NOTES TO THE FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of the County of Hidalgo, Texas (the County), 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.

The County evaluated GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27.* GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflow of resources, and expenses/expenditures. Additionally, the County evalutated GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which amends paragraph 137 of GASB Statement No. 68 to require at transition, that a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The implementation of both these statements is reflected in the County's financial statements.

During 2015, GASB issued the following statements:

Statement No. 72, *Fair Value Measurement and Application*. This statement clarifies the definition of fair value for reporting purposes, provides additional fair value application guidance, and improves fair value disclosures.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and amendments to Certain Provisions of GASB Statements 67 and 68*. This statement provides guidance for pension plans that are not administered through a trust.

Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans.* This statement was issued to improve the usefulness of information about postemployment benefits other than pensions (other post employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the hierarchy of generally accepted accounting principles (GAAP) in the context of the current governmental financial reporting environment. This statement reduces the GAAP hierarchy to two catergories of authoritative GAAP and addresses the uses of authoritative and non authoritative literature in the event that the accounting treatment is not specified in GAAP.

Statement No. 77, *Tax Abatement Disclosure*. This statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.*

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants.

The impact of these statements on the County's financial statement has not been determined as of yet. The County will evaluate these new pronouncements and will implement them as applicable by their effective dates.

Note 1 Summary of Significant Accounting Policies (Continued)

The following significant accounting policies were applied in the preparation of the accompanying general-purpose financial statements.

A. Reporting Entity

In accordance with GASB Statement No. 61, *The Financial Reporting Entity: An Amendment of GASB Statement No. 14 and No. 34*, the basic financial statements of the County include the primary government and its blended component units. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable, or the relationship to the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A blended component unit, although a legally separate entity, is, in substance, part of the County's operations and so data from these units are combined with data of the County.

The criteria used to determine whether an organization is a component unit of the County and whether it is a discretely or a blended component unit includes: the organization is legally separate, the County holds corporate powers of the organization, the County appoints a voting majority of the organization's board, the County is able to impose its will on the organization, fiscal dependency by the organization on the County, and whether the organization has the potential to impose a financial benefit/burden to the County.

Based on the application of the foregoing criteria, the following is a brief discussion of the entities that are included within the County's reporting entity.

Related Agencies. The following agencies do not meet the criteria for component units as set forth in GASB No. 61 because they are not legally separate entities. They are part of the primary government and are as follows:

Urban County Program – This agency administers economic and urban development grants received primarily from the U.S. Department of Housing and Urban Development.

Head Start Program – This agency administers health and welfare grants received from the Department of Health and Human Services and the Texas Department of Agriculture.

Community Service Agency – This agency administers health and welfare grants received from various federal and state grantors.

Blended Component Units. For financial reporting purposes, the Hidalgo County Drainage District No. 1 and the Health Care Funding District are included in the operations and activities of the County as blended component units. One of the component units provides services that benefit the primary government even though it does not provide services directly to the primary government. The other component unit's governing body is substantively the same as the governing body of the primary government where management of the primary government has operational responsibility for that component unit.

Hidalgo County Drainage District No. 1 (the Drainage District) – The Drainage District is a separate legal entity created on April 9, 1908, by order of the Commissioners' Court of Hidalgo County, Texas, pursuant to an election held within the territory affected. Originally organized under provisions of Article III, Section 52 of the Texas Constitution, the Drainage 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 Commissioners' Court members sit as the governing board of the Drainage District. Financial activity is reported as a special revenue fund within the governmental fund financial statements. Complete financial statements for the Drainage District may be obtained from:

Hidalgo County Drainage District No. 1
902 North Doolittle Road
Edinburg, Texas 78542

Note 1 Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Health Care Funding District – The Health Care Funding District was created on July 9, 2013 by order of the Commissioners' Court of Hidalgo County, Texas, pursuant to Texas Senate Bill 1623, 83rd Regular Session, 2013. The District administers the Local Provider Participation Fund which consists of the mandatory payments assessed each quarter on all institutional health care providers in the District. The Health Care Funding District provides services that benefits the County entirely. The Health Care Funding District does not issue a comprehensive annual financial statement.

B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its blended component units. Substantially, all of the effects of interfund activities have been removed from these statements. Government-wide financial statements do not provide information by fund, but distinguish between the County's governmental activities and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position focuses on the net position of the governmental and business-type activities of the primary government and its blended component units, where net position equals the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources.

The statement of activities demonstrates the degree to which the direct expense of a given function or identifiable activity is offset by program revenues of the County's different business-type activities and for each function of the County's governmental activities. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include (a) fees, fines, and charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not includable in program revenues are reported instead as general revenue.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for the agency funds, which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note 1 Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 County 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.

Revenues susceptible to accrual include property taxes, fines, forfeitures, licenses, interest income, and charges for services and, as such, have been recognized as revenues for the current fiscal period. All other revenues are considered to be measurable and available only when cash is received by the County.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The County reports the following major governmental funds:

The general fund is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in another fund.

The Local Provider Participation Fund, a special revenue fund, accounts for mandatory payments based on the hospital net patient revenue used to fund intergovernmental transfers to the state for a non federal share of a Medicaid supplemental payment program.

The County does not report any major enterprise funds.

Additionally, the County reports the following non-major governmental funds:

Special revenue funds account for specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for major capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The County also reports the following fund types:

Internal service funds account for health benefits and workers' compensation insurance provided to County employees, retirees, and dependents on a cost-reimbursement basis. Contributions to the funds consist of charges to the participating entities for covered employees along with contributions from employees and retirees.

Pension trust funds account for the net plan assets and changes in net plan assets of the related agencies' employees' retirement plan.

Private-purpose trust funds account for property held for private individuals, certificates of deposit and nonexempt real property executed in trust to the Bail Bond Board, monies confiscated by the District Attorney, monies awarded to minors and child support payments held by the District Clerk, confiscations and monies

Note 1 Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

belonging to inmates held by the Sheriff, and Section 108 bank loans and funds belonging to various boards and commissions held by the Urban County Program.

Agency funds account for funds held for others in an agency capacity including various clearing accounts and court costs, fees, fines, restitution, bonds, seizures, and taxes that are collected by the District Attorney, District Clerk, Tax Assessor/Collector, County Clerk, Sheriff, Adult Probation, and the Health Clinics.

As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the government's health benefits and workers' compensation funds and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as program revenues include: 1) charges for services (i.e. court costs, fees, and fines, etc.), 2) operating grants and contributions, and 3) capital grants and contributions. Other revenues that are not related to a specific activity or function are reported as *general revenues*. General revenues include all taxes, grants and contributions not restricted to a specific program or function, and any unrestricted investment earnings.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the jail commissary enterprise fund and the County's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, Deferred Outflow/Inflows of Resources and Net Position

1. Deposits and Investments

The County's cash and cash equivalents consist of cash on hand, demand deposits, and external investment pools. This excludes rollovers of certificates of deposit such as those in the fiduciary funds. Investments are carried at fair value. It is the County's intent to hold all investments to maturity.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" for the current portion of the interfund loans or "advances to/from other funds" for the non-current portion of interfund loans. All other outstanding balances between funds are classified as "due to/from other funds." Balances outstanding between funds within governmental activities are eliminated in the Statement of Net Position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available financial resources and, therefore, not available for appropriation.

All accounts and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied as of October 1 on property values assessed as of the same date. Taxes become delinquent on February 1, at which time penalties and interest are assessed.

3. Inventories and Prepaid Items

Postage inventories in the general fund are valued at cost using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Note 1 Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflow/Inflows of Resources and Net Position (Continued)

3. Inventories and Prepaid Items (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditure/expense when consumed rather than when purchased.

4. Restricted Assets

Cash set aside in the Landfill Services enterprise fund is restricted because its use is limited by applicable bond covenants.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items,) are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts expended that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the County values these capital assets at the fair market value of the item at the date of its donation.

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

Asset Class	Capitalization Threshold	Useful Life In Months
Buildings/building improvements	$50,000	60-360
Facilities & other improvements	50,000	120-540
Infrastructure	100,000	120-600
Personal property (equipment)	5,000	36-180
Leasehold improvements	50,000	60
Computer software	5,000	60-72

6. Deferred Outflows/Inflows of Resoures

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Two deferred outflows of resources are reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Also, a deferred outflow of resources related to pension expense for the differences between projected and actual earnings on plan investments and contributions made subsequent to the measurement date.

Deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The County's unavailable revenues which arise only under the modified accrual basis of accounting qualify for reporting in this category in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes received in advance, grants, and interlocal agreements with other governmental entities. In addition, a deferred inflow of resources related to pensions for the difference between expected and actual experience on the plan is reported on the statement of net position.

Note 1 Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflow/Inflows of Resources and Net Position (Continued)

7. Compensated Absences

The County accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. Employees earn vacation and sick leave at varying rates depending on their employment status and years of service with the County.

Hours Earned Per Year

	Full-Time Employees		Part-Time Employees	
Years of Service	Vacation Leave	Sick Leave	Vacation Leave	Sick Leave
Up to 5 years	96	96	hours worked x .04615	48
5 to 10 years	108	96	hours worked x .04615	48
Over 10 years	120	96	hours worked x .04615	48

It is the County's policy to permit employees to accumulate earned but unused vacation and sick pay benefits as follows:

Maximum Hours Accumulated Per Year

	Full-Time Employees		Part-Time Employees	
Years of Service	Vacation Leave	Sick Leave	Vacation Leave	Sick Leave
Up to 10 years	160	360	160	360
10 to 15 years	240	360	240	360
Over 15 years	320	360	320	360

Employees lose, without pay, unused vacation and sick leave, which exceed these limits. Outstanding sick leave balances are cancelled, without recompense, upon termination, resignation, retirement or death.

The accrued liability for accumulated compensated absences reported in the government-wide financial statements consists of unpaid accumulated vacation leave of $6,565,660, compensatory time of $1,142,082, and holiday leave of $1,868,950 for the governmental activities. Business-type activities consisted as follows: vacation leave of $11,321, compensatory leave of $346, and holiday leave of $689.

8. Post Employment Benefits

In addition to providing pension benefits, the County provides health insurance coverage for current and future retirees and their spouses and dependents as described in Note 4 C.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. On refunding bonds issues, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred inflow of resources and recognized as a component of interest expense on a straight-line basis over the remaining life of the old debt or the life of the new debt, whichever is shorter.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Note 1 Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflow/Inflows of Resources and Net Position (Continued)

10. Equity Classifications

In the government-wide financial statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law, through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements, governmental funds report equity as fund balance. The County categorized its fund balances in five classifications and in the hierarchy to which the government is bound to honor constraints on specific purposes for which amounts in those funds can be spent. Proprietary fund equity is classified the same as in the government-wide statements.

Nonspendable – These balances represent amounts that cannot be spent because they (a) are not in spendable form, (e.g., inventories and prepaid items); (b) are not expected to be converted into cash within the current period or at all (e.g., long-term receivables); or (c) they are legally or contractually required to be maintained intact (e.g. the non-spendable corpus of an endowment).

Restricted – These balances represent amounts that are restricted to specific purposes, with constraints that have either been (a) externally imposed by creditors (e.g. through debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Fund balance in the debt service funds will be restricted for the payment of principal and interest on the debt service obligation. Any funds that are remaining after all debt is extinguished will be transferred to other debt service funds.

Committed – These balances represent amounts that are constrained to the use of specific purposes pursuant to formal action of Commissioners’ Court, the County’s highest level of decision-making authority. These amounts are committed through the adoption of a court order. These amounts can only be re-allocated by the same formal action that was taken to originally commit those amounts.

Assigned – These balances represent amounts assigned by Commissioners’ Court for use for specific purposes but which are neither restricted nor committed. This classification applies to the positive unrestricted and uncommitted fund balance of all governmental funds, except the General Fund.

Unassigned – These balances represent the residual fund balance of the General Fund and to any deficit fund balances of other governmental funds.

A detailed classification of fund balances, along with the County’s policy on the use of each, is described in Note 3 I.

11. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflow/Inflows of Resources and Net Position (Continued)

12. Rounding Adjustments

Throughout this comprehensive annual financial report, dollar amounts are rounded, thereby creating differences between the details and the totals.

Note 2 Stewardship, Compliance, and Accountability

A. Budgetary Information

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Budget Officer has the responsibility of preparing the County's budgeted expenditures. By statute, the County Auditor has the responsibility of preparing an estimate of revenues for submission to Commissioners' Court.

2. By July 31, all County offices and departments must submit their budget requests to the Budget Officer for the fiscal year commencing the following January 1.

3. During August, Commissioners' Court conducts informal budget workshops with each official or department head to discuss their budget requests.

4. By September 30, the Budget Officer prepares a proposed budget to cover all proposed expenditures of the County for the following year. Copies of the proposed budget are filed with the County Clerk and County Auditor. The proposed budget is available for inspection by taxpayers.

5. Within seven calendar days after the filing of the proposed budget and prior to December 31 of the current year, Commissioners' Court conducts a public hearing on the County's proposed budget. Any taxpayer of the County of Hidalgo has the right to be present and participate in the hearing. At the conclusion of the hearing, Commissioners' Court acts upon the proposed budget as submitted by the Budget Officer. The Commissioners' Court has the authority to make such changes in the budget, in its judgment of the facts, the law warrants, and the interest of the taxpayers demand, provided the amounts budgeted for current expenditures from the various funds for the County does not exceed the balances in these funds as of January 1 plus the anticipated revenue for the current year for which the budget is made, as estimated by the County Auditor.

6. Under no circumstances can Commissioners' Court authorize expenditures that will exceed appropriations.

Annual budgets are prepared in conformity with GAAP using the modified accrual basis of accounting for all governmental funds, except grant-funded special revenue funds and capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end. Appropriations at year-end for grant-funded special revenue funds and capital projects funds are carried forward to subsequent years until the grant has terminated or the project is completed.

The appropriated budget is prepared by fund, function, department, and object. Transfers of appropriations between departments require the approval of Commissioners' Court. The legal level of budgetary control (i.e., the level at which expenditures cannot legally exceed appropriations) is at the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be honored in the subsequent year. For the general fund only, encumbrances outstanding at December 31, 2015, were not re-appropriated in 2016 as per Commissioners' Court order on August 25, 2015. Any encumbrance outstanding in the general fund at December 31, 2015, will be liquidated with the year 2016 budget.

Note 2 Stewardship, Compliance, and Accountability (Continued)

B. Deficit Fund Balance/Net Position

The Capital Outlay capital projects fund reported a deficit fund balance of $27,957 as of December 31, 2015. The fund accounts for various capital projects that are funded from various sources. Funding for this project is on a partial or full reimbursement basis from General Fund, and various capital and special revenue funds. At year end, reimbursements from other funds had not been received.

The TXDOT capital projects fund reported a deficit fund balance of $2,484,546 as of December 31, 2015. This fund accounts for transactions related to the Texas Department of Transportation (TXDOT) road, bridge, and outfall projects. Funding for these projects is on a partial or full reimbursement basis from TXDOT, other local governments and various capital and special revenue funds. At year end, reimbursements from other governments had not been received.

The Stop Truancy program reported a deficit fund balance of $37,674 as of December 31, 2015. An interlocal agreement between the County and the Mission, Sharyland and La Joya ISD's is used to assist with crimes committed by juveniles and reduce school truancy and juvenile delinquency where the County pays half of the costs. At year end, reimbursements from the school districts had not been received.

In addition, the Health Benefits internal service fund reported a deficit net position of $6,049,575 as of December 31, 2015. The rates used by the County did not attain the desired fund level. The County will review the rate structure for year 2015 to determine if an adjustment to the current rate structure will be necessary to properly charge the customers of the fund.

Note 3 Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments for the Community Service Agency, Head Start Program, Urban County Program, and the Drainage District are held separately from the County's investment program.

Deposits and investments are pooled for investment purposes in each of the County'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. For reporting purposes, funds with a negative cash balance within the pool were offset by available cash from other funds within the pool.

Deposits are held in the County's depository account under the terms of an agreement that was executed on May 10, 2013. The depository agreement requires the 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 year-end, the carrying amount of the County's deposits was $363,455,083, consisting of cash and cash equivalents.

Note 3 Detailed Notes on all Funds (Continued)

A. Deposits and Investments (Continued)

As of December 31, 2015, the County had the following investments in connection with the pension trust funds:

*Investment Type	Fair Value
Mutual Funds	$ 22,392,622
Participant Loans	1,536,619
Total	$ 23,929,241

The mutual funds are participant directed.

**The plan does not rate its investments.*

Interest rate risk. In accordance with its investment policy, the County 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 County'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 County's investment policy does not allow investments in bankers' acceptances to exceed ten percent of the County's total investments. Additionally, the County's investment policy prohibits funds held for debt service to be invested in mutual funds and prohibits the County 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 County's depository agreement requires its designated depository financial institution to secure the County's uninsured deposits by 105% with securities held in the County's name at a third party financial institution.

Custodial credit risk – investments. In the event of failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's investment policy reduces the County'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 or the United States or their respective agencies and instrumentalities. The County's investment policy strictly prohibits riskier-type investments such as commercial paper.

Note 3 Detailed Notes on all Funds (Continued)

B. Receivables

County receivables at December 31, 2015, in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	General Fund	Local Provider Participation	Nonmajor Governmental Funds	Total
Property taxes receivable	$117,409,769	$ -	$ 35,524,425	$ 152,934,194
Accounts receivable	584,580	-	544,038	1,128,618
Loans receivable	101,025	-	10,400	111,425
Interest receivable	196,424	-	18,431	214,855
Intergovernmental receivables:				
Due from federal	1,389	-	3,595,758	3,597,147
FEMA	2,400,761	-	-	2,400,761
Due from state	576,236	-	9,652,706	10,228,942
Due from local	43,734	-	5,123,706	5,167,440
Subtotal	121,313,918	-	54,469,464	175,783,382
Due from others	2,348	-	222,942	225,290
Less: allowance for uncollectibles	(14,130,997)	-	(3,376,872)	(17,507,869)
Total net receivables	$107,185,269	$ -	$ 51,315,534	$ 158,500,803

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. As of December 31, 2015, the various components of unearned revenue reported in the governmental funds were as follows:

	Unearned Revenues
Property taxes - general fund	$ 102,734,887
Property taxes - special revenue	10,038,740
Property taxes - debt service funds	22,012,923
Culvert revenues for future installations to various subdivisions	2,464,810
Courthouse Master Plan	100,000
Grant draw downs prior to meeting all eligibility requirements	6,003,614
Total unearned revenue for governmental funds	$ 143,354,974

Note 3 Detailed Notes on all Funds (Continued)

C. Capital Assets

Capital asset activity for the year ending December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 39,373,889	$ 1,888,594	$ (128,913)	$ 41,133,570
Easements	20,169,534	1,200,543	(666,284)	20,703,793
Subtotal land and easements	59,543,423	3,089,137	(795,197)	61,837,363
Construction in progress	46,878,177	12,756,402	(14,617,005)	45,017,574
Total capital assets not being depreciated	106,421,600	15,845,539	(15,412,202)	106,854,937
Capital assets being depreciated:				
Buildings and renovations	154,067,742	9,193,016	-	163,260,758
Improvements other than buildings	17,029,479	1,770,834	-	18,800,313
Machinery and equipment	97,366,030	12,258,825	(2,617,024)	107,007,831
Infrastructure	491,291,745	27,532,365	(6,226,178)	512,597,932
Total capital assets being depreciated	759,754,996	50,755,040	(8,843,202)	801,666,834
Less accumulated depreciation for:				
Buildings and renovations	(53,052,366)	(3,678,394)	-	(56,730,760)
Improvements other than buildings	(5,549,638)	(684,258)	-	(6,233,896)
Machinery and equipment	(61,312,950)	(7,911,469)	2,112,663	(67,111,756)
Infrastructure	(307,554,061)	(22,301,938)	4,798,874	(325,057,125)
Total accumulated depreciation	(427,469,015)	(34,576,059)	6,911,537	(455,133,537)
Total capital assets being depreciated, net	332,285,981	16,178,981	(1,931,665)	346,533,297
Governmental activities capital assets, net	$ 438,707,581	$ 32,024,520	$ (17,343,867)	$ 453,388,234
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 1,001,093	$ -	$ -	$ 1,001,093
Total capital assets not being depreciated	1,001,093	-	-	1,001,093
Capital assets being depreciated:				
Buildings	321,589	-	-	321,589
Machinery and equipment	294,545	14,930	(54,664)	254,811
Total capital assets being depreciated	616,134	14,930	(54,664)	576,400
Less accumulated depreciation for:				
Buildings	(321,589)	-	-	(321,589)
Machinery and equipment	(240,190)	(4,536)	30,843	(213,883)
Total accumulated depreciation	(561,779)	(4,536)	30,843	(535,472)
Total capital assets being depreciated, net	54,355	10,394	(23,821)	40,928
Business-type activities capital assets, net	$ 1,055,448	$ 10,394	$ (23,821)	$ 1,042,021

Note 3 Detailed Notes on all Funds (Continued)

C. Capital Assets (Continued)

Depreciation expense was charged to the various functions as follows:

Governmental activities:	
General government	$ 1,932,567
Public safety	5,458,092
Highways and streets	21,362,244
Sanitation	233,467
Drainage	3,950,362
Health and welfare	1,011,551
Culture and recreation	506,964
Conservation	4,514
Urban and economic development	116,298
Total governmental activities	$ 34,576,059
Business-type activities	
Jail Commissary	$ 4,536
Landfill Services	-
Total business-type activities	$ 4,536

Construction and other significant commitments

Construction commitments. The County has active construction projects as of December 31, 2015. The projects include various streets and buildings. At year-end, the County's commitments over $200,000 with contractors are as follows:

Projects	Spent-to-date	Remaining Commitment	Financing Source
Total TxDOT Projects	$ 18,443,659	$ 2,105,681	C.O.'s, SRF, GF, SIB Loan, Intergovt'l Rev
Border Colonia Access Projects F1312	12,940,000	1,407,700	State Grant
Common Integrated Justice System-Software	3,057,496	505,623	Tax Notes, Series 2007
Sheriff Vehicles	3,158,198	854,497	Tax Notes, Series 2014, General Fund
Pct. 1 - Mile 9 N (Mile 5½ W to Mile 6 W)	462,813	287,187	Sale of C.O. Assets Fund
Pct. 3 - Mile 3 N (FM492 - FM2221)	1,920,594	533,106	C.O.Series 2014, Sale of C.O. Assets Fund
Pct. 1 - Border Rd (18th - 34th)	234,830	965,170	C.O.Series 2014
Pct. 2 - Eldora (Jackson - I Rd)	292,338	600,821	C.O.Series 2014
Pct. 3 - Veterans Blvd (SH495)	102,816	740,324	Special Revenue; C.O.Series 2014
Pct. 2 - Regional Linear Park	211,935	383,027	C.O.Series 2014
Pct. 3 - Liberty/Tom Gill (US 83 - FM2221)	1,949,321	2,578,550	Sale of C.O. Assets; C.O.Series 2015A
Pct. 3 - South Detention Basin	12,750	242,255	C.O.Series 2015A
	$ 42,786,750	$ 11,203,941	

Encumbrances. As discussed in Note 2 A, Budgetary Information, encumbrance accounting is utilized. As of December 31, 2015, the County had the following encumbrances outstanding:

Governmental Funds						
Major Funds		Nonmajor Funds				
General Fund	Local Provider Participation Fund	Special Revenue Funds	Capital Project Funds	Total Governmental Funds	Internal Service Funds	Total
$ 640,767	$ -	$ 4,983,442	$ 12,729,480	$ 18,353,689	$ 14,758	$ 18,368,447

Note 3 Detailed Notes on all Funds (Continued)

D. Interfund Receivables, Payables and Transfers

Interfund balances at December 31, 2015, consisted of the following:

Due to general fund from:	
Nonmajor governmental funds	$ 299,875
Enterprise funds	45,298
Internal service funds	253
Total due to general fund	345,426
Due to nonmajor governmental funds from:	
General fund	13,269,685
Nonmajor governmental funds	21,178,731
Total due to nonmajor governmental funds	34,448,416
Total due to governmental funds	$ 34,793,842
Due to enterprise funds from:	
Internal service funds	$ 16,172
Total due to enterprise funds	16,172
Due to internal service funds from:	
Enterprise funds	24,353
Total due to internal service funds	24,353
Total due to proprietary funds	$ 40,525

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

Interfund transfers for the year ended December 31, 2015, consisted of the following:

	Transfers Out:		
Transfers In:	General Fund	Nonmajor Governmental Funds	Total
Nonmajor governmental funds	$ 13,318,077	$ 5,713,027	$ 19,031,104
Total	$ 13,318,077	$ 5,713,027	$ 19,031,104

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute for budget requires to expend them, (2) move funds restricted to debt service to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Restricted Assets

In August of 1991, the County sold Certificates of Obligation in the principal amount of $4,700,000 of which $2,300,000 was earmarked for the purchase of 212 acres of land for a sanitation landfill and acquisition of equipment, and for paying legal, fiscal engineering, and architectural fees in connection with this project. An enterprise fund was set up to account for all of the County's landfill operations. Accordingly, since the above-mentioned debt was to be paid from future property tax revenues, the $2,300,000 received by the Landfill Services enterprise fund was reported as restricted cash. Cash in the amount of $66,902 has been restricted since February 27, 1997.

Note 3 Detailed Notes on all Funds (Continued)

F. Leases

Operating Leases

The County has various lease commitments for office space and equipment. The office equipment leases range from three to five years and the office space leases range from two to thirty years. Lease expense totaled $988,723 (for leases whose terms exceed one year) for the year ended December 31, 2015. The future minimum lease payments are as follows:

Year Ending December 31,	Amount
2016	$ 484,893
2017	164,841
2018	79,144
2019	-
2020	-
Total	$ 728,878

The County has also entered into lease agreements as the lessor for land and buildings. Lease payments received totaled $74,426 for the year ended December 31, 2015. The cost of the leased assets is $2,645,519. The future minimum lease payments receivable are as follows:

Year Ending December 31,	Amount
2016	$ 69,607
2017	69,607
2018	62,601
2019	61,200
2020	61,200
2021-2025	161,667
Total	$ 485,882

Capital Leases

The County entered into various lease agreements as lessee for financing the acquisition of office equipment and buildings. The present value of all lease payments at the beginning of the lease term is greater than ninety percent of the fair value of the leased property; therefore, the leases qualify as capital leases. The leases have been recorded at the present value of their future minimum lease payments at the inception date. Lease expenses totaled $1,199,430 for the year ended December 31, 2015.

Assets accounted for as capital leases are as follows:

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015
Assets:				
Office Equipment	$ 6,884,984	$ 743,918	$ (1,059,540)	$ 6,569,362
Buildings	378,504	-	(139,890)	238,614
Total	7,263,488	743,918	(1,199,430)	6,807,976
Less: accumulated depreciation				
Office Equipment	(504,478)	(266,516)	194,160	(576,834)
Buildings	(308,377)	(128,898)	-	(437,275)
Carrying value	$ 6,450,633	$ 348,504	$ (1,005,270)	$ 5,793,867

Note 3 Detailed Notes on all Funds (Continued)

F. Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

Year Ending December 31,	Amount
2016	$ 1,286,072
2017	1,080,008
2018	961,554
2019	882,163
2020	838,266
2021-2025	2,404,835
Total minimum lease payments	7,452,898
Less: interest	(644,922)
Present value of future minimum lease payments	$ 6,807,976

G. Long-Term Debt

General Obligation Bonds

The County has issued general obligation bonds to provide for the resources for both the acquisition and construction of capital assets. These bonds have been issued for governmental activities. The beginning balance of the general obligation bonds issued in prior years was $333,505,000. During the year, certificates of obligation totaling $15,785,000 were issued to pay for the construction of mechanic shops, community resource centers, and parks; construction and improvement of road and drainage systems, including acquisition of lands and rights of way, purchase of equipment, renovations of the adult detention center and law enforcement center.

The American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) authorized the County to issue taxable bonds known as “Build America Bonds” to finance capital expenditures that could otherwise be financed with the issuance of tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds (the “Build America Bonds Election”). The County issued $8,195,000 and $17,785,000 of Build America Bonds in 2009 and 2010, respectively. The certificates are not obligations described in section 103(a) of the Internal Revenue Code and the interest is not excludable from gross income for federal income tax purposes. The available subsidy for those certificates will be paid to the County. The subsidy payment may be available for payment of debt service on those certificates, but is not pledged as security to pay debt service on those obligations. No holders of the certificates are entitled to such payment or to receive a tax credit with respect to these certificates.

General obligation bonds are direct obligations of the County and the unlimited tax improvement bonds are direct obligations of the Drainage 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 County and the Drainage District in an amount sufficient to provide payment of principal and interest. All bonds have a principal due date of August 15th, except for the unlimited tax improvement bonds, which is due on September 1st. Interest is payable semi-annually, on February 15th and August 15th, except for the unlimited tax improvement bonds, which are payable on March 1st and September 1st.

The Certificates of Obligation, Series 2009C include $3,120,000 of term bonds maturing on August 15, 2029, which are subject to mandatory sinking fund redemption. The Certificates of Obligation, Series 2010B include $16,190,000 of term bonds maturing on August 15, 2021, 2024, and 2030, which are also subject to mandatory sinking fund redemption. The Certificates of Obligation, Series 2015A include $9,245,000 of term bonds maturing on August 15 in each of the years 2034 and 2040, which are subject to mandatory sinking fund redemption. All other bonds may be prepaid or redeemed prior to their respective scheduled due dates as per provisions in the bond agreements.

Note 3 Detailed Notes on all Funds (Continued)

G. Long-Term Debt (Continued)

General obligation bonds and tax notes currently outstanding are as follows:

Purpose	Type	Interest Rates	Issue Date	Maturity Date	Original Issue	Amount Outstanding
Governmental activities	Refunding bonds	4.00 – 4.25%	2007	2016	$ 26,415,000	$ 1,265,000
Governmental activities	Refunding bonds	2.50 – 5.00%	2009	2018	6,995,000	965,000
Governmental activities	Refunding bonds	3.00 – 4.00%	2014	2019	4,515,000	2,380,000
Governmental activities	Refunding bonds	0.65 – 3.00%	2014	2021	32,845,000	32,845,000
Governmental activities	Refunding bonds	3.00 – 5.00%	2014	2026	22,795,000	22,415,000
Governmental activities	Refunding bonds	5.00 – 5.00%	2015	2028	14,760,000	14,760,000
Governmental activities	Refunding bonds	1.29 - 3.36%	2015	2024	24,990,000	24,990,000
Governmental activities	Certificates of obligation	4.00 – 5.00%	2006	2016	38,770,000	1,955,000
Governmental activities	Certificates of obligation	3.00 – 5.00%	2009	2018	24,280,000	3,525,000
Governmental activities	Certificates of obligation	2.00 – 6.00%	2009	2029	12,225,000	9,270,000
Governmental activities	Certificates of obligation	2.00 – 6.30%	2010	2030	27,850,000	22,710,000
Governmental activities	Certificates of obligation	3.12 – 5.00%	2014	2034	20,085,000	20,085,000
Governmental activities	Certificates of obligation	3.00 – 5.00%	2015	2040	15,785,000	15,785,000
Governmental activities	Unlimited tax improvement	4.00 – 5.00%	2007	2027	28,000,000	12,555,000
Governmental activities	Unlimited tax improvement	4.00 – 5.00%	2008	2028	72,000,000	57,050,000
Governmental activities	Unlimited tax improvement	2.50 – 5.00%	2013	2033	77,130,000	73,175,000
Governmental activities	Unlimited tax refunding improvement	3.75 – 4.00%	2014	2027	7,810,000	7,665,000
	Subtotal general obligation bonds				$ 457,250,000	$ 323,395,000
Governmental activities	Tax note	4.00 – 5.00%	2014	2019	5,530,000	4,450,000
	Total general obligation bonds and tax notes				$ 462,780,000	$ 327,845,000

Debt Service Requirements

Annual debt service requirements to maturity for general obligation bonds, certificates of obligation, and tax note are as follows:

Year Ending December 31,	Governmental Activities Principal	Governmental Activities Interest	Total
2016	$ 21,630,000	$ 13,482,179	$ 35,112,179
2017	20,770,000	13,104,262	33,874,262
2018	20,765,000	12,390,908	33,155,908
2019	22,045,000	11,625,192	33,670,192
2020	22,355,000	10,770,064	33,125,064
2021-2025	112,900,000	38,783,323	151,683,323
2026-2030	76,325,000	14,137,100	90,462,100
2031-2035	25,980,000	3,262,475	29,242,475
2036-2040	5,075,000	625,000	5,700,000
Total	$ 327,845,000	$ 118,180,503	$ 446,025,503

Note 3 Detailed Notes on all Funds (Continued)

G. Long-Term Debt (Continued)

Advance Refundings and Defeasances

On September 15, 2015, the County issued Limited Tax Refunding Bonds, Series 2015B in the amount of $14,760,000 to advance refund a portion of Certificates of Obligation, Series 2009. Also, Limited Tax Refunding Bonds, Series 2015C was issued in the amount of $24,990,000 to advance refund a portion of Limited Tax Refunding 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 $1,698,300 and $947,857 respectively. This refunding resulted in an economic gain of $203,352 on Limited Tax Refunding Bonds, Series 2015B and $376,645 on Limited Tax Refunding Bonds, Series 2015C.

The following is the total of defeased bonds and outstanding balances:

Description	Refunded Bonds	Years of Maturity	Amount Outstanding
Certificates of Obligation, Series 2009	$ 15,505,000	2019-2028	$ 3,525,000
Limited Tax Refunding Bonds, Series 2007	23,915,000	2017-2024	1,265,000
	$ 39,420,000		$ 4,790,000

Note Payable-Drainage District No. 1

The Drainage District has issued a fixed rate note from Plains Capital Bank, payable from operating funds of the District. The note is as follows:

Purpose	Interest Rate	Issue Date	Maturity Date	Original Issue	Amount Outstanding
Governmental activities	3.75%	2014	2016	$ 406,980	$ 125,774
				$ 406,980	$ 125,774

Additionally, the County has one note from the State Infrastructure Bank payable from the levy and collection of a direct and continuing ad valorem tax within the limits prescribed by law on all taxable property within the County. The note is as follows:

Purpose	Interest Rate	Issue Date	Maturity Date	Original Issue	Amount Outstanding
Governmental activities	4.00%	2008	2018	$ 911,009	$ 311,696
				$ 911,009	$ 311,696

Note Payable-Urban County

The County of Hidalgo, through the Urban County Program, entered into a loan agreement with the U.S. Department of Housing and Urban Development (HUD) under HUD's Section 108 Loan Guarantee Program. The purpose of the loan is to assist certain cities in obtaining the necessary financing to construct vital community projects. Each City will repay its loan with City funds or from the City's Community Development Block Grant (CDBG) allotment from the Urban County Program. Principal and interest payments will be made to the Bank of New York Mellon, HUD's trustee. Note principal and interest will be used to pay Section 108 Government Guaranteed Participation Certificates purchased by underwriters selected by HUD. Interest is payable semiannually, on February 1st and August 1st. Principal payments are due as scheduled on February 1st until maturity.

Urban County	Interest Rate	Issue Date	Maturity Date	Original Issue	Amount Outstanding
Alton	0.31 - 2.45%	2011	2020	$ 1,835,000	$ 1,150,000
Total Urban County note payable				$ 1,835,000	$ 1,150,000

Note 3 Detailed Notes on all Funds (Continued)

G. Long-Term Debt (Continued)

Changes in Long-Term Liabilities
The general fund is ultimately responsible for liquidating long-term liabilities, other than debt (such as compensated absences and pension liabilities).

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015	Amounts Due Within One Year
Governmental activities:					
Bonds, tax notes and notes payable:					
General obligation bonds	$333,505,000	$ 55,535,000	$ (61,195,000)	$ 327,845,000	$ 21,630,000
Plus premiums on bonds	14,150,292	2,997,064	(2,379,627)	14,767,729	2,386,258
Less discounts on bonds	(58,032)	-	52,230	(5,802)	(5,802)
	347,597,260	58,532,064	(63,522,397)	342,606,927	24,010,456
Notes-Hidalgo County	407,707	-	(96,011)	311,696	99,851
Notes-Urban County Program	1,340,000	-	(190,000)	1,150,000	200,000
Notes-Drainage District No. 1	261,953	-	(136,179)	125,774	125,774
	2,009,660	-	(422,190)	1,587,470	425,625
Total bonds and notes payable	349,606,920	58,532,064	(63,944,587)	344,194,397	24,436,081
Other liabilities:					
Compensated absences	8,982,433	8,824,892	(8,230,633)	9,576,692	562,199
Claims and judgments	3,439,000	23,787,742	(23,763,742)	3,463,000	1,771,674
Capital leases	7,263,488	743,918	(1,199,430)	6,807,976	1,184,905
Net pension liability	999,736	30,242,101	(999,736)	30,242,101	-
Other post employment benefits	8,376,310	2,719,017	-	11,095,327	-
Total other liabilities	29,060,967	66,317,670	(34,193,541)	61,185,096	3,518,778
Governmental activities long-term liabilities	$378,667,887	$ 124,849,734	$ (98,138,128)	$ 405,379,493	$ 27,954,859
Business-type activities:					
Closure and post-closure costs	$ 1,634,386	$ 15,891	$ (45,298)	$ 1,604,979	$ 17,934
Compensated absences	12,270	23,509	(23,423)	12,356	637
Business-type activities long-term liabilities	$ 1,646,656	$ 39,400	$ (68,721)	$ 1,617,335	$ 18,571

H. Short-Term Debt
The County of Hidalgo, through the Urban County Program, has a $500,000 line of credit with Lone Star National Bank. The purpose of the line of credit is to finance the costs of construction and general administration expenses prior to reimbursement from the Texas Department of Housing and Community Affairs (TDHCA) and/or the Texas Department of Rural Affairs (TDRA). Principal amounts obtained from the line of credit are repaid directly from the corresponding TDHCA or TDRA grants. The County is responsible for any accrued interest. Short-term debt activity for the year ended December 31, 2015, was as follows:

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015
Urban County Program:				
Colonia Fund Line of Credit				
Lone Star National Bank	$ 128,603	$ 251,679	$ (326,080)	$ 54,202
	$ 128,603	$ 251,679	$ (326,080)	$ 54,202

Note 3 Detailed Notes on all Funds (Continued)

I. Fund Balance

Fund balances by classifications as of December 31, 2015, pursuant to GASB Statement No. 54, are as follows:

	Major Funds		Nonmajor Funds			
	General Fund	Local Provider Participation	Special Revenue Fund	Debt Service Funds	Capital Projects Funds	Total Governmental Funds
Fund balances:						
Nonspendable:						
Inventory	$ 844,546	$ -	$ -	$ -	$ -	$ 844,546
Prepaid items	2,406,824	-	4,891	-	-	2,411,715
Noncurrent loans receivables	265,544	-	10,400	-	-	275,944
	3,516,914	**-**	**15,291**	**-**	**-**	**3,532,205**
Restricted for:						
Grand jury program	185,472	-	-	-	-	185,472
Community and Economic Development Programs	765,962	-	-	-	-	765,962
Record Archives	1,375,995	-	-	-	-	1,375,995
Elections	264,707	-	-	-	-	264,707
Sheriff's confiscations	100	-	-	-	-	100
Bail bond board	167,136	-	-	-	-	167,136
Family Protection Fee	439,025	-	-	-	-	439,025
Drug Court Program	176,709	-	-	-	-	176,709
District Court Records Archive	426,987	-	-	-	-	426,987
Grants	-	-	2,871,895	-	-	2,871,895
Road maintenance and construction	-	-	9,012,587	-	-	9,012,587
TXDOT cash match	-	-	732,637	-	-	732,637
Grant cash match	419,020	-	100,920	-	-	519,940
Law enforcement officers special education	-	-	26,604	-	-	26,604
Garage Motor Vehicle Fee	2,130	-	-	-	-	2,130
Scofflaw	416,880	-	-	-	-	416,880
District Attorney Programs	-	-	193,475	-	-	193,475
Court ordered confiscations	-	-	7,255,814	-	-	7,255,814
Drug abuse prevention rehabilitation	-	-	337,323	-	-	337,323
Pretrial intervention	-	-	265,641	-	-	265,641
Child abuse prevention	-	-	36,769	-	-	36,769
District Clerk Title IV-D	-	-	288,609	-	-	288,609
Records management & preservation	-	-	3,108,924	-	-	3,108,924
Court reporter	-	-	160,738	-	-	160,738
Juvenile delinquency prevention	-	-	4,549	-	-	4,549
Courthouse security	-	-	79,082	-	-	79,082
Probate court contributions	-	-	336,691	-	-	336,691
Court building security	-	-	57,009	-	-	57,009
T.A.C. special vehicle inventory	-	-	184,119	-	-	184,119
Law Library	-	-	1,113,020	-	-	1,113,020
Supplemental court-ordered guardianship fee	-	-	82,479	-	-	82,479
Court Technology	-	-	532,352	-	-	532,352
Asset forfeiture	-	-	5,639,248	-	-	5,639,248
Adult Probation	-	-	47,022	-	-	47,022
Health Care Funding District	-	41,971,575	-	-	-	41,971,575
Drainage District No. 1	-	-	21,850,472	-	-	21,850,472
Capital outlay cash match	-	-	10,833	-	-	10,833
	4,640,123	**41,971,575**	**54,328,812**	**-**	**-**	**100,940,510**
Committed for:						
Debt service reserve	-	-	-	6,957,637	-	6,957,637
	-	**-**	**-**	**6,957,637**	**-**	**6,957,637**
Assigned for:						
Designated for 1115 Waiver	3,189,210	-	-	-	-	3,189,210
Designated appropriations subsequent year	4,730,357	-	-	-	-	4,730,357
Designated Capital Outlay	11,569	-	-	-	-	11,569
Designated TxDot	272,198	-	-	-	-	272,198
Designated for New Courthouse	4,000,000	-	-	-	-	4,000,000
Capital improvements	-	-	-	-	30,468,255	30,468,255
Drainage improvement projects	-	-	-	-	50,697,492	50,697,492
	12,203,335	**-**	**-**	**-**	**81,165,747**	**93,369,082**
Unassigned:	**26,426,521**	**-**	**-**	**-**	**(2,512,503)**	**23,914,018**
Total fund balances	**$ 46,786,893**	**$ 41,971,575**	**$ 54,344,103**	**$ 6,957,637**	**$ 78,653,244**	**$ 228,713,452**

Note 3 Detailed Notes on all Funds (Continued)

I. Fund Balance (Continued)

The County uses restricted fund balances first when expenditures are incurred for purposes for which both restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, for unrestricted fund balances, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in the unrestricted fund balance classification could be used.

Note 4 Other Information

A. Risk Management

The County is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County purchases commercial insurance for coverage in the following areas: property, general liability, law enforcement liability, professional liability medical malpractice, public official liability, business automobile liability and physical damage, kidnap and extortion, automobile Mexico coverage, international coverage, crime, pollution, and civil/legal action. The commercial insurance covers claims up to a certain limit with deductibles ranging from $1,000 to $100,000 in both liability and property. The County retains the liability for covered losses that exceed these limits. Settled claims have not exceeded coverage in the past three fiscal years.

The County retains the risk of loss relating to workers' compensation. The County has been self-insured for workers' compensation risk since 2003. The County reimburses a third-party administrator who evaluates and pays claims in accordance to all applicable laws and regulations. The County's workers' compensation program provides medical and indemnity payments as required by law for job-related injuries. Under this program, the Workers' Compensation Fund provides coverage for up to a maximum of $500,000 for each worker's compensation claim. The County purchases commercial insurance for claims in excess of coverage provided by the Fund. The Fund is available to pay claims, administrative costs of the program, and to fund the fund claims reserve. As of December 31, 2015, the County had a total of 492 reported claims. The liability for outstanding losses includes an actuarially determined amount for incurred but not reported claims. During the past three years, there were no claims paid that exceeded the insurance coverage.

The estimated required funding for unpaid claim liability is calculated and complies with GASB No. 10. The loss reserves are liabilities retained for losses and allocated loss adjustment expenses (ALAE) which include incurred but not reported (IBNR) reserves, credit for future investment income, and margins for adverse results. Various actuarial approaches are used to estimate the total undiscounted reserve. First, the ultimate losses are estimated then paid losses are subtracted using information through December 31, 2015. In order to determine the present value of the loss reserves, the undiscounted reserves by accident year are multiplied by their respective discount factors. The discount factors are based on the claim payout pattern inherent in the County's loss development factors. The undiscounted estimated reserve is $1,917,000 with an assumed average annual rate of return on invested assets of 0.52%. The claims liability is $2,123,000 at December 31, 2015. Changes in the balances of claims liabilities for workers' compensation for the past two years are as follows:

	2015	2014
Claims liabilities at beginning of year	$ 1,981,000	$ 1,987,000
Claims incurred during the year	878,039	844,228
Changes in the estimate for claims of prior years	322,799	409,897
Less: Payments on claims	(1,058,838)	(1,260,125)
Claims liabilities at end of year	$ 2,123,000	$ 1,981,000

Note 4 Other Information (Continued)

A. Risk Management (Continued)

The County established the Health Benefits Fund, an internal service fund, to account for and finance its uninsured risk of loss for health benefits. The primary government and Drainage District No.1 as well as the Hidalgo County Appraisal District participate in the program and pay premiums to the Fund. Additionally, contributions are made to the Fund by employees for family coverage and by retirees and their dependents eligible to participate in the program. The participants are charged a blended premium based on the entire pool of participants. Premium rates are assessed on an annual basis and adjustments are made accordingly on February 1. Premiums are used to pay claims on a pay-as-you-go basis and administrative costs of the program.

The County contracts with Blue Cross Blue Shield to administer the program. The claims liability includes an estimated amount for claims that have been incurred but not reported (IBNRs). The reserve is developed in accordance with accepted actuarial principles. Under the method used, incurred claims are estimated by using the historical claim payment pattern to complete the claims. It is calculated by taking the difference between the expected incurred claims and the claims paid to date. The final reserve includes a provision for claim adjustment expenses, which is 7.2% of the claim reserve estimate. An excess coverage insurance policy covers individual claims in excess of $250,000. During the past three years, there have been claims paid that exceeded the insurance coverage.

The claims liability is $1,340,000 at December 31, 2015. Changes in the balances of claims liabilities for health benefits for the past two years are as follows:

	2015	2014
Claims liabilities at beginning of year	$ 1,458,000	$ 1,755,000
Claims incurred during the year	22,908,939	20,858,315
Changes in the estimate for claims of prior years	(322,035)	(75,113)
Less: Payments on claims	(22,704,904)	(21,080,202)
Claims liabilities at end of year	$ 1,340,000	$ 1,458,000

B. Contingent Liabilities

Litigation
Various lawsuits are pending against the County involving general liability, civil rights actions, and various contractual matters. In the opinion of County management, the potential claims against the County not covered by insurance resulting from such litigation will not materially affect the financial position of the County.

Federally Assisted Programs
The County and its related agencies participate in a number of federally assisted grant programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 and the Uniform Guidance through December 31, 2015, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the County and its related agencies expect such amounts, if any, to be immaterial to the financial position of the County.

C. Other Post Employment Benefits

Plan Description. The County does not have a formal post-employment benefits plan; however, the County 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 County. Members with the County can retire at age 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when their age and years of service equals 75 or more. Members with the Drainage District can retire at age 60 and above with 10 or more years of service, with 20 years of service regardless of age, or when 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 terminate coverage automatically.

Note 4 Other Information (Continued)

C. Other Post Employment Benefits (Continued)

A cost sharing premium is a blended rate that takes into account the cost of medical benefits for active employees as well as retirees. Medical costs are generally higher for retirees than for active employees of the same age. A retiree who is paying 100% of the cost sharing premium is most likely not paying 100% of the true cost of the medical benefits. This situation is known as an "implicit rate subsidy". GASB Statement No. 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits other than Pensions,* is applicable to the County due to the implicit rate subsidy. This "plan" is not a standalone plan and, therefore, does not issue its own financial statements. There are 3,697 active employees and 38 retired employees.

Funding Policy. The County collects insurance premiums from the participating retirees each month and deposits them in the County's Group Insurance Fund. The County 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 the fiscal year, the County paid $134,924 and the Drainage District paid $4,690, which consisted of retiree payments. The County has elected not to prefund the actuarially determined future cost but will accrue the liability to reflect proper treatment and will disclose the Health Care Benefits for Retired Employees in accordance with GASB Statement 45. Monthly medical and prescription contributions required by the plan are as follows:

Basic PPO Plan	Under 65	65 & Over
Retiree Only	$494	$250
Retiree + Child(ren)	596	352
Retiree + Spouse	726	482
Retiree + Family	828	584
Surviving Spouse	$494	$250
Surviving Child(ren)	494	250
Surviving Spouse + Child(ren)	596	352

Retiree Benefit Change. Several changes in retiree benefits were made by the County, effective December 1, 2014.

- Retirees are eligible for benefits for their lifetime as long as they enroll in Medicare Parts A and B at age 65. Previously, coverage terminated at age 65 for employees that retired on or after February 1, 2011.
- The retiree contribution rate structure was changed so that rates decrease at age 65, as opposed to remaining level.
- The buy-up plan is no longer available for retirees. Retirees can continue under the basic plan only.
- Surviving covered dependents are now allowed to continue benefits upon the death of the retiree.
- Retired, rehired retirees are now eligible to continue coverage upon a subsequent retirement.

Annual OPEB Cost and Net OPEB Obligation. The County and the Drainage District's OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters established by GASB Statement 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 actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County and Drainage District's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation.

Note 4 Other Information (Continued)

C. Other Post Employment Benefits (Continued)

	Hidalgo County	Drainage District No. 1	Total
1. Annual required contributions	$ 2,917,096	$ 88,394	$ 3,005,490
2. Interest on net OPEB Obligation	291,504	1,667	293,171
3. Adjustment to ARC	(437,528)	(2,502)	(440,030)
4. Annual OPEB cost [(1) + (2) + (3)]	2,771,072	87,559	2,858,631
5. Contributions made	(134,924)	(4,690)	(139,614)
6. Increase (decrease) in OPEB [(4) - (5)]	2,636,148	82,869	2,719,017
7. OPEB at beginning of year	8,328,683	47,627	8,376,310
Prior period adjustment	-	-	-
7. OPEB at beginning of year as restated	8,328,683	47,627	8,376,310
8. OPEB end of year [(6) + (7)]	$ 10,964,831	$ 130,496	$ 11,095,327

At December 31, 2015, four years of comparative data is presented. The County and Drainage District's annual cost, the percentage of annual OPEB cost contribution, and the net OPEB obligation are as follows:

County of Hidalgo

Year End	Discount Rate	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	3.50%	$ 2,771,072	4.87%	$10,964,831
12/31/2014	3.50%	1,541,374	53.21%	8,328,683
12/31/2013	3.50%	1,563,100	37.40%	7,607,474
12/31/2012	4.00%	1,328,929	50.12%	6,628,962

Drainage District No. 1

Year End	Discount Rate	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	3.50%	$ 87,559	5.36%	$ 130,496
12/31/2014	3.50%	28,267	(79.64%)	47,627
12/31/2013	3.50%	27,747	184.48%	(3,151)
12/31/2012	4.00%	25,783	448.99%	20,289

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial date, the plan was 0.00% funded for the County and the Drainage District. The actuarial accrued liability was $20,220,652 for the County and $567,269 for the Drainage District and the actuarial value of assets was $0 for the County and for the Drainage District, resulting in an unfunded actuarial accrued liability (UAAL) of $20,220,652 for the County and $567,269 for the Drainage District. The covered payroll (annual payroll of active employees covered by the plan) was $126,390,158 for the County and $3,850,488 for the Drainage District, and the ratio of the UAAL to the covered payroll was 16.0% for the County and 14.7% for the Drainage District. The actuarial cost method used is the unit credit.

Note 4 Other Information (Continued)

C. Other Post Employment Benefits (Continued)

The schedule of funding progress provides 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 2015 and is valid for two years.

Schedule of Funding Progress
(Required Supplemental Information-Unaudited)

County of Hidalgo

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/2015	$ -	$ 20,220,652	$ 20,220,652	0%	$ 126,390,158	16.0%
12/31/2013	-	12,174,052	12,174,052	0%	121,784,045	10.0%
12/31/2011	-	9,966,655	9,966,655	0%	115,070,568	8.7%

Drainage District No. 1

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/2015	$ -	$ 567,269	$ 567,269	0%	$ 3,850,488	14.7%
12/31/2013	-	154,330	154,330	0%	3,666,660	4.2%
12/31/2011	-	189,384	189,384	0%	3,222,346	5.9%

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 County'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 or less than estimated.

Projection of the benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefits costs between the employer and 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 the long-term perspective of the calculations.

Note 4 Other Information (Continued)

C. Other Post Employment Benefits (Continued)

Hidalgo County and Drainage District No. 1			
Year	2013	2014	2015
Actuarial valuation date	12/31/2013	12/31/2013	12/31/2015
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Amortization period in years	26	26	30
Actuarial assumptions:			
Inflation rate	3.0%	3.0%	3.0%
Discount rate	3.5%	3.5%	3.5%
Health cost trend	6.9%	6.9%	8.0%
Spouse coverage	10.0%	10.0%	15.0%
Spouse age	Females assumed to be 2 yrs younger	Females assumed to be 3 yrs younger	Females assumed to be 3 yrs younger
Electing coverage	20.0%	20.0%	20.0%

D. Employee Retirement Plan

<u>Texas County and District Retirement System</u>

Plan Description

The County and the Drainage District provide retirement 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 656 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 P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the County and the Drainage District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members with the County can retire at age 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when their age and years of service equals 75 or more. Members with the County are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefits. Members with the Drainage District can retire at age 60 and above with 10 or more years of service, with 20 years of service regardless of age, or when their age and years of service equals 80 or more. Members with the Drainage District are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefits. Members with the County or the Drainage District who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

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 County and the Drainage District within the actuarial constraints imposed by the TCDRS Act so that resulting benefits can be expected to be adequately financed by the County’s and the Drainage 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.

Note 4 Other Information (Continued)

D. Employee Retirement Plan (Continued)

The employees covered by the plan at December 31, 2015 are:

	Hidalgo County	Drainage District No. 1	Total
Inactive employees or beneficiaries currently receving benefits	761	48	809
Inactive employees entitled to but not yet receiving benefits	1,341	19	1,360
Active employees	2,960	128	3,088
	5,062	195	5,257

Funding Policy
The County and the Drainage District have elected the annually determined contribution rate (ADCR) plan provision 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 County and the Drainage District is actuarially determined annually. Contributions were made using the actuarially determined rate of 10.9% for the County and 12.6% for the Drainage District for the calendar year 2014 and 10.6% and 12.1% respectively for calendar year 2015. The contribution rate payable by the employee members is 7% as adopted by the governing bodies of the County and the Drainage District. The employee contribution rate and the employer contribution rate may be changed by the governing bodies of the County and the Drainage District within the options available in the TCDRS Act.

Net Pension Liability
The County's net pension liability (NPL) was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions
The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Hidalgo County and Drainage District No. 1
Inflation	3.0%
Salary increases	General wage inflation component of 3.5% and merit, promotion and longevity component that on average approximates 1.4% per year for career employees.
Investment rate of return	8.10%
Cost-of-living adjustments	Cost of living for Hidalgo County and Drainage District No. 1 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.

Note 4 Other Information (Continued)

D. Employee Retirement Plan (Continued)

Mortality rates for depositing members, service retirees, beneficiaries and non-depositing members, and disabled retirees are based on RP-2000 Mortality Tables for males and females, as appropriate, with adjustments to the projection Scale AA.

The actuarial assumptions that determined the total pension liability as of December 31, 2014 were based on the results of actuarial experience study for the period January 1, 2009 to December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant Cliffwater LLC. The numbers shown are based on January 2015 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	Dow Jones U.S. Total Stock Market Index	16.50%	5.35%
Private Equity	Cambridge Assocates Global Private Equity & Venture Capital Index	12.00%	8.35%
Global Equities	MSCI World (net) Index	1.50%	5.65%
International Equities - Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	11.00%	5.35%
International Equities - Emerging	50% MSCI EM Standard (net) + 50% MSCI EM 100% Hedged to USD (net) Index	9.00%	6.35%
Investment-Grade Bonds	Barclay Capital Aggregate Bond Index	3.00%	0.55%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.75%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	5.00%	5.54%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.80%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.75%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.00%
Commodities	Bloomberg Commodities Index	2.00%	-0.20%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Assocates Real Estate Index Funds Composite Index	3.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.15%

Discount Rate

The discount rate used to measure the total pension liability was 8.1% at December 31, 2014. Cash flow projections used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the County's contributions will be made at a rate equal to the difference between the actuarially determined contribution rates and the employee's contribution rate. Based on that, the projected fiduciary net position is determined to be sufficient to make projected benefits payments in future years. Therefore, the discount rate for calculating the total pension liability is equal to the long term expected rate of return.

Note 4 Other Information (Continued)

D. Employee Retirement Plan (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Hidalgo County Fiduciary Net Position (b)	Net Pension Liability / Assets (a) - (b)
Balance as of December 31, 2013	$ 392,140,914	$ 363,375,278	$ 28,765,636
Changes for the year:			
Service costs	17,117,584	-	17,117,584
Interest on total pension liability	31,834,091	-	31,834,091
Effect of economic/demographic gains or losses	(2,474,482)	-	(2,474,482)
Refunds of contributions	(2,689,803)	(2,689,803)	-
Benefits payments	(12,648,023)	(12,648,023)	-
Administrative expenses	-	(292,047)	292,047
Member contributions	-	8,487,504	(8,487,504)
Net investment income	-	24,449,103	(24,449,103)
Employer contributions	-	13,199,708	(13,199,708)
Other	-	22,742	(22,742)
Balance as of December 31, 2014	423,280,281	393,904,462	29,375,819

	Total Pension Liability (a)	Increase (Decrease) Drainage District No. 1 Fiduciary Net Position (b)	Net Pension Liability / Assets (a) - (b)
Balance as of December 31, 2013	12,036,947	11,194,380	842,567
Changes for the year:			
Service costs	629,877	-	629,877
Interest on total pension liability	980,158	-	980,158
Effect of economic/demographic gains or losses	(58,898)	-	(58,898)
Refunds of contributions	(55,942)	(55,942)	-
Benefits payments	(443,873)	(443,873)	-
Administrative expenses	-	(9,031)	9,031
Member contributions	-	274,156	(274,156)
Net investment income	-	751,128	(751,128)
Employer contributions	-	493,873	(493,873)
Other	-	17,296	(17,296)
Balance as of December 31, 2014	13,088,269	12,221,987	866,282
Total Hidalgo County & Drainage District No. 1 Balance as of December 31, 2014	$ 436,368,550	$ 406,126,449	$ 30,242,101

The County and the Drainage District's TCDRS actuarial report, with a measurement valuation date of December 31, 2015, to be used for audit periods ending January 1, 2016 to December 31, 2016, shows a net pension liability of $66,860,422 and $2,025,323, respectively.

Note 4 Other Information (Continued)

D. Employee Retirement Plan (Continued)

Sensitivity Analysis
The following presents the net pension liability of the County and the Drainage District, calculated using the discount rate of 8.10%, as well as what the pension liability would be if it were calculated using a discount rate that is 1 percent point lower (7.10%) or 1 percent point higher (9.10%) than the current rate.

	Hidalgo County		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	$ 485,906,688	$ 423,280,282	$ 372,337,102
Fiduciary net position	(393,904,464)	(393,904,464)	(393,904,464)
Net pension liability	92,002,224	29,375,818	(21,567,362)

	Drainage District No. 1		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	14,691,618	13,088,268	11,745,441
Fiduciary net position	(12,221,987)	(12,221,987)	(12,221,987)
Net pension liability	2,469,631	866,281	(476,546)
Total Hidalgo County and Drainage District No. 1	$ 94,471,855	$ 30,242,099	$ (22,043,908)

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions
The total pension expense for the County and Drainage District combined was $11,883,894, $11,457,727 and $426,167 respectively. As of December 31, 2014, the County and the Drainage District had deferred inflows and outflows of resources related to the pensions as follows:

	Hidalgo County	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,062,068
Net difference between projected and actual earnings	4,414,232	-
Contributions made subsequent to the measurement date	12,860,980	-
Total Hidalgo County	17,275,212	2,062,068

	Drainage District No. 1	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	49,082
Net difference between projected and actual earnings	140,502	-
Contributions made subsequent to the measurement date	523,193	-
Total Drainage District No. 1	663,695	49,082
Total Hidalgo County and Drainage District No. 1	$ 17,938,907	$ 2,111,150

Note 4 Other Information (Continued)

D. Employee Retirement Plan (Continued)

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

	Hidalgo County	Drainage District No.1	Total
Year Ended December 31,			
2015	691,144	25,309	716,453
2016	691,144	25,309	716,453
2017	691,144	25,309	716,453
2018	691,144	25,309	716,453
2019	(412,414)	(9,816)	(422,230)
Thereafter	-	-	-

<u>County of Hidalgo Affiliated Agencies Employees' Retirement Plan</u>

Plan Description
The Plan is a tax deferred money purchase pension plan and covers employees of Hidalgo County Urban County Program, Hidalgo County Head Start Program, and Hidalgo County Community Service Agency. The Plan was adopted in 1993 and amended effective January 1, 2001. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan is a defined contribution plan. The Plan does not issue a comprehensive annual financial report.

The Plan provisions are adopted by the Trustees and the governing body of the County. Employees of the various Agencies are eligible to participate in the Plan once they complete six months of service or accumulate 501 hours of service. Members are fully vested after three years of service or upon reaching normal retirement age regardless of years of service.

Each member's account is credited with the member's contribution and allocations of (a) the Agency's contribution and (b) Plan earnings, and charged with an allocation for administrative expenses. Allocations are based on member earnings or account balances, as defined. Forfeited balances of terminated members' non-vested accounts are first used to pay Plan administrative expenses for the year with any remaining balance or forfeitures treated as additional employer contributions.

The benefit to which a member is entitled is the benefit that can be provided from the member's vested account. Distribution of benefits upon termination of employment due to death, disability, or retirement will be made in accordance with the provisions in the Plan agreement. Distributions will be in the form of an annuity or as a lump-sum distribution.

Funding Policy
The Plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. The contribution rate payable by the employee members is 7% and the employer matches up to 7%. The Hidalgo County Urban County Program is no longer making contributions to the Plan. On October 2006, employees of the Hidalgo County Urban County Program joined the Texas County and District Retirement System. As of December 31, 2015, the Hidalgo County Urban County Program's portion of net worth was $400,638 and had $48,084 in participant loans.

Contributions to the Plan totaled $2,538,447 for the year ended December 31, 2015.

Note 4 Other Information (Continued)

E. 457 Deferred Compensation Plan

The County offers its employees a deferred compensation plan that permits them to defer a portion of their current salary until future years. Any contributions made to the deferred compensation plan, in compliance with Section 457 of the Internal Revenue Code, are not available to employees until termination of employment, retirement, death, or an unforeseen emergency. The Reyna Financial Group, the third party administrator, administers contributions to the plan. In accordance with the provisions of IRC Section 457(g), the plan assets are in custodial accounts for the exclusive benefit of the plan participants and beneficiaries. The County provides neither administrative services nor investment advice to the plan. Therefore, in accordance with GASB Statement No. 32, no fiduciary relationship exists between the County and the deferred compensation plan. At December 31, 2015, the plan assets were valued at $1,689,321.

F. Landfill Closure and Post-closure Care Costs

State and federal laws and regulations require the County to place final covers on its landfill sites located in Precinct Three and Four when it stops accepting waste at these sites. During 2004, the County placed a final cover on Precinct Four's landfill. The County will be required to perform certain maintenance and monitoring functions at both landfill sites for a minimum of thirty years after closure.

GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*, addresses the financial statement effect of complying with EPA and state requirements. GASB Statement No. 18 requires that all closure and post-closure care costs be recognized during the operating life of the landfill. Accordingly, a portion of the total estimated closure and post-closure care costs, based on the ratio of landfill capacity, should be recognized as an expense and/or liability each period the landfill accepts waste.

Closure and post-closure care costs related to the County's landfill site in Precinct Three (MSW-1727A) are based on a five-acre cell out of twelve acres that are currently in operation. The County has recognized a liability of $333,759 for closure and post-closure care costs as of December 31, 2015. The County obtained approval from the Texas Commission on Environmental Quality (TCEQ) to expand the landfill capacity of the above five-acre cell in 1998.

Post-closure care costs related to the County's landfill site in Precinct Four are based on eighteen acres of landfill (MSW-1593A). In 2004, the County submitted the Final Cover System Evaluation Report (FCSER) to the Texas Commission on Environmental Quality, which satisfied the documentation requirements for closure in 30 TAC§330.253(e)(6). The County has recognized a liability of $1,271,220 for post-closure care costs as of December 31, 2015.

At December 31, 2015, the total liability of $1,604,979 for both landfill sites is based on the County performing all of the work. However, due to changes in technology, inflation, laws and regulations, actual costs may change. The County implemented financial assurance requirements related to landfill closure and post-closure care costs as required by TCEQ and will continue to do so in future years.

G. Prior Period Adjustments

The County fund balances at December 31, 2014, have been restated.

	General Fund
Balances at December 31, 2014, as previously reported	$44,961,388
To reclassify general fund expenditure to Juvenile Probation	6,946
Balances at December 31, 2014, as restated	$44,968,334

Note 4 Other Information (Continued)

G. Prior Period Adjustments (Continued)

Due to the implementation of GASB No. 68, the County restated its beginning net position within government activities to properly reflect the net pension liability and deferred outflows and inflows of resources as prescribed by this accounting standard. Net position decreased in the amount of $15,091,268.

H. Property Taxes

Levy and Collections
The Hidalgo County Appraisal District (the Appraisal District) is responsible for the appraisal of all taxable property of all taxing units in the Appraisal District, including the County. The Property Tax Code requires that all taxing units assess taxable property at 100% of its appraised value. The County is responsible for the collection of its taxes. Before the later of September 30 or the 60th day after the date the certified appraisal role is received by the County, the Commissioners' Court adopts a tax rate per $100 taxable value for the following year based upon the valuation of property within the County as of January 1. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. Ad valorem taxes are due on receipt of a tax bill and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes become delinquent on February 1 of the following year and are then subject to interest and penalties.

Taxes levied by the County are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the County, having power to tax the property.

Tax Rate
The Texas Constitution (Article VIII, Section 9) limits the tax rate that the County may levy to $0.80 per $100 assessed valuation for all purposes of General Fund, Permanent Improvement Fund, Road and Bridge Fund, and Jury Fund, including debt service of bonds, warrants, tax notes, or certificates of obligation issued against such funds. The total tax rate for fiscal year 2015 was $0.5900 per $100 assessed valuation, of which $0.5308 was allocated for maintenance and operations and $0.0592 was allocated to the debt service funds. The Drainage District No. 1 tax rate for fiscal year 2015 was $0.0957 per $100 assessed valuation, of which $0.0466 was allocated for maintenance and operations, and $0.0491 was allocated to the debt service funds.

I. Subsequent Events

On June 14, 2016, Commissioners' Court approved the issuance of Certificates of Obligation, Series 2016 in the amount of $35,045,000. Proceeds from the Cerificates will be used for (i) the acquisition of rights of way; (ii) design and construction of drainage and road systems; (iii) acquisition of land to be used for parks and park improvements; (iv) the purchase of mechanized heavy equipment/machinery; (v) the re-construction and renovation of Palmer Pavilion and related improvements; (vi) the purchase of motor vehicles; (vii) purchase of voting machines and related expenses; (viii) design and construction of County mechanic shops; (ix) professional services related to the planning, design and construction of a new County Courthouse; (x) the purchase of a building for ancillary judicial and administrative offices; (xi) the payment of contractual obligations for professional services, and payment of cost of issuance of the Certificates.