

INTRODUCTORY SECTION





HIDALGO COUNTY AUDITOR'S OFFICE
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July 24, 2015

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, 2014, 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 the 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, 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. The independent auditors concluded, based on the audit, that there was a reasonable basis for rendering an unmodified ("clean") opinion that the County's financial statements for the year ended December 31, 2014, 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

HIDALGO COUNTY DISTRICT JUDGES

LUIS M. SINGLETERRY JUDGE, 92 ND D.C.	RODOLFO DELGADO JUDGE, 93 RD D.C.	J. R. "BOBBY" FLORES JUDGE, 139 TH D.C.	ROSE GUERRA REYNA JUDGE, 206 TH D.C.	JUAN R. PARTIDA JUDGE, 275 TH D.C.	MARIO E. RAMIREZ, JR. JUDGE, 332 ND D.C.	NOE GONZALEZ JUDGE, 370 TH D.C. OVERSEER	LETICIA LOPEZ JUDGE, 389 TH D.C.	AIDA SALINAS FLORES JUDGE, 398 TH D.C.	ISRAEL RAMON, JR. JUDGE, 430 TH D.C.	JESSE CONTRERAS JUDGE, 449 TH D.C.
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independent auditors to report not only on the fair presentation of the financial statements, but also on the 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, 2014 is presented in a separate report dated July 24, 2015.

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 Statement Format

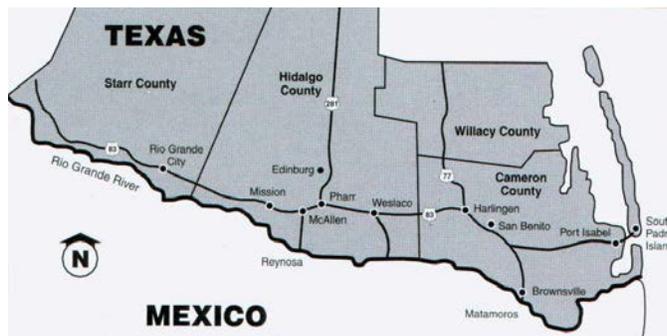
The basic structure and contents of a CAFR are set by authoritative accounting and financial reporting standards. The CAFR contains the following three sections:

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 auditor's 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 2014 population of Hidalgo County is estimated to be 831,073, an increase of 15,077 (2%) over the 2013 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 functions, in essence, as a department of the County and, therefore, 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 budget by the first day of the next 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 revenues funds, debt services 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 2014, 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 (McAllen MSA) in Hidalgo County and the Brownsville-Harlingen-San Benito MSA (Brownsville 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. The Brookings Institute ranked the McAllen MSA 13th in fastest growing employment and 43th in performance overall in the nation during the recovery period. McAllen was ranked the most affordable urban area nationwide, according to a 2014 report by The Council for Community and Economic Research.

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 2014, the City of McAllen and its neighboring towns gained 7,400 nonfarm jobs from December 2013 to December 2014 exhibiting a 3.1% annual job growth rate. The Texas Workforce Commission reports indicate that education and health (4,400 jobs), trade, transportation & utility (1,500 jobs) and leisure and hospitality (800 jobs) sectors as creating the most jobs year over year.

The McAllen MSA's unemployment rate has dropped from 9.5% in December 2013 to 7.6% in December 2014; however, it is still higher than the state (4.1%) and national average (5.4%). In December 2014, Hidalgo County's total labor force reached 320,700.

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.

In 2014, the Edinburg Economic Development Corporation, the jobs-creation arm of the Edinburg City Council, revealed negotiations with NBA Development League team RGV Vipers to build a state-of-art 116,000 square feet sports and entertainment complex. The estimated \$55 million dollar arena is expected to seat 8,500 persons. The arena will host major events as well as be the home for the Rio Grande Valley Vipers. The anticipated completion date is mid 2016.

McAllen continues to be a leader at attracting new commercial development which results in jobs in the city. According to construction permits in the past 18 months, the growth in retailers and restaurants represents about \$100 million. Harley Davidson, Tilted Kilt, Rodizio Brazilian Steak House, Saltgrass Steak House, Los Asados, and the RGV Cupcake Factory, among others, opened their doors throughout 2014. The McAllen Performing Arts Center, a \$45 million investment; broke ground in summer 2014 and is expected to open in 2016. Additionally, city's plans include the construction of an Embassy Suites Hotel at the McAllen's Convention Center complex. This \$20 million investment will feature 150-rooms, indoor pool and spa, ballroom and meeting space, and a full restaurant. Last December, a \$26.4 million expansion began at the McAllen-Miller International Airport which handles about 60 percent of commercial traffic in and out from the Rio Grande Valley.

The City of McAllen is negotiating with the county to create its first Tax Increment Reinvestment Zone. The 2,571 acre zone is planned to be the first in the region to provide Fiber-to-the-Home (FTTH) and bundled services to the entire community, such as: high speed internet access, community Wi-Fi, alarm monitoring, video surveillance, IP telephony, and smart home technology. The proposal involves a county contribution of \$143 million throughout 30 years. Additionally, it is expected to create over 1,000 jobs, almost 7,000 single and multifamily residential units along with over 100 acres dedicated for a hospital, a medical school, and

healthcare education facilities. When the county and the city reach an agreement, this new tax zone will be created at the beginning of the next year.

Royal Technologies opened a \$45 million, 325,000 sq. ft. factory, at the Mission Expressway Business Park in July 2014. The plant houses production supervisors and about 50 machine operators with future plans of adding approximately 400 employees. Mission has also closed a deal with Southwest Steel Coil (SSC) to build a \$10 million factory in a seven-acre site inside the Mission Business Park to be in full operations by October 2015. Edinburg was chosen by HOLT CAT to build and open a new 47,000 sq. ft. full service facility with construction value estimated at \$7 million that would also include a Holt Truck Center.

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 the 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 2014, the County had an adjusted budget of \$6,269,257 to support a total of 29 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 District related to the possible development, planning, financing, and implementation of the 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 billion 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 also suffers from many immediate maintenance needs and from 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. In 2014, a schematic plan was completed and presented to Commissioners Court. The 10 story, 470,000 sq. ft. building has an estimated construction cost of \$187 million. Hidalgo County continues to find alternative methods of financing for this project and is currently assessing project size and scope alternatives.

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 revenue 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 \$3 million in outstanding fees and fines. In 2014, the county installed payment kiosks at key locations for payee convenience, updated collections reporting formats and assessed the need for more credit card readers at the Justice Courts. Future program initiatives include the replacement and modernization of the Judicial Court Software and participation in Omnibase Denial of Renewal of Texas Drivers License program.

Capital Improvement Program

In 2009, the Department of Budget & Management 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. The plan serves as a guide to assist the County's leaders with identifying projects, estimating costs, potential funding sources and construction timeframes. The Department of Budget & Management has developed new construction in progress policies and procedures which are currently undergoing review prior to adoption by Commissioners Court.

In 2014 Hidalgo County conducted a countywide assessment of fleet vehicles and approved funding for the establishment of a Vehicle Replacement Program. The program is intended to periodically replace aging, high maintenance, and high mileage vehicles. The programs goals are to provide a mechanism in which funding for vehicle replacements is available, maximize the financial rate of return and preserve the safety of the County's employees.

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. In 2014, the County Sheriff's Office completed its radio communications system. Current efforts include the analysis of future growth, expanding network coverage, and infrastructure improvements to meet the demands of law enforcement and emergency personnel.

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. In 2014, the Department of Budget and Management presented various options and alternatives. These included countywide franchise contracts, the development of sanitation districts, and the establishment of a uniform sanitation permit fee. After various workshops, public forums and community outreach, a Countywide Sanitation Permit Fee program was established. The program was initiated in December 2014 and is anticipated to help offset sanitation expenditures by 30 to 40 percent.

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, 2013. This was the eleventh 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 the 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 unflinching 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**

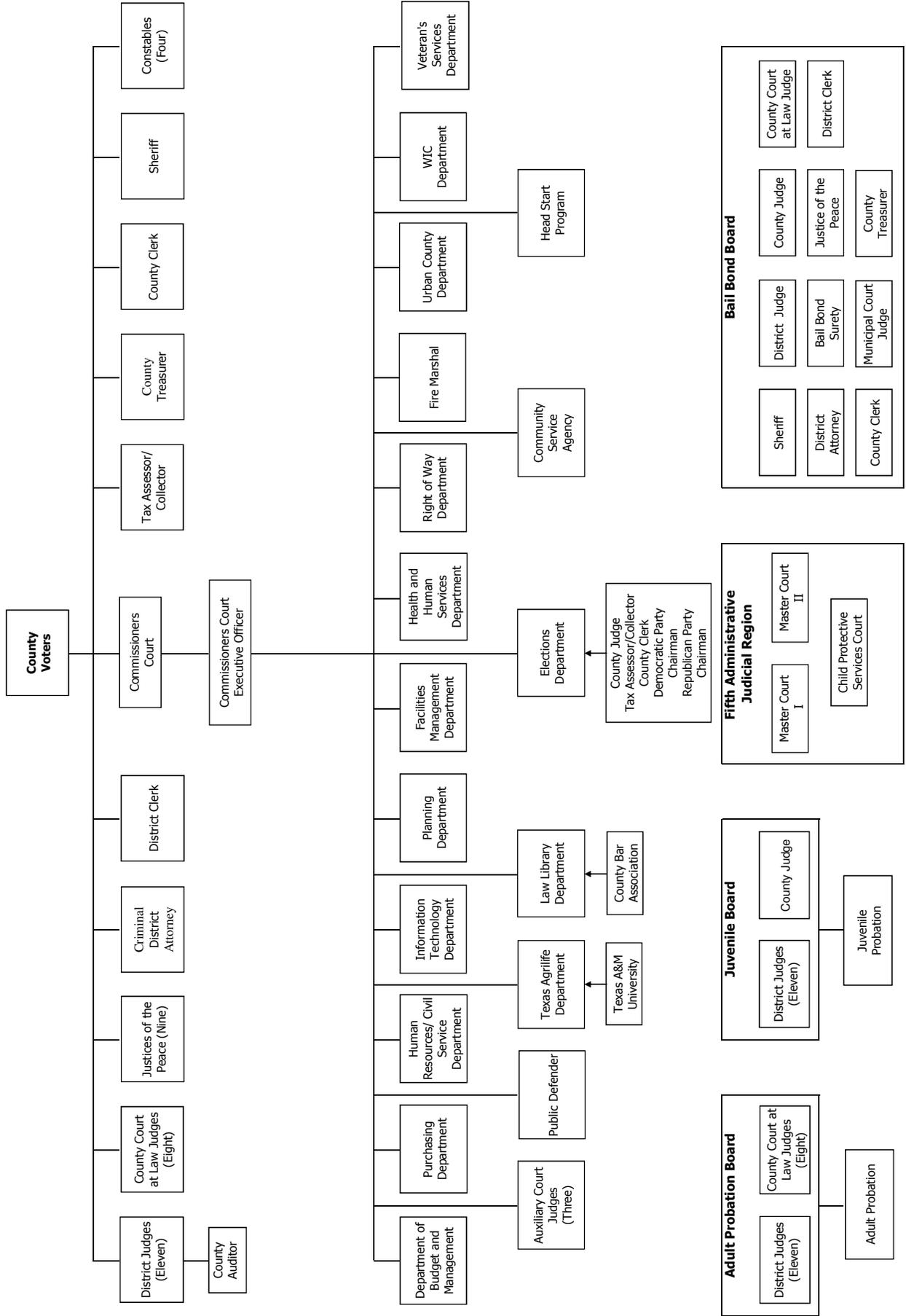
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

County of Hidalgo, Texas

Organizational Chart



COUNTY OF HIDALGO, TEXAS
Governing Body
December 31, 2014

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, 2014

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

J.E. Eddie Guerra Sheriff

Norma G. Garcia County Treasurer

Rene A. Guerra District Attorney

Raymundo Eufrazio. County Auditor