

**INTRODUCTORY SECTION**



# COUNTY of HIDALGO



EDINBURG, TEXAS 78539

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P. O. BOX 689  
EDINBURG, TEXAS 78540-0689

June 30, 2006

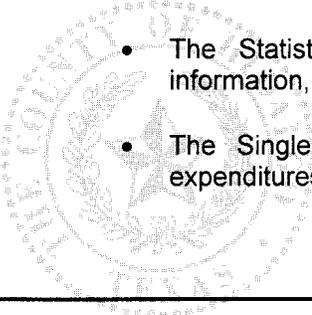
To the Honorable District Judges, County Court at Law Judges,  
County Probate Judge, Commissioners Court Members,  
Citizens of Hidalgo County, and the Financial Community:

Texas Local Government Code §114.025 requires that the County Auditor publish, after the close of the fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, the Comprehensive Annual Financial Report (CAFR) for Hidalgo County, Texas (the County) for the year ended December 31, 2005 is submitted herewith.

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

This report was prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 and is presented in the following four sections:

- The Introductory Section, which includes this transmittal letter, the 2004 Certificate of Achievement, the County's organizational chart, list of the governing body, and list of principal officials.
- The Financial Section, which includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the basic statements, and combining statements and schedules.
- The Statistical (Unaudited) Section, which includes selected financial and demographic information, which is generally presented on a multi-year basis.
- The Single Audit Section, which includes the independent auditors' report, schedule of expenditures of federal and state awards, and schedule of findings and questioned costs.



## HIDALGO COUNTY DISTRICT JUDGES

HORACIO PENA JUDGE, 92<sup>ND</sup> D.C.    RODOLFO DELGADO JUDGE, 93<sup>RD</sup> D.C.    J. R. "BOBBY" FLORES JUDGE, 139<sup>TH</sup> D.C.    ROSE GUERRA REYNA JUDGE, 206<sup>TH</sup> D.C.    JUAN R. PARTIDA JUDGE, 275<sup>TH</sup> D.C.    MARIO E. RAMIREZ, JR. JUDGE, 332<sup>ND</sup> D.C.    NOE GONZALEZ JUDGE, 370<sup>TH</sup> D.C. OVERSEER    LETICIA LOPEZ JUDGE, 389<sup>TH</sup> D.C.    AIDA SALINAS FLORES JUDGE, 398<sup>TH</sup> D.C.

Burton, McCumber & Cortez, LLP, an independent certified public accounting firm has audited the County of Hidalgo's financial statements. The goal of the independent audit was to provide reasonable, but not absolute, assurance that the financial statements of the County for the year ended December 31, 2005, 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 unqualified opinion that the County of Hidalgo's financial statements for the year ending December 31, 2005, are fairly presented in conformity with generally accepted accounting principles. The independent auditors' report is presented as the first component of the Financial Section of this report.

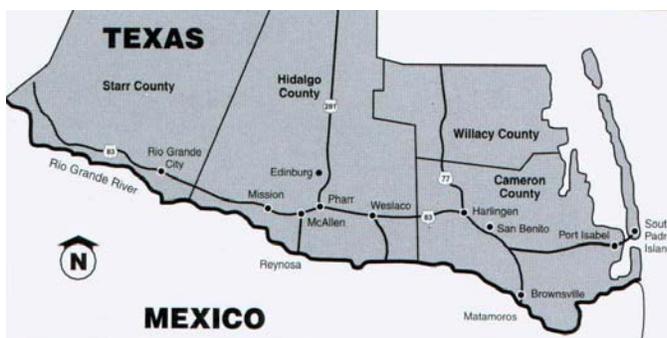
Additionally, the County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The mandated "Single Audit" is designed to meet the needs of the federal grantor agencies. Standards governing the Single Audit engagement require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. Their consideration of the internal controls over compliance does not necessarily disclose all matters in the internal control that might be material weakness due to their auditing procedures, which are performed on a test basis. The Single Audit Section is presented in the final section of the annual report.

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

### Hidalgo County Government Profile

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

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



The county seat is located in the city of Edinburg.

The governing body of the County is its Commissioners Court (the Court). The Court is composed of five members. The County Judge serves as its presiding officer and a commissioner from each of the four road and bridge precincts is also a member. Each member of the Court is elected to a four-year term of office.

The Court has certain powers expressly granted by the legislature and powers necessarily implied by such grant. One of the most important duties of the Commissioners Court is management of the finances of the County. Among other things, it approves the budget, determines the tax rates, approves contracts in the name of the County, determines whether indebtedness should be authorized and issued, and appoints certain County officials.

The County provides a full range of services, including police and fire protection; the construction and maintenance of roads and other infrastructures; health and welfare services; sanitation services; and recreational and cultural activities. Certain drainage services are provided through a legally separate Drainage District, which functions in essence, as a department of the County, and therefore has been included as an integral part of the County's financial statements. Additional information on this legally separate entity can be found in the notes to the financial statements (See Note 1.A).

The Commissioners Court is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the County's financial planning and control. The budget is prepared by fund, function, department, and object. Transfers between objects need approval by the Commissioners Court.

### **Local Economy**

The area economy is diversified by the tourist industry, agribusiness, and international trade with Mexico. In particular, the tourism and trade sectors have led to rapid population growth. The County's 2000 census was 569,463 a 48.5% increase since the 1990 census of 383,545. As of July 2005, the County was the 80<sup>th</sup> largest county in the nation with an estimated population of 678,278.

The rapid increase in population has created the need for the expansion of public facilities. Some multi-million dollar facilities under construction in Hidalgo County include the Edinburg Children's Hospital with an estimated cost of \$25 million, the U.S. Border Patrol Rio Grande Valley Sector Headquarters with an estimated cost of \$22 million, the new Medical Research Division of the Regional Academic Health Center with an estimated cost of \$20 million, the McAllen Convention Center with an estimated cost of \$62.2 million, and the Rio Grande Valley Premium Outlets with an estimated cost of \$68 million (Source: The Monitor).

The City of McAllen is the largest city in Hidalgo County and the principal city in the McAllen-Edinburg-Mission Metropolitan Statistical Area (McAllen MSA), the fourth fastest growing MSA in the nation. The City's 1990 census was 84,021, a 26.8% increase since 1980. The City's census in 2000 was 106,414, a 26.7% increase since 1990.

The McAllen MSA had an employment growth of 6,300 from December 2004 to December 2005. The employed population was estimated at 250,100 in December 2005 compared to an estimated 238,000 employed population in December 2004. The unemployment rate in December 2005 was 6.9%, a decline of 2.4 % from December 2004 (Source: TWC). There was an increase of 7,100 jobs from March of 2004 to March of 2005 in the information, transportation, financial, professional, business services, health services, and education sectors.

The largest private sector employers in the McAllen MSA for 2005 were Apex Primary Care, Convergys Customer Management, Doctors Hospital at Renaissance, Health Care Unlimited Inc., HEB Grocery Co., IPH Primary Home Care Inc., McAllen Hospitals LP, Texas Visiting Nurse Service Ltd., T-Mobile USA Inc., and Wal-Mart Associates Inc. (Source: Texas Workforce Commission).

Reynosa, Mexico, the third largest city on the U.S/ Mexican border, which has been one of the most active manufacturing locations in Mexico since 2000, is located approximately five miles south of McAllen. The Reynosa metropolitan area has an estimated population of 1.2 million. Reynosa's maquiladora sector is the fastest growing in the Mexican maquiladora industry (Source: The Monitor). Currently, there are two international bridges that connect Reynosa to Hidalgo County, the McAllen-Hidalgo Bridge and the Pharr-Reynosa Bridge. A third bridge, the Anzalduas International Bridge, is expected to be completed in 2007.

### **Long Term Financial Planning**

#### Inner/Outer Loop Study

The Commissioners Court initiated the development of a transportation loop study in January 2002 in recognition of the importance of effective and efficient transportation infrastructure in Hidalgo County. The proposed loop will facilitate commerce between the U.S. and Mexico. The loop is to be located within a study area that includes a northern-most boundary near FM 490, a western-most boundary near FM 2221, a southern-most boundary near US 83, Military Highway, and an eastern-most boundary near FM 1015/FM 88. The study consists of various route alignments for the proposed roadway project, and the analysis and comparison of their overall impact to the environment, existing facilities, established residential areas, floodway encroachments and/or crossing, and the ultimate cost for constructing a controlled access highway. The study is currently undergoing roadway alignment schematics and traffic studies, environmental and public involvement, field surveying and aerial photogrammetry, bridge layouts, roadway route corridor study and traffic studies, and preliminary environmental studies. The estimated time for the completion of the study is 10 years. It is anticipated that the proposed project will be constructed in phases, based upon funding availability. It is the County's intent to secure State and Federal funding for the construction of this project. The total amount expended on the Inner/Outer Loop study as of December 31, 2005 was \$2,934,376.

#### Raymondville Drain Outfall System

Plans for the development and implementation of the Hidalgo County Drainage District No. 1 Master Drainage System Phase II for the design and expansion of the Raymondville Drain Outfall System were established soon after the completion of Phase 1 of the Master Drainage System in 2005. The estimated cost for the Master Drainage System Phase II is \$75 million, which involves advance planning, preliminary engineering and design, final design and plans, specifications, and estimates (PS&E), right of way map preparation, and construction of proposed improvements. The proposed improvements include approximately 12 miles of new storage channel/ditch facilities, as well as the widening of 48 miles of existing channels/ditches. Also included along with the drainage outfall system are proposed improvements involving associated facilities such as bridges, culverts, headwalls, utility crossings, and down drains. This project is located in both Hidalgo and Willacy Counties. Its limits start on the east side of Lake Edinburg where the new storage ditch will drain north for about 4 miles, then east for 8 miles toward the existing West Hargill Drain. At this point, the project involves widening of the existing West Hargill Drain, which spans 11 miles where it connects to the existing Raymondville Drain and the La Sal Vieja Lake Ditch. At this connection point, Raymondville Drain, as well as the La Sal Vieja Lake Ditch, will be widened, where widening along the exiting Raymondville Drain will span approximately 33 miles to the Laguna Madre, the final outfall point. The County has expended approximately \$4.2 million out of the \$5 million earmarked for this project from the Certificates of Obligation, Series 2002. The project is 94% complete of General Contract Management, 99% of hydrological/hydraulic analysis, 96% of economic studies, 98% of plan formulation, and 57% of environmental and public involvement. The County is intent on securing State funding to complete this project.

#### New Juvenile Detention Center

Hidalgo County has had a need for a new juvenile detention center since 1998 when the Rudy de la Vina Juvenile Detention Center was operating beyond its maximum capacity of 28 juveniles. Preliminary plans and studies for a new center have been in place since 2001. The County secured funding for this project with the issuance of Certificates of Obligation in 2004. The new center will consist of six one-story detention pods with 16 beds per pod for a total of 96 beds. The County has allocated \$17,628,567 for this project and the target completion date is July 23, 2007. As of December 31, 2005, the project was 22.3% completed.

#### 10<sup>th</sup> Street Extension

The Tenth Street extension project, which will expand North Tenth Street from FM107 to Monte Cristo Road in Edinburg, is finally in progress. The schematic studies and environmental assessment were completed in 2004. The final right of way map, parcel acquisition plats, and metes and bounds descriptions were completed in 2005.

#### K-Mart Property

In an effort to expand its facilities to accommodate its rapid growing population, the County issued Tax Notes, Series 2004, in the amount of \$2.8 million for the acquisition and renovation of the property formally known as the K-Mart property. The County paid \$1,701,422 for the property in 2004, and has allocated \$1,954,728 for the renovation of the property. The County plans to relocate the following offices to the new facility: Tax Office, Auditor's Office, Treasurer's Office, Purchasing Department, Budget Office, Human Resources, Veterans Office, Fire Marshal, Information Technology Department and Security. The renovation of this facility is expected to begin in 2006. The target completion date for this project is January 22, 2007.

#### TXDOT Projects

The Hidalgo County Metropolitan Planning Organization (HCMPO), in efforts to improve the area's transportation system, worked with Hidalgo County, the Texas Department of Transportation (TXDOT) and other organizations to develop a Long Range Metropolitan Transportation Plan to serve as a blue print for the County's transportation system. The plan addresses the needed investments in the area for the next 25 years. As a result of this plan, the County and TXDOT have entered into many inter-local agreements to implement the transportation projects. Some of these agreements call for partial reimbursement from TXDOT, while others call for full reimbursement. The total amount expended as of December 31, 2005, in connection with these interlocal agreements, was \$6,313,385.

#### North San Juan Park

The North San Juan Park is approximately 90% complete. The expected park completion date is December 31, 2006. This park will provide the public with baseball fields, volleyball courts, BBQ pits, and a jogging track. The estimated cost of this project is \$2 million, which includes a \$500,000 grant received from the Parks and Wildlife Department for the housing and maintaining of a wildlife refuge. The Urban County Program has funded \$324,693 for the parking lot construction and \$174,234 for the construction of two restrooms and one concession stand.

### **Internal Controls**

Management of the County of Hidalgo is responsible for the establishment and maintenance of internal accounting controls that have been designed to ensure that assets are safeguarded and financial transactions are properly recorded and adequately documented. Such internal controls require estimates and judgments from management so 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 Commissioners Court consistently emphasize maintaining sufficient undesignated fund balance levels to meet obligations of payroll and operating costs, thus assisting in maintaining financial stability for retaining or enhancing the County's bond ratings. Thus, the County strives to maintain a general fund reserve of at least ten percent of the annual general fund budgeted appropriations, since the general fund is the County's main operating fund.

### **Cash Management**

The County invests its funds in investments authorized by Texas laws in accordance with investment policies approved by Commissioners Court. Under Texas law, the County is required to invest its funds to primarily emphasize safety of principal and liquidity. Interest income in 2005 amounted to \$5,207,486 an increase of \$1,829,560 or 54 percent over the previous year's total of \$3,377,926.

### **Capital Assets**

The government-wide financial statements include the capital assets of the County. A discussion of capital assets accounting is included in the MD&A Section 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 (See Note 3.C).

### **Debt Administration**

General obligation bonds are issued pursuant to the Constitution and general laws of the State of Texas, and constitute direct obligations of the County. Principal and interest are payable from a continuing, direct ad valorem tax levied against all taxable property within the County. Current general obligation bonds of the County are rated "Aaa" by Moody's Investors Services and "AAA" by both Standards and Poor ("S&P") and Fitch Ratings ("Fitch"). The County also has several other issues outstanding, which are rated "Aaa" by Moody's and "AAA" by S&P and Fitch.

### **Health Benefits Self Insurance**

On January 2005, Commissioners Court approved an administrative services agreement with the United Mutual of Omaha Life Insurance Company for the administration of the County's health benefits self-insurance fund, which became effective in February 2005. The County paid \$8,510,944 in health claims during 2005. The County purchases stop loss insurance coverage for claims in excess of \$75,000. The County received \$601,893 in stop loss insurance reimbursements during 2005.

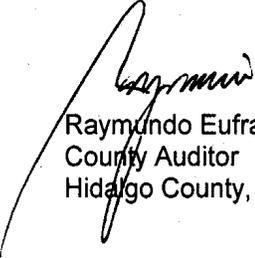
**Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Hidalgo County for its comprehensive annual financial report for the fiscal year ended December 31, 2004. This was the second consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully Submitted,



Raymundo Eufracio, CPA  
County Auditor  
Hidalgo County, Texas



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Hidalgo,  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



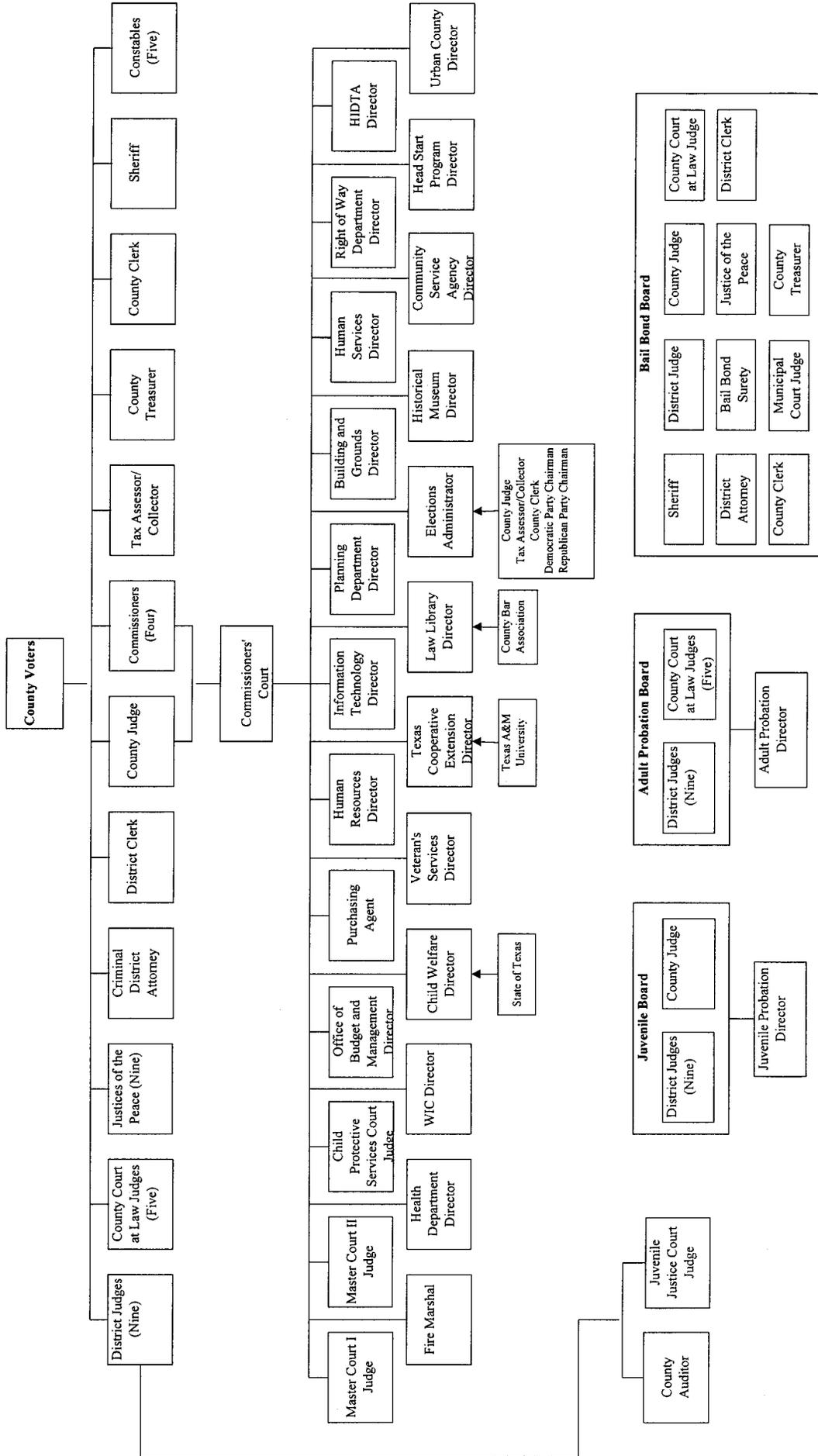
*Carla E. Perry*

President

*Jeffrey R. Emer*

Executive Director

# County of Hidalgo, Texas Organizational Chart



**COUNTY OF HIDALGO, TEXAS**

**GOVERNING BODY**

DECEMBER 31, 2005

County Judge Ramon Garcia..... Chairman

Commissioner Sylvia Handy ..... Member

Commissioner Hector Palacios..... Member

Commissioner Jose M. Flores ..... Member

Commissioner Oscar L. Garza..... Member

**COUNTY OF HIDALGO, TEXAS**

**PRINCIPAL OFFICIALS**

DECEMBER 31, 2005

Horacio Pena ..... Judge, 92nd Judicial District of Texas  
Rodolfo Delgado ..... Judge, 93rd Judicial District of Texas  
J.R."Bobby" Flores ..... Judge, 139th Judicial District of Texas  
Rose G. Reyna..... Judge, 206th Judicial District of Texas  
Juan R. Partida ..... Judge, 275th Judicial District of Texas  
Mario E. Ramirez, Jr. .... Judge, 332nd Judicial District of Texas  
Noe Gonzalez ..... Judge, 370th Judicial District of Texas  
Leticia Lopez ..... Judge, 389th Judicial District of Texas  
Aida S. Flores..... Judge, 398th Judicial District of Texas  
Rodolfo Gonzalez..... Judge, County Court-at-Law No. 1  
Jaime Palacios ..... Judge, County Court-at-Law No. 2  
Homero Garza..... Judge, County Court-at-Law No. 3  
Fred S. Garza, Jr..... Judge, County Court-at-Law No. 4  
Arnoldo Cantu. .... Judge, County Court-at-Law No. 5  
Ramon Garcia ..... County Judge  
Sylvia Handy ..... Commissioner, Precinct No. 1  
Hector Palacios ..... Commissioner, Precinct No. 2  
Jose M. Flores..... Commissioner, Precinct No. 3  
Oscar L. Garza, Jr..... Commissioner, Precinct No. 4  
Eddy Trevino ..... County Clerk  
Armando Barrera, Jr..... Tax Assessor/Collector  
Omar Guerrero ..... District Clerk  
Guadalupe Trevino..... County Sheriff  
Norma G. Garcia ..... County Treasurer  
Rene A. Guerra ..... District Attorney  
Raymundo Eufrazio, CPA. .... County Auditor