

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2016

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal - District Manager	5
FINANCIAL SECTION	
Independent Auditors' Report	11
Management's Discussion and Analysis (MD&A)	15
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements	
Balance Sheet - Governmental Funds	25
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position	27
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	30
General Fund Budgetary Comparison Statement	31
Notes to the Financial Statements	32
SUPPLEMENTAL INFORMATION	
Notes Required by the Water District Accounting Manual	*
Schedule of Services and Rates	59

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

TABLE OF CONTENTS - Continued

SUPPLEMENTAL INFORMATION - Continued	<u>Page</u>
Schedule of General Fund Expenditures	60
Schedule of Temporary Investments	**
Analysis of Taxes Levied and Receivable	61
Analysis of Changes in Capital Assets	64
Unlimited Tax Improvement Bonds, Series 2008 Schedule of Debt Service Requirements Until Maturity	65
Unlimited Tax Improvement Bonds, Series 2013 Schedule of Debt Service Requirements Until Maturity	66
Unlimited Tax Refunding Bonds, Series 2014 Schedule of Debt Service Requirements Until Maturity	67
Unlimited Tax Refunding Bonds, Series 2016 Schedule of Debt Service Requirements Until Maturity	68
Interlocal Note Agreement with Hidalgo County Schedule of Debt Service Requirements Until Maturity	69
Analysis of Changes in Long-Term Debt	*
Comparative Schedule of Revenues and Expenditures - General Fund and Debt Service Fund	70
Schedule of Funding Progress - Other Post Employment Benefits	72
Schedule of Changes in Net Pension Liability and Related Ratios Last Ten Fiscal Years	73
Schedule of Employer Contributions - Last Ten Fiscal Years	74
Insurance Coverage	76
Board Members, Key Personnel and Consultants	77
 OTHER REPORTING REQUIRED BY GOVERNMENTAL AUDITING STANDARDS	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	80

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

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



INTRODUCTORY SECTION



HIDALGO COUNTY DRAINAGE DISTRICT No. 1

RAUL E. SESIN, PE, CFM

General Manager, Floodplain Administrator

BOARD OF DIRECTORS

DAVID L. FUENTES
Board Member

EDUARDO "EDDIE" CANTU
Board Member

RAMON GARCIA
Chairman of the Board

JOE M. FLORES
Board Member

JOSEPH PALACIOS
Board Member

August 28, 2017

The Honorable Ramon Garcia, Chairman of the Board
The Honorable David L. Fuentes, Board Member
The Honorable Eduardo "Eddie" Cantu, Board Member
The Honorable Joe M. Flores, Board Member
The Honorable Joseph Palacios, Board Member

Dear Board of Directors:

The Hidalgo County Drainage District No.1 (District) Annual Financial Report for the year ended December 31, 2016, is submitted herewith.

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

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

In 2002, the District initiated the implementation of Governmental Accounting Standards Board Statement Number 34 (GASB 34), *Basic Financial Statements – And Management's Discussion and Analysis – For State and Local Governments*. GASB Statement 34, labeled by GASB as "the most significant change in the history of government financial reporting," amends the financial reporting model to include supplementary information about an entity and fiscal health including the status of public infrastructure. This report for 2016 was prepared in accordance with this statement and is presented in the following three sections:

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

Burton, McCumber & Cortez, LLP, an independent certified public accounting firm, has audited the District's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended December 31, 2016, are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based on the independent audit performed by our external auditors, they concluded that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for year ended December 31, 2016, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The Independent Auditors' Report is presented as the first component of the Financial Section of this report.

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

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

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

Internal Controls

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

Budget and Fiscal Policy

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

Cash Management

The District invests its funds in investments authorized by Texas laws in accordance with investment policies approved by the Board of Directors. Under Texas Law, the District is required to invest its funds to primarily emphasize safety of principal and liquidity. The actual interest income in 2016 totaled \$491,532 an increase of \$214,167 from the prior year total of \$277,365.

Interest income has increased due to change in the length and type of investments from the sale of the 2013 Bonds and better interest rates.

Capital Assets

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

Risk Management and Insurance

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

Economic Conditions and Outlook

Hidalgo County, in which the District operates, is an attractive place in which to live and do business. With an estimated population of 849,843 people, Hidalgo County is the 8th most out of 254 Texas counties. Population from 2010-2014 grew by 8.7%. According to Fitch Ratings, "the district has added to the reserves in five of the past six years due to sound financial management. Also, the traditional agricultural and international based economy has increasingly diversified with education, health services, and government sector employment. Ecotourism has seen a recent growth in Hidalgo County attracting new travelers to this area for birding due to the prime location of the county along the transcontinental migratory flight paths. Also seeing a growth is the healthcare field, with the commitment of the University of Texas establishing a new university and medical school in the county. This will help in further diversifying in adding highly skilled employment to the trade centered economy in Hidalgo County.

According to the McAllen Economic Development Corp, the City of McAllen MSA (metropolitan statistical area) remains among the fastest growing regions in the nation due to low cost labor and proximity to Mexico. McAllen, which is the largest city in the County, has a current population of 142,212, according to the 2016 U.S. Census Bureau. Edinburg has an estimated population of 87,650 and is considered the educational and technological capital of the Texas-Mexico border region. The unemployment rate as of December 2016 was 7.7%.

Hidalgo County provides factors which are considered to be an excellent quality of life, high-tech medical facilities, comprehensive financial services community, a demonstrated logistics advantage necessary to reach existing and new markets, and bicultural/bilingual population. The median household income for this area in 2015, according to U.S. Census Bureau, averaged \$34,782.

Current Developments and Programs

The District is continuing the process of finalizing the implementation of the drainage improvements outlined in the 2007 Bond Referendum. In addition, in 2012 a new bond referendum for \$184 million was approved with a 76% favorable support by the District's taxpayers. This referendum had over 25 project specific initiatives to be undertaken by the District. The District began the implementation in mid-2013 of said program with the sale of the first 84 million, the 2013 Bond series. Among those projects are:

Raymondville Main Drain Project

The Raymondville Drain Project currently exists as an authorized federal project with the US Army Corps of Engineers-Galveston District (USACE) as the Project for Flood Control, Lower Rio Grande Basin, Texas under Title IV, Section 401 of WRDA 1986, as amended by the Water Resources Development Act (WRDA) 2007. Major flooding problems exist in the areas drained by the Raymondville Drain because of significant urban growth that has occurred in recent years. The project will implement flood control improvements along an approximate 60-mile long channel alignment, including 12 miles of new ditch, major detention ponds, in-line detention, retention, hydraulic control structures, bridges, culverts and utility crossings. The District is the lead sponsor for the project working in partnership with the US Army Corps of Engineers. The District has a current agreement with the USACE, invoking provisions of general WRDS Section 211, whereby the District has taken over the USACE's portion of the project, anticipating reimbursement at the time of construction for the federal cost share of the project. Concurrently, the District is also pursuing congressional designation for the project to be a demonstration project under Section 211 (f), to ensure that reimbursement of the federal cost share could occur intermittently, as the planning documents-studies progress prior to construction. The project was recently ranked as the No. 1 project for the Lower Rio Grande Valley Regional Drainage Plan. It is anticipated that the project will get environmental clearance in 2018; portions of construction are also anticipated to commence in 2018-2019.

Lateral Projects

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

Mission Inlet Detention and FEMA Levee Certification

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

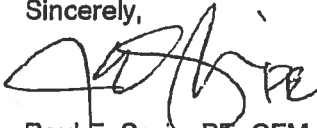
Precinct Rural Drainage Development

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

Acknowledgements

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

Sincerely,



Raul E. Sesin, PE, CFM
General Manager



Lora Briones,
District's Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Right Choice.

BMC

Burton
McCumber
& Cortez, LLP
CPAs & Advisors

McAllen • Brownsville

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hidalgo County Drainage District No. 1 (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of December 31, 2016, and the respective changes in financial position and, the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Burton McCumber + Co. LLP

McAllen, Texas
August 28, 2017

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

**Hidalgo County Drainage District No. 1
Management's Discussion and Analysis
December 31, 2016**

Management's Discussion and Analysis (MD&A) of Hidalgo County Drainage District No. 1, Edinburg, Texas (the District) is intended to provide an overview of the District's financial position and results of operations for the fiscal year ended December 31, 2016. Please read it in conjunction with the letter of transmittal on page 5 and the District's financial statements, which begin on page 23.

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

FINANCIAL HIGHLIGHTS

General Fund

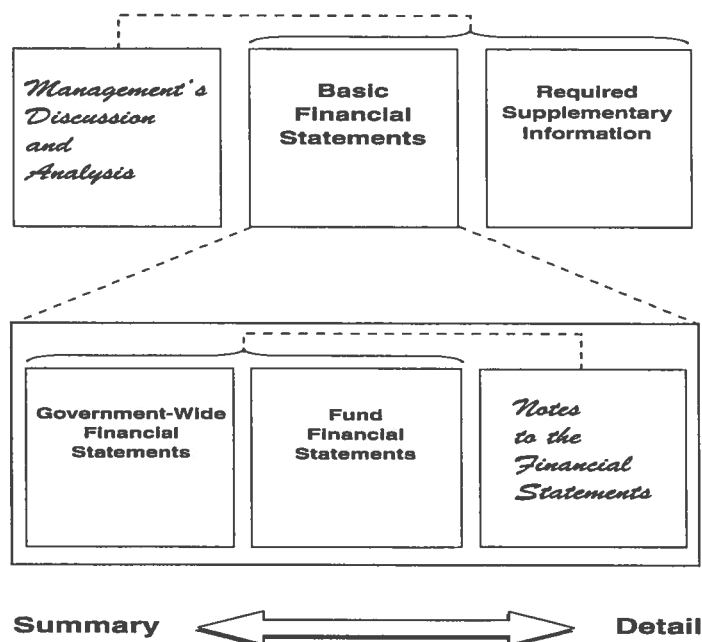
- At fiscal year-end, the unassigned fund balance in the general fund totaled \$19,316,844 which represents a \$177,321 increase from fiscal year 2015.
- General fund revenues decreased by \$4,685,822 to \$15,301,440, a decrease of 23.4 percent over fiscal year 2015. The District received a grant from the Texas Water Development Board for \$5,599,008 in 2015.
- General fund expenditures increased by \$2,433,361 to \$17,193,466, an increase of 16.5 percent over fiscal year 2015.

Government-Wide

- The District's governmental activities reported expenses of \$21,768,159, net of program revenues totaling \$57,607. General revenues and transfers totaled \$31,573,220 resulting in an increase in net position of \$9,805,061.
- At fiscal year-end, the District's governmental activities reported combined total net position of \$72,400,191. A significant portion of net position is invested in capital assets or is restricted for specific purposes.

USING THIS ANNUAL REPORT

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



OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

- *Governmental funds* – all of the District's basic services are reported in governmental funds. The measurement focus and basis of accounting continues to be the modified accrual basis, which measures inflows and outflows of current financial resources and the balances left at year-end that are available for spending. The District's major governmental funds are the General Fund, 2013 Bond Series Capital Projects Fund, 2007 Bonds Debt Service Fund, 2008 Bonds Debt Service Fund and 2013 Bonds Debt Service Fund. The reconciliations of the fund financial statements to the government-wide statements explain the differences between the governmental fund statements and the government-wide statements.

Statement of Net Position (Government-Wide)

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

	2016	2015
Assets:		
Current and other assets	\$ 104,321,291	\$ 109,264,009
Capital assets, net	142,050,568	134,240,753
Total assets	246,371,859	243,504,762
Deferred Outflows of Resources:		
Deferred charges on refunding	5,764,085	585,578
Deferred resources for pension	1,782,500	140,502
Total deferred outflows of resources	7,546,585	726,080
Liabilities:		
Long-term liabilities	143,664,346	148,152,340
Other liabilities	17,413,646	14,510,218
Total liabilities	161,077,992	162,662,558
Deferred Inflows of Resources:		
Unavailable revenue	20,202,752	18,924,072
Deferred resources for pension	237,509	49,082
Total deferred inflows of resources	20,440,261	18,973,154
Net position:		
Net investment in capital assets *	110,770,579	104,896,417
Restricted	4,629,664	10,091,337
Unrestricted *	(43,000,052)	(52,392,624)
Total net position	\$ 72,400,191	\$ 62,595,130

*Amounts in the 2015 financial statements have been reclassified to conform to the presentation in the 2016 financial statements.

At the close of the current fiscal year, \$110,770,579 represents the portion the District has invested in capital assets (i.e., land, infrastructure, buildings, machinery and equipment), net of accumulated depreciation less any outstanding debt used to construct or acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these are not available for future spending. At the end of the fiscal year, the District reported a positive balance of \$4,629,664 for the District's restricted net position that may be used to meet the ongoing obligations to citizens and creditors. The District's unrestricted net position increased to \$(43,000,052) in connection with the District's governmental activities related to the debt associated with Rural Drainage Development Projects, Control Structures, and Weir Rehabilitation. The ownership and maintenance of the levees was transferred to IBWC.

Statement of Activities (Government-Wide)

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

	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ -	\$ 5,599,008
Charges for services	<u>57,607</u>	<u>61,590</u>
Total program revenues	57,607	5,660,598
General revenues:		
Property taxes	28,757,262	27,956,826
Interest income	491,532	277,365
Tax penalties and interest	767,511	795,286
Loss on sale of capital assets	(7,421)	-
Other	<u>1,564,336</u>	<u>768,736</u>
Total general revenues	31,573,220	29,798,213
Total revenues	31,630,827	35,458,811
Expenses:		
General governmental	(5,940,806)	(2,867,683)
Drainage flood control	(10,816,262)	(9,228,802)
Interest on long-term debt	<u>(5,068,698)</u>	<u>(6,609,352)</u>
Total expenses	<u>(21,825,766)</u>	<u>(18,705,837)</u>
Increase in net position	<u>\$ 9,805,061</u>	<u>\$ 16,752,974</u>

The District's general revenues totaled \$31,573,220. Property taxes contributed \$28,757,262, or 91.1 percent of total general revenues. The remaining 8.9 percent of general revenues was derived from interest, tax penalties and other sources. The total expenses for services totaled \$21,825,766. Expenditures necessary for the maintenance and operations of drainage facilities accounted for 49.6 percent of expenses. General governmental activities and interest on long-term debt expenses accounted for 27.2 percent and 23.2 percent of the total expenses, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Financial information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds for the District's major funds: General Fund, 2013 Bond Series Capital Projects Fund, and 2007, 2008 and 2013 Bonds Debt Service Funds. Financial information for the non-major governmental funds is presented in single columns by fund type.

General Fund

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the fund balance of the General Fund totaled \$21,021,592 which represents an \$828,644 decrease from fiscal year 2015.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board revised the District's budget. These budget amendments fall into three categories. The first category includes the appropriation of the prior year's remaining balance for new projects the Board took action on during 2016. The second category includes line item transfers within the department to cover underfunded line items. Finally, the Board approved budget amendments to certain line items (including: engineering, rentals, insurance, and other heavy equipment) to record expenditures that were necessary for maintenance and operations of the drainage systems.

The District experienced a negative variance for general government and drainage flood control budgets that netted a negative variance of \$2,135,460 between original and final budget. Most of the variance came from the drainage flood control budget from the reclassification of the Raymondville Drain expenditures that were originally accounted for under the Special Revenue Fund.

Resources available totaled \$895,086 over the final budget amount of \$14,406,354. Property tax collections, miscellaneous revenues, which include royalties and reimbursement from governments, and interest accounted for all of the increase in estimated revenues. Charges for services were less than the estimated amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$142,050,568 invested in capital assets, including land and easements, infrastructure, construction in progress, buildings and renovations, and machinery and equipment. Land, easements and construction in progress are not depreciated. Additional information on the District's capital assets can be found in the notes to the financial statements.

	Capital assets at year-end (Net of depreciation)	
	2016	2015
Land and easements	\$ 24,380,040	\$ 23,373,310
Infrastructure	58,051,284	60,551,153
Construction in progress	50,978,712	42,698,572
Buildings and renovations	415,176	445,406
Machinery and equipment	8,225,356	7,172,312
Total	<u>\$ 142,050,568</u>	<u>\$ 134,240,753</u>

Debt

At year-end, the District's outstanding long-term liabilities for the 2008 Bond Series, 2013 Bond Series, 2014 Bond Series, 2016 Bond Series and compensated absences totaled \$7,140,000, \$70,480,000, \$7,665,000, \$52,625,000 and \$251,494, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2017 Levy experienced over 1.8 billion dollar increase in the appraised valuation from prior years, due in part to the growth of the economy. The District will continue maintenance and expansion of its facilities as well as new projects as Hidalgo County's population and infrastructure needs continue to grow.

The Board of Directors considered these factors when setting the budget requirements for fiscal year 2017. Budgeted expenditures for 2017 total \$16,143,589 exceeding the budgeted revenues of \$15,874,139 available for appropriation in the General Fund budget. The District will utilize some of the reserves that have accumulated over the years to fund a new administration building in the amount of \$1,600,000 and purchase of new equipment. The District passed a tax rate of .0951 per \$100 valuation for the 2017 budget year. The 2017 budget year includes additional employees. Other operational expenditures were evaluated and adjusted, including items that have been affected by economic trends and other item used for emergencies. Capital improvements are in the future plans of the District for the 2017 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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



BASIC FINANCIAL STATEMENTS

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

STATEMENT OF NET POSITION

December 31, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,635,435
Investments, including accrued interest	78,932,552
Receivables, net	
Property taxes	20,203,911
Other accounts	7,807
Due from other governments	1,531,362
Prepaid services	10,224
Capital assets, net	
Land and easements	24,380,040
Infrastructure	58,051,284
Construction in progress	50,978,712
Buildings and renovations	415,176
Machinery and equipment	8,225,356
Total capital assets, net	<u>142,050,568</u>
Total assets	<u>246,371,859</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	5,764,085
Deferred resources for pension	1,782,500
Total deferred outflows of resources	<u>7,546,585</u>
LIABILITIES	
Accounts payable	3,232,112
Salaries and benefits payable	536,055
Retainage payable	408,452
Unearned revenue	24,538
Accrued interest	1,963,163
Long-term liabilities:	
Due within one year	
Note payable	250,000
Bond Series 2008	3,531,263
Bond Series 2013	3,651,274
Bond Series 2014	88,107
Bond Series 2016	3,728,682
Due in more than one year	
Note payable	743,079
Bond Series 2008	3,678,393
Bond Series 2013	70,344,067
Bond Series 2014	8,387,244
Bond Series 2016	58,028,555
Net pension	2,025,321
Compensated absences	251,494
Other post employment benefits	206,193
Total liabilities	<u>161,077,992</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	20,202,752
Deferred resources for pension	237,509
Total deferred inflows of resources	<u>20,440,261</u>
NET POSITION	
Net investment in capital assets	110,770,579
Restricted for:	
Debt service	4,627,610
Grants	2,054
Unrestricted	<u>(43,000,052)</u>
Total net position	<u>\$ 72,400,191</u>

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

Functions\ Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$(5,940,806)	\$ -	\$ -	\$(5,940,806)
Drainage flood control	(10,816,262)	57,607	-	(10,758,655)
Interest on long-term debt	(5,068,698)	-	-	(5,068,698)
Total Governmental Activities	\$(21,825,766)	\$ 57,607	\$ -	(21,768,159)
General Revenues:				
Property taxes				28,757,262
Interest income				491,532
Tax penalties and interest				767,511
Loss on sale of capital assets				(7,421)
Miscellaneous				321,257
Other				1,243,079
Total General Revenues				31,573,220
Change in Net Position				9,805,061
Net Position - Beginning				61,490,713
Prior period adjustment				1,104,417
Net Position - Ending				\$ 72,400,191

The accompanying notes are an integral part of this statement.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

BALANCE SHEET – GOVERNMENTAL FUNDS

December 31, 2016

	<u>General Fund</u>	<u>2013 Bond Series Capital Projects Fund</u>	<u>2007 Bonds Debt Service Fund</u>	<u>2008 Bonds Debt Service Fund</u>
ASSETS				
Cash and cash equivalents	\$ 2,183,670	\$ -	\$ 5,476	\$ 8,357
Investments, including accrued interest	26,455,630	41,147,515	827,400	1,431,364
Receivables, net				
Property taxes	10,529,093	-	3,255,439	2,393,111
Other accounts	7,807	-	-	-
Due from other governments	1,850,256	-	-	-
Due from other funds	2,264,233	56,932	2,126,793	1,028,428
Prepaid services	10,224	-	-	-
	<u>\$ 43,300,913</u>	<u>\$ 41,204,447</u>	<u>\$ 6,215,108</u>	<u>\$ 4,861,260</u>
Total Assets				
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,372,546	\$ 1,275,556	\$ -	\$ -
Salaries and benefits payable	553,935	-	-	-
Retainage payable	97,032	300,358	-	-
Due to other governments	-	-	-	-
Due to other funds	3,418,339	2,168,290	-	-
Unearned revenue	10,527,934	-	3,238,968	2,443,705
	<u>15,969,786</u>	<u>3,744,204</u>	<u>3,238,968</u>	<u>2,443,705</u>
Total Liabilities				
Deferred inflows of resources:				
Unavailable revenue- property taxes	6,309,535	-	1,938,974	1,458,571
	<u>6,309,535</u>	<u>-</u>	<u>1,938,974</u>	<u>1,458,571</u>
Total Deferred Inflows of Resources				
Fund Balances:				
Non-spendable:				
Prepaid services	10,224	-	-	-
Restricted:				
Debt service	-	-	1,037,166	958,984
Capital projects	-	37,460,243	-	-
Committed	-	-	-	-
Assigned	1,694,524	-	-	-
Unassigned	19,316,844	-	-	-
	<u>21,021,592</u>	<u>37,460,243</u>	<u>1,037,166</u>	<u>958,984</u>
Total Fund Balances				
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 43,300,913</u>	<u>\$ 41,204,447</u>	<u>\$ 6,215,108</u>	<u>\$ 4,861,260</u>

The accompanying notes are an integral part of this statement.

2013 Bonds Debt Service Fund	Non-Major Capital Projects Fund	Non-Major Debt Service Fund	Non-Major Special Revenue Fund	Total Governmental Funds
\$ 1,193,986	\$ 166,937	\$ 13,962	\$ 63,046	\$ 3,635,434
1,864,248	6,642,139	300,000	264,255	78,932,551
3,820,258	-	206,012	-	20,203,913
-	-	-	-	7,807
-	-	-	-	1,850,256
263,118	22,590	-	100,847	5,862,941
-	-	-	-	10,224
<u>\$ 7,141,610</u>	<u>\$ 6,831,666</u>	<u>\$ 519,974</u>	<u>\$ 428,148</u>	<u>\$ 110,503,126</u>
\$ -	\$ 551,070	\$ -	\$ 15,059	\$ 3,214,231
-	-	-	-	553,935
-	11,063	-	-	408,453
-	-	-	318,894	318,894
-	198,307	10,402	67,603	5,862,941
<u>3,788,979</u>	<u>-</u>	<u>203,166</u>	<u>24,538</u>	<u>20,227,290</u>
<u>3,788,979</u>	<u>760,440</u>	<u>213,568</u>	<u>426,094</u>	<u>30,585,744</u>
<u>2,268,888</u>	<u>-</u>	<u>121,548</u>	<u>-</u>	<u>12,097,516</u>
<u>2,268,888</u>	<u>-</u>	<u>121,548</u>	<u>-</u>	<u>12,097,516</u>
-	-	-	-	10,224
1,083,743	-	184,858	-	3,264,751
-	6,071,226	-	-	43,531,469
-	-	-	-	-
-	-	-	2,054	1,696,578
-	-	-	-	19,316,844
<u>1,083,743</u>	<u>6,071,226</u>	<u>184,858</u>	<u>2,054</u>	<u>67,819,866</u>
<u>\$ 7,141,610</u>	<u>\$ 6,831,666</u>	<u>\$ 519,974</u>	<u>\$ 428,148</u>	<u>\$ 110,503,126</u>

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

December 31, 2016

Total fund balance - balance sheet governmental funds \$ 67,819,866

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

1. Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Those assets consist of:

Land and easements	24,380,040	
Infrastructure	58,051,284	
Buildings and renovations	415,176	
Machinery and equipment	8,225,356	
Construction in progress	<u>50,978,712</u>	142,050,568

2. Deferred outflows of resources represent a consumption of net position that applies to future periods, therefore, they are not recognized as an outflow until then. For refunding debt the amount is amortized over the shorter of the life of refunded or refunding debt.

5,764,085

3. A portion District's taxes collected during the year are not available to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.

12,097,516

4. Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term), are reported in the statement of net position.

Bond Series 2008 - face value	(7,140,000)	
Bond Series 2008 unamortized premium	(69,656)	
Bond Series 2013 - face value	(70,480,000)	
Bond Series 2013 unamortized premium	(3,515,341)	
Bond Series 2014 - face value	(7,665,000)	
Bond Series 2014 - unamortized premium	(810,352)	
Bond Series 2016 - face value	(52,625,000)	
Bond Series 2016 - unamortized premium	(9,132,237)	
Notes payable	(993,079)	
Accrued interest	(1,963,163)	
Other post employment benefits	(206,193)	
Pension	(480,330)	
Compensated absences	<u>(251,494)</u>	<u>(155,331,845)</u>

Total net position of governmental activities

\$ 72,400,190

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
Year ended December 31, 2016

	<u>General Fund</u>	<u>2013 Bond Series Capital Projects Fund</u>	<u>2007 Bonds Debt Service Fund</u>	<u>2008 Bonds Debt Service Fund</u>
REVENUES				
Property taxes	\$ 14,505,100	\$ -	\$ 2,306,922	\$ 6,252,650
Charges for services	57,607	-	-	-
Interest	212,766	230,033	1,650	1,190
Intergovernmental	204,710	-	-	-
Miscellaneous	321,257	-	-	-
Total revenues	<u>15,301,440</u>	<u>230,033</u>	<u>2,308,572</u>	<u>6,253,840</u>
EXPENDITURES				
Current:				
General government	2,392,785	3,340	-	-
Drainage flood control	14,800,681	6,742,997	-	-
Debt service:				
Principal	-	-	1,345,000	3,355,000
Interest	-	-	67,250	1,781,060
Bond issuance costs	-	-	-	-
Advance refunding escrow	-	-	262,116	1,088,567
Total expenditures	<u>17,193,466</u>	<u>6,746,337</u>	<u>1,674,366</u>	<u>6,224,627</u>
(Deficiency) excess of revenues (under) over expenditures	(1,892,026)	(6,516,304)	634,206	29,213
OTHER FINANCING SOURCES:				
Operating transfers in	-	-	-	-
Operating transfers out	(383,630)	-	(300,000)	-
Sale of capital assets	203,933	-	-	-
Note proceeds	1,243,079	-	-	-
Bond proceeds	-	-	-	-
Bond premium	-	-	-	-
Refunding escrow deposit	-	-	-	-
Total other financing sources	<u>1,063,382</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>
Net change in fund balances	(828,644)	(6,516,304)	334,206	29,213
Fund balances at beginning of year	<u>21,850,236</u>	<u>43,976,547</u>	<u>702,960</u>	<u>929,771</u>
Fund balances at the end of year	<u>\$ 21,021,592</u>	<u>\$ 37,460,243</u>	<u>\$ 1,037,166</u>	<u>\$ 958,984</u>

The accompanying notes are an integral part of this statement.

2013 Bonds Debt Service Fund	Non-Major Capital Projects Funds	Non-Major Debt Service Funds	Non-Major Special Revenue Fund	Total Governmental Funds
\$ 5,862,150	\$ -	\$ 182,221	\$ -	\$ 29,109,043
-	-	-	-	57,607
3,178	41,085	-	1,628	491,530
-	-	-	-	204,710
-	-	-	-	321,257
<u>5,865,328</u>	<u>41,085</u>	<u>182,221</u>	<u>1,628</u>	<u>30,184,147</u>
-	96,899	-	-	2,493,024
-	593,412	-	-	22,137,090
2,695,000	-	375,774	-	7,770,774
2,915,169	-	305,218	-	5,068,697
-	-	666,846	-	666,846
-	-	-	-	1,350,683
<u>5,610,169</u>	<u>690,311</u>	<u>1,347,838</u>	<u>-</u>	<u>39,487,114</u>
255,159	(649,226)	(1,165,617)	1,628	(9,302,967)
-	-	683,630	-	683,630
-	-	-	-	(683,630)
-	-	-	-	203,933
-	-	-	-	1,243,079
-	-	52,625,000	-	52,625,000
-	-	10,402,222	-	10,402,222
-	-	(62,360,377)	-	(62,360,377)
-	-	<u>1,350,475</u>	<u>-</u>	<u>2,113,857</u>
255,159	(649,226)	184,858	1,628	(7,189,110)
828,584	6,720,452	-	426	75,008,976
<u>\$ 1,083,743</u>	<u>\$ 6,071,226</u>	<u>\$ 184,858</u>	<u>\$ 2,054</u>	<u>\$ 67,819,866</u>

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year ended December 31, 2016

Net change in fund balances - total governmental funds		\$(7,189,110)
Amounts reported for governmental activities in the statement of activities is different because:		
1. Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	11,874,321	
Depreciation	<u>(3,853,153)</u>	8,021,168
2. Sales and other dispositions of capital assets are reported in the governmental funds as other financing sources. The gain or loss on the sale of capital assets should be reported in the statement of activities. A gain is reported as general revenue and a loss should be included as part of the general government function.		
		(7,421)
3. Governmental funds typically report proceeds they receive in connection with the disposal of capital assets as other financing sources. This amount must be removed and replaced by an adjustment to the appropriate capital asset and the accumulated depreciation account. Any gain or loss should be reported as discussed above.		
		(203,933)
4. Certain property tax revenues reported in the funds are unavailable in the statement of activities. This is the change in these amounts this year.		
Related to prior years	(11,681,785)	
Earned but unavailable	<u>12,097,516</u>	415,731
5. Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis; expenses and liabilities are reported regardless of when financial resources are available.		
Amortization of debt premiums	2,470,286	
Amortization of deferred charge on refunding	(767,552)	
Change in accrued interest on bonds	174,012	
Change in compensated absences	(15,293)	
Other post employment benefits	(75,697)	
Net pension obligation	<u>(228,663)</u>	1,557,093
6. Debt proceeds are reported as financing sources in governmental funds and thus contribute to changes in fund balances. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of position.		
2016 bond series		(52,625,000)
Premium		(10,402,222)
Payments to refunding bond escrow agent		63,711,060
Installment note		(1,243,079)
Bond payments		7,395,000
Payment on installment note		250,000
Payment on note		<u>125,774</u>
Change in net position of governmental activities - statement of activities		<u>\$ 9,805,061</u>

The accompanying notes are an integral part of this statement.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

GENERAL FUND
BUDGETARY COMPARISON STATEMENT

Year ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 14,286,354	\$ 14,286,354	\$ 14,505,100	\$ 218,746
Charges for services	65,000	65,000	57,607	(7,393)
Interest	18,000	18,000	212,766	194,766
Intergovernmental	-	-	204,710	204,710
Miscellaneous	37,000	37,000	321,257	284,257
Total revenues	<u>14,406,354</u>	<u>14,406,354</u>	<u>15,301,440</u>	<u>895,086</u>
EXPENDITURES				
Current:				
General government	2,505,693	2,505,693	2,392,785	112,908
Drainage flood control	12,344,496	14,479,956	14,800,681	(320,725)
Total expenditures	<u>14,850,189</u>	<u>16,985,649</u>	<u>17,193,466</u>	<u>(207,817)</u>
Excess of revenues over expenditures	(443,835)	(2,579,295)	(1,892,026)	1,102,903
Operating transfers in	-	-	-	-
Operating transfers out	(1,160,000)	(1,160,000)	(383,630)	776,370
Sale of capital assets	-	-	203,933	203,933
Note proceeds	-	-	1,243,079	1,243,079
Total other financing (uses) sources	(1,160,000)	(1,160,000)	1,063,382	2,223,382
Net change in fund balance	(1,603,835)	(3,739,295)	(828,644)	3,326,285
Fund balance at beginning of year	-	-	21,850,236	21,850,236
Fund balance at the end of year	<u>\$(1,603,835)</u>	<u>\$(3,739,295)</u>	<u>\$ 21,021,592</u>	<u>\$ 25,176,521</u>

The accompanying notes are an integral part of this statement.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE A – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

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

Summary of Significant Accounting Policies

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

The District evaluated GASB Statement No. 72, No. 76, and No. 77. GASB Statement No. 72, *Fair Value Measurement and Application*, requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of these statements is reflected in the District's financial statements.

GASB Statement No. 77, *Tax Abatement Disclosure* requires governments that enter into tax abatement agreements to disclose certain information about the agreements. It was determined that this statement is not applicable to the District.

Additionally, the District evaluated GASB Statement No. 78 and No. 79. GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued to address accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

During 2016, GASB issued the following statements:

Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This statement amends the blending requirements established in paragraph 53 of Statement No. 14.

Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement was issued to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement statement.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement was issued to address certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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 No. 67 and No. 68.

Statement No. 83, *Certain Asset Retirement Obligations (AROs)*. This statement was issued to address accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement.

The impact of these statements on the District's financial statement has not been determined as of yet. The District will evaluate these new pronouncements and will implement them as applicable by their effective dates. The following significant accounting policies were applied in the preparation of the accompanying general purpose financial statements.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

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

1. Reporting Entity

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

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

2. Basis of Presentation

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

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

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

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

The District reports the following major governmental funds:

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

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

2007 Bonds Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, bonds long-term debt principal, interest and related costs.

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

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

3. Basis of Accounting

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

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

3. Basis of Accounting - Continued

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

4. Use of Estimates

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

5. Cash and Cash Equivalents and Investments

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

6. Receivables and Payables

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

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

7. Capital Assets

Capital assets, which include property, equipment, and infrastructure, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their fair market value at the date of donation. When no historical records are available, capital assets are valued at estimated fair market value on the date received.

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

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

7. Capital Assets - Continued

The following lists the thresholds and useful lives by class:

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses / expenditures) until then. For the year ended December 31, 2016, the District had deferred outflows of resources for refunding bonds and pension in the amount of \$5,764,085 and \$1,782,500, respectively.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, *unavailable revenue*, is reported in the governmental funds balance sheet and will also apply to Government-wide. The governmental funds report unavailable revenues from property taxes in the amount of \$20,202,752. Additionally, the District has deferred resources for pension of \$237,509. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Fund Balance

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

9. Fund Balance - Continued

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

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

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. Board of Directors). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The 2007, 2008 and 2013 Bonds Debt Service Funds fund balance have been committed to pay for debt principal, interest, and related costs based on the allocation of the tax rate between debt service and maintenance and operations costs.

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

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

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

10. Encumbrance Accounting

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

Although appropriations lapse at year-end for annually budgeted funds, the District honors encumbrances outstanding at year-end. Outstanding encumbrances do not constitute expenditures or liabilities since the commitments will be honored during the subsequent year. The District has active construction projects as of December 31, 2016. At year-end, the District's remaining commitments totaled \$7,727,429; therefore, this amount is encumbered.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

11. Budgets

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

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

12. Compensated Absences

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

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

Vacation leave may be accumulated up to a maximum of 160 hours (20 days) for employees with less than 10 years of continuous service. Employees with more than 10 years but less than 15 years of continuous service may accumulate 240 hours (30 days). Employees with more than 15 years may maintain an accrued leave of 320 hours (40 days). Employees lose, without pay, unused vacation leave which exceed set limits. Regular part-time employees accumulate vacation leave of 48 hours regardless of years of service. As of December 31, 2016, the District's total liability for vested vacation leave totaled \$251,494. Vested vacation benefits are expected to be liquidated with expendable and available financial resources and are reported as an expense and a long-term liability in the government-wide statement of net position.

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

12. Compensated Absences - Continued

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

Vacation leave	\$ 231,521
Compensatory time	18,217
Holiday leave	1,756
Total	\$ 251,494

13. Rounding Adjustments

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

NOTE B – DEPOSITS AND INVESTMENTS

The District’s Depository Agreement requires its designated financial institution to secure by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance, deposits and accrued interest thereon by 105%. At December 31, 2016, the District’s deposits were entirely covered by FDIC insurance pursuant to the Depository Agreement. At December 31, 2016, the carrying amount of the District’s deposits totaled \$2,422,848 and was entirely covered by federal deposit insurance or secured by collateral held by the pledging financial institutions agent in the District’s name.

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

The District had investments in Texas CLASS, carried at fair value, totaling \$38,828,223 and time deposits with an original maturity of two years totaling \$40,104,329 at December 31, 2016.

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

- Category A – Insured or registered, or securities held by the District or its agent in the District’s name.
- Category B – Uninsured and unregistered, with the securities held by the counterparty’s trust department or agent in the District’s name.
- Category C – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE B – DEPOSITS AND INVESTMENTS – Continued

The following schedule classifies the investments of the District as of December 31, 2016, into the above noted categories:

	Risk Category			Carrying Value	Market Value
	A	B	C		
Texas CLASS	\$ 38,828,223	\$ -	\$ -	\$38,828,223	\$38,828,223
Time Deposits	40,104,329	-	-	40,104,329	40,104,329
Total Investments	\$ 78,932,552	\$ -	\$ -	\$78,932,552	\$78,932,552

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

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

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

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

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE C – TAXES RECEIVABLE

A summary of the taxes receivable by fund is as follows at December 31, 2016:

	<u>General Fund</u>	<u>Bonds Debt Service Fund</u>	<u>Total</u>
Taxes receivable - current	\$ 9,439,345	\$ 8,659,075	\$ 18,098,420
Taxes receivable - delinquent	2,162,057	1,548,198	3,710,255
Allowance for uncollectibles	<u>(1,072,309)</u>	<u>(532,453)</u>	<u>(1,604,762)</u>
Taxes receivable, net of allowance for uncollectibles	<u>\$ 10,529,093</u>	<u>\$ 9,674,820</u>	<u>\$ 20,203,913</u>

Property taxes attach as an enforceable lien on property as of January 1. The taxes are levied on or about October 1, based on the assessed value listed as of the date the enforceable lien attaches. Appraised values are established by the Hidalgo County Appraisal District, assessed at 100% of appraised value, and certified by the Appraisal Review Board. The County Tax Assessor-Collector (CTAC) bills and collects taxes for the District. CTAC billed the District \$305,389 in fees during 2016.

Taxes are due from October 1 of the year in which levied until January 31 of the following year without interest or penalty. No discounts are offered. On February 1, these taxes become delinquent, at which time penalty and interest charges are applicable. Collections on the levy for October 1, 2016, as well as the balances due on all taxes receivable related thereto, are reflected as deferred inflows of resources because they are not available to finance 2016 operations.

NOTE D – INTERFUND RECEIVABLES AND TRANSFERS

Balances of due to/from other funds consisted of the following at December 31, 2016:

Due to General Fund from Special Revenue Fund	\$ 10,671
Due to General Fund from Major Capital Projects Fund	2,145,700
Due to General Fund from Non-Major Capital Projects Fund	97,460
Due to General Fund from Non-Major Debt Service Fund	10,402
Due to Special Revenue Fund from Non-Major Capital Projects Fund	100,847
Due to 2013 Bonds Debt Service Fund from Special Revenue Fund	56,932
Due to 2007 Bonds Debt Service Fund from General Fund	2,126,793
Due to 2008 Bonds Debt Service Fund from General Fund	1,028,428
Due to 2013 Bonds Debt Service Fund from General Fund	263,118
Due to Non-Major Capital Projects Fund from Major Capital Projects Fund	22,590
Total due to/from other funds	<u>\$ 5,862,941</u>

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE D – INTERFUND RECEIVABLES AND TRANSFERS – Continued

The General Fund owes the Debt Service Funds \$3,418,339 and is identified as the following: 2013 Bond Debt Service Series \$263,118, 2008 Bond Debt Service Series \$1,028,428, 2007 Bond Debt Service Series \$2,126,793, and the Non-Major Debt Service Fund owes General Fund \$10,402 for 2017 taxes collected during the last three months of 2016. Additionally the Special Revenue Fund owes General Fund \$10,671 and 2013 Bond Debt Service Fund \$56,932 for reclassification of expenditures. Major Capital Projects Fund owes General Fund \$2,145,700 for primarily from certificate of deposit that was initially invested from Major Capital Fund but later reclassified as General Fund expenditures. Additionally the Major Capital Projects fund owes Non-Major Capital Projects Fund \$22,590 for the balance that resulted in overdraft of cash balance in the payable funds. The Non-Major Capital Projects Fund owes the Special Revenue Fund \$100,847 for the District's portion according to the Memorandum of Agreement with Customs and Border Patrol and the City of Hidalgo and General Fund \$97,460 for East Lateral Bond Project labor force expenditures. The Non-Major Debt Service Fund owes General Fund \$10,402 for an over transfer of funds.

Transfers are used to (1) move revenues from the fund that statute or budget requires (2) move funds restricted to debt service for debt service payments, and (3) use unrestricted revenues collected in the general fund to finance various projects accounted for in other funds in accordance with budgetary authorizations. Inter-fund transfers consisted of the following for the year ended December 31, 2016:

Transfers In:	Transfers Out:			Total
	General Fund	Capital Projects Fund	Debt Service Fund	
Debt Service Fund	\$ 383,630	\$ -	\$ 300,000	\$ 683,630
Capital Projects Fund	-	-	-	-
Special Revenue Fund	-	-	-	-
Total inter-fund transfers	\$ 383,630	\$ -	\$ 300,000	\$ 683,630

NOTE E – DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following at December 31, 2016:

Fund	Due From	Purpose	Amount
General Fund	County of Hidalgo	Distribution of taxes, net of interlocal agreement	\$ 1,435,546
General Fund	Hidalgo County Precinct #1	Inter-local agreement project	20,174
General Fund	Hidalgo County Precinct #2	Inter-local agreement project	371,576
General Fund	Willacy County Drainage District No. 1	Inter-local agreement project	22,960
Total due from other governments			\$ 1,850,256

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE F – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and easements	\$ 23,373,310	\$ 1,006,730	\$ -	\$ 24,380,040
Construction in progress	42,698,572	8,280,140	-	50,978,712
Total capital assets not being depreciated	<u>66,071,882</u>	<u>9,286,870</u>	<u>-</u>	<u>75,358,752</u>
Capital assets being depreciated:				
Infrastructure	101,726,151	-	-	101,726,151
Building and renovations	837,964	-	-	837,964
Machinery and equipment	16,774,503	2,587,453	(500,957)	18,860,999
Total capital assets being depreciated	<u>119,338,618</u>	<u>2,587,453</u>	<u>(500,957)</u>	<u>121,425,114</u>
Less accumulated depreciation for:				
Infrastructure	(41,174,998)	(2,499,869)	-	(43,674,867)
Building and renovations	(392,558)	(30,230)	-	(422,788)
Machinery and equipment	(9,602,191)	(1,323,055)	289,603	(10,635,643)
Total accumulated depreciation	<u>(51,169,747)</u>	<u>(3,853,154)</u>	<u>289,603</u>	<u>(54,733,298)</u>
Total capital assets being depreciated, net	<u>68,168,871</u>	<u>(1,265,701)</u>	<u>(211,354)</u>	<u>66,691,816</u>
Governmental activities capital assets, net	<u>\$ 134,240,753</u>	<u>\$ 8,021,169</u>	<u>\$ (211,354)</u>	<u>\$ 142,050,568</u>

Depreciation expense totaling \$3,853,154 was charged to the drainage flood control function under governmental activities for the year ended December 31, 2016.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE G – LONG-TERM LIABILITIES

The District issues unlimited tax improvement bonds to provide for the resources for construction of capital assets. The beginning balances of the unlimited tax improvement bonds issued in 2007, 2008, and 2013 were \$12,555,000, \$57,050,000 and \$73,175,000, respectively. The unlimited improvement bonds are direct obligations of the District, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the District in an amount sufficient to provide payment of principal and interest.

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

On December 1, 2014, the District issued Unlimited Tax Refunding Bonds Series 2014 in the amount of \$7,810,000 to advance refund a portion of Unlimited Tax Improvement Bonds, Series 2007. Bond proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt resulting in an economic gain of \$634,376, which will be amortized over the term of the bonds. Deferred charges on refunding at December 31, 2016 totaled \$536,780.

On February 17, 2016, the District issued Unlimited Tax Refunding Bonds Series 2016 in the amount of \$52,625,000 to advance refund \$11,210,000 Unlimited Tax Improvement Bonds, Series 2007 and \$46,555,000 of the Unlimited Tax Improvement Bonds Series 2008. 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 resulting in an economic gain of \$5,946,059, which will be amortized over the term of the bonds. Deferred charges on refunding at December 31, 2016 totaled \$5,227,305.

The following is the total of refunded bonds:

<u>Description</u>	<u>Refunded Bonds</u>	<u>Maturity</u>
Unlimited Tax Improvement Bonds, Series 2007	\$ 11,210,000	2017-2023
Unlimited Tax Improvement Bonds, Series 2008	\$ 46,555,000	2019-2028

The District has an installment note with Hidalgo County for a capital asset purchase, payable from operating funds of the District.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issued</u>	<u>Maturity</u>	<u>Original</u>	<u>Outstanding</u>
Installment note - capital assets	4.98%	2016	2020	\$ 1,243,079	\$ 993,079

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE G – LONG-TERM LIABILITIES - Continued

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

Year(s) Ending December 31,	Governmental Activities		Total
	Principal	Interest	
2017	\$ 8,610,000	\$ 5,889,430	\$ 14,499,430
2018	7,535,000	5,539,680	13,074,680
2019	7,870,000	5,208,680	13,078,680
2020	8,265,000	4,815,180	13,080,180
2021	8,625,000	4,452,030	13,077,030
2022-2026	49,765,000	15,423,526	65,188,526
2027-2031	36,510,000	4,981,340	41,491,340
2032-2033	10,730,000	525,852	11,255,852
Total	<u>\$ 137,910,000</u>	<u>\$ 46,835,718</u>	<u>\$ 184,745,718</u>

The following is a summary of changes in long-term liabilities for the year ended December 31, 2016:

	Balance January 1, 2016	Additional Obligations and Net Increases	Payments and Net Decreases	Balance December 31, 2016	Amounts Due Within One Year
Bond Series 2007	\$ 12,555,000	\$ -	\$(12,555,000)	\$ -	\$ -
Bond Series 2008	57,050,000	-	(49,910,000)	7,140,000	3,495,000
Bond Series 2013	73,175,000	-	(2,695,000)	70,480,000	2,825,000
Bond Series 2014	7,665,000	-	-	7,665,000	-
Bond Series 2016	-	52,625,000	-	52,625,000	2,290,000
Bond Premiums	5,595,649	10,402,222	(2,470,286)	13,527,585	2,389,326
Compensated absences	236,201	15,293	-	251,494	-
Totals	<u>\$156,276,850</u>	<u>\$ 63,042,515</u>	<u>\$(67,630,286)</u>	<u>\$151,689,079</u>	<u>\$ 10,999,326</u>

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE H – OTHER POST- EMPLOYMENT BENEFITS (OPEB)

1. Plan Description

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

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. 75, *Accounting and Financial Reporting by Employer for Postemployment Benefits other than Pensions*, is applicable to the District due to the implicit rate subsidy. This “plan” is not a standalone plan and therefore, does not issue its own financial statements. As of December 31, 2016, there were 148 active employees, and 45 retired employees.

2. Funding Policy

The District collects insurance premiums from the participating retirees each month and deposits them in the County’s Group Insurance Fund. The District then pays the health insurance premiums for the retirees at the blended rate to the County’s self-funded Health Benefits Program. The required contribution to the program includes the employer’s pay-as-you-go amount and the amount paid by retirees. The District has elected not to prefund the actuarially determined future cost but will accrue the liability as of December 31, 2016 to reflect proper treatment and will disclose the Health Care Benefits for Retired Employees in accordance with GASB No. 75. Monthly medical contributions required by the retiree for medical and prescriptions are as follows:

Basic PPO Plan		
	Under 65	65 & Over
Employee only	\$ 494	\$ 250
Employee & spouse	726	482
Employee & child/children	596	352
Employee & family	828	584

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

2. Funding Policy - Continued

Several changes in retiree benefits were made by the District, effective December 1, 2014. Significant changes are as follows:

- 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 retiree.
- Retired, rehired retirees are now eligible to continue coverage upon a subsequent retirement.

3. Annual OPEB Cost and Net OPEB Obligation

The District OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded accrued actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation.

Annual required contribution	\$ 88,394
Interest on prior year net OPEB obligation	4,567
Adjustment to ARC	<u>(6,855)</u>
Annual OPEB cost	86,106
Contribution made	<u>(10,273)</u>
Increase in net OPEB obligation	<u>75,833</u>
Net OPEB obligation - beginning of year	<u>130,496</u>
Net OPEB obligation - end of year	<u><u>\$ 206,329</u></u>

At December 31, 2016, four years of comparative data is available. The District's annual OPEB cost, the percentage of annual OPEB cost contribution, and the net OPEB obligation are as follows:

<u>Fiscal Year Ended</u>	<u>Discount Rate</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
12/31/2016	3.5%	\$ 86,106	11.8%	\$ 206,329
12/31/2015	3.5%	\$ 87,559	5.4%	\$ 130,496
12/31/2014	3.5%	\$ 28,267	-81.1%	\$ 47,627
12/31/2013	3.5%	\$ 27,747	184.5%	\$(3,151)

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

4. Schedule of Funding Progress

As of December 31, 2016, the plan was 0.0% funded for the District. The actuarial accrued liability was \$567,269 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$567,269 for the District. The covered payroll (annual payroll of active employees covered by the plan) was \$3,850,488, and the ratio of the UAAL to the covered payroll was 14.7%.

The schedule of funding progress presents three years of information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The most recent actuarial valuation was performed in 2015 and is valid for two years. The schedule is presented in the required supplemental information section.

5. Actuarial Method and Assumptions

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

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

5. Actuarial Method and Assumptions – Continued

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

Year	2014	2015	2016
Actuarial valuation date	12/31/2013	1/1/2015	1/1/2015
Actuarial cost method	Projected credit unit	Projected credit unit	Projected credit unit
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Amortization period in years	26	30	30
Actuarial assumptions:			
Inflation rate	3.0%	3.0%	3.0%
Discount rate	3.5%	3.5%	3.5%
Health cost trend	6.9%	8.0%	8.0%
Spouse coverage	10.0%	15.0%	15.0%
Spouse age	Females assumed be 2 years younger	Females assumed be 3 years younger	Females assumed be 3 years younger
Electing coverage	20.0%	20.0%	20.0%

NOTE I – EMPLOYEE RETIREMENT BENEFITS

1. Plan Description

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

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued

1. Plan Description – Continued

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

The employees covered by the plan at December 31, 2016 are as follows:

Inactive employees or beneficiaries currently receiving benefits	48
Inactive employees entitled to but not yet receiving benefits	23
Active employees	127
	198

2. Funding Policy

The District has 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 District is actuarially determined annually. Contributions were made using the actuarially determined rate of 12.6% for calendar year 2016. The contribution rate payable by the employee member is 7% as adopted by the governing body of the District. The employee contribution rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

3. Net Pension Liability

Governmental Accounting Standards Board issued Statement No. 68 for public pension plans and participating employers which address specifics of reporting public pension plan obligations for employers. Net pension liability (NPL) for the District was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued

3. Net Pension Liability - Continued

Actuarial assumptions used to determine the total pension liability as of the valuation date, December 31, 2015 are as follows.

Inflation	3.00%
Salary increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8.00%, net of investment expenses, including inflation

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, 2015 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 2016 information for a 7-10 year time horizon.

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued

3. Net Pension Liability– Continued

The target asset allocation and geometric real rates of return are shown below:

Asset Class	Benchmark	Target Allocation*	Geometric Real Rate of Return (Expected Minus Inflation)**
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	14.00%	8.45%
Global Equities	MSCI World Ex USA (net)	1.50%	5.75%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	5.45%
International Equities - Emerging	MSCI World Ex USA (net)	8.00%	6.45%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnership (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

*Target asset allocation adopted at the April 2016 TCDRS Board meeting.

**Geometric real rates of return in addition to assumed inflation of 1.6%, per Cliffwater's 2016 capital market assumptions.

The discount rate used to measure the total pension liability was 8.1% at December 31, 2015. Cash flow projections used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the 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 benefit payments in future years. Therefore, the discount rate for calculating the total pension liability is equal to the long term expected rate of return.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued

3. Net Pension Liability – Continued

Changes in Net Pension Liability were as follows:

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balance as of December 31, 2014	\$ 13,088,268	\$ 12,221,987	\$ 866,281
Changes for the year:			
Service cost	611,534		611,534
Interest on total pension liability	1,071,637		1,071,637
Effect of plan changes	236,044		236,044
Effect of economic/demographic gains or losses	(237,892)		(237,892)
Effect of assumptions changes or inputs	101,178		101,178
Refund of contributions	(71,917)	(71,917)	-
Benefit payments	(587,580)	(587,580)	-
Administrative expenses		(8,801)	8,801
Member contributions		301,925	(301,925)
Net investment income		(164,681)	164,681
Employer contributions		523,193	(523,193)
Other		(28,177)	28,177
Balances as of December 31, 2015	\$ 14,211,272	\$ 12,185,949	\$ 2,025,323 **

**The District's TCDRS actuarial report with a measurement valuation date of December 31, 2016, to be used for audit periods ending January 1, 2017 to December 31, 2017, shows a net pension liability of \$2,050,466.

The following represents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what District's net pension liability would be if it were calculated using a discount rate that 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 15,934,806	\$ 14,211,272	\$ 12,757,034
Fiduciary net position	12,185,949	12,185,949	12,185,949
Net pension liability/ (asset)	\$ 3,748,857	\$ 2,025,323	\$ 571,085

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE I – EMPLOYEE RETIREMENT BENEFITS – Continued

3. Net Pension Liability – Continued

	January 1, 2015 to December 31, 2015
Pension expense/ (income)	
Service cost	\$ 611,534
Interest on total pension liability	1,071,637
Effect of plan changes	236,044
Administrative expenses	8,801
Member contributions	(301,925)
Expected investment return net of investment expenses	(1,003,891)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(49,465)
Recognition of assumption changes or inputs	16,863
Recognition of investment gains or losses	268,840
Other	28,176
	\$ 886,614

NOTE J – DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND UNEARNED REVENUE

Deferred inflows/outflows of resources related to implementation of GASB 68 related to pension plans are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 237,509
Changes in assumptions	\$ 84,315	\$ -
Net difference between projected and actual earnings	\$ 1,040,234	\$ -
Contributions made subsequent to measurement date	\$ 657,951	\$ -

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:

Year ended December 31,:	
2017	\$ 236,238
2018	236,238
2019	236,238
2020	201,112
2021	(22,786)
Thereafter	-

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE J – DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND UNEARNED REVENUE - Continued

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

	Deferred inflows of resources	Unearned revenue	Total
Property taxes (General Fund)	\$ 6,309,535	\$ 10,527,934	16,837,469
Property taxes (Debt Service Funds)	5,787,981	9,674,818	15,462,799
Grant revenue (Special Revenue Fund)	-	24,538	24,538
Total	<u>\$ 12,097,516</u>	<u>\$ 20,227,290</u>	<u>\$ 32,324,806</u>

NOTE K – RISK MANAGEMENT

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

The District participates in the Texas Municipal League Intergovernmental Risk Pool (the Pool) for coverage in the following areas: general liability, errors and omissions, auto physical damage, auto liability, real and personal property, and workers compensation. Limits on insurance coverage are as provided in Texas State Statutes Civil Practices and Remedies Code Chapter 101.023. The District paid premiums totaling \$323,474 in 2016.

Annual aggregate limits and deductibles are as follows at December 31, 2016:

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS - Continued
December 31, 2016

NOTE K – RISK MANAGEMENT – Continued

In February 2005, the District changed its employee health benefits from purchased commercial insurance to a self-funded insurance fund. The District participates in the Hidalgo County Health Insurance Fund (Fund) and makes payments to the Fund based on the number of participants. The Fund provides coverage for up to a maximum of \$150,000 per individual per year. Claims in excess of \$150,000 and up to \$1,000,000 per individual per occurrence are covered by commercial insurance purchased by the Fund. The Fund's health insurance provider is Blue Cross-Blue Shield. Payments to the fund totaled \$788,399 in 2016.

NOTE L – RELATED PARTY

The District contracts with OG Construction to perform construction work. The contract was approved and awarded under the District's ordinary procurement process. The owner of OG Construction is related to a member of the governing body. Construction costs paid to OG Construction totaled \$178,452 in 2016.

NOTE M – LITIGATION

The District is currently involved in potential claims and litigation involving civil and contractual matters. In the opinion of District management, the potential claims against the District not covered by insurance resulting from litigation will not materially affect the financial position of the District.

NOTE N – PRIOR PERIOD ADJUSTMENTS

The District's beginning net position within government activities has been restated, due to capital assets purchased at year end that were not capitalized totaling \$581,224 and to properly reflect the net pension liability due to prior years' implementation of GASB 68 in the amount of \$523,193. Net position increased in the amount of \$1,104,417.

NOTE O – RECLASSIFICATION

Certain amounts in the 2015 financial statements have been reclassified to conform to the presentation in the 2016 financial statements.

NOTE P – SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after December 31, 2016 through August 28 2017, the date these financial statements were available to be issued.

The Bond Series 2017 was issued to refund \$1,960,000 of Unlimited Tax Improvement Bonds Series 2013 in August 2017.

SUPPLEMENTAL INFORMATION

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES

Year ended December 31, 2016

1. Services provided by the District:

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

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

3. Retail service providers: N/A

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

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

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

7. Location of District:

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

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

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

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

Is the general membership of the Board appointed by an office outside the District? Yes No If yes, by whom? _____

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
SCHEDULE OF GENERAL FUND EXPENDITURES
Year ended December 31, 2016

Personnel Expenditures (including benefits) *	\$ 7,117,860
Professional Fees:	
Auditing	102,059
Legal	186,755
Engineering	1,846,841
Contracted Services:	
Appraisal district	302,267
Other contracted services	25,000
Utilities	31,846
Repairs and Maintenance	1,416,022
Administrative Expenditures:	
Office supplies	102,577
Insurance	119,950
Other administrative expenditures	453,032
Capital Outlay:	
Acquisition of fixed assets	4,370,550
Aid to other governments	1,200
Other Expenditures	<u>1,117,507</u>
TOTAL EXPENDITURES	<u><u>\$ 17,193,466</u></u>

* Number of full-time persons employed by the District: 148.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
ANALYSIS OF TAXES LEVIED AND RECEIVABLE
Year ended December 31, 2016

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
Property taxes receivable, beginning of year	\$ 1,754,040	\$ 1,713,927
2015 original tax levy (less abatements)	14,393,611	14,064,444
Adjustments for 2015 original tax levy modifications	72,702	71,040
Adjustments for rollbacks and refunds	<u>(45,817)</u>	<u>(44,770)</u>
Total to be accounted for	<u>16,174,536</u>	<u>15,804,641</u>
Tax collections:		
Current	13,612,537	13,794,698
Prior years	<u>472,552</u>	<u>461,745</u>
Total collections	<u>14,085,089</u>	<u>14,256,443</u>
Property taxes receivable, end of year	<u>\$ 2,089,447</u> *	<u>\$ 1,548,198</u> *
Property taxes receivable by years		
2015	\$ 384,919	\$ 744,995
2014	301,436	317,608
2013	202,300	228,883
2012 and prior	<u>1,200,792</u>	<u>256,712</u>
Property taxes receivable, end of year	<u>\$ 2,089,447</u> *	<u>\$ 1,548,198</u> *

* This balance excludes \$12,097,516 applicable to the 2016 tax levy. Collections on the 2016 tax levy will be recognized as fiscal year 2017 tax revenues.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
ANALYSIS OF TAXES LEVIED AND RECEIVABLE – CONTINUED
Year ended December 31, 2016

	Tax Levy			
	2015	2014	2013	2012
Property Valuations:				
Land and improvements	\$ 31,048,714,118	\$ 29,494,456,171	\$ 28,671,228,849	\$ 28,084,137,569
Minerals	2,772,728,201	2,602,412,309	2,586,241,450	2,570,672,103
Personal property	4,110,446,598	3,126,311,610	3,054,067,881	2,852,120,641
Total property valuations	\$ 37,931,888,917	\$ 35,223,180,090	\$ 34,311,538,180	\$ 33,506,930,313
Tax Rates Per \$100 Valuation:				
Debt service tax rates	\$ 0.0470	\$ 0.0491	\$ 0.0508	\$ 0.0296
Maintenance tax rates	0.0481	0.0466	0.0449	0.0454
Total tax rates per \$100 valuation	\$ 0.0951	\$ 0.0957	\$ 0.0957	\$ 0.0750
Original tax levy	\$ 28,458,055	\$ 28,458,055	\$ 25,985,271	\$ 19,853,462
Percent of taxes collected to tax levied at December 31, 2015:	<u>96%</u>	<u>96%</u>	<u>96%</u>	<u>95%</u>

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

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
ANALYSIS OF TAXES LEVIED AND RECEIVABLE – CONTINUED
Year ended December 31, 2016

The following represents the 2016 tax levy rates for all overlapping jurisdictions. The table includes any taxing entities which overlap 10% or more of the District.

	Taxing Jurisdiction	<u>Tax Rate</u>
a. County:	<u>Hidalgo County</u>	\$.5900
b. Cities:	<u>Average of 18 cities within Drainage District</u>	.6181
c. School district(s):	<u>Average of 15 school districts within Drainage District</u>	1.3124
d. Special district(s) not included above:		
	<u>South Texas College</u>	.1850
	<u>South Texas I.S.D.</u>	.0492
e. Total District:		<u>.0951</u>
	Total Overlapping Tax Rate	<u>\$ 2.8498</u>

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

ANALYSIS OF CHANGES IN CAPITAL ASSETS

Year ended December 31, 2016

	<u>Balance at Beginning of Year</u>	<u>Additions (Capital Outlay Expenditures)</u>	<u>Other Additions, Deletions and Reclassifications</u>	<u>Balance at End of Year</u>
Physical Facilities				
Drainage system	\$ 101,726,151	\$ -	\$ -	\$ 101,726,151
Land and easements	23,373,310	1,006,730	-	24,380,040
Buildings	837,964	-	-	837,964
Machinery and equipment	16,774,503	2,587,451	(500,955)	18,860,999
Construction in progress	<u>42,698,572</u>	<u>8,280,140</u>	<u>-</u>	<u>50,978,712</u>
Total physical facilities	<u>185,410,500</u>	<u>11,874,321</u>	<u>(500,955)</u>	<u>196,783,866</u>
Organizational costs				
Interest	-	-	-	-
Fiscal agent fees	-	-	-	-
Legal fees	-	-	-	-
Operations during:				
Construction period	-	-	-	-
Creation cost	-	-	-	-
Interest on temporary investment	-	-	-	-
Other costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total organizational costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets	<u>\$ 185,410,500</u>	<u>\$ 11,874,321</u>	<u>\$(500,955)</u>	<u>\$ 196,783,866</u>
Amount provided by:				
Capital Projects Funds				
Bond proceeds	\$ -	\$ -	\$ -	\$ -
Revenues	-	-	-	-
Debt Service Fund				
Revenues	-	-	-	-
General Fund				
Revenues	-	-	-	-
Developer contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total amount provided*	<u>\$ 185,410,500</u>	<u>\$ 11,874,321</u>	<u>\$(500,955)</u>	<u>\$ 196,783,866</u>

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

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

<u>Date of Payment</u>	<u>Coupon Rate</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Requirements</u>
3/1/2017			\$ 142,800	
9/1/2017	4.000%	\$ 3,495,000	142,800	\$ 3,780,600
3/1/2018			72,900	
9/1/2018	4.000%	3,645,000	72,900	3,790,800
		<u>\$ 7,140,000</u>	<u>\$ 431,400</u>	<u>\$ 7,571,400</u>

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

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

Date of Payment	Coupon Rate	Principal Requirements	Interest Requirements	Total Annual Requirements
3/1/2017			\$ 1,390,209	
9/1/2017	5.000%	\$ 2,825,000	1,390,209	\$ 5,605,418
3/1/2018			1,319,584	
9/1/2018	5.000%	2,960,000	1,319,584	5,599,168
3/1/2019			1,245,584	
9/1/2019	5.000%	3,100,000	1,245,584	5,591,168
3/1/2020			1,168,084	
9/1/2020	5.000%	3,255,000	1,168,084	5,591,168
3/1/2021			1,086,709	
9/1/2021	5.000%	3,410,000	1,086,709	5,583,418
3/1/2022			1,001,459	
9/1/2022	5.000%	3,610,000	1,001,459	5,612,918
3/1/2023			911,209	
9/1/2023	5.000%	3,810,000	911,209	5,632,418
3/1/2024			815,959	
9/1/2024	5.000%	4,020,000	815,959	5,651,918
3/1/2025			715,459	
9/1/2025	5.000%	4,235,000	715,459	5,665,918
3/1/2026			609,584	
9/1/2026	2.500%	4,455,000	609,584	5,674,168
3/1/2027			553,897	
9/1/2027	3.000%	4,555,000	553,897	5,662,794
3/1/2028			485,572	
9/1/2028	3.125%	4,655,000	485,572	5,626,144
3/1/2029			412,838	
9/1/2029	3.125%	4,800,000	412,838	5,625,676
3/1/2030			337,838	
9/1/2030	3.250%	4,950,000	337,838	5,625,676
3/1/2031			257,400	
9/1/2031	3.250%	5,110,000	257,400	5,624,800
3/1/2032			174,363	
9/1/2032	3.250%	5,280,000	174,363	5,628,726
3/1/2033			88,563	
9/1/2033	3.250%	5,450,000	88,563	5,627,126
		<u>\$ 70,480,000</u>	<u>\$ 25,148,622</u>	<u>\$ 95,628,622</u>

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
UNLIMITED TAX REFUNDING BONDS, SERIES 2014
SCHEDULE OF DEBT SERVICE REQUIREMENTS UNTIL MATURITY

<u>Date of Payment</u>	<u>Coupon Rate</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Requirements</u>
3/1/2017			\$ 148,681	
9/1/2017			148,681	\$ 297,362
3/1/2018			148,681	
9/1/2018			148,681	297,362
3/1/2019			148,681	
9/1/2019			148,681	297,362
3/1/2020			148,681	
9/1/2020			148,681	297,362
3/1/2021			148,681	
9/1/2021			148,681	297,362
3/1/2022			148,681	
9/1/2022			148,681	297,362
3/1/2023			148,681	
9/1/2023			148,681	297,362
3/1/2024			148,681	
9/1/2024	3.750%	\$ 1,815,000	148,681	2,112,362
3/1/2025			114,650	
9/1/2025	3.750%	1,880,000	114,650	2,109,300
3/1/2026			79,400	
9/1/2026	4.000%	1,945,000	79,400	2,103,800
3/1/2027			40,500	
9/1/2027	4.000%	2,025,000	40,500	2,106,000
		<u>\$ 7,665,000</u>	<u>\$ 2,847,996</u>	<u>\$ 10,512,996</u>

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

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
UNLIMITED TAX REFUNDING BONDS, SERIES 2016
SCHEDULE OF DEBT SERVICE REQUIREMENTS UNTIL MATURITY

<u>Date of Payment</u>	<u>Coupon Rate</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Requirements</u>
3/1/2017			\$ 1,263,025	
9/1/2017	3.000%	\$ 2,290,000	1,263,025	\$ 3,553,025
3/1/2018			1,228,675	
9/1/2018	4.000%	930,000	1,228,675	2,158,675
3/1/2019			1,210,075	
9/1/2019	5.000%	4,770,000	1,210,075	5,980,075
3/1/2020			1,090,825	
9/1/2020	4.000%	5,010,000	1,090,825	6,100,825
3/1/2021			990,625	
9/1/2021	5.000%	5,215,000	990,625	6,205,625
3/1/2022			860,250	
9/1/2022	5.000%	5,445,000	860,250	6,305,250
3/1/2023			724,125	
9/1/2023	5.000%	5,700,000	724,125	6,424,125
3/1/2024			581,625	
9/1/2024	5.000%	4,085,000	581,625	4,666,625
3/1/2025			479,500	
9/1/2025	5.000%	4,280,000	479,500	4,759,500
3/1/2026			372,500	
9/1/2026	5.000%	4,485,000	372,500	4,857,500
3/1/2027			260,375	
9/1/2027	5.000%	4,725,000	260,375	4,985,375
3/1/2028			142,250	
9/1/2028	5.000%	5,690,000	142,250	5,832,250
		<u>\$ 52,625,000</u>	<u>\$ 18,407,700</u>	<u>\$ 61,828,850</u>

DATE: February 17, 2016
ISSUED: \$ 52,625,000
PAYABLE: U.S. Bank
CALL OPTION: Bonds maturing on or after September 1, 2026 prior to stated maturity, in multiples of \$5,000, in whole or in part, on September 1, 2025, or any date thereafter, at par plus accrued interest.

**HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
 INTERLOCAL NOTE AGREEMENT WITH HIDALGO COUNTY
 SCHEDULE OF DEBT SERVICE REQUIREMENTS UNTIL MATURITY**

Date of Payment	Principal Requirements	Interest Requirements	Total Annual Requirements
8/19/2017	\$ 250,000	\$ -	\$ 250,000
8/19/2018	250,000	-	250,000
8/19/2019	250,000	-	250,000
8/19/2020	243,079	141,254	384,333
	<u>\$ 993,079</u>	<u>\$ 141,254</u>	<u>\$ 1,134,333</u>

DATE: August 9, 2016
 ORIGINAL NOTE: \$ 1,243,079
 PAYABLE: Hidalgo County

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES –
GENERAL FUND AND DEBT SERVICE FUND
Five years ended December 31,

	A M O U N T S				
	2016	2015	2014	2013	2012
GENERAL FUND					
REVENUES					
Property taxes	\$ 14,505,100	\$ 13,470,638	\$ 12,452,851	\$ 12,348,783	\$ 11,847,604
Operating grants and contributions	-	5,599,008	-	-	-
Charges for services	57,607	61,590	48,000	37,250	48,750
Interest	212,766	87,290	41,915	25,442	46,147
Intergovernmental	204,710	-	-	-	-
Miscellaneous	321,257	768,736	-	741,693	400,646
Total revenues	15,301,440	19,987,262	12,542,766	13,153,168	12,343,147
EXPENDITURES					
Professional fees	2,135,655	762,215	306,782	169,523	1,033,805
Contracted services	327,267	314,690	459,823	521,616	418,241
Payroll	7,117,860	6,074,927	5,513,415	5,179,593	4,602,209
Utilities	31,846	48,568	41,071	36,910	35,804
Materials and supplies	555,609	472,665	396,496	348,766	296,146
Repairs and maintenance	1,416,022	1,031,982	802,859	3,710,523	731,937
Aid to other governments	1,200	-	-	147,008	137,790
Other expenditures	1,237,457	885,702	1,111,906	831,923	894,891
Capital outlay	4,370,550	5,169,356	2,025,336	3,136,628	2,785,069
Total expenditures	17,193,466	14,760,105	10,657,688	14,082,490	10,935,892
Excess (deficiency) revenues over (under) expenditures	(1,892,026)	5,227,157	1,885,078	(929,322)	1,407,255
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	203,933	-	47,996	22,216	37,250
Capital lease proceeds	-	-	-	-	-
Installment note	1,243,079	-	406,980	-	-
Interfund transfers in	-	-	-	-	-
Interfund transfers out	(383,630)	(145,959)	(145,959)	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	\$(828,644)	\$ 5,081,198	\$ 2,194,095	\$(907,106)	\$ 1,444,505
DEBT SERVICE FUND					
REVENUES:					
Property taxes	\$ 14,603,943	\$ 14,193,312	\$ 14,072,131	\$ 13,665,956	\$ 7,615,564
Penalty, interest and other	-	-	-	267,269	263,835
Interest	6,018	5,315	-	2,933	4,511
Total revenues	14,609,961	14,198,627	14,072,131	13,936,158	7,883,910
EXPENDITURES:					
Debt services, interest and principal	14,857,000	13,999,852	14,153,361	7,956,631	7,631,581
Total expenditures	14,857,000	13,999,852	14,153,361	7,956,631	7,631,581
Excess (deficiency) revenues over (under) expenditures	(247,039)	198,775	(81,230)	5,979,527	252,329
OTHER FINANCING SOURCES					
Interfund transfers	383,630	145,959	294,700	-	-
Payment to refunded bond escrow agent	666,845	-	-	-	-
Excess of revenues over expenditures and other financing sources	\$ 803,436	\$ 344,734	\$ 213,470	\$ 5,979,527	\$ 252,329
TOTAL ACTIVE RETAIL, WATER AND/OR WASTEWATER CONNECTIONS	\$ -	\$ -	\$ -	\$ -	\$ -

PERCENT OF FUND TOTAL REVENUES

2016	2015	2014	2013	2012
94.80	67.40	99.28	93.88	95.99
-	28.01	-	-	-
0.38	0.31	0.38	0.28	0.39
1.39	0.44	0.33	0.19	0.37
1.34	-	-	-	-
2.10	3.85	-	5.64	3.25
<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
13.96	3.81	2.45	1.29	8.38
2.14	1.57	3.67	3.97	3.39
46.52	30.39	43.96	39.38	37.29
0.21	0.24	0.33	0.28	0.29
3.63	2.36	3.16	2.65	2.40
9.25	5.16	6.40	28.21	5.93
.01	-	-	1.12	1.12
8.09	4.43	8.86	6.32	7.25
28.56	25.86	16.15	23.85	22.56
<u>112.37</u>	<u>73.85</u>	<u>84.97</u>	<u>107.07</u>	<u>88.60</u>
(12.37)	26.15	15.03	(7.07)	11.40
1.33	-	0.38	0.17	0.30
-	-	-	-	-
8.12	-	3.24	-	-
-	-	-	-	-
(2.51)	(0.73)	(1.16)	-	-
<u>(5.42)</u>	<u>25.42</u>	<u>17.49</u>	<u>(6.90)</u>	<u>11.70</u>
99.96	99.96	100.00	98.06	96.60
-	-	-	1.92	3.35
0.04	0.04	-	0.02	0.06
<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
<u>101.69</u>	<u>98.60</u>	<u>100.58</u>	<u>57.09</u>	<u>96.80</u>
<u>101.69</u>	<u>98.60</u>	<u>100.58</u>	<u>57.09</u>	<u>96.80</u>
(1.69)	1.40	(0.58)	42.91	3.20
2.63	1.03	2.09	-	-
4.56	-	-	-	-
<u>5.50</u>	<u>2.43</u>	<u>1.52</u>	<u>42.91</u>	<u>3.20</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

SCHEDULE OF FUNDING PROGRESS

December 31, 2016

Other Post-Employment Benefits

	<u>12/31/2015</u>	<u>12/31/2013</u>	<u>12/31/2011</u>
Actuarial valuation date			
Actuarial valuation of assets	\$ -	\$ -	\$ -
Discount rate	3.5%	3.5%	3.5%
Actuarial accrued liabilities (AAL)	567,269	154,330	189,384
Unfunded actuarial accrued liability (UAAL)	567,269	154,330	189,384
Funded ratio	0.0%	0.0%	0.0%
Covered payroll	3,850,488	3,666,660	3,222,346
UAAL as a % of covered payroll	14.7%	4.2%	5.9%

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS

December 31, 2016

	2015	2014	2013 (1)	2012 (1)	2011 (1)	2010 (1)	2009 (1)	2008 (1)	2007 (1)	2006 (1)
Total Pension Liability										
Service cost	\$ 611,534	\$ 629,877	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Interest on total pension liability	1,071,637	980,158	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of plan changes	236,044	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect of assumption changes or input	101,178	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Effect on economic/demographic (gains) or losses	(237,892)	(58,898)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(659,497)	(499,815)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	1,123,004	1,051,322	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, beginning	13,088,269	12,036,947	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability, ending (a)	\$ 14,211,273	\$ 13,088,269	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary Net Position										
Employer contributions	\$ 523,193	\$ 493,873	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Member contributions	301,925	274,156	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investment income net of investment expenses	(164,681)	751,128	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments/refunds of contributions	(659,497)	(499,815)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expenses	(8,801)	(9,031)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other	(28,176)	17,296	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in fiduciary net position	(36,037)	1,027,607	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, beginning	12,221,987	11,194,380	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position, ending (b)	\$ 12,185,950	\$ 12,221,987	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability/ (asset), ending = (a)-(b)	\$ 2,025,323	\$ 866,282	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fiduciary net position as a % of total pension liability	85.75%	93.38%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pensionable covered payroll	\$ 4,313,210	\$ 3,916,520	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a % of covered payroll	46.96%	22.12%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) This schedule is presented to illustrate the requirement to show information of 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST TEN FISCAL YEARS

December 31, 2016

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll (1)	Actual Contribution as a % of Covered Payroll
2006	\$ 238,384	\$ 238,384	\$ -	\$ 2,417,688	9.9%
2007	252,545	252,545	-	2,463,852	10.3%
2008	260,382	260,382	-	2,622,170	9.9%
2009	295,936	295,936	-	3,001,377	9.9%
2010	358,213	358,213	-	3,316,783	10.8%
2011	358,109	358,109	-	3,282,439	10.9%
2012	374,800	374,800	-	3,328,623	11.3%
2013	459,716	459,716	-	3,799,318	12.1%
2014	493,873	493,873	-	3,916,520	12.6%
2015	523,193	523,193	-	4,313,210	12.1%

(1) Payroll is calculated based on contributions as reported to TDCRS.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NOTES TO THE SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2016

Valuation Date: Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	14.7 years (based on contribution rate calculated in 12/31/2015 valuation)
Assets Valuation Method	5-year smoothed market
Inflation	3.00%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule*	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

*Only changes effective 2015 and later are shown in the Notes to Schedule.

The above table includes information for the District according to the agent multiple-employer defined benefits pension plan administered by TDCRS.

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1

INSURANCE COVERAGE

Year ended December 31, 2016

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Insurer</u>		
		<u>Name</u>	<u>Type of Corporation Stock/Mutual</u>	<u>Policy Clause: Co-Insurance</u>
<u>Property Insurance</u>				
Real and Personal Property	\$ 15,877,756	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Boiler and machinery	3,143,790	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Mobile equipment	9,893,344	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Transit	1,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Newly acquired property	1,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Loss of revenues, extra expense and rents	600,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
<u>Liability</u>				
General liability (per occurrence)	5,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Automobile liability (per occurrence)	500,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
Sudden events involving pollution (per occurrence)	2,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No
<u>Errors and Omissions Liability</u>				
Limit of liability (each wrongful act)	2,000,000	Texas Municipal League Intergovernmental Risk Pool	N/A	No

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
Year ended December 31, 2016

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

District Business Telephone Number: (956) 292-7080

<u>Name and Address</u>		<u>Fees 12/31/16</u>	<u>Expense Reimbursements FYE 12/31/16</u>	<u>Title at Year End</u>	<u>Resident of District</u>
Board Members:					
Ramon Garcia 302 W. University Dr. Edinburg, TX 78539	(Elected) 11/09/10	\$ -	\$ 1,800	Chairman	Yes
A.C. Cuellar, Jr. 1902 Joe Stephens Ave. Weslaco, TX 78599	(Elected) 11/10/10	\$ -	\$ 1,800	Director	Yes
Eduardo "Eddie" Cantu 300 W. Hall Acres Pharr, TX 78577	(Elected) 01/01/15	\$ -	\$ 1,800	Director	Yes
Joe M. Flores 724 North Breyfogle Mission, TX 78574	(Elected) 01/01/01	\$ -	\$ 1,800	Director	Yes
Joseph Palacios 1051 N. Doolittle Road Edinburg, TX 78542	(Elected) 01/01/11	\$ -	\$ 1,800	Director	Yes

HIDALGO COUNTY DRAINAGE DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS – CONTINUED
Year ended December 31, 2016

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

District Business Telephone Number: (956) 292-7080

<u>Name and Address</u>		<u>Fees 12/31/16</u>	<u>Expense Reimbursements FYE 12/31/16</u>	<u>Title at Year End</u>
Key Personnel:				
Consultants:				
Raymundo Eufrazio, C.P.A. Hidalgo County Auditor's Office 2808 S. Business Highway 281 Edinburg, TX 78539	(Appointed) 01/01/05	\$ -	\$ -	County Auditor
Pablo "Paul" Villarreal Jr. PO Box 178 Edinburg, TX 78539	(Elected) 01/01/13	\$ 305,389	\$ -	County Tax Assessor/ Collector
Atlas Hall & Rodriguez, L.L.P. PO Box 3725 McAllen, TX 78502	March 1966	\$ 37,881	\$ -	Attorneys
Lee Firm 615 N Upper Broadway Corpus Christi, TX 78401	May 2015	\$ 101,805	\$ -	Attorneys
The J Ramirez Law Firm 700 N Veterans Blvd B San Juan, TX 78539	-	\$ 12,304	\$ -	Bond Counsel
The Law Office of Gilbert Hinojosa and Associates, PC 531 E St. Francis St. Brownsville, TX 78520	December 2017	\$ 14,634	\$ -	Attorneys
Burton McCumber & Cortez, L.L.P. 205 Pecan Boulevard McAllen, TX 78501	01/14/04	\$ 102,059	\$ -	Independent Auditors
Hidalgo County Appraisal District 4405 Professional Drive Edinburg, TX 78539	-	\$ 302,267	\$ -	Appraisal Services
Investment Officer:				
Norma G. Garcia 2810 S. Business Highway 281 Edinburg, TX 78539	(Elected) 01/01/95	\$ -	\$ -	County Treasurer



OTHER REPORTING REQUIRED BY GOVERNMENTAL AUDITING STANDARDS

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& Cortez, LLP
CPAs & Advisors

McAllen • Brownsville

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hidalgo County Drainage District No. 1 (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in a separate letter dated August 28, 2017.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit is included in a separate letter dated August 28, 2017. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burton McCumber & Cortez LLP

McAllen, Texas
August 28, 2017