



**AGENDA**  
**DRAINAGE DISTRICT**  
**BOARD OF DIRECTORS**  
**December 8, 2015**  
**9:00 A.M.**

**NOTICE is hereby given in accordance with Chapter 551, Texas Government Code, that a SPECIAL MEETING of the Drainage District #1 Board of Directors will be held in the Commissioners' Courtroom of the Administration Building, 100 E. Cano, 1st floor, Edinburg, Hidalgo County, Texas. Discussion and possible action relating to the following business will be transacted:**

1. **Roll Call**
2. **Prayer**
3. **Open Forum**
4. **Approval of Consent Agenda**
5. Discussion on Hidalgo County Drainage District No. 1 Drainage projects, maintenance and operations
6. **AI -52540** Presentation and Acceptance of Independent Audit Report for the year ended December 31, 2014.
7. **AI -52516** Requesting approval to accept final negotiated Letter of Agreement for Financial Advisory Services from Estrada, Hinojosa & Company, Inc., approved for negotiations by the HCDD1 Board of Directors on November 17, 2015.
8. **Closed Session:**  
Board of Directors may go into Closed Session pursuant to Chapter 551, Texas Government Code, Sections 551.071 & 551.072 to discuss the following:
  - A. **Real Estate Acquisition**
  - B. **Pending and/or Potential Litigation**

- C. **AI -52551** Notice of Claim - Josie Moreno & Tonie Moreno, et al v. Drainage District No. 1

**9. Open Session:**

- A. **Real Estate Acquisition**

- B. **Pending and/or Potential Litigation**

- C. **AI -52552** Notice of Claim - Josie Moreno & Tonie Moreno, et al v. Drainage District No.1

**10. Closed Session:**

Board of Directors may reconvene into Closed Session for the discussion regarding the agenda items listed

**11. Open Session:**

Board of Directors may reconvene into Open Session for the discussion regarding the agenda items listed

**12. Adjourn**

**AI -52540**

**6.**

**DRAINAGE DISTRICT**

Meeting Date: 12/08/2015

Submitted For: Raul Sesin

Submitted By: Lora Briones, DRAINAGE DISTRICT

Department: DRAINAGE DISTRICT

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Information

CAPTION

Presentation and Acceptance of Independent Audit Report for the year ended December 31, 2014.

BACKGROUND

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Fiscal Impact

Attachments

report

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**Form Review**

<b>Inbox</b>	<b>Reviewed By</b>	<b>Date</b>
Budget & Management	Veronica Ortiz	12/04/2015 01:46 PM
Final Approval	Monica Badillo	12/04/2015 05:08 PM
Form Started By: Lora Briones		Started On: 12/04/2015 01:39 PM
Final Approval Date: 12/04/2015		

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**December 31, 2014**

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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\* This schedule is omitted since information is provided in the notes to the financial statements.

\*\* This schedule is omitted because no temporary investments were held at year-end. See note B in the notes to the financial statements.

## INTRODUCTORY SECTION

# HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

902 N. Doolittle Road Edinburg, TX 78542

(956)292-7080

Fax: (956)292-7084



November 24, 2015

The Honorable Ramon Garcia, Chairman of the Board  
The Honorable A.C. Cuellar, Jr., Board Member  
The Honorable Eduardo "Eddie" Cantu, Board Member  
The Honorable Joe M. Flores, Board Member  
The Honorable Joseph Palacios, Board Member

Dear Board of Directors:

The Hidalgo County Drainage District No.1 (District) Annual Financial Report for the year ended December 31, 2014, is submitted herewith.

Prior to 2004, the District's financial and accounting functions were provided by Hidalgo County. In 2004, as directed by the Board, the District took steps to become independent of Hidalgo County in all financial and accounting functions. During that period, District personnel assumed responsibility for maintaining the District's general ledger and accounts payable functions. In 2005, the District completed its revised organizational chart and prepared job descriptions for each accounting staff position needed. For items that do not prove to be cost effective for the District, an inter-local agreement still exists with Hidalgo County.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the District as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to obtain the maximum understanding of the District's financial affairs have been included.

In 2002, the District initiated the implementation of Governmental Accounting Standards Board Statement Number 34 (GASB 34), *Basic Financial Statements – And Management's Discussion and Analysis – For State and Local Governments*. GASB Statement 34, labeled by GASB as "the most significant change in the history of government financial reporting," amends the financial reporting model to include supplementary information about an entity and fiscal health including the status of public infrastructure. This report for 2014 was prepared in accordance with this statement and is presented in the following three sections:

- The Introductory Section, which includes this Transmittal Letter
- The Financial Section, which includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the basic statements, and combining statements and schedules.
- Supplementary information, as required by Texas Commission on Environmental Quality (TCEQ), and statistical information that is generally presented on a multi-year basis.



Burton, McCumber & Cortez, LLP, an independent certified public accounting firm, has audited the District's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended December 31, 2014, are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based on the independent audit performed by our external auditors, they concluded that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for year ended December 31, 2014, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The Independent Auditors' Report is presented as the first component of the Financial Section of this report.

Generally accepted accounting principles require that management provide a narrative overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction therewith. The District's MD&A can be found immediately following the report of the independent auditors.

The five members of the Board of Directors for the District are the same members as the Hidalgo County Commissioners Court. One member is the county judge who is elected to a four-year term. The other four members are county commissioners, each elected from a road and bridge precinct to a four-year term.

Among its duties and responsibilities, the five-member board has exclusive authority over a wide range of areas in the operation of the District. These duties and responsibilities include the approval of the District's operating budget and budgetary amendments, setting advalorem property tax rates, auditing, and directing settlement of all claims against the District. The board also determines when propositions to issue bonds will be submitted to the voters.

#### **Internal Controls**

Management of the District is responsible for the establishment and maintenance of internal accounting controls that have been designed to ensure assets are safeguarded and financial transactions are properly recorded and adequately documented. Such internal controls require estimates and judgments from management that, in attaining reasonable assurance as to the adequacy of such controls, the cost does not exceed the benefit obtained.

#### **Budget and Fiscal Policy**

As a sound financial management practice, members of the Board consistently emphasizes and accomplishes to maintain fifty percent of the unassigned fund balance levels of the District's main operating fund – General fund, to meet obligations of payroll and operating costs, thus assisting in maintaining financial stability for retaining or enhancing the District's bond ratings. The District also strives to maintain significant amounts to fund the repairs of structures in the event of excessive rainfalls, hurricanes or disasters that may occur during the year.

#### **Cash Management**

The District invests its funds in investments authorized by Texas laws in accordance with investment policies approved by the Board of Directors. Under Texas Law, the District is required to invest its funds to primarily emphasize safety of principal and liquidity. The actual interest income in 2014 totaled \$199,125 an increase of \$87,897 from the prior year total of

\$111,228. Interest income has increased due to change in the length and type of investments from the sale of the 2013 Bonds.

### **Capital Assets**

These financial statements include the capital assets of the District. Accounting for capital assets is discussed in the MD&A that is part of the basic financial statements. More detailed information about the capital assets can be found in the notes to the financial statements.

### **Risk Management and Insurance**

The District provides for a risk manager, who is primarily responsible for identifying and assessing the District's exposure to all types of risk and recommending the safest and most cost effective methods to eliminate or reduce the identified risks. The District, through its risk management policies, assumes substantially all risks associated with general tort claims that parties may file against the District and liability claims against the District due to conditions of property or equipment. Additional information on the District's risk management activity can be found in the notes to the financial statements.

### **Economic Conditions and Outlook**

Hidalgo County, in which the District operates, is an attractive place in which to live and do business. With an estimated population of 831,073 people, Hidalgo County is the 8<sup>th</sup> most out of 254 Texas counties. Population from 2010-2014 grew by 7.3%. According to Fitch Ratings, "the district has added to the reserves in five of the past six years due to sound financial management. Also, the traditional agricultural and international based economy has increasingly diversified with education, health services, and government sector employment. Ecotourism has seen a recent growth in Hidalgo County attracting new travelers to this area for birding due to the prime location of the county along the transcontinental migratory flight paths. Also seeing a growth is the healthcare field, with the commitment of the University of Texas establishing a new university and medical school in the county. This will help in further diversifying in adding highly skilled employment to the trade centered economy in Hidalgo County.

According to the McAllen Economic Development Corp, the City of McAllen MSA (metropolitan statistical area) remains among the fastest growing regions in the nation due to low cost labor and proximity to Mexico. McAllen, which is the largest city in the County, has a current population of 140,717, according to the 2012 U.S. Census. Edinburg has an estimated population of 81,029 and is considered the educational and technological capital of the Texas-Mexico border region. The unemployment rate as of December 2014 was 7.6%.

Hidalgo County provides factors which are considered to be an excellent quality of life, high-tech medical facilities, comprehensive financial services community, a demonstrated logistics advantage necessary to reach existing and new markets, and bicultural/bilingual population. The median household income for this area in 2013, according to U.S. Census Bureau, averaged \$33,845.

### **Current Developments and Programs**

The District is continuing the process of finalizing the implementation of the drainage improvements outlined in the 2007 Bond Referendum. In addition, in 2012 a new bond referendum for \$184 million was approved with a 76% favorable support by the District's taxpayers. This referendum had over 25 project specific initiatives to be undertaken by the

District. The District began the implementation in mid-2013 of said program with the sale of the first 84 million, the 2013 Bond series. Among those projects are:

#### Raymondville Main Drain Project

The Raymondville Drain Project currently exists as an authorized federal project with the US Army Corps of Engineers-Galveston District (USACE) as the Project for Flood Control, Lower Rio Grande Basin, Texas under Title IV, Section 401 of WRDA 1986, as amended by the Water Resources Development Act (WRDA) 2007. Major flooding problems exist in the areas drained by the Raymondville Drain because of significant urban growth that has occurred in recent years. The project will implement flood control improvements along an approximate 60-mile long channel alignment, including 12 miles of new ditch, major detention ponds, in-line detention, retention, hydraulic control structures, bridges, culverts and utility crossings. The District is the lead sponsor for the project working in partnership with the US Army Corps of Engineers. The District has a current agreement with the USACE, invoking provisions of general WRDS Section 211, whereby the District has taken over the USACE's portion of the project, anticipating reimbursement at the time of construction for the federal cost share of the project. Concurrently, the District is also pursuing congressional designation for the project to be a demonstration project under Section 211 (f), to ensure that reimbursement of the federal cost share could occur intermittently, as the planning documents-studies progress prior to construction. The project was recently ranked as the No. 1 project for the Lower Rio Grande Valley Regional Drainage Plan. It is anticipated that the project will get environmental clearance in 2014; portions of construction are also anticipated to occur in 2014-2020.

#### Lateral Projects

Based on a regional drainage study completed in 1997 and Hidalgo County Drainage Committee's recommendation, improvements to existing lateral drain ditches are being implemented. This plan is presently being strategically implemented through construction development agreements with numerous agencies, communities and developers in addition to District capital funds when available. Proposed improvements involve ditch widening, bridges, culverts, utility crossings, control structures and rural drainage improvements. Bond proceeds will provide funding for the 25 Bond projects listed and rural drainage improvements.

#### Mission Inlet Detention and FEMA Levee Certification

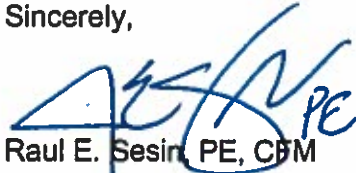
Previous construction improvements to the Mission Inlet were based on a 1999 study, which consisted of several roadway culvert improvements and excavation of the bypass inlet channel. Due to the City of McAllen no longer proposing a parallel runway at this time, a recertification process was approved under the 2012 Bond Referendum for the Mission Inlet System. The District has retained a firm to develop such plans, specification and construction documents as required by FEMA to make such improvements and release excess right-of-way properties.

#### Precinct Rural Drainage Development

From the 2013 bond series, 15 out of 84 million was designated to assist in rural drainage. Funds were divided into the four precincts, and each Commissioner was allowed to determine what areas within their precinct required the most assistance. A clearer discussion of projects that have been completed and are in progress can be found in the District's website that should be up by the end of October 2015.

The preparation of this report would not have been possible without the professional services provided by our independent auditors, Burton McCumber & Cortez, LLP. I would like to express our appreciation to the District's accounting staff and the various departments of Hidalgo County who assisted and contributed to the preparation of this report. I wish to express my thanks to the Board of Directors for their unfailing support for maintaining the highest standards of professionalism in managing the District's financial affairs.

Sincerely,



Raul E. Sesin, PE, CFM  
General Manager



Lora Briones,  
District's Financial Officer

**INDEPENDENT AUDITORS' REPORT**



**Burton McCumber & Cortez, L.L.P.**  
Certified Public Accountants & Management Consultants

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Hidalgo County Drainage District No. 1  
Edinburg, 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 Hidalgo County Drainage District No. 1 (the District) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 District, as of December 31, 2014, and the respective changes in financial position and, the respective budgetary comparison for the General Fund thereof 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 15 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

*Burton McCall & Co., LLP*

McAllen, Texas  
November 24, 2015



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(MD&A)**

**Hidalgo County Drainage District No. 1  
Management's Discussion and Analysis  
December 31, 2014**

Management's Discussion and Analysis (MD&A) of Hidalgo County Drainage District No. 1, Edinburg, Texas (the District) is intended to provide an overview of the District's financial position and results of operations for the fiscal year ended December 31, 2014. Please read it in conjunction with the letter of transmittal on page 5 and the District's financial statements, which begin on page 23.

The MD&A is one of the elements of the reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34; Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments issued in June 1999. As part of the MD&A, certain comparative information between the current year and the prior year is required to be presented for financial analysis.

**FINANCIAL HIGHLIGHTS**

**General Fund**

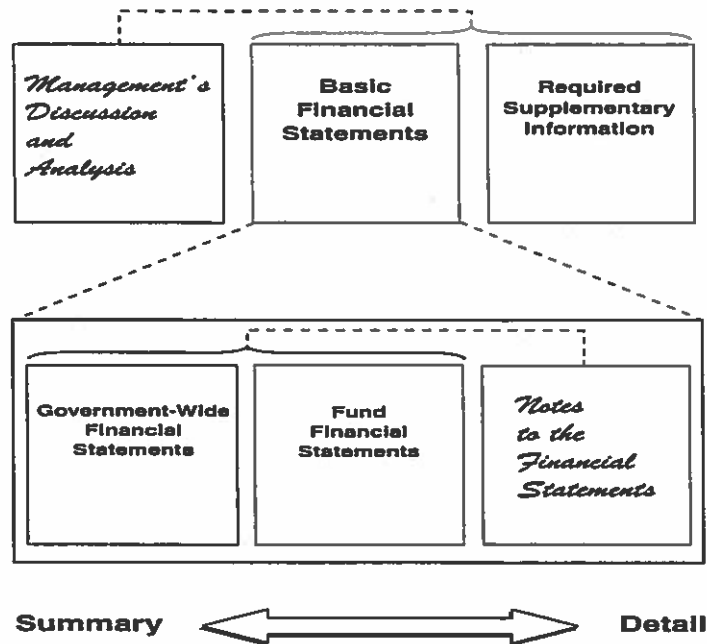
- At fiscal year-end, the unassigned fund balance in the general fund totaled \$16,769,038 which represents a \$2,214,350 increase from fiscal year 2013.
- General fund revenues decreased by \$610,402 to \$12,542,766, a decrease of 4.9 percent over fiscal year 2013.
- General fund expenditures decreased by \$3,424,802 to \$10,657,688, an increase of 32.1 percent over fiscal year 2013.

**Government-Wide**

- The District's governmental activities reported expenses of \$19,032,442, net of program revenue totaling \$48,000. General revenues and transfers totaled \$27,747,788 resulting in an increase in net position of \$8,715,346.
- At fiscal year-end, the District's governmental activities reported combined total net position of \$45,262,810. A significant portion of net position is invested in capital assets or is restricted for specific purposes.

## USING THIS ANNUAL REPORT

The following illustration is provided to facilitate the understanding of the GASB 34 reporting format and its components:



## OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

- The Statement of Net Position and the Statement of Activities are government-wide financial statements that provide information about the activities of the District as a whole and present a long-term view of the District's finances.
- Fund financial statements provide information as to how services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds or "major" funds rather than fund types.
- The accompanying notes provide essential information about certain accounts disclosed on the face of the financial statements. Consequently, the notes form an integral part of the basic financial statements.

The following summarizes the major features of the District's financial statements:

	<b>Government-Wide</b>	<b>Governmental Funds</b>
<b>Scope</b>	Entire District government	The activities of the District
<b>Required financial statements</b>	◆ Statement of Net Position	◆ Balance Sheet
	◆ Statement of Activities	◆ Statement of Revenues, Expenditures and Changes in Fund Balances
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<b>Type of inflow/outflow information</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

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

The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities that is helpful in determining whether the District's position has improved or deteriorated as a result of the current year activities. Both statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The Statement of Net Position includes all assets, liabilities, both short and long-term and deferred inflows of resources. The Statement of Activities reports all of the current year revenues and expenses regardless of when cash is received or paid.

The two government-wide statements report the District's net position and changes in them. Net position (the difference between assets, liabilities and deferred inflows of resources) are one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the District's drainage facilities, should also be considered in assessing the overall health of the District.

The Statement of Net Position and the Statement of Activities operate as governmental activities. The District's services consist primarily of drainage flood control and administration. Property taxes, bond proceeds, interest earnings, and miscellaneous revenue finance most of these activities.

## Fund Financial Statements

The fund financial statements provide a detailed short-term view of the District's operations, focusing on its most significant or "major" funds. Certain funds are required by state law and by bond covenants. Other funds are established to ensure and demonstrate compliance with finance related legal requirements and prudent fiscal management. The District has only governmental fund types.

- *Governmental funds* – all of the District's basic services are reported in governmental funds. The measurement focus and basis of accounting continues to be the modified accrual basis, which measures inflows and outflows of current financial resources and the balances left at year-end that are available for spending. The District's major governmental funds are the General Fund, 2013 Bond Series Capital Projects Fund, 2008 Bonds Debt Service Fund and 2013 Bonds Debt Service Fund. The reconciliations of the fund financial statements to the government-wide statements explain the differences between the governmental fund statements and the government-wide statements.

### Statement of Net Position (Government-Wide)

The following comparative analysis table summarizes the District's net position as of December 31,:

	2014	2013
<b>Assets:</b>		
Current and other assets	\$ 111,642,411	\$ 121,081,099
Capital assets, net	122,447,867	109,553,377
Total assets	234,090,278	230,634,476
<b>Deferred Outflows of Resources:</b>		
Deferred charges on refunding	634,376	-
Total deferred outflows of resources	634,376	-
<b>Liabilities:</b>		
Long-term liabilities	156,180,090	163,888,305
Other liabilities	14,691,780	12,913,931
Total liabilities	171,133,823	176,802,236
<b>Deferred Inflows of Resources:</b>		
Unavailable revenue	18,328,021	17,284,776
Total deferred inflows of resources	18,328,021	17,284,776
<b>Net position:</b>		
Net investment in capital assets	91,597,072	85,320,293
Restricted	5,204,351	5,765,558
Unrestricted	( 51,538,613)	( 54,538,387)
Total net position	\$ 45,262,810	\$ 36,547,464

At the close of the current fiscal year, \$91,597,072 represents the portion the District has invested in capital assets (i.e., land, infrastructure, buildings, machinery and equipment), net of accumulated depreciation less any outstanding debt used to construct or acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these are not available for future spending. At the end of the fiscal year, the District reported a positive balance of \$5,204,351 for the District's restricted net position that may be used to meet the ongoing obligations to citizens and creditors. The District's unrestricted net position increased to \$(51,538,613) in connection with the District's governmental activities related to the debt associated with the Levee Rehabilitation Projects. The ownership and maintenance of the levees was transferred to IBWC.

### Statement of Activities (Government-Wide)

The following table summarizes the change in the District's net position from its activities for the fiscal years ended December 31,:

	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 48,000	\$ 37,250
Total program revenues	<u>48,000</u>	<u>37,250</u>
General revenues:		
Property taxes	25,725,175	22,478,956
Interest income	199,126	111,228
Tax penalties and interest	769,180	677,199
Gain on sale of capital assets	30,046	100,294
Other	-	741,694
Total general revenues	<u>26,723,527</u>	<u>24,109,371</u>
Total revenues	26,771,527	24,146,621
<b>Expenses:</b>		
General governmental	( 2,027,506)	( 1,647,613)
Drainage flood control	( 8,824,915)	( 13,901,545)
Interest on long-term debt	<u>( 8,228,021)</u>	<u>( 4,056,632)</u>
Total expenses	<u>( 19,080,442)</u>	<u>( 19,605,790)</u>
Transfers	<u>1,024,261</u>	<u>2,650,879</u>
Increase in net position	<u>\$ 8,715,346</u>	<u>\$ 7,191,710</u>

The District's general revenues totaled \$26,771,527. Property taxes contributed \$25,725,175, or 96 percent of total general revenues. The remaining 4 percent of general revenues was derived from interest, tax penalties and other sources.

The total expenses for services totaled \$19,080,442. Expenditures necessary for the maintenance and operations of drainage facilities accounted for 46.3 percent of expenses. General governmental activities and interest on long-term debt expenses accounted for 10.6 percent and 43.1 percent of the total expenses, respectively.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Financial information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds for the District's major funds: General Fund, 2013 Bond Series Capital Projects Fund, and 2008 and 2013 Bonds Debt Service Funds. Financial information for the non-major governmental funds is presented in single columns by fund type.

### **General Fund**

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the fund balance of the General Fund totaled \$16,769,038 which represents a \$2,194,095 increase from fiscal year 2013.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Board revised the District's budget. These budget amendments fall into three categories. The first category includes the appropriation of the prior year's remaining balance for new projects the Board took action on during 2014. The second category includes line item transfers within the department to cover underfunded line items. Finally, the Board approved budget amendments to certain line items (including: engineering, rentals, insurance, and other heavy equipment) to record expenditures that were necessary for maintenance and operations of the drainage systems.

The increase between the original budget and the final amended budget for the General Fund was \$3,126,293 for expenditures and transfers out. The District experienced a positive variance for general government and a positive variance for drainage flood control budgets that netted a positive variance of \$2,533,038. Most of the variance came from the drainage flood control budget from projects that didn't materialized or encumbered; a positive variance of \$2,391,736.

Resources available totaled \$284,368 over the final budget amount of \$12,258,398. Property tax collections and interest accounted for all of the increase in estimated revenues. Charges for services and miscellaneous revenues, which include royalties and reimbursement from governments, were less than there estimated amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2014, the District had \$122,447,867 invested in capital assets, including land and easements, infrastructure, construction in progress, buildings and renovations, and machinery and equipment. Land, easements and construction in progress are not depreciated. Additional information on the District's capital assets can be found in the notes to the financial statements.

Capital assets at year-end  
(Net of depreciation)

	2014	2013
Land and easements	\$ 21,619,401	\$ 21,163,632
Infrastructure	51,271,872	52,454,236
Construction in progress	43,429,261	29,551,571
Buildings and renovations	475,636	505,866
Machinery and equipment	5,651,697	5,878,072
Total	<u>\$ 122,447,867</u>	<u>\$ 109,553,377</u>

### Debt

At year-end, the District's outstanding long-term liabilities for the 2007 Bond Series, 2008 Bond Series, 2013 Bond Series, 2014 Bond Series and compensated absences totaled \$13,835,000, \$60,265,000, \$75,790,000, \$7,810,000 and \$153,307, respectively.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Fiscal Year 2015 will continue to present major challenges for the District. The 2014 Levy this year experienced over a billion dollar increase in the appraised valuation from prior years, due in part to current economic conditions. The District will continue maintenance of its facilities and new projects that require additional maintenance through the use of some of the reserves that have accumulated in past years.

The Board of Directors considered these factors when setting the budget requirements for fiscal year 2015. Budgeted expenditures for 2014 total \$12,217,866 which were within budgeted revenues available for appropriation in the General Fund budget. The District passed a tax rate of .0957 per \$100 valuation for the 2015 budget year. Budget expenditures and operations transfer out in the General Fund increased slightly for 2015 by eight percent or \$973,433. The 2015 budget year brought no increase for employees in 2015. Other operational expenditures were evaluated and adjusted. Line items that have been affected by economic trends and other item used for emergencies. Capital improvements are in the future plans of the District for the 2015 fiscal year.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Additional financial information can be requested at:

Hidalgo County Drainage District No. 1  
902 North Doolittle  
Edinburg, Texas 78542  
956-292-7080



## **BASIC FINANCIAL STATEMENTS**

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**

**STATEMENT OF NET POSITION**

**December 31, 2014**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,411,248
Investments, including accrued interest	86,638,485
Receivables, net	
Property taxes	18,329,181
Other accounts	1,661
Due from other governments	4,085,456
Prepaid services	176,380
Capital assets, net	
Land and easements	21,619,401
Infrastructure	51,271,872
Construction in progress	43,429,261
Buildings and renovations	475,636
Machinery and equipment	5,651,697
Total capital assets, net	<u>122,447,867</u>
Total assets	<u>234,090,278</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	<u>634,376</u>
Total deferred outflows of resources	<u>634,376</u>
<b>LIABILITIES</b>	
Accounts payable	3,142,557
Salaries and benefits payable	351,142
Retainage payable	416,709
Unearned revenue	24,538
Accrued interest	2,249,600
Other post employment benefits	47,627
Long-term liabilities:	
Due within one year	
Bond Series 2007	1,299,713
Bond Series 2008	3,271,286
Bond Series 2013	3,653,951
Bond Series 2014	234,657
Due in more than one year	
Note payable	261,953
Bond Series 2007	12,541,133
Bond Series 2008	57,291,284
Bond Series 2013	77,630,906
Bond Series 2014	8,563,460
Compensated absences	153,307
Total liabilities	<u>171,133,823</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	<u>18,328,021</u>
Total deferred inflows of resources	<u>18,328,021</u>
<b>NET POSITION</b>	
Net investment in capital assets	91,597,072
Restricted for:	
Debt service	5,204,351
Unrestricted	<u>( 51,538,613)</u>
Total net position	<u>\$ 45,262,810</u>

The accompanying notes are an integral part of this statement.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**

**STATEMENT OF ACTIVITIES**

**Year Ended December 31, 2014**

Functions\ Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
General government	\$( 2,027,506)	\$ -	\$ -	\$( 2,027,506)
Drainage flood control	( 8,824,915)	48,000	-	( 8,776,915)
Interest on long-term debt	( 8,228,021)	-	-	( 8,228,021)
<b>Total Governmental Activities</b>	<b>\$( 19,080,442)</b>	<b>\$ 48,000</b>	<b>\$ -</b>	<b>( 19,032,442)</b>
<b>General Revenues:</b>				
Property taxes				25,725,175
Interest income				199,126
Tax penalties and interest				769,180
Gain on sale of capital assets				30,046
Miscellaneous				-
Transfers				1,024,261
<b>Total General Revenues and Transfers</b>				<b>27,747,788</b>
<b>Change in Net Position</b>				<b>8,715,346</b>
<b>Net Position - Beginning</b>				<b>36,547,464</b>
<b>Net Position - Ending</b>				<b>\$ 45,262,810</b>

The accompanying notes are an integral part of this statement.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

BALANCE SHEET – GOVERNMENTAL FUNDS

December 31, 2014

	<u>General Fund</u>	<u>2013 Bond Series Capital Projects Fund</u>	<u>2008 Bonds Debt Service Fund</u>	<u>2013 Bonds Debt Service Fund</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,297,811	\$ 8,765	\$ 6,451	\$ 7,525
Investments, including accrued interest	21,065,679	55,590,871	838,048	-
Receivables, net				
Property taxes	9,562,637	-	3,691,565	3,732,459
Other accounts	1,661	-	-	-
Due from other governments	4,404,350	-	-	-
Due from other funds	1,505,197	-	2,503,845	3,841,389
Prepaid services	-	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 38,837,335</u>	<u>\$ 55,599,636</u>	<u>\$ 7,039,909</u>	<u>\$ 7,581,373</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 734,983	\$ 2,346,684	\$ -	\$ -
Salaries and benefits payable	351,418	-	-	-
Retainage payable	67,702	337,944	-	-
Due to other governments	-	-	-	-
Due to other funds	6,398,716	95,076	598,831	-
Unearned revenue	9,357,037	-	4,127,845	3,241,701
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>16,909,856</u>	<u>2,779,704</u>	<u>4,726,676</u>	<u>3,241,701</u>
<b>Deferred inflows of resources:</b>				
Unavailable revenue- property taxes	5,158,441	-	1,509,350	3,335,027
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Deferred Inflows of Resources	<u>5,158,441</u>	<u>-</u>	<u>1,509,350</u>	<u>3,335,027</u>
<b>Fund Balances:</b>				
<b>Non-spendable:</b>				
Prepaid services	-	-	-	-
<b>Restricted:</b>				
Debt Service	-	-	803,883	1,004,645
Committed	-	-	-	-
Assigned	-	52,819,932	-	-
Unassigned	16,769,038	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Fund Balances	<u>16,769,038</u>	<u>52,819,932</u>	<u>803,883</u>	<u>1,004,645</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 38,837,335</u>	<u>\$ 55,599,636</u>	<u>\$ 7,039,909</u>	<u>\$ 7,581,373</u>

The accompanying notes are an integral part of this statement.

<u>Non-Major Capital Projects Fund</u>	<u>Non-Major Debt Service Fund</u>	<u>Non-Major Special Revenue Fund</u>	<u>Total Governmental Funds</u>
\$ 82,072	\$ 2,509	\$ 6,114	\$ 2,411,247
8,389,404	502,954	251,531	86,638,487
-	1,342,520	-	18,329,181
-	-	-	1,661
-	-	-	4,404,350
-	973,717	100,847	8,924,995
-	-	-	-
<u>\$ 8,471,476</u>	<u>\$ 2,821,700</u>	<u>\$ 358,492</u>	<u>\$ 120,709,921</u>
\$ 45,555	\$ -	\$ 15,060	\$ 3,142,282
-	-	-	351,418
11,063	-	-	416,709
-	-	318,894	318,894
1,510,968	321,404	-	8,924,995
-	1,601,439	24,538	18,352,560
<u>1,567,586</u>	<u>1,922,843</u>	<u>358,492</u>	<u>31,506,858</u>
-	590,804	-	10,593,622
-	590,804	-	10,593,622
-	-	-	-
-	308,053	-	2,116,581
-	-	-	-
6,903,890	-	-	59,723,822
-	-	-	16,769,038
<u>6,903,890</u>	<u>308,053</u>	<u>-</u>	<u>78,609,441</u>
<u>\$ 8,471,476</u>	<u>\$ 2,821,700</u>	<u>\$ 358,492</u>	<u>\$ 120,709,921</u>

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**

**December 31, 2014**

Total fund balance - balance sheet governmental funds \$ 78,609,441

Amounts reported for governmental activities in the statement of net position is different because:

1.	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
	Land and easements	21,619,401	
	Infrastructure	51,271,872	
	Buildings and renovations	475,636	
	Machinery and equipment	5,651,697	
	Construction in progress	43,429,261	122,447,867
2.	Deferred outflows of resources represent a consumption of net position that applies to future periods, therefore, they are not recognized as an outflow until then. For refunding debt the amount is amortized over the shorter of the life of refunded or refunding debt.		634,376
3.	Some of the District's taxes collected during the year are not available to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.		10,593,623
4.	District employees participate in the Texas County and District Retirement System. As of the year ended December 31, 2014, the District has an overfunded balance in the System. The overfunded balance is indicated as a prepaid amount in the government-wide statement of net position.		176,380
5.	Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term), are reported in the statement of net position.		
	Bond Series 2007 - face value	( 13,835,000)	
	Bond Series 2007 unamortized premium	( 5,847)	
	Bond Series 2008 - face value	( 60,265,000)	
	Bond Series 2008 unamortized premium	( 297,569)	
	Bond Series 2013 - face value	( 75,790,000)	
	Bond Series 2013 unamortized premium	( 5,494,857)	
	Bond Series 2014 - face value	( 7,810,000)	
	Bond Series 2014 - unamortized premium	( 988,117)	
	Notes payable	( 261,953)	
	Accrued interest	( 2,249,600)	
	Other post employment benefits	( 47,627)	
	Compensated absences	( 153,307)	( 167,198,877)
	Net position of governmental activities		\$ 45,262,810

The accompanying notes are an integral part of this statement.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**

Year ended December 31, 2014

	General Fund	2013 Bond Series Capital Projects Fund	2008 Bonds Debt Service Fund	2013 Bonds Debt Service Fund
<b>REVENUES</b>				
Property taxes	\$ 12,452,851	\$ -	\$ 6,081,850	\$ 5,754,688
Operating grants and contributions	-	-	-	-
Charges for services	48,000	-	-	-
Interest	41,915	150,873	-	-
Total revenues	<u>12,542,766</u>	<u>150,873</u>	<u>6,081,850</u>	<u>5,754,688</u>
<b>EXPENDITURES</b>				
General government	1,827,153	32,541	-	-
Drainage flood control	8,830,535	13,859,029	5,988,388	5,666,456
Bond issuance costs	-	-	-	148,741
Total expenditures	<u>10,657,688</u>	<u>13,891,570</u>	<u>5,988,388</u>	<u>5,815,197</u>
(Deficiency) excess of revenues (under) over expenditures	1,885,078	( 13,740,697)	93,462	( 60,509)
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers in	-	-	-	916,414
Operating transfers out	( 145,960)	-	( 350,332)	-
Sale of capital assets	47,997	-	-	-
Note proceeds	406,980	-	-	-
Bond proceeds	-	-	-	7,810,000
Bond premium	-	-	-	988,117
Refunding escrow deposit	-	-	-	( 8,649,377)
Total other financing sources	<u>309,017</u>	<u>-</u>	<u>( 350,332)</u>	<u>1,065,154</u>
Net change in fund balances	2,194,095	( 13,740,697)	( 256,870)	1,004,645
Fund balances at beginning of year	<u>14,574,943</u>	<u>66,560,629</u>	<u>1,060,753</u>	<u>-</u>
Fund balances at the end of year	<u>\$ 16,769,038</u>	<u>\$ 52,819,932</u>	<u>\$ 803,883</u>	<u>\$ 1,004,645</u>

The accompanying notes are an integral part of this statement.

<u>Non-Major Capital Projects Funds</u>	<u>Non-Major Debt Service Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 2,235,593	\$26,524,982
-	-	-
-	-	48,000
7,911	-	200,699
<u>7,911</u>	<u>2,235,593</u>	<u>26,773,681</u>
-	-	1,859,694
124,402	2,349,776	36,818,586
-	-	148,741
<u>124,402</u>	<u>2,349,776</u>	<u>38,827,021</u>
( 116,491)	( 114,183)	( 12,053,340)
-	145,959	1,062,373
-	( 566,081)	( 1,062,373)
-	-	47,997
-	-	406,980
-	-	7,810,000
-	-	988,117
-	-	( 8,649,377)
<u>-</u>	<u>( 420,122)</u>	<u>603,717</u>
( 116,491)	( 534,305)	( 11,449,623)
<u>7,020,381</u>	<u>842,358</u>	<u>90,059,064</u>
<u>\$ 6,903,890</u>	<u>\$ 308,053</u>	<u>\$78,609,441</u>



**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

**Year ended December 31, 2014**

Net change in fund balances - total governmental funds \$ (11,449,623)

Amounts reported for governmental activities in the statement of activities is different because:

<p>1. 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.</p> <p style="padding-left: 20px;">Capital outlay <span style="float:right">16,128,213</span></p> <p style="padding-left: 20px;">Depreciation <span style="float:right"><u>( 3,215,774)</u></span></p>	<p>12,912,439</p>
<p>2. Sales and other dispositions of capital assets are reported in the governmental funds as other financing sources. The gain or loss on the sale of capital assets should be reported in the statement of activities. A gain is reported as general revenue and a loss should be included as part of the general government function.</p>	<p>30,046</p>
<p>3. Governmental funds typically report proceeds they receive in connection with the disposal of capital assets as other financing sources. This amount must be removed and replaced by an adjustment to the appropriate capital asset and the accumulated depreciation account. Any gain or loss should be reported as discussed above.</p>	<p>( 47,997)</p>
<p>4. Certain property tax revenues reported in the funds are unavailable in the statement of activities. This is the change in these amounts this year.</p> <p style="padding-left: 20px;">Related to prior years <span style="float:right">( 10,624,250)</span></p> <p style="padding-left: 20px;">Earned but unavailable <span style="float:right"><u>10,593,623</u></span></p>	<p>( 30,627)</p>
<p>5. Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis; expenses and liabilities are reported regardless of when financial resources are available.</p> <p style="padding-left: 20px;">Amortization of debt premiums <span style="float:right">1,187,981</span></p> <p style="padding-left: 20px;">Change in accrued interest on bonds <span style="float:right">914,925</span></p> <p style="padding-left: 20px;">Change in compensated absences <span style="float:right">28,575</span></p> <p style="padding-left: 20px;">Other post employment benefits <span style="float:right">( 50,778)</span></p> <p style="padding-left: 20px;">Net pension obligation <span style="float:right"><u>1,097</u></span></p>	<p>2,081,800</p>
<p>6. Debt proceeds are reported as financing sources in governmental funds and thus contribute to changes in fund balances. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of position.</p> <p style="padding-left: 20px;">2014 bond series <span style="float:right">( 7,810,000)</span></p> <p style="padding-left: 20px;">Premium <span style="float:right">( 988,117)</span></p> <p style="padding-left: 20px;">Note payable <span style="float:right">( 406,980)</span></p> <p style="padding-left: 20px;">Repayments on debt <span style="float:right">5,775,028</span></p> <p style="padding-left: 20px;">Advanced refunding bond deposit <span style="float:right"><u>8,649,376</u></span></p>	<p>8,649,376</p>
<p>Changes in net position of governmental activities - statement of activities</p>	<p><u>\$ 8,715,345</u></p>

The accompanying notes are an integral part of this statement.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE

Year ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 12,103,398	\$ 12,103,398	\$ 12,452,851	\$ 349,453
Charges for services	85,000	85,000	48,000	( 37,000)
Interest	20,000	20,000	41,915	21,915
Miscellaneous	50,000	50,000	-	( 50,000)
Total revenues	<u>12,258,398</u>	<u>12,258,398</u>	<u>12,542,766</u>	<u>284,368</u>
<b>EXPENDITURES</b>				
General government	1,675,931	1,968,455	1,827,153	141,302
Drainage flood control	8,388,502	11,222,271	8,830,535	2,391,736
Total expenditures	<u>10,064,433</u>	<u>13,190,726</u>	<u>10,657,688</u>	<u>2,533,038</u>
Excess of revenues over expenditures	2,193,965	( 932,328)	1,885,078	2,817,406
<b>OTHER FINANCING (USES) SOURCES</b>				
Operating transfers out	( 1,180,000)	( 1,180,000)	( 145,959)	1,034,041
Sale of capital assets	-	-	47,996	47,996
Note proceeds	-	-	406,980	406,980
Total other financing (uses) sources	<u>( 1,180,000)</u>	<u>( 1,180,000)</u>	<u>309,017</u>	<u>1,489,017</u>
Net change in fund balance	1,013,965	( 2,112,328)	2,194,095	4,306,423
Fund balance at beginning of year	-	-	14,574,943	14,574,943
Fund balance at the end of year	<u>\$ 1,013,965</u>	<u>\$( 2,112,328)</u>	<u>\$ 16,769,038</u>	<u>\$ 18,881,366</u>

The accompanying notes are an integral part of this statement.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General Statement

Hidalgo County Drainage District No. 1 (the District) was created on April 9, 1908, by order of the Commissioners' Court of Hidalgo County, Texas (the County), pursuant to an election held within the territory affected. Originally organized under provisions of Article III, Section 52 of the Texas Constitution, the District was later converted into a Conservation and Reclamation district under the provisions of Article XVI, Section 59 of the Texas Constitution, and has continued to exercise all of the powers and functions of such a district. The District operates under Chapter 56 of the Texas Water Code.

Summary of Significant Accounting Policies

The accounting and reporting policies of the District, as reflected in the accompanying financial statements, conform to generally accepted accounting principles (GAAP) in the United States of America applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In fiscal year 2013, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The implementation of this statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definition in Concepts Statement 4. The Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statement presentation.

The following significant accounting policies were applied in the preparation of the accompanying basic financial statements.

1. Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB No. 61, provides guidance for determining which governmental organizations should be included within the reporting entity. GASB Statement No. 61 sets forth financial accountability as the basic criterion for inclusion of a governmental unit in a governmental reporting entity. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The District is a legal separate entity; however, because of the primary government's ability to impose its will on the District, the District is included as a blended component unit within the County's Comprehensive Annual Financial Report and is an integral part thereof.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**1. Reporting Entity – Continued**

On June 22, 1976, the District and the Willacy County Drainage District No. 1 entered into an agreement for the use of an outfall drainage ditch to be constructed, owned, and operated by the District in Willacy County. An advisory committee composed of two members for each district determined the type of maintenance needed and to be performed. The District has no oversight responsibility over Willacy County Drainage District No. 1; therefore, the financial activity for Willacy County Drainage District No. 1 is not included in this report.

**2. Basis of Presentation**

*Government-Wide Financial Statements* consist of a Statement of Net Position and a Statement of Activities. The purpose of these statements is to present the financial position and the operating results of the District as a whole. The District's activities are categorized as "governmental activities" because it is financed primarily through property taxes, intergovernmental revenues, and other transactions. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Net Position focuses on the net position of the District, where the net position equals the assets and deferred outflows less the liabilities and deferred inflows of resources.

The Statement of Activities presents a comparison between direct expenses and program revenues of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges for services and (b) operating grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

*Governmental Fund Financial Statements* provide information about the District's governmental funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund balance, and revenues and expenditures, as appropriate.

The District reports the following major governmental funds:

**General Fund** – This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

**2013 Bond Series Capital Projects Fund** – The bonds were issued to pay (1) construction costs for drainage improvements, (2) acquisition of right of way, and (3) costs of issuance of the bonds.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**2. Basis of Presentation – Continued**

**2008 Bonds Debt Service Fund** – This fund is used to account for the accumulation of resources for, and the payment of, bonds long-term debt principal, interest and related costs.

**2013 Bonds Debt Service Fund** – This fund is used to account for the accumulation of resources for, and the payment of, bonds long-term debt principal, interest and related costs.

**3. Basis of Accounting**

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

*Governmental Fund Financial Statements.* Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers collections within 60 days of the end of the current fiscal period to be revenues. Expenditures generally are recorded when a liability is incurred, similar to accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unearned revenue arises when potential revenues do not meet both the measurable and available test for recognition in the current period and when resources are received by the District before the District is legally entitled to them. In succeeding periods when both revenue recognition criteria are met or when the District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**4. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**5. Cash and Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and negotiable order of withdrawal (NOW) accounts. Investments are stated at fair market value. It is the District's intent to hold all investments to maturity.

**6. Receivables and Payables**

All trade and property taxes receivable are shown net of an allowance for uncollectible accounts. Property taxes are levied October 1<sup>st</sup> and become delinquent on February 1<sup>st</sup>, at which time penalties and interest are assessed.

Activities between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as "due to/from other funds".

**7. Capital Assets**

Capital assets, which include property, equipment, and infrastructure, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at their fair market value at the date of donation. When no historical records are available, capital assets are valued at estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets of the District are depreciated using the straight-line method over their estimated useful lives. Standard capitalization thresholds have been established for each major class of assets.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

December 31, 2014

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**7. Capital Assets - Continued**

The following lists the thresholds and useful lives by class:

<u>Asset Class</u>	<u>Capitalization Threshold</u>	<u>Useful Lives in Months</u>
Land/land improvement	Capitalize all	N/A
Easements	Capitalize all	N/A
Infrastructure	\$ 100,000	420
Buildings and renovations	\$ 50,000	480
Machinery and equipment	\$ 1,000	15-180

**8. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses / expenditures) until then. For the year ended December 31, 2014, the District had deferred outflows of resources of \$634,376 for refunding bonds.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported in the governmental funds balance sheet and will also apply to Government-wide. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**9. Fund Balance**

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**December 31, 2014**

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**9. Fund Balance - Continued**

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the prepaid items have been properly classified as non-spendable in the Governmental Funds Balance Sheet.

Restricted fund balance – amounts that can be spent only for specific purposes because of local, state, or federal laws, or externally imposed conditions by grantors or creditors.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. Board of Directors). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. In 2013, the Board of Directors expensed \$2,365,838 previously committed in General Fund for levee wall expenditures not reimbursed by the Department of Homeland Security. The 2007 and 2008 Bonds Debt Service Funds fund balance have been committed to pay for debt principal, interest, and related costs based on the allocation of the tax rate between debt service and maintenance and operations costs.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official body to which the Board of Directors delegates the authority. The District has assigned the 2008 Bond Series Capital Projects Fund balance to pay for projects for drainage improvements as indicated in the bond agreement. The District has also assigned the non-major capital projects fund balance to pay for individual board approved drainage projects.

Unassigned fund balance – amounts that are available for any purpose.

For purpose of fund balance classifications, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance, and lastly, the unassigned fund balance.

**10. Encumbrance Accounting**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized as an extension of formal budgetary integration in governmental funds.

Although appropriations lapse at year-end for annually budgeted funds, the District honors encumbrances outstanding at year-end. Outstanding encumbrances do not constitute expenditures or liabilities since the commitments will be honored during the subsequent year. The District has active construction projects as of December 31, 2014. At year-end, the District's remaining commitments totaled \$8,611,283; therefore, this amount is encumbered.



**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**11. Budgets**

The District's budget is adopted after public hearings have been held. Any revisions must be approved by the Board of Directors of the District.

Formal budgetary integration is utilized as a management control device during the year for the General and Debt Service Funds. Budgets for the General and Debt Service Funds are adopted on a basis consistent with GAAP. Appropriations for annually budgeted funds lapse at year-end. Budgetary integration is not employed for capital projects funds because they include projects which extend over a period of several years.

**12. Compensated Absences**

Regular full-time employees accumulate vacation leave at varying rates depending on their years of service with the District. They are as follows:

<u>Number of Years of Service</u>	<u>Vacation Leave Hours Earned Per Year</u>
0 to 5 years	96
5 to 10 years	108
Over 10 years	120

Vacation leave may be accumulated up to a maximum of 160 hours (20 days) for employees with less than 10 years of continuous service. Employees with more than 10 years but less than 15 years of continuous service may accumulate 240 hours (30 days). Employees with more than 15 years may maintain an accrued leave of 320 hours (40 days). Employees lose, without pay, unused vacation leave which exceed set limits. Regular part-time employees accumulate vacation leave of 48 hours regardless of years of service. As of December 31, 2014, the District's total liability for vested vacation leave totaled \$142,050. Vested vacation benefits are expected to be liquidated with expendable and available financial resources and are reported as an expense and a long-term liability in the government-wide statement of net position.

Each regular full-time employee earns sick leave at the rate of 12 working days per year and may accumulate a maximum sick leave balance of 45 working days. Permanent part-time employees earn 6 days per year and may accumulate a maximum of 45 working days. Outstanding sick leave balances are cancelled, without recompense, upon termination, resignation, retirement or death. In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**12. Compensated Absences - Continued**

The accrued liability for accumulated compensated absences reported in the government-wide financial statements consists of unpaid accumulated vacation leave, compensatory time, and holiday leave balances. Budgets for vested benefits for vacation or sick leave are not legally adopted in the District's operating budget. The accrued amount for the current year is as follows:

Vacation leave	\$	142,050
Compensatory time		9,790
Holiday leave		1,467
Total	\$	<u>153,307</u>

**13. Rounding Adjustments**

Throughout this report, dollar amounts are rounded, thereby creating differences between the detail and the totals.

**NOTE B – DEPOSITS AND INVESTMENTS**

The District's Depository Agreement requires its designated financial institution to secure by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance, deposits and accrued interest thereon by 105%. At December 31, 2014, the District's deposits were entirely covered by FDIC insurance pursuant to the Depository Agreement. At December 31, 2014, the carrying amount of the District's deposits totaled \$2,446,217 and was entirely covered by federal deposit insurance or secured by collateral held by the pledging financial institutions agent in the District's name.

Investments of the District are pooled for investment purposes in each of the District's fund types. Earnings on pooled investments are allocated to the funds having equity in the pool on the basis of their relative contribution to the pool.

The District had investments in Texas CLASS, carried at fair value, totaling \$51,538,297 and time deposits with an original maturity of two years totaling \$35,100,188 at December 31, 2014.

The District's investments are categorized into the following three categories of credit risk:

Category A – Insured or registered, or securities held by the District or its agent in the District's name.

Category B – Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the District's name.

Category C – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE B – DEPOSITS AND INVESTMENTS – Continued**

The following schedule classifies the investments of the District as of December 31, 2014, into the above noted categories:

	Risk Category			Carrying Value	Market Value
	A	B	C		
Texas CLASS	\$ 51,538,297	\$ -	\$ -	\$51,538,297	\$51,538,297
Time Deposits	35,100,188	-	-	35,100,188	35,100,188
<b>Total Investments</b>	<b>\$ 86,638,485</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$86,638,485</b>	<b>\$86,638,485</b>

*Interest rate risk.* In accordance with its investment policy, the District manages its exposure to decreases in fair value by utilizing controlled disbursement, cash flow analysis, and portfolio analysis or similar cash management techniques and limiting the weighted average maturity of its investment portfolio to one year or less.

*Credit risk.* The Public Funds Investment Act (Government Code Chapter 2256) limits authorized investments to obligations of, or guaranteed by, governmental entities, certificates of deposit and share certificates, repurchase agreements, securities lending program, banker's acceptances, commercial paper, mutual funds, guaranteed investment contracts, and investment pools. The District's investment policy further limits investments to obligations of, or guaranteed by, governmental entities, certificates of deposit, repurchase agreements, banker's acceptances, AAA rated mutual funds, and investment pools.

*Concentration of credit risk.* To limit the concentration of credit risk, the District's investment policy does not allow investment in banker's acceptances to exceed 10 percent of the District's total investments. Additionally, the District's investment policy prohibits funds held for debt service to be invested in mutual funds and prohibits the District from investing in the aggregate more than eighty percent of its monthly average fund balance, excluding funds held for debt service, in AAA rated money market mutual funds.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's depository agreement requires its designated depository financial institution to secure the District's uninsured deposits by 105% with securities held in the District's name at a third party financial institution.

*Custodial credit risk – investments.* For an investment, this is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy reduces the District's exposure to custodial credit risk by limiting investments to securities that are backed by the full faith and credit of the State of Texas, the United States, or their respective agencies and instrumentalities. The District's investment policy strictly prohibits riskier-type investments such as commercial paper.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE C – TAXES RECEIVABLE**

A summary of the taxes receivable by fund is as follows at December 31, 2014:

	<u>General Fund</u>	<u>Bonds Debt Service Fund</u>	<u>Total</u>
Taxes receivable - current	\$ 8,016,869	8,443,587	\$ 16,460,456
Taxes receivable - delinquent	2,672,507	781,020	3,453,527
Allowance for uncollectibles	( 1,126,739)	( 458,063)	( 1,584,802)
Taxes receivable, net of allowance for uncollectibles	<u>\$ 9,562,637</u>	<u>\$ 8,766,544</u>	<u>\$ 18,329,181</u>

Property taxes attach as an enforceable lien on property as of January 1. The taxes are levied on or about October 1, based on the assessed value listed as of the date the enforceable lien attaches. Appraised values are established by the Hidalgo County Appraisal District, assessed at 100% of appraised value, and certified by the Appraisal Review Board. The County Tax Assessor-Collector (CTAC) bills and collects taxes for the District. CTAC billed the District \$277,161 in fees during 2014.

Taxes are due from October 1 of the year in which levied until January 31 of the following year without interest or penalty. No discounts are offered. On February 1, these taxes become delinquent, at which time penalty and interest charges are applicable. Collections on the levy for October 1, 2014, as well as the balances due on all taxes receivable related thereto, are reflected as deferred inflows of resources because they are not available to finance 2014 operations.

**NOTE D – INTERFUND RECEIVABLES AND TRANSFERS**

Balances of due to/from other funds consisted of the following at December 31, 2014:

Due to General Fund from Non-Major Capital Projects Fund	\$ 1,410,121
Due to General Fund from Major Capital Projects Fund	95,076
Due to Special Revenue Fund from Non-Major Capital Projects Fund	100,847
Due to 2007 Bonds Debt Service Fund from General Fund	973,717
Due to 2008 Bonds Debt Service Fund from General Fund	2,503,845
Due to 2013 Bonds Debt Service Fund from General Fund	2,921,154
Due to 2013 Bonds Debt Service Fund from 2007 Bonds Debt Service Fund	321,404
Due to 2013 Bonds Debt Service Fund from 2008 Bonds Debt Service Fund	598,831
Total due to/from other funds	<u>\$ 8,924,995</u>

These balances resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE D – INTERFUND RECEIVABLES AND TRANSFERS – Continued**

The Non-Major Capital Projects Fund owes the General Fund \$1,410,123; this amount represents an advance provided for the District's portion of the Raymondville Drain according to the advance funding agreement. The General Fund owes the 2007 Bonds Debt Service Fund \$263,224, 2008 Bonds Debt Fund \$947,762, and 2014 Bonds Debt Fund \$5,187,730 for 2015 taxes collected during the last three months of 2014. The Major Capital Projects Fund owes the General Fund \$95,076 for amounts paid for the La Joya Watershed Improvement. The Non-Major Capital Projects Fund owes the Special Revenue Fund \$100,845 for the District's portion according to the Memorandum of Agreement with Customs and Border Patrol and the City of Hidalgo.

Transfers are used to (1) move revenues from the fund that statute or budget requires (2) move funds restricted to debt service for debt service payments, and (3) use unrestricted revenues collected in the general fund to finance various projects accounted for in other funds in accordance with budgetary authorizations. Inter-fund transfers consisted of the following for the year ended December 31, 2014:

Transfers In:	Transfers Out:			Total
	General Fund	Capital Projects Fund	Debt Service Fund	
Debt Service Fund	\$ 145,960	\$ -	\$ 916,414	\$ 1,062,374
Capital Projects Fund	-	-	-	-
Special Revenue Fund	-	-	-	-
<b>Total inter-fund transfers</b>	<b>\$ 145,960</b>	<b>\$ -</b>	<b>\$ 916,414</b>	<b>\$ 1,062,374</b>

**NOTE E – DUE FROM OTHER GOVERNMENTS**

Due from other governments consisted of the following at December 31, 2014:

Fund	Due From	Purpose	Amount
General Fund	County of Hidalgo	Distribution of taxes, net of interlocal agreement	\$ 3,811,697
General Fund	Hidalgo County Precinct #1	Inter-local agreement project	20,174
General Fund	Hidalgo County Precinct #2	Inter-local agreement project	371,576
General Fund	Willacy County Drainage District No. 1	Inter-local agreement project	10,625
General Fund	City of Edinburg	Inter-local agreement project	190,278
	<b>Total due from other governments</b>		<b>\$ 4,404,350</b>

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE F – CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2014:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
<b>Capital assets not being   depreciated:</b>				
Land and easements	\$ 21,163,631	\$ 455,770	\$ -	\$ 21,619,401
Construction in progress	29,551,570	13,877,691	-	43,429,261
<b>Total capital assets not     being depreciated</b>	<u>50,715,201</u>	<u>14,333,461</u>	<u>-</u>	<u>65,048,662</u>
<b>Capital assets being   depreciated:</b>				
Infrastructure	88,688,765	1,147,906	-	89,836,671
Building and renovations	837,964	-	-	837,964
Machinery and equipment	13,261,145	770,494	( 87,684)	13,943,955
<b>Total capital assets     being depreciated</b>	<u>102,787,874</u>	<u>1,918,400</u>	<u>( 87,684)</u>	<u>104,618,590</u>
<b>Less accumulated   depreciation for:</b>				
Infrastructure	( 36,234,531)	( 2,330,268)	-	( 38,564,799)
Building and renovations	( 332,098)	( 30,230)	-	( 362,328)
Machinery and equipment	( 7,383,069)	( 978,922)	69,733	( 8,292,258)
<b>Total accumulated     depreciation</b>	<u>( 43,949,698)</u>	<u>( 3,339,420)</u>	<u>69,733</u>	<u>( 47,219,385)</u>
<b>Total capital assets   being depreciated, net</b>	<u>58,838,176</u>	<u>( 1,421,020)</u>	<u>( 17,951)</u>	<u>57,399,205</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 109,553,377</u>	<u>\$12,912,441</u>	<u>\$( 17,951)</u>	<u>\$ 122,447,867</u>

Depreciation expense totaling \$3,339,420 was charged to the drainage flood control function under governmental activities for the year ended December 31, 2014.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**December 31, 2014**

**NOTE G – LONG-TERM LIABILITIES**

The District issues unlimited tax improvement bonds to provide for the resources for construction of capital assets. The beginning balances of the unlimited tax improvement bonds issued in 2007, 2008 and 2013 were \$28,000,000, \$72,000,000 and \$77,130,000, respectively. The unlimited improvement bonds are direct obligations of the District, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the District in an amount sufficient to provide payment of principal and interest.

The Unlimited Tax Improvement Bond Series 2007, 2008 and 2013, respectively, have a call option for bonds maturing on or after August 15, 2017, September 1, 2019 and September 1, 2024 prior to stated maturity, in multiples of \$5,000, in whole or in part, on August 15, 2016, September 1, 2018 and September 1, 2023, or any date thereafter, at par plus accrued interest.

On December 1, 2014, the District issued Unlimited Tax Refunding Bonds Series 2014 in the amount of \$7,810,000 to advance refund a portion of Unlimited Tax Improvement Bonds, Series 2007. Bond proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$634,376. This refunding resulted in an economic gain of \$635,904.

The following is the total of refunded bonds:

<u>Description</u>	<u>Refunded Bonds</u>	<u>Maturity</u>
Unlimited Tax Improvement Bonds, Series 2007	\$ 8,015,000	2024-2027

The District has issued a fixed rate note from Plains Capital Bank, payable from operating funds of the District.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issued</u>	<u>Maturity</u>	<u>Original</u>	<u>Outstanding</u>
Governmental Activities	3.75%	2014	2016	\$ 406,980	\$ 261,953

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE G – LONG-TERM LIABILITIES - Continued**

Annual debt service requirements to maturity for unlimited improvement tax bonds are as follows:

Year(s) Ending December 31,	Governmental Activities		Total
	Principal	Interest	
2015	\$ 7,255,000	\$ 6,949,810	\$ 14,204,810
2016	7,395,000	6,761,763	14,156,763
2017	7,730,000	6,425,563	14,155,563
2018	8,080,000	6,074,013	14,154,013
2019	8,435,000	5,721,213	14,156,213
2020-2024	48,275,000	22,086,970	70,361,970
2025-2029	49,740,000	8,711,000	58,451,000
2030-2033	20,790,000	1,716,325	22,506,325
Total	<u>\$ 157,700,000</u>	<u>\$ 64,446,658</u>	<u>\$ 222,146,658</u>

The following is a summary of changes in long-term liabilities for the year ended December 31, 2014:

	Balance January 1, 2014	Additional Obligations and Net Increases	Payments and Net Decreases	Balance December 31, 2014	Amounts Due Within One Year
Bond Series 2007	\$ 23,070,000	\$ -	\$( 9,235,000)	\$ 13,835,000	\$ 1,280,000
Bond Series 2008	63,335,000	-	( 3,070,000)	60,265,000	3,215,000
Bond Series 2013	77,130,000	-	( 1,340,000)	75,790,000	2,615,000
Bond Series 2014	-	7,810,000	-	7,810,000	145,000
Bond Premiums	6,986,254	988,117	( 1,187,981)	6,786,390	1,204,607
Compensated absences	181,882	-	( 28,575)	153,307	-
Totals	<u>\$170,703,136</u>	<u>\$ 8,798,117</u>	<u>\$( 14,861,556)</u>	<u>\$164,639,697</u>	<u>\$ 8,459,607</u>



**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE H – OTHER POST- EMPLOYMENT BENEFITS (OPEB)**

**1. Plan Description**

The District does not have a formal post-employment benefits plan; however, the District allows retired employees to participate in the County's Health Benefits Program by purchasing health care benefits at the same group rate as provided to current active employees at the time they end their service to the District. Members may retire upon attaining one of the following: (1) age 60 and above with 8 or more years of service, (2) 20 years of service regardless of age, or (3) when the sum of their age and years of service equals 80 or more. Spouses and dependents are eligible to continue insurance under COBRA for 36 months after the retiree dies. If a dependent is not yet 26 years of age at the time of the members' death, the same rule applies. Once the dependent attains the age of 26, Blue Cross Blue Shield will terminated coverage automatically.

**2. Funding Policy**

The District collects insurance premiums from the participating retirees each month and deposits them in the County's Group Insurance Fund. The District then pays the health insurance premiums for the retirees at the blended rate to the County's self-funded Health Benefits Program. The required contribution to the program includes the employer's pay-as-you-go amount and the amount paid by retirees. For fiscal year ended December 31, 2014, the District paid \$22,511, which consisted of retiree payments. The District has elected not to prefund the actuarially determined future cost but will accrue the liability as of December 31, 2014 to reflect proper treatment and will disclose the Health Care Benefits for Retired Employees in accordance with GASB No. 45. Monthly medical contributions required by the retiree for medical and prescripts are as follows:

	<u>Basic Plan</u>
Employee only	\$ 347
Employee & spouse	540
Employee & child/children	432
Employee & family	624

As of December 31, 2014, there were 110 active employees, and 2 retired employee. There have been no significant changes in the number of covered employees or type of coverage since that date.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE H – OTHER POST- EMPLOYMENT BENEFITS (OPEB) – Continued**

**3. Annual OPEB Cost and Net OPEB Obligation**

The District OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded accrued actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation.

Annual required contribution	\$ 28,197
Interest on prior year net OPEB obligation	( 110)
Adjustment to ARC	180
Annual OPEB cost	28,267
Contribution made	22,511
Increase in net OPEB obligation	50,778
Net OPEB obligation - beginning of year	( 3,151)
Net OPEB asset - end of year	\$ 47,627

At December 31, 2014, three years of comparative data is available. The District's annual OPEB cost, the percentage of annual OPEB cost contribution, and the net OPEB obligation are as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Discount</u> <u>Rate</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation (Asset)</u>
12/31/2014	3.5%	\$ 28,267	-81.1%	\$ 47,627
12/31/2013	3.5%	\$ 27,747	184.5%	\$( 3,151)
12/31/2012	4.0%	\$ 25,782	449.0%	\$ 20,289

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE H – OTHER POST- EMPLOYMENT BENEFITS (OPEB) – Continued**

**4. Schedule of Funding Progress**

As of December 31, 2014, the plan was 0.0% funded for the District. The actuarial accrued liability was \$154,330 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$154,330 for the District. The covered payroll (annual payroll of active employees covered by the plan) was \$3,935,630, and the ratio of the UAAL to the covered payroll was 3.9%.

Year	2014	2013	2012
Actuarial valuation date	<u>12/31/2013</u>	<u>12/31/2013</u>	<u>12/31/2011</u>
Actuarial valuation of assets	\$ -	\$ -	\$ -
Discount rate	3.5%	3.5%	4.0%
Actuarial accrued liabilities (AAL)	154,330	154,330	189,384
Unfunded actuarial accrued liability (UAAL)	154,330	154,330	189,384
Funded ratio	0.0%	0.0%	0.0%
Covered payroll	3,935,630	3,666,660	3,438,828
UAAL as a % of covered payroll	3.9%	4.2%	5.5%

The schedule of funding progress presents three years of information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The most recent actuarial valuation was performed in 2013 and is valid for two years.

**5. Actuarial Method and Assumptions**

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revisions as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of expected future costs. Deviation in any of several factors, such as future interest rates, medical inflation, and changes in marital status could result in actual costs being greater than or less than estimated.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE H – OTHER POST- EMPLOYMENT BENEFITS (OPEB) – Continued**

**5. Actuarial Method and Assumptions – Continued**

Projections of benefits for financial reporting purposes are based on the plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits cost between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspectives of the calculations.

Year	2012	2013	2014
Actuarial valuation date	12/31/2011	12/31/2013	12/31/2013
Actuarial cost method	Projected credit unit	Projected credit unit	Projected credit unit
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Amortization period in years	27	26	26
Actuarial assumptions:			
Discount rate	4.0%	3.5%	3.5%
Health cost trend	Increase 9%	Decrease 9% to 6.9%	Decrease 9% to 6.9%
Spouse coverage	10.0%	10.0%	10.0%
Spouse age	Females assumed to be 3 years younger	Females assumed be 2 years younger	Females assumed be 2 years younger
Electing coverage	20.0%	20.0%	20.0%

**NOTE I – EMPLOYEE RETIREMENT BENEFITS**

**1. Plan Description**

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 624 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at PO Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the District within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 10 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of services equals 80 or more. Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the employer.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued**

**1. Plan Description – Continued**

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

**2. Funding Policy**

The District has elected the variable rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually. It was 12.61% for calendar year 2014. The contribution rate payable by the employee member is 9.00% as adopted by the governing body of the District. The employee contribution rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

**3. Annual Pension Cost**

For the District's accounting year ended December 31, 2014, the annual pension cost for the TCDRS plan for its employees totaled \$492,777 and the actual contributions totaled \$493,874.

Annual required contributions (ARC)	\$	493,874
Interest on net pension obligation (NPO)	(	15,775)
Adjustment on ARC		14,678
Annual pension cost		492,777
Contributions made		493,874
Decrease in NPO	(	1,097)
NPO at beginning of year	(	175,283)
NPO at end of year (overfunded)	\$(	176,380)

The annual required contributions were actuarially determined as a percentage of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers," parameters based on the actuarial valuation as of December 31, 2013, the basis for determining the contribution rate for calendar year 2014. The actuarial value of the plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 10-year period.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**December 31, 2014**

**NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued**

**3. Annual Pension Cost – Continued**

The December 31, 2013 actuarial valuation is the most recent valuation.

**Actuarial Valuation Information**

Actuarial valuation date	12/31/13	12/31/12	12/31/11
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	20 years	20 years	20 years
Asset valuation method	SAF: 5-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value
<b>Actuarial Assumptions:</b>			
Investment return*	8.0%	8.0%	8.0%
Projected salary increases*	4.9%	5.4%	5.4%
Inflation	3.0%	3.5%	3.5%
Cost-of-living-adjustments	0.0%	0.0%	0.0%

\*Includes inflation at the stated rate

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued**

**3. Annual Pension Cost – Continued**

At December 31, 2014, three years of comparative data is presented. The District's annual pension cost, the percentage of annual pension cost contributed, and the net pension overfunded are as follows:

Three Year Trend Information  
For the Retirement Plan of the Employees of  
Hidalgo County Drainage District No. 1

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Overfunded</u>
12/31/12	\$ 373,718	100.3%	\$( 174,192)
12/31/13	\$ 458,627	100.2%	\$( 175,283)
12/31/14	\$ 492,777	100.2%	\$( 176,380)

**4. Schedule of Funding Progress**

The schedule of funding progress presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The December 31, 2013 actuarial valuation is the most recent valuation.

For the Retirement Plan of the Employees of  
Hidalgo County Drainage District No. 1

<u>Actuarial Valuation Date</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Value of Assets (a)	\$ 6,938,718	\$ 7,476,013	\$ 8,553,515
Actuarial Accrued Liability (AAL) (b)	\$ 8,227,596	\$ 8,964,169	\$ 10,083,609
Unfunded AAL (UAAL) (b-a)	\$ 1,288,878	\$ 1,488,156	\$ 1,530,094
Funded Ratio (a/b)	84.33%	83.40%	84.83%
Annual Covered Payroll* (c)	\$ 3,282,439	\$ 3,328,623	\$ 3,799,318
UAAL as a Percentage of Covered Payroll ((b-a)/c)	39.27%	44.71%	40.27%

\*The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

\*\*Funding information may differ from prior year compliance data due to plan changes effective 1/1/2013.

The above schedule is intended to serve as a surrogate for the funded status and funding progress of the plan.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**December 31, 2014**

**NOTE J – DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUE**

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

	Deferred inflows of resources	Unearned revenue	Total
Property taxes (General Fund)	\$ 5,158,441	\$ 9,357,037	\$ 14,515,478
Property taxes (Debt Service Funds)	5,435,181	8,970,985	14,406,166
Grant revenue (Special Revenue Fund)	-	24,538	24,538
<b>Total</b>	<b>\$ 10,593,622</b>	<b>\$ 18,352,560</b>	<b>\$ 28,946,182</b>

**NOTE K – RISK MANAGEMENT**

The District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of property; errors and omissions; injuries to employees; and natural disasters. The District covers such risks by participating in a public entity risk pool. The District has not experienced significant reduction of insurance coverage in the last 4 years.

The District participates in the Texas Municipal League Intergovernmental Risk Pool (the Pool) for coverage in the following areas: general liability, errors and omissions, auto physical damage, auto liability, real and personal property, and workers compensation. Limits on insurance coverage are as provided in Texas State Statutes Civil Practices and Remedies Code Chapter 101.023. The District paid premiums totaling \$237,764 in 2014.

Annual aggregate limits and deductibles are as follows at December 31, 2014:

	Deductible	Annual Aggregate Limits
General liability	\$ 5,000	\$ 10,000,000
Errors and omissions liability	\$ 25,000	\$ 4,000,000
Auto physical damage	\$ 10,000	N/A
Auto liability	\$ 1,000	N/A
Real and personal property	\$ 10,000	N/A
Workers compensation	N/A	Fully Funded



**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**December 31, 2014**

**NOTE K – RISK MANAGEMENT – Continued**

In February 2005, the District changed its employee health benefits from purchased commercial insurance to a self-funded insurance fund. The District participates in the Hidalgo County Health Insurance Fund (Fund) and makes payments to the Fund based on the number of participants. The Fund provides coverage for up to a maximum of \$150,000 per individual per year. Claims in excess of \$150,000 and up to \$1,000,000 per individual per occurrence are covered by commercial insurance purchased by the Fund. The Fund's health insurance provider is Blue Cross-Blue Shield. Payments to the fund totaled \$626,717 in 2014.

**NOTE L – RELATED PARTY**

The District contracts with Integ, Inc. (Integ), a Texas corporation, to perform the duties of the manager of the District. The contract expired on February 16, 2010, and was renewed on that date for an additional three-year period, plus an additional year at the option of the District. In 2013, the District exercised its option for an additional year. The District pays Integ \$15,000 per month. The new agreement also states that the District will pay Integ one and a half percent of the actual construction costs, excluding land acquisition costs of the Hidalgo County Master Drainage System Phase II, as calculated by the Financial Officer of the District. In 2015, the District contracted an attorney to review the contract between the District and Integ. Management fees, vehicle, and phone allowance expensed by the District totaled \$172,899 in 2014. Effective February 2015, this contract has expired.

**NOTE M – SUBSEQUENT EVENTS**

The District has evaluated all events or transactions that occurred after December 31, 2014 through November 24, 2015, the date these financial statements were available to be issued.

On February 2015, a new General Manager was hired. Additionally, in February 2015 the District received a grant from the Texas Water Development Board in the amount of \$5,599,008 to be used on engineering and related services.

**SUPPLEMENTAL INFORMATION**

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**SCHEDULE OF SERVICES AND RATES**  
**Year ended December 31, 2014**

1. Services provided by the District:

<input type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input type="checkbox"/> Solid Waste/Garbage	<input checked="" type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input type="checkbox"/> Participates in joint venture, regional systems and/or wastewater service (other than interconnect)		
<input type="checkbox"/> Other (specify):		

2. Retail rates based on 5/8" meter:  Retail rates not applicable

3. Retail service providers: N/A

4. Total water consumption (in thousands) during the fiscal year: N/A

5. Standby fees: Does the District assess standby fees?  Yes  No

6. Anticipated sources of funds to be used for debt service payments in the District following fiscal year: None

7. Location of District:

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

Is the District located entirely with in one county?  Yes  No

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

City(ies) in which the District is located: Alton, Edcouch, Edinburg, Elsa, Granejo, Hidalgo, La Joya, La Villa, Mercedes, Mission, Palmview, Penitas, Progreso, Pharr, San Juan, Sullivan City, Weslaco

Is the general membership of the Board appointed by an office outside the District?  
 Yes  No if yes, by whom? \_\_\_\_\_

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**SCHEDULE OF GENERAL FUND EXPENDITURES**  
**Year ended December 31, 2014**

Personnel Expenditures (including benefits) *	\$ 5,513,415
<b>Professional Fees:</b>	
Auditing	86,201
Legal	100,521
Engineering	120,060
<b>Contracted Services:</b>	
General manager	183,870
Appraisal district	275,953
Other contracted services	-
Utilities	41,071
Repairs and Maintenance	802,859
<b>Administrative Expenditures:</b>	
Office supplies	21,763
Insurance	93,505
Other administrative expenditures	374,733
<b>Capital Outlay:</b>	
Acquisition of fixed assets	2,025,336
Aid to other governments	-
Other Expenditures	<u>1,018,401</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 10,657,688</u></b>

\* Number of full-time persons employed by the District: 110

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**ANALYSIS OF TAXES LEVIED AND RECEIVABLE**  
**Year ended December 31, 2014**

	Maintenance Taxes	Debt Service Taxes
Property taxes receivable, beginning of year	\$ 2,458,075	\$ 780,808
2013 original tax levy (less abatements)	12,213,077	13,772,194
Adjustments for 2013 original tax levy modifications	( 51,308)	( 57,859)
Adjustments for rollbacks and refunds	7,045	7,945
	<u>14,626,889</u>	<u>14,503,088</u>
<b>Tax collections:</b>		
Current	11,346,322	12,956,284
Prior years	687,412	765,784
	<u>12,033,734</u>	<u>13,722,068</u>
Property taxes receivable, end of year	<u>\$ 2,593,155</u>	<u>\$ 781,020</u> *
<b>Property taxes receivable by years</b>		
2013	\$ 950,291	\$ 132,456
2012	309,819	201,997
2011	221,254	146,499
2010 and prior	1,111,791	300,068
	<u>1,111,791</u>	<u>300,068</u>
Property taxes receivable, end of year	<u>\$ 2,593,155</u>	<u>\$ 781,020</u> *

\* This balance excludes \$10,624,250 applicable to the 2014 tax levy. Collections on the 2014 tax levy will be recognized as fiscal year 2014 tax revenues.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**ANALYSIS OF TAXES LEVIED AND RECEIVABLE – CONTINUED**

Year ended December 31, 2014

	Tax Levy			
	2013	2012	2011	2010
<b>Property Valuations:</b>				
Land and improvements	\$ 28,671,228,849	\$ 28,084,137,569	\$ 26,698,869,956	\$ 26,515,412,337
Minerals	2,586,241,450	2,570,672,103	2,600,336,767	2,556,961,701
Personal property	3,054,067,881	2,852,120,641	3,667,893,545	3,725,422,771
<b>Total property valuations</b>	<b>\$ 34,311,538,180</b>	<b>\$ 33,506,930,313</b>	<b>\$ 32,967,100,268</b>	<b>\$ 32,797,796,809</b>
<b>Tax Rates Per \$100 Valuation:</b>				
Debt service tax rates	\$ 0.0508	\$ 0.0296	\$ 0.0292	\$ 0.0278
Maintenance tax rates	0.0449	0.0454	0.0441	0.0447
<b>Total tax rates per \$100 valuation</b>	<b>\$ 0.0957</b>	<b>\$ 0.0750</b>	<b>\$ 0.0733</b>	<b>\$ 0.0725</b>
<b>Original tax levy</b>	<b>\$ 25,985,271</b>	<b>\$ 19,853,462</b>	<b>\$ 19,093,999</b>	<b>\$ 18,833,155</b>
<b>Percent of taxes collected to tax levied at December 31, 2013:</b>	<b>96%</b>	<b>95%</b>	<b>97%</b>	<b>98%</b>

Tax rate for any other special district which (a) encompasses less than a county, (b) provides water, wastewater collection, and drainage or roads to property in the District and, (c) taxes property in the District.

Name of Special District (s)	Service Provided	Tax Rate
NONE		\$ -
<b>Total Rate(s) of Special District (s)</b>		<b>\$ -</b>

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**ANALYSIS OF TAXES LEVIED AND RECEIVABLE – CONTINUED**  
**Year ended December 31, 2014**

The following represents the 2014 tax levy rates for all overlapping jurisdictions. The table includes any taxing entities which overlap 10% or more of the District.

	<u>Taxing Jurisdiction</u>	<u>Tax Rate</u>
a. County:	<u>Hidalgo County</u>	\$ .5900
b. Cities:	<u>Average of 18 cities within Drainage District</u>	.6250
c. School district(s):	<u>Average of 15 school districts within Drainage District</u>	1.3071
d. Special district(s) not included above:		
	<u>South Texas College</u>	.1850
	<u>South Texas I.S.D.</u>	.0492
e. Total District:		<u>.0957</u>
	<b>Total Overlapping Tax Rate</b>	<b><u>\$ 2.8520</u></b>

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**ANALYSIS OF CHANGES IN CAPITAL ASSETS**

**Year ended December 31, 2014**

	<u>Balance at Beginning of Year</u>	<u>Additions (Capital Outlay Expenditures)</u>	<u>Other Additions, Deletions and Reclassifications</u>	<u>Balance at End of Year</u>
<b>Physical Facilities</b>				
Drainage system	\$ 88,688,765	\$ 1,147,906	\$ -	\$ 89,836,673
Land and easements	21,163,631	262,648	193,122	21,619,401
Buildings	837,964	-	-	837,964
Machinery and equipment	13,261,145	770,494	( 87,684)	13,943,955
Construction in progress	29,551,570	14,070,813	( 193,122)	43,429,261
<b>Total physical facilities</b>	<u>153,503,075</u>	<u>16,251,861</u>	<u>( 87,684)</u>	<u>169,667,254</u>
<b>Organizational costs</b>				
Interest	-	-	-	-
Fiscal agent fees	-	-	-	-
Legal fees	-	-	-	-
Operations during:				
Construction period	-	-	-	-
Creation cost	-	-	-	-
Interest on temporary investment	-	-	-	-
Other costs	-	-	-	-
<b>Total organizational costs</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total capital assets</b>	<u>\$ 153,503,075</u>	<u>\$ 16,251,861</u>	<u>\$( 87,684)</u>	<u>\$ 169,667,254</u>
<b>Amount provided by:</b>				
<b>Capital Projects Funds</b>				
Bond proceeds	\$ -	\$ -	\$ -	\$ -
Revenues	-	-	-	-
<b>Debt Service Fund</b>				
Revenues	-	-	-	-
<b>General Fund</b>				
Revenues	-	-	-	-
Developer contributions	-	-	-	-
<b>Total amount provided*</b>	<u>\$ 153,503,075</u>	<u>\$ 16,251,861</u>	<u>\$( 87,684)</u>	<u>\$ 169,667,254</u>

\* The breakdown of amounts provided by funds is not available from the District's general fixed assets records. If needed, please contact the District.



**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**UNLIMITED TAX IMPROVEMENT BONDS, SERIES 2007**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS UNTIL MATURITY**

<u>Date of Payment</u>	<u>Coupon Rate</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Requirements</u>
3/1/2015			466,722	
9/1/2015	4.000%	1,280,000	466,722	2,213,444
3/1/2016			441,122	
9/1/2016	5.000%	1,345,000	441,122	2,227,244
3/1/2017			407,497	
9/1/2017	5.000%	1,410,000	407,497	2,224,994
3/1/2018			372,247	
9/1/2018	4.000%	1,475,000	372,247	2,219,494
3/1/2019			342,747	
9/1/2019	4.000%	1,535,000	342,747	2,220,494
3/1/2020			312,047	
9/1/2020	4.000%	1,595,000	312,047	2,219,094
3/1/2021			280,147	
9/1/2021	4.000%	1,660,000	280,147	2,220,294
3/1/2022			246,947	
9/1/2022	4.000%	1,730,000	246,947	2,223,894
3/1/2023			212,347	
9/1/2023	4.125%	1,805,000	212,347	2,229,694
		<u>\$ 13,835,000</u>	<u>\$ 6,163,646</u>	<u>\$ 19,998,646</u>

DATE: March 15, 2007  
ISSUED: \$ 28,399,221  
PAYABLE: U.S. Bank  
CALL OPTION: Bonds maturing on or after August 15, 2017 prior to stated maturity, in multiples of \$5,000, in whole or in part, on August 15, 2016, or any date thereafter, at par plus accrued interest.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**UNLIMITED TAX IMPROVEMENT BONDS, SERIES 2008**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS UNTIL MATURITY**

<u>Date of Payment</u>	<u>Coupon Rate</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Requirements</u>
3/1/2015			1,397,794	
9/1/2015	4.000%	3,215,000	1,397,794	6,010,588
3/1/2016			1,333,494	
9/1/2016	4.000%	3,355,000	1,333,494	6,021,988
3/1/2017			1,266,394	
9/1/2017	4.000%	3,495,000	1,266,394	6,027,788
3/1/2018			1,196,494	
9/1/2018	4.000%	3,645,000	1,196,494	6,037,988
3/1/2019			1,123,594	
9/1/2019	4.000%	3,800,000	1,123,594	6,047,188
3/1/2020			1,047,594	
9/1/2020	4.250%	3,955,000	1,047,594	6,050,188
3/1/2021			963,550	
9/1/2021	5.000%	4,125,000	963,550	6,052,100
3/1/2022			860,425	
9/1/2022	5.000%	4,300,000	860,425	6,020,850
3/1/2023			752,925	
9/1/2023	5.000%	4,490,000	752,925	5,995,850
3/1/2024			640,675	
9/1/2024	5.000%	4,695,000	640,675	5,976,350
3/1/2025			523,300	
9/1/2025	5.000%	4,920,000	523,300	5,966,600
3/1/2026			400,300	
9/1/2026	4.750%	5,160,000	400,300	5,960,600
3/1/2027			277,750	
9/1/2027	5.000%	5,420,000	277,750	5,975,500
3/1/2028			142,250	
9/1/2028	5.000%	5,690,000	142,250	5,974,500
		<u>\$ 60,265,000</u>	<u>\$ 23,853,078</u>	<u>\$ 84,118,078</u>

DATE: May 6, 2008  
ISSUED: \$ 73,480,022  
PAYABLE: Wells Fargo Bank  
CALL OPTION: Bonds maturing on or after September 1, 2019 prior to stated maturity, in multiples of \$5,000, in whole or in part, on September 1, 2018, or any date thereafter, at par plus accrued interest.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**UNLIMITED TAX IMPROVEMENT BONDS, SERIES 2013**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS UNTIL MATURITY**

<u>Date of Payment</u>	<u>Coupon Rate</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Requirements</u>
3/1/2015			1,509,884	
9/1/2015	4.000%	2,615,000	1,509,884	5,634,769
3/1/2016			1,457,584	
9/1/2016	5.000%	2,695,000	1,457,584	5,610,169
3/1/2017			1,390,209	
9/1/2017	5.000%	2,825,000	1,390,209	5,605,419
3/1/2018			1,319,584	
9/1/2018	5.000%	2,960,000	1,319,584	5,599,169
3/1/2019			1,245,584	
9/1/2019	5.000%	3,100,000	1,245,584	5,591,169
3/1/2020			1,168,084	
9/1/2020	5.000%	3,255,000	1,168,084	5,591,169
3/1/2021			1,086,709	
9/1/2021	5.000%	3,410,000	1,086,709	5,583,419
3/1/2022			1,001,459	
9/1/2022	5.000%	3,610,000	1,001,459	5,612,919
3/1/2023			911,209	
9/1/2023	5.000%	3,810,000	911,209	5,632,419
3/1/2024			815,959	
9/1/2024	5.000%	4,020,000	815,959	5,651,919
3/1/2025			715,459	
9/1/2025	5.000%	4,235,000	715,459	5,665,919
3/1/2026			609,584	
9/1/2026	2.500%	4,455,000	609,584	5,674,169
3/1/2027			553,897	
9/1/2027	3.000%	4,555,000	553,897	5,662,794
3/1/2028			485,572	
9/1/2028	3.125%	4,655,000	485,572	5,626,144
3/1/2029			412,838	
9/1/2029	3.125%	4,800,000	412,838	5,625,675
3/1/2030			337,838	
9/1/2030	3.250%	4,950,000	337,838	5,625,675
3/1/2031			257,400	
9/1/2031	3.250%	5,110,000	257,400	5,624,800
3/1/2032			174,363	
9/1/2032	3.250%	5,280,000	174,363	5,628,725
3/1/2033			88,563	
9/1/2033	3.250%	5,450,000	88,563	5,627,125
		<u>\$ 75,790,000</u>	<u>\$ 31,083,563</u>	<u>\$ 106,873,563</u>

DATE: April 2, 2013  
ISSUED: \$ 84,545,831  
PAYABLE: U.S. Bank  
CALL OPTION: Bonds maturing on or after September 1, 2024 prior to stated maturity, in multiples of \$5,000, in whole or in part, on September 1, 2023, or any date thereafter, at par plus accrued interest.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1  
UNLIMITED TAX REFUNDING BONDS, SERIES 2014**

**SCHEDULE OF DEBT SERVICE REQUIREMENTS UNTIL MATURITY**

<u>Date of Payment</u>	<u>Coupon Rate</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Requirements</u>
3/1/2015			50,878	
9/1/2015	2.000%	145,000	150,131	346,009
3/1/2016			148,681	
9/1/2016			148,681	297,363
3/1/2017			148,681	
9/1/2017			148,681	297,363
3/1/2018			148,681	
9/1/2018			148,681	297,363
3/1/2019			148,681	
9/1/2019			148,681	297,363
3/1/2020			148,681	
9/1/2020			148,681	297,363
3/1/2021			148,681	
9/1/2021			148,681	297,363
3/1/2022			148,681	
9/1/2022			148,681	297,363
3/1/2023			148,681	
9/1/2023			148,681	297,363
3/1/2024			148,681	
9/1/2024	3.750%	1,815,000	148,681	2,112,363
3/1/2025			114,650	
9/1/2025	3.750%	1,880,000	114,650	2,109,300
3/1/2026			79,400	
9/1/2026	4.000%	1,945,000	79,400	2,103,800
3/1/2027			40,500	
9/1/2027	4.000%	2,025,000	40,500	2,106,000
		<u>\$ 7,810,000</u>	<u>\$ 3,346,372</u>	<u>\$ 11,156,372</u>

DATE: December 30, 2014  
ISSUED: \$ 7,810,000  
PAYABLE: U.S. Bank  
CALL OPTION: Bonds maturing on or after September 1, 2025 prior to stated maturity, in multiples of \$5,000, in whole or in part, on September 1, 2024, or any date thereafter, at par plus accrued interest.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES – GENERAL FUND**  
**AND DEBT SERVICE FUND**

Year ended December 31,

	AMOUNTS				
	2014	2013	2012	2011	2010
<b>GENERAL FUND</b>					
<b>REVENUES</b>					
Property taxes	\$ 12,452,851	\$ 12,348,783	\$ 11,847,604	\$ 11,912,357	\$ 12,053,394
Operating grants and contributions	-	-	-	-	1,487,824
Charges for services	48,000	37,250	48,750	39,750	33,668
Interest	41,915	25,442	46,147	28,420	35,637
Miscellaneous	-	741,693	400,646	951,760	181,944
<b>Total revenues</b>	<b>12,542,766</b>	<b>13,153,168</b>	<b>12,343,147</b>	<b>12,932,287</b>	<b>13,792,467</b>
<b>EXPENDITURES</b>					
Professional fees	306,782	169,523	1,033,805	600,698	371,828
Contracted services	459,823	521,616	418,241	502,702	509,333
Payroll	5,513,415	5,179,593	4,602,209	4,426,749	4,364,811
Utilities	41,071	36,910	35,804	37,639	34,800
Materials and supplies	396,496	348,766	296,146	300,278	271,091
Repairs and maintenance	802,859	3,710,523	731,937	937,027	765,849
Aid to other governments	-	147,008	137,790	-	42,497
Other expenditures	1,111,906	831,923	894,891	1,010,858	1,170,227
Capital outlay	2,025,336	3,136,628	2,785,069	834,452	4,286,120
<b>Total expenditures</b>	<b>10,657,688</b>	<b>14,082,490</b>	<b>10,935,892</b>	<b>8,650,403</b>	<b>11,816,556</b>
Excess (deficiency) revenues over (under) expenditures	1,885,078	( 929,322)	1,407,255	4,281,884	1,975,911
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of capital assets	47,996	22,216	37,250	1,218	226,913
Capital lease proceeds	-	-	-	-	-
Note proceeds	406,980	-	-	-	-
Equipment purchase agreement proceeds	-	-	-	-	1,622,706
Interfund transfers in	-	-	-	-	-
Interfund transfers out	( 145,959)	-	-	( 1,308,640)	( 1,563,384)
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	<b>\$ 2,194,095</b>	<b>\$( 907,106)</b>	<b>\$ 1,444,505</b>	<b>\$ 2,974,462</b>	<b>\$ 2,262,146</b>
<b>DEBT SERVICE FUND</b>					
<b>REVENUES:</b>					
Property taxes	\$ 14,072,131	\$ 7,783,922	\$ 7,615,564	\$ 7,615,564	\$ 7,148,609
Penalty, interest and other	-	267,269	263,835	259,974	259,973
Interest	-	2,933	4,511	4,511	2,483
<b>Total revenues</b>	<b>14,072,131</b>	<b>8,054,124</b>	<b>7,883,910</b>	<b>7,880,049</b>	<b>7,411,065</b>
<b>EXPENDITURES:</b>					
Debt services, interest and principal	14,153,361	7,956,631	7,631,581	8,535,947	8,252,681
<b>Total expenditures</b>	<b>14,153,361</b>	<b>7,956,631</b>	<b>7,631,581</b>	<b>8,535,947</b>	<b>8,252,681</b>
Excess (deficiency) revenues over (under) expenditures	( 81,230)	97,493	252,329	( 655,898)	( 841,616)
<b>OTHER FINANCING SOURCES</b>					
Interfund transfers	294,700	-	-	1,284,227	1,363,162
Excess of revenues over expenditures and other financing sources	<b>\$ 213,470</b>	<b>\$ 97,493</b>	<b>\$ 252,329</b>	<b>\$ 628,329</b>	<b>\$ 521,546</b>
<b>TOTAL ACTIVE RETAIL, WATER AND/OR WASTEWATER CONNECTIONS</b>					
	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES – GENERAL FUND**  
**AND DEBT SERVICE FUND – CONTINUED**

Five years ended December 31,

PERCENT OF FUND TOTAL REVENUES				
2014	2013	2012	2011	2010
99.28	93.88	95.99	92.11	87.39
-	-	-	-	10.79
0.38	0.28	0.39	0.31	0.24
0.33	0.19	0.37	0.22	0.26
-	5.64	3.25	7.36	1.32
<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
2.45	1.29	8.38	4.64	2.70
3.67	3.97	3.39	3.89	3.69
43.96	39.38	37.29	34.23	31.65
0.33	0.28	0.29	0.29	0.25
3.16	2.65	2.40	2.32	1.97
6.40	28.21	5.93	7.25	5.55
-	1.12	1.12	-	0.31
8.86	6.32	7.25	7.82	8.48
16.15	23.85	22.56	6.45	31.08
<u>84.97</u>	<u>107.07</u>	<u>88.60</u>	<u>66.89</u>	<u>85.67</u>
15.03	( 7.07)	11.40	33.11	14.33
0.38	0.17	0.30	0.01	1.65
-	-	-	-	-
3.24	-	-	-	-
-	-	-	-	11.77
-	-	-	-	-
( 1.16)	-	-	( 10.12)	( 11.34)
<u>17.49</u>	<u>( 6.90)</u>	<u>11.70</u>	<u>23.00</u>	<u>16.40</u>
100.00	96.65	96.60	96.64	96.46
-	3.32	3.35	3.30	3.51
-	0.04	0.06	0.06	0.03
<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
100.58	98.79	96.80	108.32	111.36
<u>100.58</u>	<u>98.79</u>	<u>96.80</u>	<u>108.32</u>	<u>111.36</u>
( 0.58)	1.21	3.20	( 8.32)	( 11.36)
2.09	-	-	16.30	18.39
<u>1.52</u>	<u>1.21</u>	<u>3.20</u>	<u>7.97</u>	<u>7.04</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>2.0</u>	<u>-</u>

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**

**INSURANCE COVERAGE**

**Year ended December 31, 2014**

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Insurer</u>		
		<u>Name</u>	<u>Type of Corporation Stock/Mutual</u>	<u>Policy Clause: Co-Insurance</u>
<u>Property Insurance</u>				
Buildings and structures	\$ 15,451,533	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Boiler and machinery	3,143,790	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Mobile equipment	9,355,169	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Transit	1,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Newly acquired property	1,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Loss of revenues, extra expense and rents	600,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
<u>Liability</u>				
General liability (per occurrence)	5,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Automobile liability (per occurrence)	500,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Sudden events involving pollution (per occurrence)	2,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
<u>Errors and Omissions Liability</u>				
Limit of liability (each wrongful act)	2,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**Year ended December 31, 2014**

Complete District Mailing Address: 902 N. Doolittle Road, Edinburg, Texas 78542

District Business Telephone Number: (956) 292-7080

<u>Name and Address</u>		<u>Fees 12/31/14</u>	<u>Expense Reimbursements FYE 12/31/14</u>	<u>Title at Year End</u>	<u>Resident of District</u>
<b>Board Members:</b>					
Ramon Garcia 302 W. University Dr. Edinburg, TX 78539	(Elected) 11/09/10	\$ -	\$ 1,800	Chairman	Yes
A.C. Cuellar, Jr. 1902 Joe Stephens Ave. Weslaco, TX 78599	(Elected) 11/10/10	\$ -	\$ 1,800	Director	Yes
Hector "Tito" Palacios 300 W. Hall Acres Pharr, TX 78577	(Elected) 01/01/99	\$ -	\$ 1,800	Director	Yes
Joe M. Flores 724 North Breyfogle Mission, TX 78574	(Elected) 01/01/01	\$ -	\$ 1,800	Director	Yes
Joseph Palacios 1051 N. Doolittle Road Edinburg, TX 78542	(Elected) 01/01/11	\$ -	\$ 1,800	Director	Yes



**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS – CONTINUED**  
**Year ended December 31, 2014**

Complete District Mailing Address: 902 N. Doolittle Road, Edinburg, Texas 78542

District Business Telephone Number: (956) 292-7080

<u>Name and Address</u>		<u>Fees 12/31/14</u>	<u>Expense Reimbursements FYE 12/31/14</u>	<u>Title at Year End</u>
<b>Key Personnel:</b>				
<b>Consultants:</b>				
Godfrey Garza Integ, Inc. R.R. 13 Box 715 Edinburg, TX 78539	10/03/00	\$ 172,899	\$ 346	Management Consultant
Raymundo Eufrazio, C.P.A. Hidalgo County Auditor's Office 2808 S. Business Highway 281 Edinburg, TX 78539	(Appointed) 01/01/05	\$ -	\$ -	County Auditor
Pablo "Paul" Villarreal Jr. PO Box 178 Edinburg, TX 78539	(Elected) 01/01/13	\$ 277,161	\$ -	County Tax Assessor/ Collector
Atlas Hall & Rodriguez, L.L.P. PO Box 3725 McAllen, TX 78502	March 1966	\$ 44,251	\$ -	Attorneys
Burton McCumber & Cortez, L.L.P. 205 Pecan Boulevard McAllen, TX 78501	01/14/04	\$ 86,201	\$ -	Independent Auditors

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS – CONTINUED**  
**Year ended December 31, 2014**

Complete District Mailing Address: 902 N. Doolittle Road, Edinburg, Texas 78542

District Business Telephone Number: (956) 292-7080

<u>Name and Address</u>	<u>Fees 12/31/14</u>	<u>Expense Reimbursements FYE 12/31/14</u>	<u>Title at Year End</u>
<b>Consultants - Continued:</b>			
Hidalgo County Appraisal District 4405 Professional Drive Edinburg, TX 78539	-	\$ 275,953	\$ - Appraisal Services
<b>Investment Officer:</b>			
Norma G. Garcia 2810 S. Business Highway 281 Edinburg, TX 78539	(Elected) 01/01/95	\$ -	\$ - County Treasurer

**OTHER REPORTING REQUIRED BY GOVERNMENTAL AUDITING STANDARDS**



**Burton McCumber & Cortez, L.L.P.**  
Certified Public Accountants & Management Consultants

205 Pecan Boulevard  
McAllen, Texas 78501-2354  
Telephone 956/618-2300  
Facsimile 956/618-2333  
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Offices In:  
Brownsville  
McAllen  
Matamoros

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

Board of Directors  
Hidalgo County Drainage District No. 1  
Edinburg, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hidalgo County Drainage District No. 1 (the District), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 24, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in a separate letter dated November 24, 2015.

### **Compliance and Other Matters**

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

### **District's Response to Findings**

The District's response to the findings identified in our audit is included in a separate letter dated November 24, 2015. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Burta McCall & Co., LLP*

McAllen, Texas  
November 24, 2015

**AI -52516**

7.

**DRAINAGE DISTRICT**

Meeting Date: 12/08/2015

Submitted For: Jaime Salazar

Submitted By: Jaime Salazar, DRAINAGE  
DISTRICT

Department: DRAINAGE DISTRICT

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Information

CAPTION

Requesting approval to accept final negotiated Letter of Agreement for Financial Advisory Services from Estrada, Hinojosa & Company, Inc., approved for negotiations by the HCDD1 Board of Directors on November 17, 2015.

BACKGROUND

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Fiscal Impact

Attachments

Letter of Agreement

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**Form Review**

<b>Inbox</b>	<b>Reviewed By</b>	<b>Date</b>
Budget & Management	Veronica Ortiz	12/04/2015 08:18 AM
Final Approval	Monica Badillo	12/04/2015 05:08 PM
Form Started By: Jaime Salazar		Started On: 12/03/2015 04:21 PM
Final Approval Date: 12/04/2015		

**AGREEMENT FOR FINANCIAL ADVISORY SERVICES**  
**By and Between**

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1**  
**(Hereinafter referred to as the "Issuer")**

**And**

**ESTRADA HINOJOSA & COMPANY, INC.**

It is understood that the Issuer will have under consideration from time to time the authorization and issuance of indebtedness in amounts and forms which cannot be determined and that in connection with the authorization, sale, issuance and delivery of such indebtedness of the Issuer, we have been requested to submit a proposal to provide professional services to the Issuer in the capacity of Financial Advisor. We are pleased to comply with this request and submit the following proposal for consideration. This proposal, if accepted by the Issuer, shall become the agreement (the "Agreement") between the Issuer and Estrada Hinojosa & Company, Inc. effective at the date of its acceptance as provided for herein below.

I.

This Agreement shall apply to any and all evidences of indebtedness or debt obligations (other than purchases of Equipment or Vehicles under the Public Property Finance Act) that may be authorized and issued or otherwise created or assumed by the Issuer (hereinafter referred to collectively as the "Debt Instruments").

II.

We agree to provide our professional services and our facilities as Financial Advisor and agree to direct and coordinate all issuance of Debt Instruments as may be considered and authorized during the period in which this Agreement shall be effective, with the exception of equipment procured in the regular course of business under the Public Property Finance Act, and to assume and pay those expenses set out in Appendix A, provided, however, that our obligations to pay those expenses shall not include any costs incident to litigation, mandamus action, test case or other similar actions.

III.

We agree to perform the following duties normally performed by financial advisors and all other duties as, in our judgement, may be necessary or advisable:

1. We will conduct a survey of the financial resources of the Issuer to determine the extent of its capacity to authorize, issue and service debt. This survey will include an analysis of existing debt structure as compared with the existing and projected sources of revenues which may be pledged to secure payment of debt service and, where appropriate, will include a study of the trend of the assessed valuation, taxing power and present and future taxing requirements of the Issuer. In the event revenues of existing or projected facilities operated by the Issuer are to be pledged to repayment of the Debt Instruments then under consideration, the survey will take into account any outstanding indebtedness payable from the revenues thereof, additional revenues, as projected by consulting engineers employed by the Issuer, resulting from improvements to be financed by the Debt Instruments under consideration. We will also take into account future financing needs and operations as projected by the Issuer's staff and consulting engineers or other experts, if any, employed by the Issuer.

2. On the basis of the information developed by the survey described above, and other information and experience available to us, we will submit to the Issuer our recommendations on the Debt Instruments under consideration including such elements as the date of issue, interest payment dates, schedule of principal maturities, portions of prior payment, security provisions, and any other additional provisions designed to make the issue attractive to investors. All recommendations will be based upon our professional judgement with the goal of designing Debt Instruments which can be sold under terms most advantageous to the Issuer and at the lowest interest cost consistent with all other considerations.

3. We will advise the Issuer of current bond market conditions, forthcoming bond issues and other general information and economic data which might normally be expected to influence interest rates or bidding conditions so that the date of sale of the Debt Instruments may be set at a time which, in our opinion, will be favorable.

4. We understand the Issuer has retained, or will retain, firms or municipal bond attorneys (the "Bond Counsel") whose fees will be paid by the Issuer. In the event it is necessary to hold an election to authorize the Debt Instruments then under consideration, we will assist in coordinating the assembly and transmittal to Bond Counsel of such data as may be required for the preparation of necessary petitions, orders, resolutions, ordinances, notices, and certificates in connection with the election.

5. We will recommend the method of sale of the Debt Instruments that, in our opinion, is in the best interest of the Issuer and will proceed, as directed by the Issuer, with one of the following methods:

a. Competitive Sale: We will advise the Issuer regarding the sale of the Debt Instrument whereby we coordinate the submission of competitive bids from prospective buyers of the Debt Instruments in accordance with established procedures.

b. Negotiated Sale: We will recommend one or more investment banking firms as managers of an underwriting syndicate for the purposes of negotiating the purchase of Debt Instruments and in no event will we participate either directly or indirectly in the underwriting of the Debt Instruments. We will collaborate with any senior managing underwriter selected and Counsel to the underwriters in the preparation of the Official Statement or Offering Memorandum. We will cooperate with the underwriters in obtaining any Blue Sky Memorandum and Legal Investment Survey, preparing the Bond Purchase Contract, Underwriters' Agreement and any other related documents. The costs thereof, including the printing of the documents, will be paid by the underwriters.

6. When appropriate, we will advise financial publications of the forthcoming sale of the Debt Instruments and provide them with all pertinent information.

7. We will coordinate the preparation of the Notice of Sale and Bidding Instructions, Official Statement, Official Bid Form and such other documents as may be required. We will submit to the Issuer all such documents for examinations, approval and certification. After such examination, approval and certification, we will provide the Issuer with a supply of all such documents sufficient to its needs and will distribute by mail sets of the same to prospective bidders and to banks, life, fire and casualty insurance companies, investment counselors and other prospective purchasers of the Debt Instruments. We also provide sufficient copies of the Official Statement to the purchaser of the debt Instruments in accordance with the Notice of Sale and Bidding Instructions. The expenses associated with printing and distribution of these documents will be paid by the Issuer.

8. We will, after consulting the Issuer, arrange for such reports and opinions of recognized independent consultants we deem necessary and required for the successful marketing of the Debt Instruments.



9. Subject to the approval of the Issuer, we will organize and make arrangements for such information meetings as, in our judgement, may be necessary.

10. We will make recommendations to the Issuer as to the advisability of obtaining a credit rating, or ratings, for the Debt Instruments as, in our opinion, is required for submission to the appropriate company, institution or institutions. In those cases where personal presentations are advisable, the expenses associated with the preparation of information and personal presentations will be paid by the Issuer.

11. We will make recommendations to the Issuer as to the advisability of obtaining municipal bond insurance or other credit enhancement, or qualifications for same, for the Debt Instruments and, when directed by the Issuer, we will coordinate the preparation of such information as, in our opinion, is required for submission to the appropriate company, institution or institutions. In those cases where the advisability of personal presentation of information to the appropriate company, institution or institutions may be indicated, we will arrange for such personal presentations. The expenses associated with the preparation of information and personal presentations will be paid by the Issuer.

12. We will assist the staff of the Issuer at any advertised sale of Debt Instruments in coordinated the receipt, tabulation and comparison of bids and we will advise the Issuer as to the best bid. We will provide the Issuer with our recommendations as to acceptance or rejection of such bid.

13. As soon as a bid for the Debt Instruments is accepted by the Issuer, we will proceed to coordinate the efforts of all concerned to the end that the Debt Instruments may be delivered and paid for as expeditiously as possible. We will assist the Issuer in the preparation or verification of final closing figures incident to the delivery of the Debt Instruments.

14. We will maintain liaison with Bond Counsel in the preparation of all legal documents pertaining to the authorization, sale and issuance of the Debt Instruments. Bond Counsel will provide an unqualified legal opinion as to the legality of the issuance of the Debt Instruments at the time of delivery.

15. If requested, we will consult with the Issuer in the selection of a Paying Agent/Registrar for the Debt Instruments, and will assist in the preparation of agreements pertinent to these services and the fees incident thereto.

16. In the event formal verification by an independent auditor or any calculations incident to the Debt Instruments is required, we will make arrangements for such services.

17. We agree to do, or cause to be done, all work pertaining of the Debt Instruments, obtaining approval, as may be required by the Attorney General, registration by the Comptroller of Public Accounts and delivery to the purchaser. The expenses associated with the printing of the debt instruments will be paid by the Issuer.

18. After the closing of the sale and delivery of the Debt Instruments, we will deliver to the Issuer a schedule of annual debt service requirements on the Debt Instruments. In coordination with Bond Counsel, we will assure that the Paying Agent/Registrar has been provided with a copy of the authorizing ordinance, order or resolution.

19. We will attend any and all meeting of governing body of the Issuer, its staff, representatives or committees as requested and at the Issuer's expense, at all times when we may be of assistance or service and the subject of financing is to be discussed.

20. We will advise the Issuer and its staff of changes, proposed or enacted, in Federal and State laws and regulations which would affect the municipal bond market.

21. We will work with the Issuer, its staff and any consultants employed by the Issuer in developing financial feasibility studies and analyzing alternative financing plans.

#### IV.

In addition to the services set out above, we agree to provide the following services when so requested:

1. We will provide our advice as to the investment of proceeds of Debt Instruments. We will, when so directed, purchase those investments authorized to be purchased and we will charge a normal and customary commission for each such transaction.

2. We will provide our advice and assistance with regard to exercising any call and/or refunding of any outstanding Debt Instruments.

3. We will provide our advice and assistance in the development of, and financing for, any capital improvement programs of the Issuer.

4. We will provide our advice and assistance in the development of the long-range financing plan of the Issuer.

5. We will provide any other financial planning services as may be requested by the Issuer.

#### V.

The fee due Estrada Hinojosa & Company, Inc. in accordance with Appendix A attached hereto, any other fees as may be mutually agreed and all expenses for which Estrada Hinojosa & Company, Inc. is entitled to reimbursement, shall become due and payable concurrently with the delivery of the Debt Instruments to the purchaser.

#### VI.

This Agreement shall become effective at the date of acceptance by the Issuer set out herein below and remain in effect thereafter for a period of three years from the date of acceptance, with the option to renew the Agreement for up to two additional years, at the discretion of the Issuer. Provided, however, this Agreement may be terminated with or without cause by the Issuer upon thirty (30) days' written notice. In the event of such termination, it is understood and agreed that only the amount due to Estrada Hinojosa & Company, Inc. for services provided and expenses incurred to the date of termination will be due and payable. No penalty will be assessed for termination of this Agreement. This Agreement is submitted in triplicate originals. When accepted by the Issuer, it, together with Appendix A attached hereto, will constitute the entire Agreement between the Issuer and Estrada Hinojosa & Company, Inc. for the purposes and the considerations herein specified. Acceptance will be indicated by the signature of authorized officials of the Issuer together with the date of acceptance on all three copies and the return of two executed copies to Estrada Hinojosa & Company, Inc.

Respectfully submitted,

ESTRADA HINOJOSA & COMPANY, INC.

By: \_\_\_\_\_

This agreement is accepted by the Issuer this \_\_\_\_ day of \_\_\_\_\_, 2015.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

By: \_\_\_\_\_

Its: \_\_\_\_\_

APPROVED AS TO FORM:

By: \_\_\_\_\_

Approved By Board of Directors:

Dated: \_\_\_\_\_

## APPENDIX A

In consideration for services rendered, Estrada Hinojosa will be paid an annual retainer fee of \$30,000, to be billed and paid at the end of each calendar year, plus reimbursement of reasonable out-of-pocket expenses. This retainer fee covers ongoing financial advisory services provided to the Issuer as set forth in Section III of our contract, in addition to any professional fees charged in connection with the issuance of debt. In addition, the annual retainer fee shown here is inclusive of the \$5,000 annual fee for Continuing Disclosure Services provided by Estrada Hinojosa to the District. In the event the work performed under Section III results in the issuance of debt, the annual retainer fee will be waived if the fee charged for the bond transaction is in excess of \$30,000 during that calendar year.

For other services rendered by Estrada Hinojosa in connection with the issuance of debt, our fee schedule for General Obligation Bond issues sold either competitive or negotiated will be as follows:

Base-fee- Any Issue- \$3,750

Plus	\$12.00	per	\$1,000	up to \$1,000,000 or	\$15,750	for	\$1,000,000	Bonds
Plus	6.00	per	\$1,000	next 1,500,000 or	24,750	for	2,500,000	Bonds
Plus	4.20	per	\$1,000	next 2,500,000 or	35,250	for	5,000,000	Bonds
Plus	2.50	per	\$1,000	next 5,000,000 or	47,750	for	10,000,000	Bonds
Plus	1.80	per	\$1,000	next 10,000,000 or	65,750	for	20,000,000	Bonds
Plus	1.50	per	\$1,000	anything over	20,000,000			

Revenue Bond or Certificate of Obligation Issues-- Fees shall be the amount shown plus a 20% additional charge.

Refunding Issues-- Fees shall be the amount shown plus a 25% additional charge.

For any financial assistance secured from Texas Water Development Board, U.S. Department of Housing and Urban Development or any similar state or federal agency, the fee for such issue shall be 140% of the above fee schedule.

At the time that Debt Instruments are delivered, Estrada Hinojosa will bill the District for each issue of Debt Instruments an amount which will include the fee calculated on the above schedule as well as third party invoices and fixed costs and expenses allocated to a bond sale(s) on a per issue basis, where applicable, incurred on behalf of the District for the following items, if applicable:

### Third-Party Invoices\*

- Bond Counsel fees and expenses
- Bond rating fees
- Paying Agent/Registrar/Trustee fees
- Other third-party invoices, if applicable
- Underwriter and Underwriter's counsel (negotiated sales only)
- Verification Agent Fees
- Credit enhancement fees
- Attorney General fees

### Fixed Fees

- Preparation of an Official Statement (POS and FOS) fixed at \$6,500 per document
- Preparation of a Notice of Sale / Uniform Bid Form fixed at \$2,500 per series
- Travel expenses fixed at \$5,000 per sale unless negotiated otherwise in which case supporting documentation (e.g., receipts, etc.) will be required.
- Miscellaneous expenses (including messenger, overnight delivery, photocopying, postage and telephone) fixed at \$2,500 per sale unless approved by the Court.

Approved by District – Amounts for Computer Structuring to be approved by the District prior to each issuance.

Our fees and expenses are contingent upon the District receiving funds and payable only to Estrada Hinojosa from proceeds delivered at closing. Expenses are borne by the Firm until the closing in accordance with the contract between the District and Estrada Hinojosa.

\* Supporting documentation (e.g., copies of checks and/or paid invoices) will be required.

Note: For purposes of the fee schedule, "Bonds" are defined as par plus premium or minus discount.

**AI -52551**

**8. C.**

**DRAINAGE DISTRICT**

Meeting Date: 12/08/2015

Submitted By: Monica Badillo,  
EXECUTIVE OFFICE

Department: EXECUTIVE OFFICE

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Information

CAPTION

Notice of Claim - Josie Moreno & Tonie Moreno, et al v. Drainage District No. 1

BACKGROUND

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Fiscal Impact

Attachments

*No file(s) attached.*

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**Form Review**

<b>Inbox</b>	<b>Reviewed By</b>	<b>Date</b>
Budget & Management	Veronica Ortiz	12/04/2015 04:22 PM
Final Approval	Monica Badillo	12/04/2015 05:08 PM
Form Started By: Monica Badillo		Started On: 12/04/2015 04:21 PM
Final Approval Date: 12/04/2015		

**AI -52552**

**9. C.**

**DRAINAGE DISTRICT**

Meeting Date: 12/08/2015

Submitted By: Monica Badillo,  
EXECUTIVE OFFICE

Department: EXECUTIVE OFFICE

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Information

CAPTION

Notice of Claim - Josie Moreno & Tonie Moreno, et al v. Drainage District No.1

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