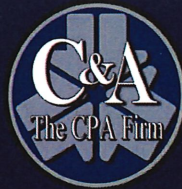




**Annual Financial Report
for the Year Ended
September 30, 2018**



Cascos & Associates, PC

Audit / Accounting / Tax / Consulting

765 East 7th Street

Brownsville, Texas

78520

(956) 544-7778

info@CascosCPA.com

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TOWN OF RANCHO VIEJO, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

SEPTEMBER 30, 2018

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TOWN OF RANCHO VIEJO, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

TOWN OFFICIALS

Mayor	Cyndie Rathbun
Alderman	Javier Vera
Alderwoman	Bitty Truan
Alderwoman	Grace Salinas
Alderwoman	Maribel Guerrero
Alderman	David L. Tumlinson, IV
Attorney	Daniel Rentfro, Jr.
Municipal Judge	Ricardo M. Adobbati
Cameron County Tax Assessor - Collector	Tony Yzaguirre, Jr.
Town Administrator	Alfredo Blanco

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TOWN OF RANCHO VIEJO, TEXAS

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FINANCIAL SECTION

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Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

INDEPENDENT AUDITORS' REPORT

To 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, 2018, and the related notes to the financial statements, which collectively comprise Town of Rancho Viejo, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Town of Rancho Viejo, Texas' 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, each major fund, and the aggregate remaining fund information of the Town of Rancho Viejo, Texas as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and required supplementary information, as listed in the table of contents, 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 Town of Rancho Viejo, Texas' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements 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 combining nonmajor financial statements 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 April 2, 2019, on our consideration of 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.



Brownsville, Texas
April 2, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2018. 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 \$2,149,386 (net position). Of this amount, \$1,073,518 (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 \$114 during the fiscal year, which includes \$308,478 of depreciation expense.
- The general fund balance at September 30, 2018 was \$1,168,439 an increase of \$133,365 during the fiscal year. Of this amount, \$750,000 is assigned for street rehab, \$10,000 is assigned for monument reserve, \$6,000 is assigned to bus stop, \$300,000 is assigned for operations and \$102,439 is unassigned.

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, 2018.

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 \$2,123,664 and \$2,149,386 at September 30, 2017 and 2018, respectively. An analysis of the Town's net position is shown below:

	<u>2018</u>	<u>2017</u>
Capital assets, net	\$ 2,620,046	\$ 1,767,353
Current and other asset	<u>3,081,769</u>	<u>4,015,586</u>
Total assets	<u>5,701,815</u>	<u>5,782,939</u>
Deferred Outflows of Resources	<u>72,362</u>	<u>180,496</u>
Totals deferred outflows of resources	<u>72,362</u>	<u>180,496</u>
Total liabilities	<u>3,518,530</u>	<u>3,821,748</u>
Deferred Inflows of Resources	<u>106,333</u>	<u>18,023</u>
Totals deferred outflows of resources	<u>106,333</u>	<u>18,023</u>
Net position		
Net investment in capital assets	1,060,288	1,117,079
Restricted for:		
Police forfeiture funds	13,495	13,673
Debt service	2,085	2,315
Unrestricted	<u>1,073,518</u>	<u>990,597</u>
Total net position	<u>\$ 2,149,386</u>	<u>\$ 2,123,664</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>2018</u>	<u>2017</u>
Net operating revenues	\$ 1,541,624	\$ 1,546,872
Operating expenses	<u>1,541,738</u>	<u>1,561,312</u>
Excess revenues over expenses	(114)	(14,440)
Net position at beginning of year	<u>2,123,664</u>	<u>2,138,104</u>
Prior period adjustment	<u>25,836</u>	-
Net position at end of year	<u>\$ 2,149,386</u>	<u>\$ 2,123,664</u>

General Fund Budgetary Highlights

Actual expenditures were \$97,913 less than budgeted expenditures.

Analysis of Changes in Capital Assets and Long-Term Debt

At the end of 2018, the Town had invested \$2,620,046, net of depreciation, in a broad range of capital assets, including buildings, vehicles and equipment.

Long-term debt, at the end of 2018, included the General Obligation refunding bonds, Series 2012 and Certificate of Obligation, Series 2016. 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 \$120,000 on these notes which left a balance of \$3,367,000.

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

	Balance October 1, 2017	Additions	Deletions	Balance September 30, 2018
Capital assets, not being depreciated				
Land	\$ 178,580	\$ -	\$ -	\$ 178,580
Construction in progress	261,328	1,064,773	-	1,326,101
Total capital assets, not depreciated	<u>439,908</u>	<u>1,064,773</u>	<u>-</u>	<u>1,504,681</u>
Capital assets, being depreciated				
Buildings	1,190,538	-	-	1,190,538
Improvements	146,821	-	-	146,821
Vehicles and equipment	817,671	96,398	(72,587)	841,482
Infrastructure	<u>1,678,860</u>	<u>-</u>	<u>-</u>	<u>1,678,860</u>
Total capital assets, depreciated	<u>3,833,890</u>	<u>96,398</u>	<u>(72,587)</u>	<u>3,857,701</u>
Less accumulated depreciation for:				
Buildings	(454,412)	(39,939)	-	(494,351)
Improvements	(59,224)	(4,194)	-	(63,418)
Vehicles and equipment	(562,811)	(96,225)	72,587	(586,449)
Infrastructure	<u>(1,429,998)</u>	<u>(168,120)</u>	<u>-</u>	<u>(1,598,118)</u>
Total accumulated depreciation	<u>(2,506,445)</u>	<u>(308,478)</u>	<u>-</u>	<u>(2,742,336)</u>
Total capital assets, being depreciated, net	<u>1,327,445</u>	<u>(212,080)</u>	<u>-</u>	<u>1,115,365</u>
Governmental activities, capital assets, net	<u>\$ 1,767,353</u>	<u>\$ 852,693</u>	<u>\$ -</u>	<u>\$ 2,620,046</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, 2019 are \$1,332,969 while total budgeted expenditures are \$1,325,823. Total taxable value for the 2018-2019 fiscal year is \$267,612,019 compared to \$255,898,005 in the 2017-2018 fiscal year. The tax rate for next year was set at .450000/\$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

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EXHIBIT A-1

TOWN OF RANCHO VIEJO, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,000,656
Receivables, (net):	
Property taxes	38,719
Assessments	27,475
Grant	4,144
Net pension asset	10,775
Capital assets not being depreciated:	
Land	178,580
Construction in progress	1,326,101
Capital assets, net of accumulated depreciation:	
Buildings	696,187
Improvements	83,403
Vehicles and equipment	255,033
Infrastructure	80,742
Total assets	<u>5,701,815</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow related to pensions	70,503
Deferred outflow related to OPEB	1,859
Total deferred outflows of resources	<u>72,362</u>
LIABILITIES	
Accounts payable	14,742
Accrued wages payable	20,505
Non-current liabilities:	
Due in one year	130,000
Due in more than one year	3,336,160
OPEB liability	17,123
Total liabilities	<u>3,518,530</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	106,261
Total deferred inflows of resources	<u>106,261</u>
NET POSITION	
Net investment in capital assets	1,060,288
Restricted for	
Police forfeiture funds	13,495
Debt service	2,085
Unrestricted	1,073,518
Total net position	<u>\$ 2,149,386</u>

The accompanying notes are an integral part of this statement.

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EXHIBIT B-1

TOWN OF RANCHO VIEJO, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Functions/Programs	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	
	Expenses		<u>Primary Government</u>
			Total
Governmental activities:			
General government	\$ 472,829	\$ -	\$ (391,394)
Public safety	801,395	54,128	(687,397)
Public works	150,374	-	(160,466)
Streets	10,280	-	(10,280)
Interest and issuance costs	106,860	-	(106,860)
Total governmental activities	1,541,738	54,128	(1,356,397)
Total primary government	\$ 1,541,738	\$ 54,128	(1,356,397)
General revenues:			
Taxes:			
Property taxes, levied for general purposes			891,562
Property taxes, levied for debt service			235,883
Sales taxes			84,898
Franchise taxes			127,764
Alcohol and beverage			5,903
Investment earnings			6,840
Miscellaneous			3,433
Total general revenues			1,356,283
Change in net position			(114)
Net position--beginning			2,123,664
Prior period adjustment			25,836
Net position--ending			\$ 2,149,386

The accompanying notes are an integral part of this statement.

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TOWN OF RANCHO VIEJO, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2018

	General Fund	Capital Project Fund	Debt Service Fund	Other Non-major Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,177,834	\$ 1,807,242	\$ 2,085	\$ 13,495	\$ 3,000,656
Receivables, (net of allowance):					
Property taxes	32,476	-	6,243	-	38,719
Assessments	27,475	-	-	-	27,475
Intergovernmental receivable	4,144	-	-	-	4,144
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 1,241,929</u>	<u>\$ 1,807,242</u>	<u>\$ 8,328</u>	<u>\$ 13,495</u>	<u>\$ 3,070,994</u>
LIABILITIES					
Accounts payable	\$ 14,742	\$ -	\$ -	\$ -	\$ 14,742
Accrued wages payable	20,505	-	-	-	20,505
Due to other funds	-	-	-	-	-
Total liabilities	<u>35,247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,247</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	32,476	-	-	-	32,476
Unavailable revenue - special assessments	<u>5,767</u>	<u>-</u>	<u>6,243</u>	<u>-</u>	<u>12,010</u>
Total deferred inflows of resources	<u>38,243</u>	<u>-</u>	<u>6,243</u>	<u>-</u>	<u>44,486</u>
FUND BALANCES					
Restricted for:					
Public safety	-	-	-	13,495	13,495
Debt service	-	-	2,085	-	2,085
Street maintenance and rehabilitation	-	1,807,242	-	-	1,807,242
Assigned to:					
Street maintenance and rehabilitation	750,000	-	-	-	750,000
Monument reserve	10,000	-	-	-	10,000
Bus stop	6,000	-	-	-	6,000
Operations reserve	300,000	-	-	-	300,000
Unassigned	<u>102,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,439</u>
Total fund balances	<u>1,168,439</u>	<u>1,807,242</u>	<u>2,085</u>	<u>13,495</u>	<u>2,991,261</u>
Total liabilities, deferred inflows & fund balance	<u>\$ 1,241,929</u>	<u>\$ 1,807,242</u>	<u>\$ 8,328</u>	<u>\$ 13,495</u>	<u>\$ 3,070,994</u>

The accompanying notes are an integral part of this statement.

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TOWN OF RANCHO VIEJO, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2018

Fund balances -- total governmental funds	\$ 2,991,261
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.	2,620,046
Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(3,466,160)
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.	44,486
Included in the items related to debt is the recognition of the Town's net pension asset required by GASB 68 in the amount of \$10,775, a deferred resource inflow related to pensions in the amount of \$106,261, a deferred resource outflow related to pensions in the amount \$70,503.	(24,983)
Included in the items related to debt is the recognition of the Town's net pension OPEB liability required by GASB 75 in the amount of \$17,123, a deferred resource inflow related outflow related OPEB in the amount of \$1,859.	(15,264)
Net position of governmental activities	<u>\$ 2,149,386</u>

The accompanying notes are an integral part of this statement.

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TOWN OF RANCHO VIEJO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Capital Projects Fund	Debt Service Fund	Other Non-major Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 908,006	\$ -	235,883	\$ -	\$ 1,143,889
Sales taxes	84,898	-	-	-	84,898
Franchise taxes	127,764	-	-	-	127,764
Alcohol and beverage taxes	5,903	-	-	-	5,903
Licenses and permits	37,708	-	-	-	37,708
Intergovernmental	54,128	-	-	-	54,128
Charges for services	43,727	-	-	-	43,727
Fines and forfeitures	52,645	-	-	7,225	59,870
Investment earnings	2,662	4,052	111	15	6,840
Special assessments	7,206	-	-	-	7,206
Miscellaneous	1,600	-	-	-	1,600
Total revenues	<u>1,326,247</u>	<u>4,052</u>	<u>235,994</u>	<u>7,240</u>	<u>1,573,533</u>
EXPENDITURES					
General government:					
Administration	176,570	-	-	-	176,570
General	122,306	-	-	-	122,306
Professional	71,214	-	-	-	71,214
Public Safety:					
General services	30,000	-	-	-	30,000
Police	586,294	-	-	7,418	593,712
Public works	118,202	-	-	-	118,202
Streets	8,080	-	-	-	8,080
Debt service:					
Principal	-	-	120,000	-	120,000
Interest	-	-	106,860	-	106,860
Issuance costs	-	-	-	-	-
Capital outlay	87,366	1,073,805	-	-	1,161,171
Total expenditures	<u>1,200,032</u>	<u>1,073,805</u>	<u>226,860</u>	<u>7,418</u>	<u>2,508,115</u>
Excess (deficiency) of revenues over (under) expenditures	<u>126,215</u>	<u>(1,069,753)</u>	<u>9,134</u>	<u>(178)</u>	<u>(934,582)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	7,150	-	-	-	7,150
Transfers out	-	-	(7,150)	-	(7,150)
Total financing sources (uses)	<u>7,150</u>	<u>-</u>	<u>(7,150)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	133,365	(1,069,753)	1,984	(178)	(934,582)
Fund balances, October 1	<u>1,035,074</u>	<u>2,836,726</u>	<u>101</u>	<u>13,673</u>	<u>3,885,574</u>
Prior period adjustment	-	40,269	-	-	40,269
Fund balances, September 30	<u>\$ 1,168,439</u>	<u>\$ 1,807,242</u>	<u>\$ 2,085</u>	<u>\$ 13,495</u>	<u>\$ 2,991,261</u>

The accompanying notes are an integral part of this statement.

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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 YEAR ENDED SEPTEMBER 30, 2018

Net change in fund balances -- total governmental funds	\$ (934,582)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	852,693
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	120,000
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.	(10,377)
Some pension-related expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	4,892
Other long term assets, such as assessments receivable, are not available to pay for current period expenditures and therefore are unearned in the funds	<u>(32,512)</u>
Change in net position of governmental activities	<u>\$ 114</u>

The accompanying notes are an integral part of this statement.

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TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Rancho Viejo, 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 and 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.

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Capital Projects Fund: The Town uses the account for the financial resources that are restricted, committed, or assigned to expenditures for capital outlay.

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.

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

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.

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

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.

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 \$99,160 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.

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

8. Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

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.

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

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

SEPTEMBER 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

12. *Net Pension Liability*

During fiscal year 2015, the Town adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the Town must assume their appropriate share of Net Pension Liability of the Texas Municipal Retirement System.

During fiscal year 2018, the Town adopted GASB Statement No. 75 for Accounting and Reporting for Other Post-Employment Benefits Other Than Pensions.

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
SEPTEMBER 30, 2018

NOTE B - DEPOSITS AND INVESTMENTS

Investment Accounting Policy - 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, 2018, the carrying amount of the Town's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$3,000,656 and the bank balance was \$3,019,017.

The Town's cash deposits at September 30, 2018 are maintained primarily at Texas Regional Bank. 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
SEPTEMBER 30, 2018

NOTE B - DEPOSITS AND INVESTMENTS

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 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, 2018, consist of the following:

	General	Non-Major and Other	Total
Receivables:			
Taxes	\$ 36,032	\$ 6,822	\$ 42,854
Assessments and other	27,475	-	27,475
	<hr/>	<hr/>	<hr/>
Gross receivables	63,507	6,822	70,329
Less allowance for uncollectable	(3,556)	(578)	(4,134)
	<hr/>	<hr/>	<hr/>
Net total receivables	<u>\$ 59,951</u>	<u>\$ 6,244</u>	<u>\$ 66,195</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, 2018, was \$27,475 and the Town did not estimate that an allowance was necessary at that time.

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE C – RECEIVABLES

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, 2018		
	Debt Service Tax	Maintenance Tax	Total
2005	\$ -	\$ 637	\$ 637
2006	40	430	470
2007	43	453	496
2008	56	607	663
2009	73	803	876
2010	89	1,053	1,142
2011	93	1,250	1,343
2012	111	1,530	1,641
2013	63	1,329	1,392
2014	96	1,868	1,964
2015	163	3,234	3,397
2016	1,216	4,523	5,739
2017	4,779	18,314	23,093
	6,822	36,031	42,853
Allowance for uncollectible	(578)	(3,556)	(4,134)
Total receivable at end of year	\$ 6,244	\$ 32,475	\$ 38,719

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE E - 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, 2018, total current and delinquent property liens were \$38,719.

NOTE F- CAPITAL ASSETS

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

	Balance October 1, 2017	Additions	Deletions	Balance September 30, 2018
Capital assets, not being depreciated				
Land	\$ 178,580	\$ -	\$ -	\$ 178,580
Construction in progress	261,328	1,064,773	-	1,326,101
Total capital assets, not depreciated	439,908	1,064,773	-	1,504,681
Capital assets, being depreciated				
Buildings	1,190,538	-	-	1,190,538
Improvements	146,821	-	-	146,821
Vehicles and equipment	817,671	96,398	(72,587)	841,482
Infrastructure	1,678,860	-	-	1,678,860
Total capital assets, depreciated	3,833,890	96,398	(72,587)	3,857,701
Less accumulated depreciation for:				
Buildings	(454,412)	(39,939)	-	(494,351)
Improvements	(59,224)	(4,194)	-	(63,418)
Vehicles and equipment	(562,811)	(96,225)	72,587	(586,449)
Infrastructure	(1,429,998)	(168,120)	-	(1,598,118)
Total accumulated depreciation	(2,506,445)	(308,478)	72,587	(2,742,336)
Total capital assets, being depreciated, net	1,327,445	(212,080)	-	1,115,365
Governmental activities, capital assets, net	\$ 1,767,353	\$ 852,693	\$ -	\$ 2,620,046

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:

General government	\$ 101,477
Public safety	172,368
Public works	32,417
Streets	2,216
Total depreciation-governmental activities	\$ 308,478

TOWN OF RANCHO VIEJO, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

NOTE G - LONG-TERM OBLIGATIONS

Bonds Payable

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%.

Certificate of Obligation, Series 2016

On August 25, 2016, the Town authorized issuance of Town of Rancho Viejo, Certificates of Obligation, Series 2016, in the amount of \$3,150,000. These bonds were issued for the purpose of paying contractual obligations of the Town to be incurred for certain projects. Principal payments are due on January 1, and interest payments are due annually, March 1 of each year commencing July 26, 2016 and continuing thereafter until maturity in 2036 with interest at rate 3.380%.

	Balance October 1, 2017	Additions	Retirements	Balance September 30, 2018
General Obligations Refunding Bonds, Series 2012	\$ 422,000	\$ -	\$ 35,000	\$ 387,000
Certificate of Obligation Series 2016	3,065,000	-	85,000	2,980,000
Total	<u>\$ 3,487,000</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 3,367,000</u>

Annual debt service requirements are as follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2019	\$ 130,000	\$ 114,421	\$ 244,421
2020	135,000	109,830	244,830
2021	140,000	105,054	245,054
2022	150,000	100,072	250,072
2023	155,000	94,710	249,710
2024-2028	877,000	384,291	1,261,291
2029-2033	1,055,000	214,208	1,269,208
2034-2038	725,000	37,265	762,265
Total	<u>\$ 3,367,000</u>	<u>\$ 1,159,851</u>	<u>\$ 4,526,851</u>

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE H – CHANGES IN LONG –TERM LIABILITIES

Long-term liability activity for the governmental activities for the year ended September 30, 2018, was as follows:

	Balance October 1, 2017	Additions	Retirements	Balance September 30, 2018	Amount Due Within One Year
Certificate of Obligations	\$ 3,487,000	\$ -	\$ 120,000	\$ 3,367,000	\$ 130,000
OPEB Liability	-	17,594	471	17,123	-
Compensated Absences	88,783	15,333	4,956	99,160	-
Total	<u>\$ 3,575,783</u>	<u>\$ 32,927</u>	<u>\$ 125,427</u>	<u>\$ 3,483,283</u>	<u>\$ 130,000</u>

NOTE I - EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Town participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.org.

All eligible employees of the Town are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the Town-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employee deposit rate	7%
Matching ratio (Town to employee)	1.5 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100%
Annuity Increase (to retirees)	0% of CPI

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM

Employees covered by benefit terms.

At December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>10</u>
	<u>17</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Town matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contributions rate for each town is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 7.49% and 8.11% in calendar years 2017 and 2018, respectively. The Town's contributions to TMRS for the year ended September 30, 2018, were \$38,818, and were equal to the required contribution.

Net Pension Liability

The Town's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in December 31, 2017 actuarial was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study Analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

Net Pension Liability

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS. The target allocation and best estimates of arithmetic real rates return for each major assets class are summarized in the following table:

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 2,563,867	\$ 2,377,263	\$ 186,604
Changes for the year:			
Service cost	63,439	-	63,439
Interest	171,921	-	171,921
Change of benefit terms	-	-	-
Difference between expected and actual experience	(29,493)	-	(29,493)
Benefit payments, including refunds of employee contributions	(97,222)	-	(97,222)
Changes of assumptions	-	-	-
Contributions - employer	-	38,818	(38,818)
Contributions - employee	-	36,670	(36,670)
Net investment income	-	329,552	(329,552)
refunds of employee contributions	-	(97,222)	97,222
Administrative expense	-	(1,708)	1,708
Other changes	-	(86)	86
Net changes	108,645	306,024	(197,379)
Balance at 12/31/2017	<u>\$ 2,672,512</u>	<u>\$ 2,683,287</u>	<u>\$ (10,775)</u>

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - EMPLOYEE RETIREMENT SYSTEM

The following presents the net pension liability of the Town, calculated using the discount rate of 6.75%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Town's net pension liability (Asset)	\$ 348,594	\$ (10,775)	\$ (308,144)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at www.tmrs.org.

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

For the year ended September 30, 2018, the Town recognized pension expense of \$42,885.

At September 30, 2018, the Town reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 19,352	\$ 38,709
Changes in actuarial assumptions	21,805	-
Difference between projected and actual investment earnings	-	67,552
Contributions subsequent to the measurement date	29,346	-
Total	<u>\$ 70,503</u>	<u>\$ 106,261</u>

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEM

Pension Expense and Deferred Outflows of Resources Related to Pensions

\$29,346 reported as deferred outflows of resources related to pension 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year ended September 30,</u>	
2018	\$ 2,863
2019	(2,639)
2020	(31,094)
2021	(29,523)
2022	(430)
Thereafter	(4,281)
Total	<u><u>\$ (65,104)</u></u>

NOTE J – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

TMRS Supplemental Death Benefit Fund

Plan Description:

The Town voluntarily participates in the Texas Municipal Retirement System Supplemental Death Benefits Fund (TMRS SDBF). The SDBF is a single-employer defined benefit Other Postemployment Benefit (OPEB) plan as defined by GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. It is established and administered in accordance with the TMRS Act identically to the Town's pension plan.

Benefits Provided:

The SDBF provides group-term life insurance to Town employees who are active members in TMRS, including or not including retirees. The Town Council opted into this program via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of \$7,500.

The number of employees currently covered by the benefit terms is as follows

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>10</u>
	<u><u>14</u></u>

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

NOTE J – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Contributions:

The Town contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.08% for 2018 and 0.09% for 2017, of which 0.01% and 0.01%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The Town's contributions to the SDBF for the years ended September 30, 2018 and 2017 were \$0 and \$0, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Actuarial Assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Measurement year ended December 31,	2017
Inflation rate	2.5% per annum
Actuarial cost method	Entry Age Normal Method
Projected salary increase	3.5% to 10.5% including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the following:

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor. Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for under the provisions of GASB Statement No. 68.

Changes in assumptions reflect the annual change in the municipal bond rate. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Discount Rate:

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.31% was used to measure the Total OPEB Liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2017.

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE J – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Discount Rate Sensitivity Analysis:

The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.31%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	\$ 21,531	\$ 17,123	\$ 13,747

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs:

At September 30, 2018, the Town reported a liability of \$12,706 for its Total OPEB Liability. The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2017. For the year ended September 30, 2018, the Town recognized OPEB expense of \$2,559. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/2016	\$ 14,433
Changes for the year:	
Service Cost	471
Interest	553
Changes of assumptions	1,718
Benefit payments	(52)
Net Changes	2,690
Balance at 12/31/2017	<u>\$ 17,123</u>

At September 30, 2018, the Town reported deferred outflows of resources related to other post-employment benefits from the following sources

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 1,530
Contributions subsequent to the measurement date	329
Totals	<u>\$ 1,859</u>

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE J – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Amounts of the reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year <u>Ended September 30,</u>		
2018	\$	188
2019		188
2020		188
2021		188
2022		188
Thereafter		<u>590</u>
Total	\$	<u><u>1,530</u></u>

NOTE K - 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 Position of Individual Funds

Following are funds having deficit fund balances or net position 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

NOTE L - 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.

TOWN OF RANCHO VIEJO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE M - 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, 2018, the Town's other employee benefit costs totaled \$73,313.

NOTE N - 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 O - 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:

Governmental funds	
Delinquent property taxes receivable	\$ 38,719
Assessments	<u>27,475</u>
	<u>\$ 66,194</u>

NOTE P – PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the Town adopted GASB statement No.75 for Accounting and financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the Town must assume their proportionate share of the Net OPEB liability of Texas Municipal Retirement System. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior adjustment totaled (\$14,433).

To adjust to beginning balances from prior year. Obligations construction expense of \$40,269 that was paid prior year.

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REQUIRED SUPPLEMENTARY INFORMATION

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TOWN OF RANCHO VIEJO, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Revenues:				
Administration costs recovered	\$ 14,000	\$ 27,000	\$ 26,116	\$ (884)
Property taxes	916,792	916,792	909,750	(7,042)
Discount on property taxes	(19,500)	(19,500)	(18,491)	1,009
Penalty and interest on taxes	23,000	23,000	16,747	(6,253)
Alcohol and beverage tax	7,300	7,300	5,903	(1,397)
Building permits	38,000	38,000	37,708	(292)
Citations and fines	81,000	54,000	51,911	(2,089)
Municipal court technology fee	1,600	1,600	734	(866)
Franchise fees	116,100	116,100	127,764	11,664
Interest from investments	2,000	2,000	2,662	662
Assessment and lien revenue	6,500	6,500	5,373	(1,127)
Interest on assessments and liens	-	-	1,833	1,833
Sales tax	87,500	87,500	84,898	(2,602)
Vehicle loan	-	54,279	-	(54,279)
Grant revenue	48,803	64,803	54,128	(10,675)
Donations	9,400	9,400	17,611	8,211
Other revenue	100	1,700	1,600	(100)
Total revenues	1,332,595	1,390,474	1,326,247	(64,227)
Expenditures:				
Administration:				
Salaries and payroll taxes	149,300	149,300	149,606	(306)
Retirement	9,600	9,600	9,600	-
Medical insurance	13,718	13,718	14,161	(443)
Life insurance	140	140	114	26
Workmen's compensation	200	200	200	-
Travel	2,000	2,000	1,674	326
Seminars and education	1,200	1,200	1,215	(15)
Total administration	176,158	176,158	176,570	(412)
General:				
Telephone	4,200	4,800	4,711	89
Electricity	6,800	7,800	7,859	(59)
General liability insurance	29,100	25,300	19,517	5,783
Legal notices	2,300	2,300	2,482	(182)
Office supplies	4,300	5,800	5,761	39
Postage	800	800	858	(58)
Dues and publications	2,543	2,543	2,379	164
Appraisal and tax collection	25,248	25,248	22,805	2,443
Water	1,900	1,900	1,826	74
Election costs	4,000	4,700	4,677	23
Building/yard maintenance	9,500	14,250	15,339	(1,089)
Cameron County Court costs	555	555	664	(109)
Public relations	8,000	20,000	20,041	(41)
Municipal court supplies	3,350	3,350	3,462	(112)
Signs and safety markers	3,000	3,000	2,551	449
Office equipment maintenance	7,500	7,500	7,374	126
Total general	113,096	129,846	122,306	7,540

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TOWN OF RANCHO VIEJO, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Expenditures (continued)				
General services:				
Fire department service	\$ 8,400	\$ 8,400	\$ -	\$ 8,400
Fire hydrants	-	-	-	-
Fire protection contract	30,000	30,000	30,000	-
Total general services	38,400	38,400	30,000	8,400
Professional:				
Legal	32,000	32,000	33,364	(1,364)
Audit	7,800	7,800	7,800	-
Building inspections	22,000	22,000	18,130	3,870
Municipal judge	12,042	12,042	11,920	122
Total professional	73,842	73,842	71,214	2,628
Police general:				
Salaries and payroll taxes	436,887	452,887	409,135	43,752
Retirement	31,072	31,072	34,568	(3,496)
Medical insurance	59,413	59,413	58,536	877
Life insurance	544	544	451	93
Workmen's compensation	11,474	11,474	11,474	-
Clothing and accessories	3,000	7,941	2,300	5,641
Cleaning of uniforms	2,500	2,500	2,766	(266)
Office supplies	4,122	4,122	4,055	67
Printing	100	550	510	40
Police investigation	16,798	16,348	16,256	92
Seminar and education	3,100	1,900	1,391	509
Auto repairs	8,000	9,700	9,943	(243)
Auto, gas and oil	20,250	19,750	19,889	(139)
Radio equipment maintenance	1,000	1,000	690	310
Police dispatch	3,600	3,600	3,168	432
Travel	1,600	1,600	722	878
Mosquito spraying	5,000	7,000	8,059	(1,059)
Hurricane preparedness	1,300	1,300	2,290	(990)
Fire prevention/1st aid police	300	300	91	209
Total police general	610,060	633,001	586,294	46,707

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TOWN OF RANCHO VIEJO, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Expenditures (continued)				
Public Works				
Lighting expense	\$ 40,000	\$ 40,000	\$ 39,999	\$ 1
Lot mowing	1,000	1,700	2,075	(375)
Common area maintenance	57,430	57,430	57,170	260
Beautification project	5,000	6,000	6,316	(316)
Community alert system	1,800	1,800	1,800	-
Animal control	1,275	1,275	1,061	214
Security devices	8,250	9,750	9,781	(31)
Total public works	114,755	117,955	118,202	(247)
Streets				
Street rehabilitation and engineering	25,000	25,000	8,080	16,920
Street reserve	80,000	80,000	-	80,000
Total streets	105,000	105,000	8,080	96,920
Vehicle Loan				
Principal payment	-	8,250	-	8,250
Total vehicle load	-	8,250	-	8,250
Capital outlay				
Office equipment	5,000	5,000	4,797	203
Automobile	28,691	82,970	82,569	401
Total capital outlay	33,691	87,970	87,366	604
Total expenditures	1,265,002	1,362,172	1,200,032	162,140
Excess of revenues over expenditures	\$ 67,593	\$ 28,302	126,215	\$ 97,913
Other financing sources (uses):				
Transfers in (use)		7,149	7,150	(1)
Fund balance, beginning of year			1,035,074	
Fund balance, end of year			\$ 1,168,439	

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TOWN OF RANCHO VIEJO, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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.

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TOWN OF RANCHO VIEJO, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	2014	2015	2016	2017
Total pension liability				
Services cost	\$ 54,637	\$ 57,686	\$ 65,539	\$ 63,439
Interest (on the total pension liability)	150,296	156,488	161,481	171,921
Difference between expected and actual experience	(30,295)	(2,640)	25,912	(29,493)
Changes of assumptions	-	38,536	-	-
Benefit payments, including refunds of employee contributions	(78,206)	(97,222)	(97,222)	(97,222)
Net change in total pension liability	96,432	152,848	155,710	108,645
Total pension liability - beginning	2,158,877	2,255,309	2,408,157	2,563,867
Total pension liability - ending	\$ 2,255,309	\$ 2,408,157	\$ 2,563,867	\$ 2,672,512
Plan Fiduciary net position				
Contributions - employer	\$ 43,687	\$ 38,491	\$ 33,716	\$ 38,818
Contributions - employee	35,191	35,359	37,884	36,670
Net investment income	123,135	3,357	152,259	329,552
Benefit payments, including refunds of employee contributions	(78,206)	(97,222)	(97,222)	(97,222)
Administrative expense	(1,285)	(2,044)	(1,719)	(1,708)
Other	(106)	(101)	(93)	(87)
Net change in plan fiduciary net position	122,416	(22,160)	124,825	306,023
Plan fiduciary net position - beginning	2,152,183	2,274,599	2,252,438	2,377,263
Plan fiduciary net position - ending	\$ 2,274,599	\$ 2,252,439	\$ 2,377,263	\$ 2,683,286
Net pension liability/(asset)	\$ (19,290)	\$ 155,718	\$ 186,604	\$ (10,774)
Plan fiduciary net position as a percentage of the total pension liability	100.86%	93.53%	92.72%	100.40%
Covered-employee payroll	502,725	505,129	541,194	523,856
Net pension liability/(asset) as a percentage of covered employee payroll	-3.84%	30.83%	34.48%	-2.06%

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TOWN OF RANCHO VIEJO, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Fiscal Year	2014	2015	2016	2017	2018
Actuarial determined contribution	\$ 38,944	\$ 38,491	\$ 35,604	\$ 36,257	\$ 42,464
Contributions in relation to the actuarially determined contribution	<u>38,944</u>	<u>38,491</u>	<u>35,604</u>	<u>36,257</u>	<u>42,464</u>
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	485,191	502,725	505,129	541,194	523,856
Contributions as a percentage of covered employee payroll	8.03%	7.66%	7.05%	6.70%	8.11%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	19 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the Town's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB.

Other Information

Notes

There were no benefit changes during the year.

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TOWN OF RANCHO VIEJO, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFITS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Plan Year ended December 31,	<u>2017</u>
A. Total OPEB liability	
Service Cost	\$ 471
Interest (on the Total OPEB Liability)	553
Changes of assumptions	1,718
Benefit payments, including refunds of employee contributions	(52)
Net change in Total OPEB liability	2,690
Total OPEB liability - beginning	<u>14,433</u>
Total OPEB liability - ending (a)	<u>17,123</u>
B. Covered payroll	\$ 523,856
C. Total OPEB liability as a percentage of covered payroll	3.27%

Note: This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

Note: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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TOWN OF RANCHO VIEJO, TEXAS

SCHEDULE OF OPEB CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFITS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Fiscal Year ended September 30,	<u>2018</u>
Actuarial determined contribution *	\$ -
Contributions in relation to the actuarially determined contribution *	\$ -
Contribution deficiency (excess) *	-
Covered payroll *	-
Contributions as a percentage of covered payroll *	0.00%

* As of the measurement date of December 31, 2017, the Town of Rancho's actuarial contribution totals were zero.

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB.

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

Note: This schedule is required to have 10 years of information, but the information prior to 2018 is not available.

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OTHER SUPPLEMENTARY INFORMATION

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TOWN OF RANCHO VIEJO, TEXAS

NON MAJOR FUND
COMBINING BALANCE SHEET

SEPTEMBER 30, 2018

	Police Forfeiture Fund	Total Non-major Fund
ASSETS		
Cash	\$ 13,495	\$ 13,495
Total assets	<u>\$ 13,495</u>	<u>\$ 13,495</u>
LIABILITIES		
Accounts payable	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
FUND BALANCES		
Restricted for:		
Public safety	<u>13,495</u>	<u>13,495</u>
Total fund balances	<u>13,495</u>	<u>13,495</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 13,495</u>	<u>\$ 13,495</u>

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TOWN OF RANCHO VIEJO, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON MAJOR FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Police Forfeiture Fund	Total Non-major Fund
Revenues		
Investment earnings	\$ 15	\$ 15
Fines and forfeitures	<u>7,225</u>	<u>7,225</u>
Total revenues	<u>7,240</u>	<u>7,240</u>
Expenditures		
Public safety	<u>7,418</u>	<u>7,418</u>
Total expenditures	<u>7,418</u>	<u>7,418</u>
Excess (deficit) of revenues over (under) expenditures	(178)	(178)
Fund balance, October 1	<u>13,673</u>	<u>13,673</u>
Fund balance, September 30	<u>\$ 13,495</u>	<u>\$ 13,495</u>

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Exhibit E-3

TOWN OF RANCHO VIEJO, TEXAS
INSURANCE COVERAGE
SEPTEMBER 30, 2018

Type of Coverage	From	To	Amount of Coverage
Insurer - Texas Windstorm Insurance Association			
Windstorm and Hail:			
Building	05/31/18	05/31/19	\$978,500
Insurer - Texas Municipal League Joint Self-Insurance Fund			
Liability:			
General Liability	10/01/17	10/01/18	5,000,000
Automobile Liability	10/01/17	10/01/18	5,000,000
Law Enforcement Liability	10/01/17	10/01/18	5,000,000
Errors and Omissions Liability	10/01/17	10/01/18	5,000,000
Automobile Physical Damage	10/01/17	10/01/18	as scheduled
Value paper and records and EDP Media	10/01/17	10/01/18	10,000
Accounts Receivable	10/01/17	10/01/18	10,000
Loss of Revenue, extra expense and rents	10/01/17	10/01/18	50,000
Personal effects	10/01/17	10/01/18	5,000
Leasehold interest	10/01/17	10/01/18	5,000
Outdoor trees and shrubs	10/01/17	10/01/18	10,000
Blanket Limit - Real and Personal Property	10/01/17	10/01/18	1,332,208
Transit Limit	10/01/17	10/01/18	1,000,000
Boiler and Machinery	10/01/17	10/01/18	100,000
Workmens' Compensation Liability	10/01/17	10/01/18	statutory
Fire Hall	10/01/17	10/01/18	63,792
Town Hall	10/01/17	10/01/18	1,036,127
Playground equipment	10/01/17	10/01/18	88,430
Flag pole	10/01/17	10/01/18	1,051
Security cameras	10/01/17	10/01/18	26,482
Generator	10/01/17	10/01/18	27,325
Cyber Liability and Data Breach	10/01/17	10/01/18	1,000,000
Insurer - Merchants Mutual Bonding Company			
Surety Bonds:			
Town Administrator	09/20/17	09/20/18	10,000
Public Officials (8 policemen) each various renewal dates			5,000

*All policies have been renewed.

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COMPLIANCE SECTION

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Cascos & Associates, PC

Certified Public Accountants

Audit/Accounting/Tax/Consulting

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

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Rancho Viejo, Texas as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Town of Rancho Viejo's basic financial statements, and have issued our report thereon dated April 2, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Rancho Viejo, Texas'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 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, material weaknesses may exist that have not been identified.

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 Standard*.

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.

A handwritten signature in black ink that reads "Clason & Associates, PC". The signature is written in a cursive, flowing style.

Brownsville, Texas
April 2, 2019

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