0.0%

The funded status as of December 31, 2013, under the most recent actuarial valuation, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2013	\$2,032,195	\$2,158,877	94.1%	\$126,682	\$457,009	27.7%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

*Contributions to Supplemental Death Benefit Fund*

The Town contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments of the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

For the years ended 2014, 2013 and 2012, the annual required contribution rate for the TMRS SDBF was .13%, .12%, and .10%, respectively.

**NOTE H – COMPLIANCE AND ACCOUNTABILITY**

a. Finance-Related Legal and Contractual Provision

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," no violations of finance related legal and contractual provisions, occurred during the current year.

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

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Amount</u>	<u>Remarks</u>
None noted	None noted	No remarks necessary

Town of Rancho Viejo, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2014

**NOTE I – COMMITMENTS AND CONTINGENCIES**

*Contingencies*

From time to time the Town is a party to legal proceedings generally incidental to its operations. As of year end there was no litigation outstanding against the Town.

Under guidelines from the U. S. Department of Justice and provisions of the State Code of Texas, the Town of Rancho Viejo Police Department may receive proceeds from seized and forfeited money and property. Various procedures are required to be followed before a determination is made as to whether the proceeds from the seized property are awarded to the various law enforcement agencies.

Local law enforcement agencies are specifically required to use these funds to supplement and not supplant the existing funding for law enforcement activities. In effect, these funds are required to be used for purchases outside the department's operating budget and may not be used to fund purchases included in the police department's annual budget.

**NOTE J - OTHER EMPLOYEE BENEFITS**

The Town provides medical and life insurance benefits for its employees through a group insurance plan in the state-wide Texas Municipal League Joint Self-Insurance Fund. 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, 2014, the Town's other employee benefit costs totaled \$56,225.

**NOTE K - RISK MANAGEMENT**

The Town of Rancho Viejo, Texas is exposed to various uncertainties related to intentional and unintentional torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; health and dental medical claims by employees; and job-related accidents and injuries for which the Town carries commercial insurance coverage. There have been no significant reductions in insurance coverage from the previous year; no negative settlements or jury awards have exceeded insurance coverage in any of the past three years. The Town's risk management program mainly encompasses obtaining property and liability insurance through Texas Municipal League's Intergovernmental Risk-Pool (TML-IRP), and through commercial insurance carriers. The participation of the Town in TML-IRP is limited to payment of premiums. The Town has not had any significant reduction in insurance coverage, and the Town is not aware of any pending claims for which expected liability would exceed the limits of the present insurance coverage.

**NOTE L – DEFERRED INFLOWS OF RESOURCES**

*Unavailable Revenue*

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue reported in the fund financial statements were as follows:

	<u>Amount</u>
Governmental funds	
Delinquent property taxes receivable	\$ 54,693
Assessments	<u>54,217</u>
	<u>\$108,910</u>

**REQUIRED**  
**SUPPLEMENTARY INFORMATION**

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Town of Rancho Viejo, Texas  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the fiscal year ended September 30, 2014

	Budget		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 882,929	\$ 882,929	\$ 837,886	\$ (45,043)
State and city sales tax	60,000	60,000	68,906	8,906
Franchise fees	107,300	107,300	115,566	8,266
Alcohol revenue tax	3,900	3,900	5,221	1,321
Buildings permits	32,000	32,000	21,462	(10,538)
Fines and citations	67,000	67,000	70,719	3,719
MC tech fund	2,500	2,500	2,105	(395)
Penalties and interest	19,000	19,000	18,175	(825)
Interest earned	800	800	1,188	388
Miscellaneous fees	5,000	5,000	11,285	6,285
Lien revenue	6,000	6,000	5,199	(801)
Assessments	-	-	623	623
Discounts on property taxes	(22,000)	(22,000)	(17,806)	4,194
Police fund income	100	100	100	-
Grant revenue	-	22,525	32,421	9,896
<b>Total revenues</b>	<b>1,164,529</b>	<b>1,187,054</b>	<b>1,173,050</b>	<b>(14,004)</b>
<b>Expenditures</b>				
<b>Administration</b>				
Salaries and payroll taxes	133,452	136,352	135,509	843
Retirement	10,442	11,142	11,596	(454)
Medical insurance	9,890	9,890	9,012	878
Life insurance	140	160	124	36
Workmen's compensation	200	200	200	-
Travel	1,000	500	413	87
Seminars and education	330	-	-	-
Contract labor	-	285	281	4
<b>Total administration</b>	<b>155,454</b>	<b>158,529</b>	<b>157,135</b>	<b>1,394</b>
<b>General</b>				
Telephone	3,250	3,450	3,360	90
Light and power	8,000	7,000	6,763	237
General liability insurance	24,496	24,496	23,578	918
Legal notice	3,000	3,000	2,631	369
Printing and stationery	300	300	70	230
Office supplies and equipment	9,500	9,500	4,229	5,271
Postage	1,800	1,800	1,270	530
Dues and subscriptions	1,260	1,260	1,144	116
Appraisal and tax collection	16,875	18,075	17,933	142
Water and sewer	900	900	664	236
Elections costs	4,000	-	-	-
Building and maintenance	9,303	9,303	9,506	(203)
Cameron County Court costs	800	100	90	10
Town meeting and public relations	2,000	2,000	1,412	588
Office equipment maintenance	11,100	13,400	13,352	48
<b>Total general</b>	<b>96,584</b>	<b>94,584</b>	<b>86,002</b>	<b>8,582</b>

Town of Rancho Viejo, Texas  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND - CONTINUED**  
For the fiscal year ended September 30, 2014

	Budget		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
General services				
Fire department service	\$ 12,800	\$ 12,800	\$ 12,777	\$ 23
Hurricane preparedness	3,600	3,600	2,324	1,276
Fire protection contract	<u>29,500</u>	<u>29,500</u>	<u>29,500</u>	<u>-</u>
Total general services	45,900	45,900	44,601	1,299
Professional				
Legal	26,250	31,400	33,351	(1,951)
Audit	7,300	7,300	7,300	-
Building inspections	15,500	15,500	14,937	563
Municipal Judge	<u>10,842</u>	<u>10,842</u>	<u>10,782</u>	<u>60</u>
Total professional	59,892	65,042	66,370	(1,328)
Police and Security				
Salaries and payroll taxes - police	383,313	406,313	401,666	4,647
Retirement	29,811	34,511	35,443	(932)
Medical insurance	42,362	46,562	46,554	8
Life insurance	475	535	535	-
Workmen's compensation	9,500	9,500	9,170	330
Clothing and accessories	4,000	4,000	3,910	90
Cleaning of uniforms	2,500	2,800	3,104	(304)
Office supplies	3,500	3,300	3,281	19
Printing	600	600	560	40
Municipal court	200	200	-	200
Police investigation	9,535	9,535	9,301	234
Seminar and education	3,000	2,100	2,198	(98)
Auto repairs	6,500	6,500	6,899	(399)
Auto, gas and oil	32,600	27,100	27,350	(250)
Radio equipment maintenance	1,000	1,500	1,324	176
Police dispatch	7,630	6,630	6,287	343
Travel	1,600	1,600	1,165	435
Drug testing	450	450	54	396
Automobile equipment	500	500	500	-
Security devices	8,194	8,594	7,988	606
Fire prevention/1st aid police	<u>300</u>	<u>100</u>	<u>85</u>	<u>15</u>
Total police and security	547,570	572,930	567,374	5,556



Town of Rancho Viejo, Texas  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND - CONTINUED**  
For the fiscal year ended September 30, 2014

	Budget		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Street, lighting and maintenance				
Signs and safety markers	\$ 1,500	\$ 1,500	\$ 1,385	\$ 115
Lighting expense	45,050	41,885	41,186	699
Lot mowing	3,000	1,200	1,420	(220)
Common area maintenance	51,920	53,420	53,771	(351)
Mosquito spraying	5,000	1,100	846	254
Street rehabilitation	40,000	40,000	1,320	38,680
Street rehab engineering	20,000	20,000	3,281	16,719
Beautification project	5,000	5,000	4,185	815
Community alert system	1,800	1,800	1,800	-
Animal control	2,591	791	550	241
Total street, lighting and maintenance	<u>175,861</u>	<u>166,696</u>	<u>109,744</u>	<u>56,952</u>
Capital outlay				
Office equipment	<u>5,000</u>	<u>5,000</u>	<u>3,324</u>	<u>1,676</u>
Total capital outlay	<u>5,000</u>	<u>5,000</u>	<u>3,324</u>	<u>1,676</u>
Debt service	<u>20,605</u>	<u>20,710</u>	<u>20,692</u>	<u>18</u>
Total expenditures	<u>1,106,866</u>	<u>1,129,391</u>	<u>1,055,242</u>	<u>74,149</u>
Excess (deficit) of revenues over (under) expenditures	<u>\$ 57,663</u>	<u>\$ 57,663</u>	117,808	<u>\$ 60,145</u>
Fund balance, beginning of year			<u>415,206</u>	
Fund balance, end of year			<u>\$ 533,014</u>	

Town of Rancho Viejo, Texas  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the fiscal year ended September 30, 2014

**Stewardship, compliance, and accountability**

**Budgetary information**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at fiscal year end.

As required by state law, the Mayor submits to the board of Aldermen the proposed executive budget for the fiscal year prior to the beginning of such fiscal year. Public hearings are then conducted to obtain taxpayer comments.

The original annual appropriated budgets and any revisions of such budgets that affect the overall fund total expenditures are made through appropriated budget resolutions approved by the board of Aldermen. The original annual appropriated budgets are adopted by resolutions by the board of Aldermen prior to the beginning of the fiscal year as required by state law. The final annual amended appropriated budgets are used in this report. The overall fund total of actual expenditures cannot exceed the overall fund total of appropriated expenditures for such funds.

The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the overall fund total of appropriated expenditures of any fund must be approved by the Board of Aldermen.

Town of Rancho Viejo, Texas  
**PENSION PLAN SCHEDULE OF FUNDING PROGRESS**  
For the fiscal year ended September 30, 2014

Funding Progress - An analysis of funding progress for each of the ten most recent years for the Town follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funding Excess</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Liability as Percentage of Covered Payroll</u>
12/31/13	\$2,032,195	\$2,158,877	-	94.1%	\$457,009	27.7%
12/31/12	1,835,180	1,852,924	-	99.04%	454,871	3.90%
12/31/11	1,672,104	1,729,728	-	96.67%	418,107	13.78%
12/31/10	1,513,014	1,571,982	-	96.25%	422,781	13.95%
12/31/09	1,168,312	1,366,878	-	85.47%	411,710	48.23%
12/31/08	1,043,775	1,162,977	-	89.75%	385,782	30.90%
12/31/07	1,128,617	1,216,387	-	92.78%	318,685	27.54%
12/31/06	1,036,942	1,133,877	-	91.45%	326,616	29.68%
12/31/05	933,885	1,006,049	-	92.83%	337,905	21.36%
12/31/04	840,867	900,184	-	93.41%	340,409	17.43%

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**OTHER**

**SUPPLEMENTARY INFORMATION**

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Town of Rancho Viejo, Texas  
**GENERAL FUND**  
**COMPARATIVE BALANCE SHEETS**  
September 30,

Exhibit A-1

<b>ASSETS</b>		
	<u>2014</u>	<u>2013</u>
Cash	\$ 524,011	\$ 379,038
Receivables		
Taxes (net)	51,520	46,977
Assessments	54,217	54,840
Grant	<u>13,306</u>	<u>42,678</u>
 Total assets	 <u>\$ 643,054</u>	 <u>\$ 523,533</u>

**LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES**

<b>LIABILITIES</b>		
Accounts payable	\$ <u>4,303</u>	\$ <u>6,510</u>
 Total liabilities	 4,303	 6,510
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue		
Property taxes (net)	51,520	46,977
Assessments	<u>54,217</u>	<u>54,840</u>
 Total inflows of resources	 105,737	 101,817
 <b>FUND BALANCES</b>		
Assigned to:		
Street rehab reserve	99,974	44,575
Security device reserve	2,250	1,500
Beautification contribution reserve	3,843	3,843
Unassigned	<u>426,947</u>	<u>365,288</u>
Total fund balances	<u>533,014</u>	<u>415,206</u>
 Total liabilities, deferred inflows and fund balances	 <u>\$ 643,054</u>	 <u>\$ 523,533</u>

**GENERAL FUND**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
For the fiscal year ended September 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>					
Property taxes, net of discounts	\$ 820,080	\$ 792,383	\$ 791,417	\$ 707,066	\$ 673,434
State and city sales tax	68,906	67,644	55,299	51,637	45,480
Franchise fees	115,566	112,087	113,403	112,235	110,330
Alcohol revenue tax	5,221	3,932	2,014	2,041	2,510
Building permits	21,462	36,495	36,093	28,873	34,683
Fines	70,719	68,864	71,723	57,870	90,351
Assessments	623	-	592	-	16,930
Penalties and interest	18,175	22,261	20,469	19,859	10,371
Interest earned	1,188	804	700	2,253	2,127
Lien revenue	5,199	6,430	12,805	4,110	4,861
Administrative costs recovered	11,285	9,110	28,103	16,770	3,791
Miscellaneous	2,105	2,442	39,872	11,355	-
Grant revenue	32,421	42,678	-	-	-
Police fund revenues	<u>100</u>	<u>100</u>	<u>150</u>	<u>150</u>	<u>270</u>
Total revenues	1,173,050	1,165,230	1,172,640	1,014,219	995,138
<b>Expenditures</b>					
<b>Current</b>					
Administration	157,135	153,189	148,239	155,412	162,653
General	86,002	78,205	84,804	87,703	88,107
General services	44,601	46,053	34,928	47,179	47,587
Professional	66,370	65,338	52,852	55,635	47,045
Police and security	567,374	532,745	511,073	474,218	471,901
Street lighting and maintenance	109,744	152,676	139,043	107,396	115,319
Capital outlay (all departments)	3,324	51,655	128,311	78,438	79,507
Debt service	<u>20,692</u>	<u>21,446</u>	<u>18,976</u>	<u>4,215</u>	<u>13,600</u>
Total expenditures	1,055,242	1,101,307	1,118,226	1,010,196	1,025,719
Excess of revenues over (under) expenditures	117,808	63,923	54,414	4,023	(30,581)
<b>Other financing sources</b>					
Proceeds from note	-	-	-	60,000	-
Transfers in (out)	<u>-</u>	<u>-</u>	<u>(12,168)</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>(12,168)</u>	<u>60,000</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over (under) expenditures	<u>\$ 117,808</u>	<u>\$ 63,923</u>	<u>\$ 42,246</u>	<u>\$ 64,023</u>	<u>\$ (30,581)</u>



Town of Rancho Viejo, Texas  
**NON MAJOR FUNDS**  
**COMBINING BALANCE SHEET**  
September 30, 2014

Exhibit A-3

**ASSETS**

	Debt Service Fund	Police Forfeiture Fund	Total Non - Major Funds
Cash	\$ 2,959	\$ 30,497	\$ 33,456
Taxes receivables (net)	3,173	-	3,173
Total assets	\$ 6,132	\$ 30,497	\$ 36,629

**LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES**

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - Property taxes (net)	\$ 3,173	\$ -	\$ 3,173
Total inflows of resources	3,173	-	3,173

FUND BALANCES

Restricted for:

Police forfeiture funds	-	30,497	30,497
Debt service	2,959	-	2,959
Total fund balances	2,959	30,497	33,456

Total liabilities, deferred inflows and fund balances	\$ 6,132	\$ 30,497	\$ 36,629
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Town of Rancho Viejo, Texas  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON MAJOR FUNDS**

*Exhibit A-4*

For the fiscal year ended September 30, 2014

	<u>Debt Service Fund</u>	<u>Police Forfeiture Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes (net of discounts)	\$ 40,061	\$ -	\$ 40,061
Penalties and interest	1,080	-	1,080
Interest earned	14	8	22
Forfeitures	<u>-</u>	<u>38,046</u>	<u>38,046</u>
 Total revenues	 41,155	 38,054	 79,209
 Expenditures			
Current			
Police and security	-	11,925	11,925
Debt service			
Principal	30,000	-	30,000
Interest and fees	<u>21,634</u>	<u>-</u>	<u>21,634</u>
Total expenditures	<u>51,634</u>	<u>11,925</u>	<u>63,559</u>
 Excess (deficit) of revenues over (under) expenditures	 (10,479)	 26,129	 15,650
 Fund balance, October 1	 <u>13,438</u>	 <u>4,368</u>	 <u>17,806</u>
 Fund balance, September 30	 <u>\$ 2,959</u>	 <u>\$ 30,497</u>	 <u>\$ 33,456</u>

Town of Rancho Viejo, Texas  
**ANALYSIS OF TAXES RECEIVABLE**  
For the fiscal year ended September 30, 2014

Exhibit A-5

	Maintenance Taxes	Debt Service Taxes	Totals (Memorandum Only)
Taxes receivable at beginning of year	\$ 46,977	\$ 3,520	\$ 50,497
2013 original tax roll	841,856	39,720	881,576
Tax roll adjustments	<u>2,291</u>	<u>181</u>	<u>2,472</u>
Total to be accounted for	891,124	43,421	934,545
Tax collections			
Current year	816,395	38,519	854,914
Prior year	<u>23,209</u>	<u>1,729</u>	<u>24,938</u>
Total collections	<u>839,604</u>	<u>40,248</u>	<u>879,852</u>
Delinquent taxes receivable, end of year	<u>\$ 51,520</u>	<u>\$ 3,173</u>	<u>\$ 54,693</u>
Taxes receivable, by years			
2004 and prior	294	-	294
2005	690	-	690
2006	798	75	873
2007	1,162	112	1,274
2008	1,496	137	1,633
2009	1,821	165	1,986
2010	3,389	286	3,675
2011	4,030	298	4,328
2012	15,680	1,136	16,816
2013	<u>27,884</u>	<u>1,317</u>	<u>29,201</u>
	<u>57,244</u>	<u>3,526</u>	<u>60,770</u>
Allowance for uncollectible	<u>(5,724)</u>	<u>(353)</u>	<u>(6,077)</u>
Taxes receivable, end of year	<u>\$ 51,520</u>	<u>\$ 3,173</u>	<u>\$ 54,693</u>

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Property valuations				
Land improvements	\$ 225,232,726	\$ 220,885,722	\$ 216,935,218	\$ 212,909,054
Total property valuations	<u>\$ 225,232,726</u>	<u>\$ 220,885,722</u>	<u>\$ 216,935,218</u>	<u>\$ 212,909,054</u>
Tax rates per \$100 valuations				
Debt service tax rates	0.017659	0.026471	0.027017	0.028542
Maintenance tax rates	<u>0.374275</u>	<u>0.365463</u>	<u>0.364917</u>	<u>0.338195</u>
Total tax rates per \$100 valuations	<u>\$ 0.391934</u>	<u>\$ 0.391934</u>	<u>\$ 0.391934</u>	<u>\$ 0.366737</u>

Tax Year: From October 1, 2013 to September 30, 2014

Percent of the assessed valuation to fair market value	100%
Percent of current taxes collected to current taxes levied	96.98%
Percent of current and delinquent taxes collected to current and delinquent taxes outstanding at the beginning of the year	94.15%

Town of Rancho Viejo, Texas  
**INSURANCE COVERAGE**  
September 30, 2014

<u>Type of Coverage</u>	<u>From</u>	<u>To</u>	<u>Amount of Coverage</u>
Insurer - Texas Windstorm Insurance Association			
Windstorm and Hail:			
Building			
Building and contents	05/31/14 11/19/13	05/31/15 11/19/14	\$ 950,000 102,950
Insurer-Texas Municipal League Joint Self-Insurance Fund			
Liability:			
General liability	10/01/13	10/01/14	5,000,000
Automobile liability	10/01/13	10/01/14	5,000,000
Law enforcement liability	10/01/13	10/01/14	5,000,000
Errors and omissions liability	10/01/13	10/01/14	5,000,000
Automobile physical damage	10/01/13	10/01/14	as scheduled
Valuable papers and records and EDP Media	10/01/13	10/01/14	10,000
Accounts receivable	10/01/13	10/01/14	10,000
Loss of revenue, extra expense and rents	10/01/13	10/01/14	25,000
Personal effects	10/01/13	10/01/14	5,000
Leasehold interest	10/01/13	10/01/14	5,000
Outdoor trees and shrubs	10/01/13	10/01/14	10,000
Blanket Limit - real and personal property	10/01/13	10/01/14	1,271,493
Transit limit	10/01/13	10/01/14	1,000,000
Boiler and machinery	10/01/13	10/01/14	100,000
Workmen's compensation liability	10/01/13	10/01/14	statutory
Fire Hall	10/01/13	10/01/14	87,700
Town Hall	10/01/13	10/01/14	1,047,900
Playground equipment	10/01/13	10/01/14	84,143
Flag pole	10/01/13	10/01/14	1,000
Security cameras	10/01/13	10/01/14	25,200
Generator	10/01/13	10/01/14	26,000
Insurer - Merchants Mutual Bonding Company			
Surety Bonds:			
Town Secretary	09/20/14	09/20/15	10,000
Public Officials (8 policemen) each various renewal dates			5,000

## **COMPLIANCE SECTION**

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**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**

The Honorable Mayor and  
Members of the Board of Aldermen  
Town of Rancho Viejo, Texas

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, each major fund, and the aggregate remaining fund information of the Town of Rancho Viejo, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Rancho Viejo, Texas' basic financial statements, and have issued our report thereon dated February 9, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Rancho Viejo, Texas' 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 Town of Rancho Viejo, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Rancho Viejo, Texas' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 14-1, that we considered to be a significant deficiency.

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## Response to Finding

Town of Rancho Viejo, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Rancho Viejo, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Rancho Viejo, Texas' 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.



**LONG CHILTON, LLP**  
*Certified Public Accountants*

Harlingen, Texas  
February 9, 2015

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Town of Rancho Viejo, Texas  
**SCHEDULE OF FINDINGS AND RESPONSES**  
September 30, 2014

**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)?	___X___ yes	_____ no
Noncompliance material to financial statements noted?	_____ yes	___X___ no

Town of Rancho Viejo, Texas  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
September 30, 2014

**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**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
<b>Reference Number: (14-1)</b>	<b>Segregation of Duties</b>
Criteria:	Internal controls are a major part of managing a local government's financial operations and assuring taxpayers that a local government is handling their money responsibly.
Condition Found:	During our audit of the Town's financial statements, we observed internal accounting control weaknesses due primarily to the fact that the number of employees employed by the Town prohibits the ability of the organization to cover all aspects of internal control.
Context:	Not applicable.
Effect:	A lack of proper internal controls, which include adequate segregation of duties, could result in controls not operating as designed to safeguard assets and help detect and prevent errors and fraud.
Cause:	Due to the limited number of people working in the office, many critical duties are combined and given to the available employees.
Recommendation:	Although we believe that the existing policies and procedures employed by the Town represent the best available alternatives for sound internal controls, we recommend that the Mayor and Board of Aldermen remain involved in the financial affairs of the Town to provide oversight and independent review functions.

Town of Rancho Viejo, Texas  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
September 30, 2014

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

**B. Compliance Findings**

**None reported**

Town of Rancho Viejo, Texas  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**  
September 30, 2014

<u>PROGRAM</u>	<u>STATUS OF PRIOR YEAR FINDING/NEW COMPLIANCE</u>
<b>Reference Number: (13-1)</b>	<b>Segregation of Duties</b>  The Mayor and Board of Aldermen remain involved in the financial affairs of the Town. See current year finding 14-1.

Town of Rancho Viejo, Texas  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**CORRECTIVE ACTION PLAN**  
September 30, 2014

**PROGRAM**

**Reference Number: (14-1)**

Correction Action Plan:

**CORRECTIVE ACTION PLAN**

**Segregation of Duties**

Mayor and Board of Alderman will remain involved in the financial affairs of the Town.

**CERTIFICATE OF THE MAYOR AND ALDERMEN**

Town of Rancho Viejo, Texas  
Name of Town

Cameron  
County

We, the undersigned, do hereby certify that the audit report of the **Town of Rancho Viejo, Texas**, for the fiscal year ended September 30, 2014, was received by the Mayor and Aldermen on the \_\_\_\_ day of \_\_\_\_\_ 2015, and was reviewed and \_\_\_ approved \_\_\_ disapproved at a meeting of the Aldermen of the **Town of Rancho Viejo, Texas**, on the \_\_\_\_ day of \_\_\_\_\_ 20 15 .

\_\_\_\_\_  
Signature of Town Secretary/Administrator

\_\_\_\_\_  
Signature of Mayor