

INTRODUCTORY SECTION



COUNTY *of* HIDALGO



HIDALGO COUNTY AUDITOR'S OFFICE
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EDINBURG, TEXAS 78539

June 30, 2014

To the Honorable District Judges, County Court at Law Judges,
County Probate Judge, Commissioners Court Members,
Citizens of Hidalgo County, and the Financial Community:

Texas Local Government Code §114.025 requires that the County Auditor publish, after the close of the fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, the Comprehensive Annual Financial Report (CAFR) for Hidalgo County, Texas (the County) for the year ended December 31, 2013, is submitted herewith.

Responsibility for Financial Statements

This report was prepared by the County Auditor's Office. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County 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 County's financial affairs have been included.

The County Auditor is appointed by and reports to district Judges having jurisdiction over the County. This independence from the Commissioners Court is integral to the system of checks and balances needed to ensure no one branch of government is without accountability in complying with the State's statutes. By law, the County Auditor has oversight of all financial books and records of all officers of the County and is charged with strictly enforcing laws governing county finances.

Independent Audit

Burton, McCumber & Cortez, LLP, an independent certified public accounting firm, has audited the County's financial statements. The goal of the independent audit was to provide reasonable, but not absolute, assurance that the financial statements of the County for the year ended December 31, 2013, 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 ("clean") opinion that the County's financial statements for the year ended December 31, 2013, are fairly presented in conformity with U.S. generally accepted accounting principles. The independent auditors' report is presented as the first component of the Financial Section of this report.

Additionally, the County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The mandated "Single Audit" is designed to meet the needs of the federal grantor agencies. Standards governing the Single Audit engagement require the independent auditor to report not only on the fair presentation of the financial statements, but also on the

HIDALGO COUNTY DISTRICT JUDGES

JAME E. TIJERNA
JUDGE, 92ND D.C.

RODOLFO DELGADO
JUDGE, 93RD D.C.

J. R. "BOBBY" FLORES
JUDGE, 138TH D.C.

ROSE GUERRA REYNA
JUDGE, 206TH D.C.

JUAN R. PARTIDA
JUDGE, 275TH D.C.

MARIO E. RAMIREZ, JR.
JUDGE, 312ND D.C.

NOE GONZALEZ
JUDGE, 370TH D.C.
OVERSEER

LETICIA LOPEZ
JUDGE, 389TH D.C.

AIDA SALINAS FLORES
JUDGE, 398TH D.C.

ISRAEL RAMON, JR.
JUDGE, 400TH D.C.

JESSE CONTRERAS
JUDGE, 448TH D.C.

County's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. Their consideration of the internal controls over compliance does not necessarily disclose all matters in the internal control that might be material weakness because their auditing procedures are performed on a test basis. The County's Single Audit for the year ended December 31, 2013 is presented in a separate report.

Reporting Standards

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial principles.

GAAP requires that management provide a narrative introduction, overview, and analysis of 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 with it. The County's MD&A can be found immediately following the independent auditors' report.

Financial Statements Format

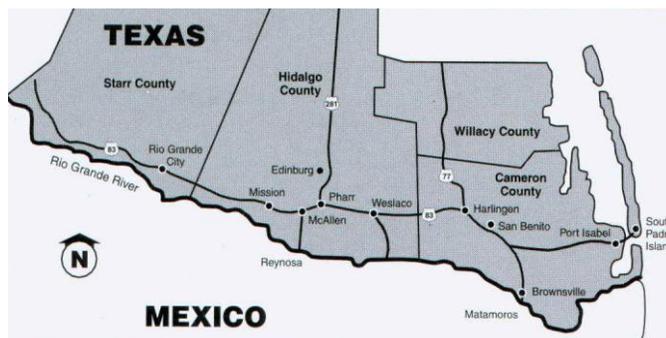
The basic structure and contents of a CAFR are set by authoritative accounting and financial reporting standards. The CAFR contains the following three sections:

1. Introductory Section – This section includes the letter of transmittal, copy of the GFOA Certificate of Achievement, organizational chart, list of governing body, and list of principal officials.
2. Financial Section – This section includes the independent auditors' report, MD&A, basic financial statements (including the notes), combining statements, and individual fund financial statements and schedules.
3. Statistical Section – This section offers operational, economic, and historical data that provide a context for assessing the County's economic condition.

Hidalgo County Government Profile

Geographic Information

Hidalgo County was created in 1852 from Cameron County, and at that time had an area of 2,356 square miles. When first organized, the County extended almost as far north as Nueces County; however, later reductions in land area to form counties to its north have reduced Hidalgo County to its present area of 1,570 square miles.



Cameron, Willacy, and Kennedy Counties border Hidalgo County on the east, Brooks County on the north, Starr County on the west, and the Rio Grande River separates the County from the Republic of Mexico on the south.

The 2013 population of Hidalgo County is estimated to be 815,996, an increase of 9,444 (2%) over the 2012 estimated population.

The county seat is located in the City of Edinburg.

Government Structure

The governing body of the County is the Commissioners Court. The Commissioners Court is comprised of the County Judge (who serves as the presiding officer) and four Commissioners from one of the County's four road and bridge precincts. Each member of the Commissioners Court is elected to a four-year term of office.

The Commissioners Court has certain powers expressly granted by the legislature and powers necessarily implied by such grant. One of the most important duties of the Commissioners Court is management of the finances of the County. Among other things, it approves the budget, determines the tax rates, approves

contracts in the name of the County, determines whether indebtedness should be authorized and issued, and appoints certain County officials.

The County provides a full range of services, including:

General government services related to the legislative, judicial, and executive branches of the government. This category includes budgets for the various Judicial Courts, Indigent Defense, Criminal District Attorney, Public Defender's Office, District Clerk, Law Library, County Judge, County Commissioners, Executive Office, Elections, Budget and Management, Tax Assessor-Collector, County Treasurer, Purchasing, County Auditor, County Clerk, Human Resources, Information Technology, Planning, and Facilities Management.

Public safety services related to the protection of persons and property. This category includes budgets for the Sheriff, Constables, Fire Marshal, Juvenile and Adult Probation, and Emergency Management.

Highways and streets services related to the construction, repair and maintenance of roadways. This category includes budgets for each of the four commissioners.

Sanitation services related to the removal and disposal of waste. This category includes budgets for the collection stations located in each of the four precincts.

Health and welfare services related to public health and public assistance. This category includes budgets for Health and Human Services, WIC Program, Community Service Agency, and Head Start Program.

Recreational and cultural services for the benefit of residents and visitors. This category includes budgets for the historical commission, museums, libraries, and parks.

Conservation services designed to conserve and develop natural resources. This category includes the budgets for animal control, insect eradication, humane society, and the Texas AgriLife Extension.

Urban and economic development services related to housing and urban redevelopment as well as programs that foster economic growth and development. This category includes budgets for the Urban County Program and community resource centers located in each of the precincts.

Certain drainage flood control services are provided through a legally separate Drainage District that has been included as an integral part of the County's financial statements. Additional information on this legally separate entity can be found in the notes to the financial statements (See Note 1.A.).

Budget Process

The Commissioners Court is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the County's financial planning and control. The budget includes appropriations for the general fund, certain special revenue funds, debt service funds, and proprietary funds. The budget is prepared by fund, function, department, and object. Transfer of appropriations between departments requires the approval of Commissioners Court.

The County uses an encumbrance accounting system as a budgetary control mechanism. The County Auditor's Office monitors expenditures of the various offices/departments to prevent expenditures from exceeding budgeted appropriations. The County Auditor's Office provides the Commissioners Court with a monthly report that includes a budget status of each office/department. During fiscal year 2013, there were no offices/departments or individual funds for which the expenditures exceeded appropriations.

Local Economy

The Rio Grande Valley, which is comprised of the four southern-most counties in Texas – Cameron, Hidalgo, Starr and Willacy – encompasses a diverse range of landscapes which include beaches, ranches, and vibrant cities. Its diverse landscapes as well as an assortment of industries make it not only economically unique but also competitive.

Agriculture has historically been one of the region's cultural and economic mainstays. The area today has been profoundly transformed into a major international trade area. The region's geographic proximity to Mexico makes industries allied with international trade very marketable. The promotion of international trade,

tourism, and manufacturing continue to be principal economic drivers. The Rio Grande Valley has 13 international bridges, 3 international airports, extensive rail routes, and expansive interstates.

There are two metropolitan statistical areas (MSAs) in the Rio Grande Valley: the McAllen-Edinburg-Mission MSA in Hidalgo County and the Brownsville-Harlingen-San Benito MSA in Cameron County. Over the past year, the McAllen MSA has become the fastest growing region in the country, according to the monthly ranking of the nation's 100 largest metro areas compiled by The Fiscal Times. This area experienced a 36.05% population increase from years 2000-2010 and is expected to lead regional growth along with the Brownsville MSA. In 2012, the Wall Street Journal's Market Watch, ranked the McAllen MSA 1st for having the best housing market in the nation. The Brookings Institute ranked the McAllen MSA 17th in fastest growing employment and 43rd in performance overall in the nation during the recovery period.

The top ten employers in the McAllen MSA were Edinburg Consolidated I.S.D., McAllen I.S.D., Doctor's Hospital at Renaissance, Edinburg Regional Medical Center, University of Texas Pan American, Mission Consolidated I.S.D., South Texas College, Hidalgo County, McAllen Medical Center, and the City of McAllen.

The City of McAllen is the largest city in Hidalgo County and the principal city in the McAllen MSA. Due to its strategic position, affordable cost of living, and the free-trade agreements between Mexico and the United States, the City of McAllen is among the 10 fastest growing U.S. cities offering a very attractive location for companies as well as a young population to settle down.

During 2013, the City of McAllen and its neighboring towns gained 2,500 jobs exhibiting a 1.2% annual job growth rate from December 2012 to December 2013. Trade, transportation, and utility services industry ranked first in job creation by adding 1,400 jobs followed by business and professional services industries (500 jobs) and educational and health services industries (500 jobs).

While the McAllen MSA's unemployment rate (10.3%) is still higher than the state (5.8%) and national average (6.6%), the local economy continues to rebound.

As the U.S. economy continues to rebound, the County will continue to experience growth and expansion. The region will continue to receive a boost from strong economic fundamentals such as a young workforce and its low cost of living.

The following economic development projects are expected to have a significant economic impact to the County and the Rio Grande Valley.

On June 14, 2013, Governor Rick Perry officially signed Senate Bill 24 to merge the Rio Grande Valley's two major universities – University of Texas-Pan American and University of Texas at Brownsville – and create a new medical school in the Rio Grande Valley. By 2022, this new school is estimated to have a total annual economic impact of under \$866 million in economic activity, \$461 million in wages & salaries, and produce 7,000 new high-paying jobs in the Rio Grande Valley.

On January 28, 2013, the City of McAllen and Aeromar, Mexico's most experienced regional airline, signed an agreement to offer nonstop air service from McAllen International Airport to Mexico City. Currently, Aeromar has an average of five weekly nonstop flights to Mexico City and three to San Luis Potosi. This new service will benefit tourism, restaurants, and retail markets. Additionally, the McAllen International Airport is working on a terminal expansion of \$28 million that will add 55,000 sq. feet and overhaul existing place, estimated to be completed in March 2014.

On October 17, 2013, Mexican President Pena Nieto officially opened the Durango-Mazatlan Highway, which consolidates the Mazatlan-Matamoros Corridor. This super highway will connect Mazatlan, Sinaloa to Reynosa and Matamoros, Tamaulipas. This infrastructure improvement is expected to reduce transportation time by at least six hours between Mazatlan and the Rio Grande Valley and lower up to \$1,500 off of truck transportation costs per load. This giant Mexican investment along with other economic factors is expected to affect the imports industry, especially in Texas.

The Space Exploration Technologies Corporation (SpaceX), a California-based space exploration firm, has selected Boca Chica Beach in Brownsville as a finalist for the development of a commercial orbital launch complex. SpaceX will not make a final decision on the site of its rocket launch pad until all the technical and

regulatory due diligence is complete. In the mean time, SpaceX has acquired about 24 acres of land in Cameron County, as well as leasing 56.5 acres from private property owners. Additionally, the company has been negotiating tax abatements, incentives, and operating agreements with communities and economic development organizations in Cameron County and the Rio Grande Valley. Among the potential economic impact for the region are the creation of 600 direct and 400 indirect jobs, between 10,000 to 15,000 visitors per launch, internship opportunities, a new aerospace cluster development, and new advanced curriculum for schools and universities.

Long-term Financial Planning

The Commissioners Court continues to be very active in infrastructure development, specifically transportation and drainage systems. The Hidalgo County Metropolitan Planning Organization (HCMPO) is a federally funded program that works with the County, the Texas Department of Transportation (TXDOT), and other organizations to develop a Long Range Metropolitan Transportation Plan to serve as a blueprint for the County's transportation system. The plan addresses needed investments in the area for the next 25 years. As a result of this plan, the County and TXDOT have entered into many interlocal agreements to implement the transportation projects. Some of these agreements call for partial reimbursement from TXDOT, while others call for full reimbursement. In 2013, the County had an adjusted budget of \$10,512,278 to support a total of 32 TXDOT projects.

The Hidalgo County Regional Mobility Authority (RMA) is an independent government agency created by the Texas Transportation Commission and the County Commissioners Court on November 17, 2005, to accelerate needed transportation projects in the County. Overseen by a seven member Board of Directors, the RMA brings local leadership to the local issues impacting our transportation network. The RMA provides a new, more flexible way to construct critical mobility improvements by allowing the use of local dollars to leverage revenue bonds. Current projects being developed by the RMA include the State Highway 365 Trade Corridor Connector toll road (16 miles) and the International Bridge Trade Corridor (13 miles).

The Hidalgo County Drainage District No.1 (the Drainage District) Advisory Committee was appointed by the Commissioners Court to serve as a link between the stakeholders and constituents of the County and the Drainage District related to the possible development, planning, financing, and implementation of the Drainage District's Capital Improvement Plan. Comprised of a mixture of engineers, elected officials, and community and business leaders, the committee will provide guidance to the Commissioners Court on how to best protect property in the County that could be endangered by catastrophic flooding from a major hurricane. In November 2012, the voters approved the issuance of \$84 million in bonds and the leveraging of a \$100 million federal grant to fund 25 specific projects in the County. These monies will improve the County's drainage system, move storm water runoff out of the County faster, and by doing so, these improvements will help protect the safety of our communities and over \$35 million in property.

Major Initiatives

Hidalgo County Courthouse

The existing courthouse building was constructed in 1954 and is in need of major repair and replacement. The existing building suffers from many immediate maintenance needs and extensive functional deficiencies resulting from the needs of a rapidly growing county population. Because of the grossly undersized existing courthouse building, the courthouse functions have become decentralized and inefficient in both function and operation. On July 26, 2011, the Commissioners Court selected an architectural and design firm to initiate the County's first ever Comprehensive Courthouse Master Plan. On November 20, 2012, the Commissioners Court approved the final Courthouse Master Plan, which includes recommendations on the most efficient and cost effective ways to expand and accommodate the various county departments and judicial functions. During 2013, the Commissioners Court approved a contract for the development of the schematic design for the new courthouse.

Enhanced Judicial Collections Program

The Commissioners Court has made it a top priority to research, identify, evaluate, and implement strategies that will reduce its outstanding judicial fees and fines. As part of this initiative, Commissioners Court approved the development and implementation of the County's Scofflaw Program with the primary goal of increasing the County's revenues and decreasing the number of outstanding fines and fees owed to the County. The first phase of the initiative targeted outstanding Justice of the Peace collections. The County

was able to collect over \$2 million in outstanding fees and fines. Future program initiatives include implementation of payment kiosks for payee convenience and the denial of Texas drivers' licenses.

Capital Improvement Program

In 2009, the Department of Budget & Management (DBM) conducted a Needs Assessment survey to identify the County's long-term capital improvement needs. The purpose of the survey was to identify infrastructure and other major projects needed to be financed over the next five years. This five year plan became the County's 2010-2015 Capital Improvement Plan (CIP). The plan serves as a guide to assist the County's leaders with identifying projects, estimating costs, potential funding sources, and construction timeframes. DBM has developed new CIP policies and procedures which are currently undergoing review prior to adoption by Commissioners Court.

In an effort to develop and maintain a current CIP, DBM and the Information Technology Department are working to develop a computerized database program that will enable analysts to track, review, and process CIP project requests in real time. This will facilitate timely reports to the Commissioners Court on the progress of CIP projects as well as funding requirements. A future goal of the computerized database program is to develop an online portal that departments can access to request funding for CIP projects and track their requests. The goal is to transform the CIP to a Capital Improvement Program that will serve to balance the County's finite resources with an ever increasing number of competing priorities.

Radio Interoperability Communication System

Interoperable emergency communications is integral to initial response, public health, safety of communities, national security, and economic stability. Of all the problems experienced during disaster events, one of the most serious problems is communication due to lack of appropriate and efficient means to collect, process, and transmit important and timely information. In some cases, radio communication systems are incompatible and inoperable not just within a jurisdiction but among departments or agencies within the same community.

Recognizing the need for an overarching emergency communication strategy to address communication deficiencies that exist at the regional level, on October 2012, the Commissioners Court authorized the Sheriff's Department to upgrade its radio communication system. The upgrade required an \$8 million investment in a digital trunking communications system from Motorola Solutions which includes two dispatch consoles, four workstations, 10 countywide consolettes, and 1,120 mobile radios that will be used by law enforcement, emergency management, and maintenance employees. The Sheriff's Office renovated its communication office to expand its size in order to house the new equipment.

Privatization of Sanitation Program

Currently, the County operates 11 transfer stations with a total maintenance and operating budget in excess of \$5 million. Recognizing the impact the sanitation program is having on the general fund, the Commissioners Court has approved the development of sanitation cost reduction strategies.

The County is currently assessing alternative sanitation service delivery methods. This process has involved studying the feasibility of implementing a new process of handling solid waste collection for rural residents in the County. One such strategy is the development of a privatized or franchised rural waste collection system. By outsourcing this critical function, the County expects to generate revenues, reduce solid waste costs, and enhance the level of waste collection services for the County's rural residents. Working together with precinct officials and community liaisons, the County has completed a request for proposals and begun segregating county areas into potential differentiated service districts. The County will continue its efforts to advance this initiative and is presently conducting meetings and workshops to discuss program implementation strategies.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Hidalgo, for its comprehensive annual financial report for the fiscal year ended December 31, 2012. This was the tenth consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,



Raymundo Eufrazio, CPA
Hidalgo County Auditor





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**County of Hidalgo
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2012

Executive Director/CEO

COUNTY OF HIDALGO, TEXAS
Governing Body
December 31, 2013

County Judge Ramon GarciaChairman
Commissioner A.C. Cuellar, Jr.Member
Commissioner Hector PalaciosMember
Commissioner Jose M. FloresMember
Commissioner Joseph Palacios.Member

COUNTY OF HIDALGO, TEXAS
Principal Officials
December 31, 2013

Jaime E. Tijerina Judge, 92nd Judicial District of Texas
 Rodolfo Delgado Judge, 93rd Judicial District of Texas
 J.R."Bobby" Flores Judge, 139th Judicial District of Texas
 Rose G. Reyna Judge, 206th Judicial District of Texas
 Juan R. Partida Judge, 275th Judicial District of Texas
 Mario E. Ramirez, Jr. Judge, 332nd Judicial District of Texas
 Noe Gonzalez Judge, 370th Judicial District of Texas
 Leticia Lopez Judge, 389th Judicial District of Texas
 Aida Salinas Flores Judge, 398th Judicial District of Texas
 Israel Ramon Judge, 430th Judicial District of Texas
 Jesse Contreras Judge, 449th Judicial District of Texas

Rodolfo Gonzalez Judge, County Court-at-Law No. 1
 Jaime J. Palacios Judge, County Court-at-Law No. 2
 Homero Garza Judge, Probate Court
 Fred S. Garza, Jr. Judge, County Court-at-Law No. 4
 Arnoldo Cantu, Jr. Judge, County Court-at-Law No. 5
 Albert Garcia Judge, County Court-at-Law No. 6
 Sergio Valdez Judge, County Court-at-Law No. 7
 Rolando Cantu Judge, County Court-at-Law No. 8

Ramon Garcia County Judge

A.C. Cuellar, Jr. Commissioner, Precinct No. 1
 Hector Palacios Commissioner, Precinct No. 2
 Jose M. Flores Commissioner, Precinct No. 3
 Joseph Palacios Commissioner, Precinct No. 4

Arturo Guajardo, Jr. County Clerk

Pablo "Paul" Villarreal, Jr. Tax Assessor/Collector

Laura Hinojosa District Clerk

Guadalupe Treviño Sheriff

Norma G. Garcia County Treasurer

Rene A. Guerra District Attorney

Raymundo Eufrazio County Auditor