

CITY OF HIDALGO, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Reyna & Garza, P.L.L.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Hidalgo, Tx

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, component units, each major fund, and the aggregate remaining fund information of the City of Hidalgo (the City) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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.

Auditor's 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 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, the business-type activities, component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

New Accounting Principles

As discussed in the notes to the financial statements, management has implemented Governmental Accounting Standards Board (GASB) statement 63 *Financial Reporting of Deferred Outflows of Resources, deferred Inflows of Resources, and Net Positions* and had elected to implement early GASB 65 *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the General Fund budgetary comparison information as listed on the table of contents 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 City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2014, on our consideration of the City'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 the City's internal control over financial reporting and compliance.

Reyna & Garza, PLLC
Certified Public Accountants

May 27, 2014

Management's Discussion and Analysis
CITY OF HIDALGO, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Hidalgo, Texas (the "City"), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2013. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The City's net assets: increased by \$2.69 million as a result of this year's operations. Net assets of our business-type activities: increased by \$.50 million, net assets of our governmental activities: increased by \$2.20 million or nearly 10.5 percent.
- During the year, the City had expenses that were \$ 2.20 million less than the \$ 10.6 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues held constant from \$2.48 million to \$ 2.42 million while expenses increased from \$2.34 million to \$ 2.52 million.
- Total cost of all of the City's programs decreased from \$12.7 million to \$10.86 million (or 14.5 percent).
- The General Fund ended the year with a fund balance of \$4.54 million.
- Appropriation were \$ 46 thousand less than expended for the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities on pages 9 and 10. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements starting on page 12 report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements (if applicable), provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 20) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities—Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state and federal grants finance most of these activities.
- Business-type activities—The City charges a fee to “customers” to help it cover all or most of the cost of providing services such as water, sewer, and solid waste services.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the City as a whole. Laws and/or contracts require the City to establish some funds, such as grants received under the certain programs. The City's administration establishes several other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

· Governmental funds—Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

· Proprietary funds—The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities increased from \$21 million to \$22.9 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$3.5 million at September 30, 2013.

In 2013, net assets of our business-type activities increased by \$496 thousand, or nearly 3.6 percent. This increase is not significant to the overall operations of the City.

Table I
CITY OF HIDALGO, TEXAS
NET ASSETS

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Current and other assets	\$ 11,705,175	\$ 10,754,692	\$ 3,846,276	\$ 4,009,496	\$ 15,551,451	\$ 14,764,188
Capital assets	29,923,126	25,214,661	22,560,436	22,588,759	52,483,562	47,803,420
Total assets	41,628,301	35,969,353	26,406,712	26,598,255	68,035,013	62,567,608
Long-term liabilities	11,120,237	8,517,339	11,252,000	11,463,000	22,372,237	19,980,339
Other liabilities	7,635,247	6,459,272	753,832	1,211,548	8,389,079	7,670,820
Total liabilities	18,755,484	14,976,611	12,005,832	12,674,548	30,761,316	27,651,159
Net Assets:						
Invested in capital assets net of related debt	18,802,889	16,697,322	11,308,436	11,125,759	30,111,325	27,823,081
Restricted	534,690	355,162	-	-	534,690	355,162
Unrestricted	3,535,238	3,940,259	3,092,446	2,797,948	6,627,684	6,738,207
Total net assets	\$ 22,872,817	\$ 20,992,743	\$ 14,400,882	\$ 13,923,707	\$ 37,273,699	\$ 34,916,450

Table II
CITY OF HIDALGO, TEXAS
CHANGES IN NET ASSETS

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,026,544	\$ 515,203	\$ 2,517,762	\$ 2,407,569	\$ 3,544,306	\$ 2,922,772
Operating Grants & Contributions	1,853,510	-	379,517	-	2,233,027	-
Capital Grants & Contributions	-	-	-	-	-	-
General Revenues:						
Property Taxes	1,556,041	1,781,622	-	-	1,556,041	1,781,622
Grants	-	323,761	-	-	-	323,761
Other Taxes	1,893,677	1,685,514	-	-	1,893,677	1,685,514
Toll Bridge	3,226,208	2,973,203	-	-	3,226,208	2,973,203
Investment Earnings	13,347	13,589	-	-	13,347	13,589
Miscellaneous	1,059,820	2,090,452	23,943	17,596	1,083,763	2,108,048
Total Revenue	\$ 10,629,147	\$ 9,383,344	\$ 2,921,222	\$ 2,425,165	\$ 13,550,369	\$ 11,808,509
Expenses:						
General Government	\$ 2,896,706	\$ 3,127,792	\$ -	\$ -	\$ 2,896,706	\$ 3,127,792
Judicial	-	-	-	-	-	-
Public Safety	2,642,915	4,164,597	-	-	2,642,915	4,164,597
Public Works	-	-	-	-	-	-
Highways and Streets	1,653,588	900,720	-	-	1,653,588	900,720
Culture and Recreation	896,463	1,534,062	-	-	896,463	1,534,062
Health & Welfare	64,052	68,094	-	-	64,052	68,094
Economic Development	-	275,536	-	-	-	275,536
Interest & Other on Long Term Debt	284,319	295,039	-	-	284,319	295,039
Water & Sewer	-	-	2,425,335	2,338,136	2,425,335	2,338,136
Total Expenses	\$ 8,438,043	\$ 10,365,840	\$ 2,425,335	\$ 2,338,136	\$ 10,863,378	\$ 12,703,976
Increase in net assets before transfers and special items	2,191,104	(982,496)	403,460	-	2,594,564	-
Transfers	-	-	-	-	-	3,517,603
Special Items – Resources	-	-	-	3,517,603	-	-
Special Items-Prior period Adjustments	(311,030)	(181,843)	(18,712)	(15,407)	(329,742)	(197,250)
Net assets at 10/1	\$ 20,992,743	\$ 22,157,082	\$ 13,923,707	\$ 10,334,482	\$ 34,916,450	\$ 32,491,564
Net assets at 9/30	\$ 22,872,817	\$ 20,992,743	\$ 14,400,882	\$ 13,923,707	\$ 37,273,699	\$ 34,916,450

The cost of all governmental activities this year was \$ 10.86 million. However, as shown in the Statement of Activities on pages 11 and 12, the amount that our taxpayers ultimately financed for

these activities through City taxes was only \$ 1.56 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$4.56 million, which is higher than last year's total of \$4.19 million.

Over the course of the year, the Council did not have a need to revise the City's budget. When budget amendments are done, they generally fall into one category. They involve amendments moving funds from programs that did not need all the resources originally appropriated, to programs with resource needs.

The City's General Fund balance of \$4.5 million reported on page 12 differs significantly from the General Fund's budgetary fund balance reported in the General Fund budgetary comparison schedule on page 39, due to budgeted transfers in not being realized during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2012-13 year, the City had \$52.48 million (net of depreciation) invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment. The largest asset acquired during the year was construction in progress funded by an bond funds.

Debt

At year-end, the City had \$ 22.37 million in bonds, capital leases, and notes outstanding versus \$ 19.38 million last year, an increase of 15.4 percent, due to the issuance of Wastewater Treatment Plant Expansion Loan in the amount of \$3.06 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2013-2014 budget and tax rates. On September 2013 the City Council voted to levy a tax rate of \$.3514 on a \$100 assessed valuation. This rate is equal to the rate levied for 2012-2013. However, the total tax levy increased, mostly due to new property added to the tax roll. Other general revenues were either projected to remain the same or increase very moderately.

General fund expenditures were projected to remain the same for the most part, with exceptions such as fuel. There were few capital expenditures proposed. For the coming year, capital outlay expenditure requests will be considered on a case-by-case basis and the departments will need to present the method of financing any requests.

If these estimates and projections are realized, this budget would provide a very modest increase in the City's general fund balance.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's administration office, at City of Hidalgo, Texas, 704 East Texano, Hidalgo, Texas.

CITY OF HIDALGO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Units
ASSETS				
Cash and Cash Equivalents	\$ 1,808,857	\$ 269,879	\$ 2,078,736	\$ 2,459,419
Investments - Current	2,356,944	467,283	2,824,227	-
Receivables (net of allowance for uncollectibles)	7,444,322	585,713	8,030,035	2,143,041
Internal Balances	(250,861)	2,521,229	2,270,368	-
Due from Component Unit	209,857	-	209,857	-
Due from Primary Government	-	-	-	163,640
Due From others	85,881	1,920	87,801	-
Inventories	16,274	-	16,274	-
Prepaid Items	31,643	252	31,895	51,456
Capital Assets:				
Land	3,495,785	146,306	3,642,091	316,025
Infrastructure, net	6,755,433	6,286,254	13,041,687	-
Buildings, net	7,595,443	9,001,364	16,596,807	-
Machinery and Equipment, net	1,180,938	736,697	1,917,635	-
Capital Assets, net	25,000	5,796,025	5,821,025	-
Construction in Progress	10,870,527	593,790	11,464,317	-
Other Assets	2,258	-	2,258	650,567
Total Assets	41,628,301	26,406,712	68,035,013	5,784,148
LIABILITIES				
Accounts Payable	2,202,562	692,169	2,894,731	372,131
Intergovernmental Payable	90,041	2,753	92,794	-
Due to Component Unit	253,773	-	253,773	-
Due to Primary Government	-	-	-	2,281,847
Deferred Revenues	5,088,871	58,910	5,147,781	952,623
Noncurrent Liabilities				
Due Within One Year	2,041,136	219,000	2,260,136	-
Due in More Than One Year	9,079,101	11,033,000	20,112,101	626,225
Total Liabilities	18,755,484	12,005,832	30,761,316	4,232,826
NET POSITION				
Net Investment in Capital Assets	18,802,889	11,308,436	30,111,325	316,025
Restricted for Fed. & State Programs	534,690	-	534,690	-
Unrestricted Net Position	3,535,238	3,092,444	6,627,682	1,235,297
Total Net Position	\$ 22,872,817	\$ 14,400,880	\$ 37,273,697	\$ 1,551,322

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 2,896,706	\$ 1,026,544
Public Safety	2,642,915	-
Highways and Streets	1,653,588	-
Health and Welfare	64,052	-
Culture and Recreation	896,463	-
Bond Interest	284,069	-
Fiscal Agent's Fees	250	-
Total Governmental Activities:	8,438,043	1,026,544
BUSINESS-TYPE ACTIVITIES:		
Total Business-Type Activities:	2,425,335	2,517,762
Total Business-Type Activities:	2,425,335	2,517,762
TOTAL PRIMARY GOVERNMENT:	\$ 10,863,378	\$ 3,544,306

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- Sales Taxes
- Franchise Taxes
- Other Taxes
- Penalty and Interest
- Grants and Contributions Not Restricted
- Miscellaneous Revenue
- Investment Earnings

Total General Revenues

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position--Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,870,162)	\$ -	\$ (1,870,162)
(2,642,915)	-	(2,642,915)
(1,653,588)	-	(1,653,588)
(64,052)	-	(64,052)
(896,463)	-	(896,463)
(284,069)	-	(284,069)
(250)	-	(250)
<u>(7,411,499)</u>	<u>-</u>	<u>(7,411,499)</u>
-	92,427	92,427
-	92,427	92,427
<u>(7,411,499)</u>	<u>92,427</u>	<u>(7,319,072)</u>
948,890	-	948,890
607,151	-	607,151
1,446,192	-	1,446,192
396,469	-	396,469
51,016	-	51,016
49,912	-	49,912
1,853,510	379,517	2,233,027
4,236,116	23,943	4,260,059
13,347	-	13,347
<u>9,602,603</u>	<u>403,460</u>	<u>10,006,063</u>
2,191,104	495,887	2,686,991
20,992,743	13,923,707	34,916,450
(311,030)	(18,712)	(329,742)
<u>\$ 22,872,817</u>	<u>\$ 14,400,882</u>	<u>\$ 37,273,699</u>

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CITY OF HIDALGO
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 945,194	\$ 512,255	\$ 77,720	\$ 1,535,169
Investments - Current	2,356,944	-	-	2,356,944
Taxes Receivable	143,949	-	72,869	216,818
Allowance for Uncollectible Taxes (credit)	(60,639)	-	(30,696)	(91,335)
Receivables (Net)	122,554	-	(17)	122,537
Intergovernmental Receivables	6,331,490	864,812	-	7,196,302
Due from Other Funds	5,298,559	-	518,964	5,817,523
Due from Component Unit	209,857	-	-	209,857
Due from Others	85,881	-	-	85,881
Inventories	16,274	-	-	16,274
Prepaid Items	31,643	-	-	31,643
Other Assets	2,258	-	-	2,258
Total Assets	<u>\$ 15,483,964</u>	<u>\$ 1,377,067</u>	<u>\$ 638,840</u>	<u>\$ 17,499,871</u>
LIABILITIES				
Accounts Payable	\$ 147,323	\$ 840,625	\$ -	\$ 987,948
Wages and Salaries Payable	675,088	-	-	675,088
Claims and Judgments Payable	2,604	-	-	2,604
Retainage Payable	59,450	272,131	-	331,581
Intergovernmental Payable	90,041	-	-	90,041
Due to Other Funds	4,545,238	638,537	202,128	5,385,903
Due to Others	2,643	-	-	2,643
Due to Component Unit	253,773	-	-	253,773
Unavailable Revenues	5,088,871	-	-	5,088,871
Total Liabilities	<u>10,865,031</u>	<u>1,751,293</u>	<u>202,128</u>	<u>12,818,452</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	83,310	-	42,173	125,483
Total Deferred Inflows of Resources	<u>83,310</u>	<u>-</u>	<u>42,173</u>	<u>125,483</u>
FUND BALANCES				
Federal or State Funds Grant Restriction	-	-	534,690	534,690
Unassigned Fund Balance	4,535,623	(374,226)	(140,151)	4,021,246
Total Fund Balances	<u>4,535,623</u>	<u>(374,226)</u>	<u>394,539</u>	<u>4,555,936</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 15,483,964</u>	<u>\$ 1,377,067</u>	<u>\$ 638,840</u>	<u>\$ 17,499,871</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	\$	4,555,936
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net position.</p>		
		(611,491)
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$ 45,020,314 and the accumulated depreciation was \$19,805,654. In addition, long-term liabilities in the amount of \$8,517,339, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>		
		16,697,321
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		3,897,952
<p>The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(1,792,384)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		125,483
Net Position of Governmental Activities	\$	22,872,817

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 779,761	\$ -	\$ 826,309	\$ 1,606,070
General Sales and Use Taxes	1,446,192	-	-	1,446,192
Franchise Tax	396,469	-	-	396,469
Other Taxes	51,016	-	-	51,016
Penalty and Interest on Taxes	25,745	-	24,167	49,912
Licenses and Permits	250,758	-	-	250,758
Intergovernmental Revenue and Grants	87,669	1,765,841	-	1,853,510
Charges for Services	1,026,544	-	-	1,026,544
Fines	410,164	-	-	410,164
Investment Earnings	11,986	852	509	13,347
Rents and Royalties	53,473	-	-	53,473
Other Revenue	3,521,721	-	-	3,521,721
Total Revenues	<u>8,061,498</u>	<u>1,766,693</u>	<u>850,985</u>	<u>10,679,176</u>
EXPENDITURES:				
Current:				
General Government	2,202,320	-	-	2,202,320
Public Safety	2,956,524	-	-	2,956,524
Public Works:				
Highways and Streets	685,529	-	-	685,529
Health and Welfare	64,052	-	-	64,052
Culture and Recreation	1,176,455	-	-	1,176,455
Debt Service:				
Bond Principal	-	-	520,000	520,000
Other Debt Principal	34,637	-	-	34,637
Bond Interest	-	-	284,069	284,069
Fiscal Agent's Fees	-	-	250	250
Capital Outlay:				
Capital Outlay	711,063	4,520,753	-	5,231,816
Total Expenditures	<u>7,830,580</u>	<u>4,520,753</u>	<u>804,319</u>	<u>13,155,652</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>230,918</u>	<u>(2,754,060)</u>	<u>46,666</u>	<u>(2,476,476)</u>
OTHER FINANCING SOURCES (USES):				
Non-Current Loans	-	3,059,000	-	3,059,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,059,000</u>	<u>-</u>	<u>3,059,000</u>
Net Change in Fund Balances	230,918	304,940	46,666	582,524
Fund Balance - October 1 (Beginning)	4,512,505	(678,523)	355,162	4,189,144
Prior Period Adjustment	(207,800)	(643)	(7,289)	(215,732)
Fund Balance - September 30 (Ending)	<u>\$ 4,535,623</u>	<u>\$ (374,226)</u>	<u>\$ 394,539</u>	<u>\$ 4,555,936</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	582,524
 The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.		(542,257)
 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase (decrease) the change in net position.		3,993,250
 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(1,792,384)
 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		(50,029)
 Change in Net Position of Governmental Activities	<u>\$</u>	<u>2,191,104</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds			Governmental Activities -
	Utility Fund	State Farm Arena	Total Enterprise Funds	Internal Service Fund
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 269,879	\$ -	\$ 269,879	\$ 273,688
Investments - Current	467,283	-	467,283	-
Accounts Receivable-Net of Uncollectible Allowance	585,713	-	585,713	-
Due from Other Funds	3,073,259	-	3,073,259	-
Due from Others	1,920	-	1,920	-
Prepaid Items	252	-	252	-
Total Current Assets	4,398,306	-	4,398,306	273,688
Noncurrent Assets:				
Capital Assets:				
Land Purchase and Improvements	146,306	-	146,306	-
Infrastructure	6,286,254	-	6,286,254	-
Buildings	9,001,364	-	9,001,364	-
Machinery and Equipment	736,697	-	736,697	-
Capital Assets	99,800	22,884,563	22,984,363	-
Accumulated Depreciation - Capital Assets	(9,035,184)	(8,153,154)	(17,188,338)	-
Construction in Progress	593,790	-	593,790	-
Total Noncurrent Assets	7,829,027	14,731,409	22,560,436	-
Total Assets	12,227,333	14,731,409	26,958,742	273,688
LIABILITIES				
Current Liabilities:				
Accounts Payable	239,444	-	239,444	-
Wages and Salaries Payable	452,725	-	452,725	-
Claims and Judgments Payable	-	-	-	202,698
Intergovernmental Payable	2,753	-	2,753	-
Due to Other Funds	552,030	-	552,030	682,480
Deferred Revenue	58,910	-	58,910	-
Bonds Payable - Current	-	219,000	219,000	-
Total Current Liabilities	1,305,862	219,000	1,524,862	885,178
NonCurrent Liabilities:				
Bonds Payable - Noncurrent	-	11,033,000	11,033,000	-
Total Noncurrent Liabilities	-	11,033,000	11,033,000	-
Total Liabilities	1,305,862	11,252,000	12,557,862	885,178
NET POSITION				
Net Investment in Capital Assets	7,829,027	3,479,409	11,308,436	-
Unrestricted Net Position	3,092,444	-	3,092,444	(611,491)
Total Net Position	\$ 10,921,471	\$ 3,479,409	\$ 14,400,880	\$ (611,491)

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds			Governmental Activities -
	Utility Fund	State Farm Arena	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES:				
Charges for Services	\$ 1,916,574	\$ -	\$ 1,916,574	\$ -
Sanitation Charges for Services	601,188	-	601,188	-
Investment Earnings	2,657	-	2,657	169
Other Revenue	21,286	-	21,286	1,080,819
Total Operating Revenues	<u>2,541,705</u>	<u>-</u>	<u>2,541,705</u>	<u>1,080,988</u>
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	433,228	-	433,228	-
Personnel Services - Employee Benefits	177,486	-	177,486	-
Purchased Professional & Technical Services	542,528	-	542,528	-
Purchased Property Services	364,339	-	364,339	-
Other Operating Expenses	312,141	-	312,141	1,623,245
Supplies	132,440	-	132,440	-
Depreciation	463,173	-	463,173	-
Total Operating Expenses	<u>2,425,335</u>	<u>-</u>	<u>2,425,335</u>	<u>1,623,245</u>
Operating Income (Loss)	<u>116,370</u>	<u>-</u>	<u>116,370</u>	<u>(542,257)</u>
NON-OPERATING REVENUES (EXPENSES):				
Grants (Not Capital grants)	379,517	-	379,517	-
Total Non-operating Revenue (Expenses)	<u>379,517</u>	<u>-</u>	<u>379,517</u>	<u>-</u>
Change in Net Position	495,887	-	495,887	(542,257)
Total Net Position - October 1 (Beginning)	10,406,104	3,517,603	13,923,707	(69,234)
Prior Period Adjustment	19,482	(38,194)	(18,712)	-
Total Net Position - September 30 (Ending)	<u>\$ 10,921,473</u>	<u>\$ 3,479,409</u>	<u>\$ 14,400,882</u>	<u>\$ (611,491)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT D-3 (Cont'd)

	Business-Type Activities			Governmental Activities -
	Utility Fund	State Farm Arena	Total Enterprise Funds	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>				
Cash Received from User Charges	\$ 1,536,202	\$ 1,931,647	\$ 3,467,849	\$ 1,487,006
Cash Payments to Employees for Services	(610,714)	-	(610,714)	-
Cash Payments for Suppliers	(132,440)	-	(132,440)	-
Cash Payments for Other Operating Expenses	(312,141)	(2,951,006)	(3,263,147)	(1,150,508)
Purchased Professional and Technical Services	(208,612)	-	(208,612)	-
Purchased Property Services	(364,339)	-	(364,339)	-
Net Cash Provided by (Used for) Operating Activities	<u>(92,044)</u>	<u>(1,019,359)</u>	<u>(1,111,403)</u>	<u>336,498</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>				
Acquisition of Capital Assets	(196,429)	(257,522)	(453,951)	-
Capital Contributed by Other Funds(Sources)	379,517	-	379,517	-
Payments on Revenue Bonds	-	(211,000)	(211,000)	-
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>183,088</u>	<u>(468,522)</u>	<u>(285,434)</u>	<u>-</u>
Net Increase(Decrease) in Cash and Cash Equivalents	91,044	(1,487,881)	(1,396,837)	336,498
Cash and Cash Equivalents at Beginning of the Year:	<u>178,835</u>	<u>1,487,881</u>	<u>1,666,716</u>	<u>(62,810)</u>
Cash and Cash Equivalents at the End of the Year:	<u><u>\$ 269,879</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 269,879</u></u>	<u><u>\$ 273,688</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT D-3

	Business-Type Activities			Governmental Activities -
	Utility Fund	State Farm Arena	Total Enterprise Funds	Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash				
Provided By (Used For) Operating Activities:				
Operating Income (Loss):	\$ 116,370	\$ -	\$ 116,370	\$ (542,257)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Depreciation	463,173	-	463,173	-
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	(40,952)	1,852,436	1,811,484	-
Decrease (increase) in Restricted Assets	(1,538)	-	(1,538)	-
Decrease (increase) in Due From Others	41	79,211	79,252	406,018
Increase (decrease) in Accounts Payable	179,128	(243,923)	(64,795)	17,144
Increase (decrease) in Wages and Salaries Payable	18,585	-	18,585	-
Increase (decrease) in Interfund Payable	5,916	(2,289,494)	(2,283,578)	425,399
Increase (decrease) in Interfund Payable	129,723	-	129,723	-
Increase (decrease) in Deferred Revenues	564	(358,852)	(358,288)	-
Increase (decrease) in Other Current Liabilities	-	(58,737)	(58,737)	30,194
Decrease(increase) in Due From Other Funds	(963,054)	-	(963,054)	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ (92,044)</u>	<u>\$ (1,019,359)</u>	<u>\$ (1,111,403)</u>	<u>\$ 336,498</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the City of HIDALGO, Texas (the “City) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard settling body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The City’s basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City’s reporting entity, as set forth in GASB Statement No. 14, “The Financial Reporting Entity”, include whether:

- The organization is legally separate
- The City holds the corporate powers of the organization
- The City appoints a voting majority to the organization’s board
- The city is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City
- The exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax – exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements that are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units, or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) such economic resources are significant to the City.

Based on these criteria, the City has one (1) component unit. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB statement.

The component units are as follows;

The Hidalgo Economic Development Corporation, (HEDC) was organized on the behalf of City of Hidalgo for the specific public purpose of the promotion and development of the commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare.

HEDC is governed by a five-member board of directors, each of which is appointed by the City Council as per the bylaws. HEDC’s primary source of revenues is sales tax revenues generated by the City of Hidalgo. In addition, the City approves the major expenditures and revolving loan fund of HEDC and must approve amendments to HEDC’s bylaws and Articles of Incorporation. HEDC is presented as a governmental fund type component unit and has the same fiscal year as the City. There were no significant adjustments needed to convert the fund statements of the HEDC to compliance with GASB 34 requirements.

The City of Hidalgo Texas Municipal Facilities Corporation (TMFC) was organized by the City of Hidalgo on August 14, 2001 for the purpose of aiding and acting on behalf of the City to accomplish certain governmental purposes of the City, that include the acquisition, construction, equipping, financing, operation, and maintenance of land and other municipal facilities. The main operating activity of TMFC is the operation of the State Farm Arena (the Arena). The Arena is a multiple-use venue suitable for professional and amateur sports, entertainment, cultural, tourist, and convention and/or public service activities. Presently, the Arena facilities are used by a professional hockey team, professional arena football team, and professional basketball team, as well as for all of the aforementioned activities. The TMFC is governed by a five-member board of directors, each of which is appointed by the City Council. The TMFC is presented as a proprietary fund type component unit and has the same fiscal year end as the City.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

In the fund financial statements, governmental funds report fund balances based on the following classifications: nonspendable, restricted, committed or unassigned. Restricted fund balances are amounts legally restricted by outside parties for use by a specific purpose. Commitments of fund balance require approval of the City Council through action. The City Council delegates the responsibility to assign fund balance to the City Manager or his designee, when appropriate. Funds will be utilized in the following spending order: restricted, committed, assigned and unassigned.

On October 1, 2012, the District adopted GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and early implemented GASB Statement No. 65 *Items Previously Reported As Assets and Liabilities* as encouraged by GASB. As a result of the adoption of these new accounting standards, a restatement of beginning net position at the government-wide level financial statements was required.

GASB Statement No. 63 provides financial guidance for reporting deferred outflows, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Deferred outflows of resources are defined as a consumption of net assets by a government that is applicable to a future reporting period and deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in a statement of financial position, being measured as the difference between (a) assets and deferred resources and (b) liabilities and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

- 1. The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- 2. The Capital Projects Fund**–This fund is used to account for financial resources used for the acquisition of capital assets or construction of major capital facilities, not being financed by the proprietary funds.

The City reports the following major enterprise fund(s):

The Water & Sewer Fund – This fund’s function is to provide for a source of supply of water, its purification and distribution to customers and to collect and treat wastewater for municipal customers and administer a private franchised solid waste collection and transportation service.

Additionally, the City reports the following fund type(s):

Governmental Funds:

- 1. Special Revenue Funds (Tax Increment Reinvestment Zone#1)** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- 2. Debt Service Funds** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund..

- 3. Permanent Funds** – The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.

Proprietary Funds:

- 1. Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's Enterprise Funds are the Public Utilities Department, and the State Farm Arena Fund.
- 2. Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund.

Fiduciary Funds:

- 1. Private Purpose Trust Funds** – The City accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the City. The City has no Private Purpose Trust Funds.
- 2. Agency Funds** – The City accounts for resources held for others in a custodial capacity in agency funds. The City has no Agency Funds.

E. OTHER ACCOUNTING POLICIES

- For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
- In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

- It is the City's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

4. Capital assets, which include land, buildings, furniture and equipment [and infrastructure assets] are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives. The estimated lives range from 5 to 15 years for furniture and equipment, 5 years for vehicles, 10 to 45 years for infrastructure, 20 to 45 years for water and sewer system assets, and 30 years for buildings.

5. Restricted Assets-Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.
6. Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Monies collected in advance from federal or state agencies are recorded as revenue in the year for which the expenditures are incurred.
7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. Encumbrances-The City of Hidalgo, Texas, employs encumbrance accounting; under which purchase order, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
9. The City has adopted GASB 54 as part of its fiscal year reporting. Implementation of GASB 54 was required for all cities for their fiscal year ending 2013. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of these classifications are prepaid items and inventories.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the City Commissioners. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.
10. When the City incurs an expense for which it may use either restricted or unrestricted assets, it used the restricted assets first whenever they will have to be returned if they are not used.

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	\$ 3,494,526	0	\$ 3,494,526	
Mineral Interest	25,000	0	25,000	
Construction In Progress	6,962,079	0	6,962,079	
Buildings and Improvements	12,182,585	(4,920,916)	7,261,669	
Machinery and Equipment	5,703,948	(4,128,216)	1,575,732	
Infrastructure	<u>16,652,176</u>	<u>(10,756,522)</u>	<u>5,895,654</u>	
Change in Net Assets				<u>\$ 25,214,660</u>
<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Bonds Payable			6,835,000	
Premium on Bonds			-	
Loans Payable			1,425,136	
Vacation Payable			<u>257,203</u>	
Change in Net Assets				<u>(8,517,339)</u>
Net Adjustment to Net Assets				<u>\$16,697,321</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides the reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Various Categories	\$ 6,500,850		
Total Capital Outlay	<u>6,500,850</u>	<u>\$ 6,500,850</u>	<u>\$ 6,500,850</u>
<u>Debt Principal Payments</u>			
Bond Principal	520,000		
Total Principal Payments	<u>520,000</u>	<u>520,000</u>	<u>520,000</u>
Total Adjustment to Net Assets		<u>\$ 7,020,850</u>	<u>\$ 7,020,850</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City Council adopts an "appropriated budget" for the General Fund and certain Special Revenue Funds. In accordance with Government Accounting Standards Board (GASB) Statement#34, a City is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit E-1.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can only be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, and are not made after fiscal year end. The City has a policy of careful budgetary control, however during the year, no amendments were necessary.
4. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

General Fund expenditures exceeded appropriations by the amount(s) noted below;

<u>Functional Category</u>	<u>Amount</u>
General Government	\$ 8,221
Public Safety	\$ 628
Health and Welfare	\$ 984
Capital Outlay	\$ 15,964

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2013, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$ 2,078,736 and the bank balance was \$ 2,313,626. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2013, the City had the following investments.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Certificates of Deposit	\$ 2,824,227	\$ 2,824,227			

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by U.S. Government Securities. As of September 30, 2013, the city's investments were secured by U.S. Government Securities.

Custodial Credit Risk for Investments State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the city complies with this law, it has no custodial credit risk for deposits.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk all of the City investments are collateralized by U.S. Government Securities.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires that the investments shall be monitored by using specific identification.

Foreign Currency Risk for Investments The City limits the risk that changes in exchanges rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES

The outstanding balances between funds result mainly from time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts due are scheduled to be repaid within one year.

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 3,494,526	1,259	-	\$ 3,495,785
Mineral Interest	25,000	-	-	25,000
Construction in Progress	6,962,079	9,464,027	(5,555,579)	10,870,527
Buildings and Improvements	12,182,585	1,058,384	(124,062)	13,116,907
Furniture and Fixtures	192,862	-	-	192,862
Machinery and Equipment	5,511,086	71,549	(95,429)	5,487,206
Infrastructure	<u>16,652,176</u>	<u>2,012,041</u>	<u>(331,340)</u>	<u>18,332,877</u>
Totals at Historic Cost	<u>\$ 45,020,314</u>	<u>12,607,260</u>	<u>(6,106,410)</u>	<u>51,521,164</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(19,805,652)</u>	<u>(1,792,384)</u>	<u>(1,358,783)</u>	<u>(22,956,819)</u>
Governmental Activities Capital Assets, Net	<u>\$ 25,214,661</u>	<u>10,814,876</u>	<u>(7,465,193)</u>	<u>\$ 28,564,345</u>
Business-type Activities:				
Land	\$ 146,306	-	-	146,306
Water Rights	99,800	-	-	99,800
Construction in Progress	498,769	190,649	(95,628)	593,790
Buildings and Improvements	9,001,064	-	300	9,001,364
Capital Assets	22,729,046	-	155,517	22,884,563
Machinery and Equipment	711,834	20,454	1,358	733,646
Infrastructure	<u>6,190,627</u>	<u>95,627</u>	<u>-</u>	<u>6,286,254</u>
Totals at Historic Cost	<u>\$ 39,377,746</u>	<u>306,730</u>	<u>61,547</u>	<u>39,745,723</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(16,788,987)</u>	<u>(463,173)</u>	<u>(350,405)</u>	<u>(17,602,565)</u>
Business-type Activities Capital Assets, Net	<u>\$ 22,588,759</u>	<u>(156,443)</u>	<u>(288,858)</u>	<u>22,143,158</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 148,892
Public Safety	320,908
Highways and Streets	968,059
Culture and Recreation	354,525
Economic Development	-
Health and Welfare	-
Total Depreciation Expense	<u>\$1,792,384</u>

F. BONDS AND LONG-TERM NOTES PAYABLE

At September 30, 2013, long-term debt consisted of the following:

General Long Term Debt (Primary Government):

Notes payable:

Renewal note payable to BBVA Compass Bank dated September 30, 2007, payable in one installment due March 30, 2013, including interest at 5.66%, with remaining unpaid balance due at maturity, secured by certificate of deposit. \$ 850,000

Renewal note payable to BBVA Compass Bank dated September 30, 2007, payable in one installment due March 30, 2013, including interest at 5.66%, with remaining unpaid balance due at maturity, secured by certificate of deposit. 575,136

Total Notes Payable \$ 1,425,136

Certificates of Obligation:

\$3,970,000 Series 2012 General Obligation Refunding Bond due in annual installments of \$385,000 through \$459,000 to September 30, 2022; interest rate at 3.00% \$ 3,135,000

\$3,635,000 Series 2010 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$140,000 through \$500,000 to August 1, 2030; interest rate at 3.00% to 4.38% 3,230,000

Bonds payable to United States Department of Agriculture Rural Development For purposes of water and waste water improvements. including interest at 1.875% Through September 30, 2052 3,059,000

Total Certificates of Obligation \$ 9,424,000

Other:

Capital Leases 63,898

Vacation payable \$ 207,203

Total Long-Term Debt-Governmental Fund Type \$11,120,237

Long Term Debt (Proprietary):

\$11,463,000 Series 2013 Texas Events Center Revenue Bonds due in annual installments of \$211,000 through \$625,000 to August 1, 2022; interest rate at 3.75%. \$ 11,252,000

Total Long-Term Debt-Proprietary Fund Type \$ 11,252,000

There are a number of limitations and restrictions contained in the revenue bond indenture. Management has indicated that the City is in compliance with all significant limitations and restrictions at September 30, 2013.

General Long Term Debt (Component Units):

At September 30, 2013, long-term debt for HEDC consisted of the following:

General Long Term Debt:

\$750,000 promissory note collateralized by City of Hidalgo’s IRP Revolving Fund, personal property, and other rights and interests the USDA may require. Interest will accrue at 1%. Interest only payments due annually for first 2 years, thereafter there are annual payments of principal and interest due. Originated August 1, 2006 and Matures August 2036. \$ 650,567

Total Long-Term Debt - HEDC \$ 650,567

G. DEBT SERVICE REQUIREMENTS

Debt service requirements for long-term debt (primary government) for City of Hidalgo are as follows:

Year Ending	Capital Leases		Note Payable		Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30						
2014	\$ 30,000	\$ 0	\$1,425,136	\$ 80,663	\$ 586,000	\$ 318,931
2015	33,898	0	0	0	606,000	295,508
2016	0	0	0	0	633,000	270,617
2017	0	0	0	0	664,000	245,589
2018	0	0	0	0	471,000	220,310
2019-2023	0	0	0	0	2,337,000	799,266
2024-2028	0	0	0	0	1,404,000	473,225
2029-2033	0	0	0	0	854,000	225,326
2034-2038	0	0	0	0	400,000	156,461
2039-2043	0	0	0	0	453,000	117,012
2044-2048	0	0	0	0	513,000	72,341
2049-2053	0	0	0	0	503,000	21,756
Total	\$ 63,898	\$ 0	\$1,425,136	\$ 80,663	\$ 9,424,000	\$3,216,342

Debt service requirements for long-term debt(proprietary type) are as follows:

Year Ending	Certificates of Obligation	
	Principal	Interest
September 30		
2014	\$ 219,000	\$ 417,878
2015	227,000	409,516
2016	235,000	401,402
2017	245,000	391,311
2018	245,000	391,311
2019-2023	1,371,000	1,420,357
2024-2028	1,654,000	1,528,942
2029-2033	1,993,000	1,188,263
2034-2038	2,406,000	776,534
2039-2043	<u>2,657,000</u>	<u>280,685</u>
Total	<u>\$11,252,000</u>	<u>\$7,206,196</u>

Debt service requirements for long-term debt for HEDC are as follows:

Year Ending	Notes Payable
September 30	
2014	\$30,848
2015	30,848
2016	30,848
2017	30,848
2018	30,848
2019-2023	154,240
2024-2028	154,240
2029-2033	154,240
2034-2038	<u>9,265</u>
Total	<u>\$ 626,225</u>

I. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2013, was as follows for the City of Hidalgo:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
Capital Leases	\$ 0	\$ 95,298	\$ (31,400)	\$ 63,898	\$ 30,000
Certificates of Obligation	6,835,000	3,059,000	(470,000)	9,424,000	586,000
Notes Payable	1,425,136	0	0	1,425,136	1,425,136
Vacation Payable	<u>203,413</u>	<u>3,790</u>	<u>0</u>	<u>207,203</u>	<u>0</u>
Total Bonds and Notes Payable	<u>\$8,463,549</u>	<u>\$ 3,158,088</u>	<u>\$ (501,400)</u>	<u>\$ 11,120,237</u>	<u>\$2,041,136</u>
Total Governmental Activities Long-term Liabilities	<u>\$8,463,549</u>	<u>\$ 3,158,088</u>	<u>\$ (501,400)</u>	<u>\$ 11,120,237</u>	<u>\$2,041,136</u>

Long-term activity for the year ended September 30, 2013, was as follows for the HEDC:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable:					
Notes Payable	<u>\$ 650,567</u>	<u>\$ 0</u>	<u>\$ (24,342)</u>	<u>\$ 626,225</u>	<u>\$ 30,848</u>
Total Notes Payable	<u>\$ 650,567</u>	<u>\$ 0</u>	<u>\$ (24,342)</u>	<u>\$ 626,225</u>	<u>\$ 30,848</u>
Total Long-term Liabilities	<u>\$ 650,567</u>	<u>\$ 0</u>	<u>\$ (24,342)</u>	<u>\$ 626,225</u>	<u>\$ 30,848</u>

J. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following for the City of Hidalgo:

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total</u>
Deferred Revenue	<u>\$5,214,354</u>	<u>\$ 58,910</u>	<u>\$5,273,264</u>
Total Deferred Revenue	<u>\$5,214,354</u>	<u>\$ 58,910</u>	<u>\$5,273,264</u>

In the general fund, \$5,015,584 of deferred revenues relates to advances made to the City of McAllen, pursuant to the agreement on the Anzalduas Bridge. The remainder of deferred revenues relates to uncollected property taxes, net of allowance for uncollectible. Unearned utility revenues represent the largest portion of the total amount reflected as deferred revenues.

K. COMMITMENTS AND CONTINGENCIES

The City is involved in various lawsuits concerning several issues. The city's management and legal counsel estimate that the potential loss for a number of the cases is minimal, either in the potential for an unfavorable outcome or the potential loss in the event of loss. In addition the City's legal counsel is unable to reasonably predict the outcome in favor of or against the City at this time for all the outstanding cases, and is not able to estimate a range of potential loss for all the cases.

Federal and State Funds -The City has received federal and state funds as grants and other financial assistance. These funds must be spent only as allowed by the grant and other federal or state requirements. Also, the City must follow various laws and regulations when they receive these funds. If the City does not abide by these laws and regulations or does not spend the monies, as allowed under the grant agreements, the City may be required to return the grant monies, or portion thereof, to the granting agencies. The contingent liability, if any, that may be due to the federal and state agencies, cannot be readily determined.

L. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2010, the City has maintained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage.

The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

M. CONCENTRATIONS OF CREDIT RISK

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service.

N. HEALTH CARE COVERAGE

The City sponsors a partially self-funded self-insurance plan to provide health care benefits to employees and their dependents. Transactions related to the plan are accounted for in the Internal Service Fund of the City. The City was protected against unanticipated, catastrophic individual, or aggregate loss by stop-loss coverage carried through Boon Chapman. Stop-loss coverage will be in effect for annual individual claims exceeding \$50,000 respectively. Management believes that adequate funding plans have been made for all incurred and anticipated claims at September 30, 2013.

O. NOTES RECEIVABLE

The Hidalgo Economic Development Corporation, (HEDC) was awarded funds from the US Department of Agriculture (USDA) for a Rural Business Enterprise Program Grant (RBEG) and an Intermediary Relending Program (IRP) to start a revolving loan program. The purpose of this program is to offer low interest loans to existing or new business in the City of Hidalgo.

The total amount of commitment under the revolving loan program was \$1,275,000. The loans have terms ranging from 3 to 10 years with interest rates of 3% to 6%. As of September 30, 2013 the balance for notes receivable was \$ 1,492,548.

P. INTEREST IN INTERNATIONAL TOLL BRIDGES

McAllen International Toll Bridge

Pursuant to an interlocal agreement dated January 11, 1960 with the City of McAllen, Texas and as amended by an interlocal agreement dated April 1, 2003, the City of Hidalgo receives 36% of the unallocated balance of surplus net revenues from the operations of the McAllen International Toll Bridge.

The City of Hidalgo's share of bridge revenues for the twelve months ended September 30, 2013 was \$3,226,208. Bridge revenues represent 28% of total General Fund revenues in the year ended September 30, 2013.

At September 30, 2013, the City had collected \$ 2,455,014 of these revenues, leaving a balance due to the City of \$771,194.

The intangible asset of \$189,750 represents the City's original investment in the McAllen International Toll Bridge. This intangible asset has an indefinite life and is not subject to amortization.

Anzalduas Bridge

Pursuant to the Hidalgo-Mission-McAllen Interlocal Government Agreement, dated April 1, 2003 (“2003 Agreement”), the City of McAllen, Texas and the City of Mission, Texas own and will operate, upon completing construction of the project, the Anzalduas International Crossing (“Anzalduas Bridge”) links United States, south of the City of Mission, Texas and the westernmost part of Reynosa, Tamaulipas, Mexico. According to that agreement, the ownership interest of the City of McAllen and the City of Mission are 66 2/3% and 33 1/3%, respectively. The agreement also provides that complete management and control of the Anzalduas Bridge, with the exception of fixing rates and charges for services and the issuance of debt, which is reserved by the Board of Commissioners of McAllen, shall be vested in a board of Trustees consisting of five (5) voting-members, two of which are appointed from the existing members of the Hidalgo Bridge Board by McAllen, with the Mayors of the cities of McAllen, Hidalgo and Mission serving as ex-officio Board members. The Mayor of Granjeno also serves as an ex-officio non-voting member of the Board. In addition, the budget is subject to final approval by the board of Commissioners of McAllen.

The agreement also provides that these cities as well as the City of Hidalgo will share in the unallocated balance of surplus net revenues at the following percentages: City of McAllen, 44%; City of Mission, 23%; and the City of Hidalgo, 33%, in order to finance the construction of the Anzalduas Bridge, the City of McAllen in July 2007, issues \$39,160,000 in revenue bonds in two separate series, \$26,000,000 Series 2007A and \$13,160,000 Series B. The Bonds are secured by a pledge of net revenues of the McAllen International Toll Bridge (“Hidalgo Bridge”), located in Hidalgo, Texas and Anzalduas Bridge. According to the 2003 Agreement, both the City of McAllen and the City of Hidalgo are responsible for the Series 2007 A bonds from each city’s respective share of net revenues of the Hidalgo Bridge. Only the City of McAllen is responsible for 2007 B bonds from its share of net revenues of the Hidalgo Bridge. The date of completion and commencement of operations was December 2009.

As of September 30, 2013 the Anzalduas Special and Start Up Fund advance payable to the Hidalgo Bridge amounts to \$9,466,742, of which the City of Hidalgo’s portion is \$3,573,123. Additionally, the Hidalgo Bridge advance payable was \$4,006,834 of which the City of Hidalgo’s portion was \$1,442,460. Upon satisfying debt obligations, revenues from these operations are to be distributed to pay back these advances. The aggregate amount to be paid back to the City of Hidalgo is \$5,015,584. This amount is reflected in the financial statements as deferred revenues. It is expected that these distributions in future years to the City of Hidalgo will constitute revenues for the City of Hidalgo’s General Fund.

Q. DEFINED BENEFIT PENSION PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS’ website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2012	Plan Year 2013
Employee Deposit Rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of Service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	\$	605,631
2. Interest on Net Pension Obligation		-
3. Adjustment to the ARC		(14,493)
4. Annual Pension Cost (APC)		591,138
5. Contributions Made		(591,138)
6. Increase (decrease) in net pension obligation		-
7. Net Pension Obligation/(Asset), beginning of year		-
8. Net Pension Obligation/(Asset), end of year	\$	-

Three Year Trend Information			
Fiscal Year Funding September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 218,031	139%	\$ (78,307)
2011	256,152	109%	(20,494)
2012	-	0%	-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.5 years; Closed Period	26.6 years; Closed Period	25.8 years; Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions: Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by Age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actual of Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
		(1) / (2)	(2)-(1)			(4)/(5)
12/31/12	\$ 9,853,522	\$11,071,483	89.0%	\$ (1,217,961)	\$4,497,970	27.1%

Actual valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, 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.

Actual of Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
		(1) / (2)	(2)-(1)			(4)/(5)
12/31/10	\$ 7,839,685	\$ 9,544,504	82.1%	\$1,704,819	\$5,053,460	33.7%
12/31/11	\$ 8,788,536	\$10,308,532	85.3%	\$1,519,996	\$4,824,609	31.5%
12/31/12	\$ 9,853,522	\$11,071,483	89.0%	\$1,217,961	\$4,497,970	27.1%

R. PRIOR PERIOD ADJUSTMENTS

There were adjustments of \$(207,800) and \$(643) respectively in the General fund and Capital Projects Fund relating to expenditures that should have been recognized in the prior year.

S. CONDENSED FINANCIAL INFORMATION

Included in the Statement of Net Position (Exhibit A-1) are the combined Component Units as follows;

<u>Assets</u>	Description	Hidalgo E.D.C. Fund	State Farm Operations Fund	Total
	Cash and Cash Equivalents	\$ 1,090,135	\$ 1,369,284	\$ 2,459,419
	Receivables (net of allowance for uncollectibles)	1,492,548	650,493	2,143,041
	Due from Primary Government	163,640	-	163,640
	Prepaid Items	-	51,456	51,456
	Land	316,025	-	316,025
	Other Assets	650,567	-	650,567
	Total Assets	<u>\$ 3,712,915</u>	<u>\$ 2,071,233</u>	<u>\$ 5,784,148</u>
<u>Liabilities</u>				
	Accounts Payable	\$ -	\$ 372,131	\$ 372,131
	Due to Primary Government	168,463	2,113,384	2,281,847
	Deferred Revenues	-	952,623	952,623
	Due in More Than One Year	626,225	-	626,225
	Total Liabilities	<u>\$ 794,688</u>	<u>\$ 3,438,138</u>	<u>\$ 4,232,826</u>
<u>Equities</u>				
	Net Investment in Capital Assets	\$ 316,025	\$ -	\$ 168,463
	Unrestricted Net Position	\$ 2,602,202	\$ (1,366,905)	\$ 1,382,859
	Total Net Position	<u>\$ 2,918,227</u>	<u>\$ (1,366,905)</u>	<u>\$ 1,551,322</u>

CITY OF HIDALGO
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 925,000	\$ 781,000	\$ 779,761	\$ (1,239)
General Sales and Use Taxes	1,390,000	1,227,674	1,446,192	218,518
Franchise Tax	390,000	395,085	396,469	1,384
Other Taxes	47,200	49,636	51,016	1,380
Penalty and Interest on Taxes	31,000	27,500	25,745	(1,755)
Licenses and Permits	246,828	239,037	250,758	11,721
Intergovernmental Revenue and Grants	-	350,000	87,669	(262,331)
Charges for Services	846,984	594,078	1,026,544	432,466
Fines	900,000	510,775	410,164	(100,611)
Investment Earnings	3,500	10,250	11,986	1,736
Rents and Royalties	-	-	53,473	53,473
Other Revenue	3,917,257	3,707,702	3,521,721	(185,981)
Total Revenues	<u>8,697,769</u>	<u>7,892,737</u>	<u>8,061,498</u>	<u>168,761</u>
EXPENDITURES:				
Current:				
General Government	2,262,065	2,194,099	2,202,320	(8,221)
Public Safety	3,483,949	2,955,896	2,956,524	(628)
Public Works:				
Highways and Streets	763,376	686,626	685,529	1,097
Health and Welfare	65,334	63,068	64,052	(984)
Culture and Recreation	1,506,621	1,197,623	1,176,455	21,168
Debt Service:				
Other Debt Principal	102,832	84,637	34,637	50,000
Capital Outlay:				
Capital Outlay	476,900	695,099	711,063	(15,964)
Total Expenditures	<u>8,661,077</u>	<u>7,877,048</u>	<u>7,830,580</u>	<u>46,468</u>
Net Change	36,692	15,689	230,918	215,229
Fund Balance - October 1 (Beginning)	4,512,505	4,512,505	4,512,505	-
Prior Period Adjustment	-	-	(207,800)	(207,800)
Fund Balance - September 30 (Ending)	<u>\$ 4,549,197</u>	<u>\$ 4,528,194</u>	<u>\$ 4,535,623</u>	<u>\$ 7,429</u>

CITY OF HIDALGO
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	Tax Increment Reinvestment Zone#1 Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 15,713	\$ 62,007	\$ 77,720
Taxes Receivable	-	72,869	72,869
Allowance for Uncollectible Taxes (credit)	-	(30,696)	(30,696)
Receivables (Net)	13	(30)	(17)
Due from Other Funds	518,964	-	518,964
Total Assets	<u>\$ 534,690</u>	<u>\$ 104,150</u>	<u>\$ 638,840</u>
LIABILITIES			
Due to Other Funds	\$ -	\$ 202,128	\$ 202,128
Total Liabilities	<u>-</u>	<u>202,128</u>	<u>202,128</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	-	42,173	42,173
Total Deferred Inflows of Resources	<u>-</u>	<u>42,173</u>	<u>42,173</u>
FUND BALANCES			
Federal or State Funds Grant Restriction	534,690	-	534,690
Unassigned Fund Balance	-	(140,151)	(140,151)
Total Fund Balances	<u>534,690</u>	<u>(140,151)</u>	<u>394,539</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 534,690</u>	<u>\$ 104,150</u>	<u>\$ 638,840</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIDALGO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Tax Increment Reinvestment Zone#1 Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 219,158	\$ 607,151	\$ 826,309
Penalty and Interest on Taxes	5,257	18,910	24,167
Investment Earnings	<u>249</u>	<u>260</u>	<u>509</u>
Total Revenues	<u>224,664</u>	<u>626,321</u>	<u>850,985</u>
EXPENDITURES:			
Current:			
Debt Service:			
Bond Principal	-	520,000	520,000
Bond Interest	-	284,069	284,069
Fiscal Agent's Fees	<u>-</u>	<u>250</u>	<u>250</u>
Total Expenditures	<u>-</u>	<u>804,319</u>	<u>804,319</u>
Net Change in Fund Balance	224,664	(177,998)	46,666
Fund Balance - October 1 (Beginning)	310,026	45,136	355,162
Prior Period Adjustment	<u>-</u>	<u>(7,289)</u>	<u>(7,289)</u>
Fund Balance - September 30 (Ending)	<u>\$ 534,690</u>	<u>\$ (140,151)</u>	<u>\$ 394,539</u>

The notes to the financial statements are an integral part of this statement.

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING
STANDARDS***

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Hidalgo, Tx

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, the business-type activities, Component units, each major fund, and the aggregate remaining fund information of the City of Hidalgo, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Hidalgo's basic financial statements, and have issued our report thereon dated May 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hidalgo'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 City of Hidalgo's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hidalgo'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item #2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hidalgo'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*.

Response to Findings

City of Hidalgo's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hidalgo'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.

Reyna & Garza, PLLC
Certified Public Accountants

May 27, 2014

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Hidalgo, Tx

Report on Compliance for Each Major Federal Program

We have audited City of Hidalgo's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Hidalgo's major federal programs for the year ended September 30, 2013. City of Hidalgo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hidalgo's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hidalgo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Hidalgo's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Hidalgo, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of City of Hidalgo, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Hidalgo's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Hidalgo's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Reyna & Garza, PLLC
Certified Public Accountants

May 27, 2014

CITY OF HIDALGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending September 30, 2013

1) **SUMMARY OF AUDIT RESULTS**

Financial Statement Audit:

- a) The auditor's report expresses an unqualified opinion on General Purpose Financial Statements.
- b) One significant deficiency disclosed during the audit of the general purpose financial statements. Item is listed as #2013-1. This finding was not considered a material weakness.
- c) No instance(s) of noncompliance material to the general-purpose financial statements of City of Hidalgo, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.

Federal Major Programs Audit:

- d) The report on compliance for the major Federal award programs for City of Hidalgo expresses an unqualified opinion on all major Federal programs.
- e) No significant deficiencies or material weaknesses disclosed during the audit of the major federal programs.
- f) No findings under Section 510(a) of OMB Circular A-133 disclosed during the audit of the major federal programs.
- g) The programs tested as major Federal programs included:
 - 1) Wastewater Treatment Plant Loan/Grant(CFDA#10.781)
 - 2) Transportation Enhancement Project (CFDA#20.205)
- h) The threshold used for distinguishing between Type A and B programs was \$300,000.
- i) City of Hidalgo did not qualify as a low-risk auditee within the context of OMB Circular A-133.

2) **FINDINGS – FINANCIAL STATEMENT AUDIT**

2013-01: Closing of Financial Statements

Criteria:

Controls relative to timely close-out of financial statements at year-end should be in place, in order to provide management and other third-party stakeholders with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state, and local reporting deadlines.

Condition:

A significant amount of time lapsed(six months) after year-end, before the financial statements were properly closed-out.

Effect:

Timely financial statements in accordance with GAAP were not available during the year, and at year-end. As such, monitoring of budget versus actual activity in the expenditures incurred and revenues realized may have been compromised, as well as other key decision-making processed based on financial statements.

Recommendation:

The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements in accordance with GAAP are prepared and available for management use, as well as for audit purposes.

Auditee's Response:

Sonia Resendez, Finance Director for the City will review internal controls related this area and will make a recommendation to management. The contact number is (956)843-2286.

3) FINDING AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS AUDIT.

None

CITY OF HIDALGO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ending September 30, 2013

2013-01: Closing of Financial Statements

Condition:

A significant amount of time lapsed(eight months) after year-end, before the financial statements were properly closed-out.

Current Status:

Refer to current year findings.

CITY OF HIDALGO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED SEPTEMBER 30, 2013

DESCRIPTION	FEDERAL CFDA NUMBER	GRANTOR NUMBER	EXPENDITURES/ DISBURSEMENTS
<u>FEDERAL FINANCIAL ASSISTANCE:</u>			
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Water and Waste Disposal Systems for Rural Communities Loan	10.770		3,059,000
Water and Waste Disposal Systems for Rural Communities Grant	10.770		<u>1,765,841</u>
TOTAL-U.S. DEPARTMENT OF AGRICULTURE			<u>4,824,841</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<u>PASSED THROUGH TEXAS DEPARTMENT OF TRANSPORTATION</u>			
Highway Planning and Construction	20.205	0921-02-282	482,317
TOTAL-U.S. DEPARTMENT OF TRANSPORTATION			<u>482,317</u>
TOTAL-FEDERAL FINANCIAL ASSISTANCE			<u><u>5,307,158</u></u>

CITY OF HIDALGO
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

- The City uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes. Federal and state financial assistance generally is accounted for in a Special Revenue Fund because it is restricted for specific purposes.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus called the modified accrual basis of accounting. Nearly all Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Usually Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When Federal grant funds are received before related expenditures are made, they are recorded as deferred revenues.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement.