

INTRODUCTORY SECTION



COUNTY of HIDALGO

HIDALGO COUNTY AUDITOR'S OFFICE
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EDINBURG, TEXAS 78539

July 22, 2016

The Honorable District Judges of Hidalgo County and
The Honorable Members of the Hidalgo County Commissioners' Court:

Pursuant to Texas Local Government Code §114.025, the Comprehensive Annual Financial Report (CAFR) for Hidalgo County for the fiscal year ended December 31, 2015, is submitted herewith.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

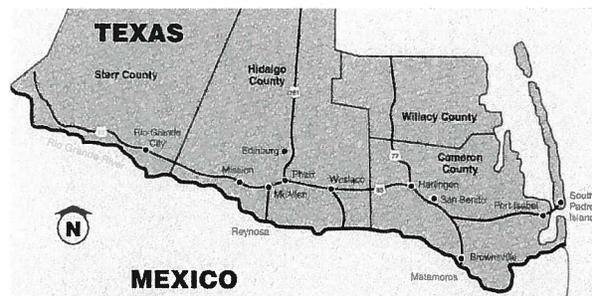
Pursuant to Local Government Code §115.045, the financial statements and notes contained in this report have been audited by Burton, McCumber & Cortez, L.L.P. The independent auditors issued an unmodified ("clean") opinion on the County financial statements for the year ended December 31, 2015. The independent auditors' report is presented as the first component of the Financial Section of this report. This firm was also engaged to perform an audit of the County's federal and state awards that was designed to meet the requirements of the Federal Single Audit Act and related Office of Management and Budget's Circular A-133. The audit reports on federal and state awards are issued separately.

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.

Profile of Hidalgo County

Hidalgo County, created in 1852 from Cameron County, is located in the Rio Grande Valley of south Texas along the Mexico border. Hidalgo County currently occupies a land area of 1,570 square miles and serves a population of 842,304 according to the most recent estimates of the U.S. Census Bureau.



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.	IDA 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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Hidalgo County is a corporate body and political subdivision of the State of Texas. The governing body of the County is an elected five-member Commissioners' Court comprised of the County Judge, who serves as the presiding officer, and four Commissioners. The County Judge is elected at-large to serve a four-year term with each of the Commissioners elected to a four-year term from one of the County's four precincts.

The Commissioners' Court has 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 authorized by statute. Such services include, but are not limited to, judicial courts, elections, law enforcement, correctional facilities, emergency management, roadways, refuse collection stations, health and welfare, libraries, parks, conservation, and urban and economic development. Certain drainage flood control services are provided through a legally separate Drainage District, which functions, in essence, as a department of the County and, therefore, has been included as an integral part of the County's financial statements. The Health Care Funding District also functions as a department of the County and has also been included as an integral part of the County's financial statements. Additional information on these legally separate entities can be found in the notes to the financial statements (See Note 1.A.).

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 revenue funds, debt service funds, and proprietary funds. The budget is prepared by fund, function, office/department, and object. The level of budgetary control (that is the level at which expenditures cannot legally exceed the appropriated amount) is at the office/department level. Transfer of appropriations between offices/departments requires the approval of Commissioners' Court.

The County maintains 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 2015, there were no offices/departments or individual funds for which the expenditures exceeded appropriations.

Economic Condition

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. Hidalgo County has 6 international bridges, 2 international airports, extensive rail routes, and expansive interstates.

Major cities in the County include McAllen, Pharr, Edinburg (the county seat), Mission, Weslaco, and Mercedes. The Cities of Mission and Edinburg were ranked 4th and 12th by Wallethub, a personal finance website, in their list of cities with the fastest growing economies in 2015.

Hidalgo County continues to experience strong growth in population and in its economic base. The population has grown by almost 9% since the 2010 census and by nearly 48% since the 2000 census. During the same period, the County's tax base has grown from \$11 billion in 2000 to over \$28 billion in 2015.

Hidalgo County's economy and employment picture have rebounded strongly since the 2008 recession. According to the Texas Workforce Commission, the County's 2015 unemployment rate was 7.9 percent, well below its annual peak of 11.8 percent in 2010. The County continues to experience unemployment rates consistently higher than the state and national average. The County's 2015 unemployment rate of 7.9 percent was well above the state (4.5 percent) and national (5.3 percent) average for the same period.

The economic outlook for Hidalgo County looks positive for the near future. Major industrial investments in the past, including the McAllen Convention Center and The Shoppes at Rio Grande Valley in Edinburg, continue to attract additional development in the County. Construction of new sports and entertainment venues is expected to further attract additional development in the County. A 9,400 seat soccer stadium was under construction during 2015 in Edinburg to serve as the home of the RGV FC Toros; the stadium is expected to be inaugurated in 2016. In addition, construction began on the new 8,500 seat Bert Ogden Arena, which will be the home of the RGV Vipers. The Bert Ogden Arena will also be available for public use such as school graduations, forums, and concerts. The new McAllen Performing Arts Center is expected to open in the fall of 2016. Tres Lagos, a new master-planned community in north McAllen, is expected to add over 8,000 new housing units in the next 20 years. There have also been major investments in the County by the healthcare sector with several major hospitals undergoing significant expansions. With approval by the Centers for Medicare & Medicaid Services (CMS), Doctor's Hospital at Renaissance (DHR) is moving forward with the construction of a multi-level medical tower. South Texas Health Systems opened two new stand-alone ER's in Mission and Weslaco in 2015. Rio Grande Regional Hospital opened its 24-hour Emergency Care facility in Edinburg in 2015. There have also been major investments in the County by the University of Texas-Rio Grande Valley (UTRGV), which was created by the Texas Legislature in 2013. UTRGV is undergoing significant expansions including the construction of a Medical Academic Building in Edinburg which is expected to be completed in the fall of 2016. Also, the 245,000 square-foot expansion of La Plaza Mall in McAllen is underway and is expected to be completed in the fall of 2017. The retail industry continues to expand throughout Hidalgo County as the population of the county continues to grow.

Long-term Financial Planning

The Commissioners' Court is responsible for setting the County's property tax rate. The County's tax rate has not been increased from its current rate of \$0.5900 since 2003. It has been the Commissioners' Court intent to maintain the County's operations and preserve a 10%-15% reserve ratio without increasing the property tax rate. Even with the issuance of new debt for the construction of a new courthouse on the horizon (possibly in 2017), the Commissioners' Court affirmed their intent to keep the County's property tax rate fixed at \$0.5900. Any increase in the debt service tax rate will be offset by a decrease in the maintenance and operations tax rate.

Relevant Financial Policies

Hidalgo County has adopted several financial management policies to provide guidelines to insure its long-term financial health. The *Fund Balance and Budget Management Policy* requires the County to maintain an unassigned fund balance of 10%-15% of budgeted expenditures in the General Fund. It also establishes guidelines for appropriate uses of excess fund balance and one-time revenues. The *Debt Management Policy* established guidelines regarding the issuance, management, continuing evaluation and reporting on all debt obligations issued by the County.

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 schematic plan for a 10 story, 470,000 sq. ft. building had an

estimated construction cost of \$187 million. In 2015, the Commissioners' Court engaged a second architectural firm to conduct a "peer review process" which resulted in a scaled-back building with an estimated construction cost of \$150 million. Hidalgo County and the City of Edinburg are finalizing an agreement whereby the City will commit \$30 million (20 percent) for the construction of the new courthouse. The County will finance construction of the courthouse with Certificates of Obligation which are expected to be issued in late 2016 or early 2017.

Sanitation Permit Fee Program

The County operates 11 transfer stations with a total maintenance and operating budget in excess of \$5 million. Prior to 2015, rural residents were allowed to dispose of refuse at the collection sites free of charge. In 2014, the Commissioners' Court established a Countywide Sanitation Permit Fee program to be effective January 2015. The program collected revenues totaling \$1.46 million in 2015.

Unincorporated Subdivision Street Lights Program

In 2015, the Commissioners' Court established the *Unincorporated Subdivision Street Lights Program* for the installment of street lights to improve the safety, security, and quality of life for county residents living in subdivisions located in the unincorporated areas of the County characterized by poor infrastructure and high incidents of crime. The County will pay the cost of the streetlights in selected subdivisions and the residents of the subdivisions will be billed for the cost through their annual tax statement. The pilot phase of the program (with 10 subdivisions) began in late 2015.

Awards and Acknowledgements

Awards

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, 2014. This was the twelfth 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.

Acknowledgements

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 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, 2014

Executive Director/CEO

COUNTY OF HIDALGO, TEXAS
Governing Body
December 31, 2015

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

COUNTY OF HIDALGO, TEXAS
Principal Officials
December 31, 2015

Luis M. Singleterry	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
Omar Maldonado	Judge, County Court-at-Law No. 8
Ramon Garcia	County Judge
A.C. Cuellar, Jr.	Commissioner, Precinct No. 1
Eduardo Cantu	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
Ricardo Rodriguez	District Attorney
Raymundo Eufrazio	County Auditor