

**HIDALGO COUNTY IRRIGATION
DISTRICT NO. ONE**

FINANCIAL STATEMENTS

August 31, 2017 and 2016



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Hidalgo County Irrigation District No. One
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August 31, 2017

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**Hidalgo County Irrigation District No. One
Officers and Directors
August 31, 2017**

| | |
|---------------------|----------------|
| R. L. Bell, Jr. | President |
| Tomas Garcia | Vice President |
| Mark J. Fryer | Secretary |
| William Boyd Davis | Director |
| Cosme Martínez, Jr. | Director |

MANAGER

Bobby R. McDaniel

TAX ASSESSOR-COLLECTOR

Estella Mata

ATTORNEY

Kirby Cavin

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hidalgo County Irrigation District No. One

We have audited the accompanying financial statements of the business-type activities of Hidalgo County Irrigation District No. One, as of and for the years ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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. 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hidalgo County Irrigation District No. One, as of August 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the

years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of employer contributions, the schedule of changes in net pension liability and related ratios and the related notes to the Required Supplementary Information, as listed in 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 an opinion on the financial statements that comprise the Hidalgo County Irrigation District No. One's basic financial statements. The introductory section and the supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Emphasis of Matter

As discussed in Note 13 to the financial statements, the 2016 financial statements have been restated to correct misstatements and reclassifications. Our opinion is not modified with respect to this matter.

McAllen, Texas

April 30, 2018

Hidalgo County Irrigation District No. One Management Discussion and Analysis

Discussion and analysis of the District's financial performance provide an overview of the District's financial activities for the fiscal year ended August 31, 2017 and 2016.

District Highlights

- The construction project utilizing the \$7,100,000 bond proceeds under State Water Implementation Revenue Fund for Texas (SWIRFT) administered by the Texas Water Development Board for improvements to the District's main canal is near completion. The engineering phase of the project began in 2016.

Financial Highlights

- Operating revenues increased \$643,789 to \$3,418,908 while operating expenses increased \$98,125 to \$3,534,581. The District's operating loss decreased to \$115,673 compared to last year's restated operating loss of \$661,337. Non-operating revenues increased to \$3,555,380 from last year's restated total of \$648,301.

Required Financial Statements

The financial statements of the District report information under accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position reports its assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All the current year's revenues, expenses and changes in net position are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the District's operations over the past two years and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the District's cash receipts and cash payments during the reporting periods. The statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities.

Hidalgo County Irrigation District No. One Management Discussion and Analysis

Financial Analysis of the District as a Whole

Our analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the years ended August 31, 2017, 2016 and 2015.

Table 1

| <i>August 31,</i> | <i>(As restated)</i> | | |
|----------------------------------|----------------------|---------------|---------------|
| | 2017 | 2016 | 2015 |
| Current assets | \$ 15,180,745 | \$ 13,076,228 | \$ 5,870,514 |
| Noncurrent assets | 26,773,598 | 25,287,894 | 25,182,019 |
| Total assets | 41,954,343 | 38,364,122 | 31,052,533 |
| Deferred outflow of resources | 108,257 | 118,407 | 29,883 |
| Current liabilities | 890,759 | 551,793 | 254,914 |
| Noncurrent liabilities | 6,903,796 | 7,103,643 | - |
| Total liabilities | 7,794,555 | 7,655,436 | 254,914 |
| Deferred inflow of resources | 24,110 | 22,865 | 7,238 |
| Net Position | | | |
| Net investment in capital assets | 19,858,598 | 18,187,894 | 25,142,105 |
| Restricted | 4,941,783 | 6,892,281 | - |
| Unrestricted | 9,443,554 | 5,724,053 | 5,675,159 |
| Total net position | \$ 34,243,935 | \$ 30,804,228 | \$ 30,817,264 |

Changes in the District's net position can be determined by reviewing the following condensed Statements of Revenue, Expenses and Net Position for the years ended August 31, 2017, 2016 and 2015.

Table 2

| <i>For the years ended August 31,</i> | <i>(As restated)</i> | | |
|---|----------------------|---------------|---------------|
| | 2017 | 2016 | 2015 |
| Total operating revenues | \$ 3,418,908 | \$ 2,775,119 | \$ 1,630,568 |
| Nonoperating revenues | 3,463,481 | 593,251 | 1,241,368 |
| Ordinary dividends | 19,027 | 8,770 | - |
| Interest earned | 72,872 | 46,280 | 24,254 |
| Total revenues | 6,974,288 | 3,423,420 | 2,896,190 |
| Depreciation expense | 1,096,674 | 1,123,576 | 1,065,172 |
| Other operating expenses | 2,437,907 | 2,312,880 | 1,810,092 |
| Total expenses | 3,534,581 | 3,436,456 | 2,875,264 |
| Change in net position | 3,439,707 | (13,036) | 20,926 |
| Net position at beginning of year | 30,804,228 | 30,817,264 | 30,753,190 |
| Prior period adjustment - GASB 68 & 71 Pensions | - | - | 43,148 |
| Net position at beginning of year, restated | 30,804,228 | 30,817,264 | 30,796,338 |
| Net position at end of year | \$ 34,243,935 | \$ 30,804,228 | \$ 30,817,264 |

Hidalgo County Irrigation District No. One Management Discussion and Analysis

Financial Analysis of the District as a Whole (Continued)

Total operating revenues increased by \$643,789 or about 23.20%. Lower than normal rainfall resulted in higher water deliveries to municipal and irrigation customers during fiscal year 2017.

Total operating expenses increased by \$98,125 due to increases in utility costs corresponding to the increase in water delivered.

Total non-operating revenue increased by \$2,907,079. The increase corresponds to changes in the composition of water rights sold in the respective years. The District sold \$3,301,550 municipal water rights during 2017 but none in 2016.

The District Funds

The District has one activity, the Enterprise (M&O) Fund. Net operating activities declined compared to the prior year, reflecting a loss on operations of \$115,673 during the fiscal year. Current year operating revenues and levy assessments were not sufficient to cover operating expenses. Non-operating revenues of \$3,555,380 which are derived from sales of right of ways, sale of water rights, investment income and royalty income, were able to offset the decrease from operating activities.

Capital Assets and Debt Administration

At August 31, 2017, the District had \$50,243,109 invested in Capital Assets including land, buildings, permanent improvements, equipment, furniture and fixtures, meters, computer equipment and construction in progress. The District's accumulated depreciation as of August 31, 2017 totaled \$23,469,511, leaving a net capital asset balance of \$26,773,598.

The following table summarizes the District's capital assets, net of accumulated depreciation, for the years ended August 31, 2017, 2016 and 2015.

Table 3

| <i>August 31,</i> | <i>(As restated)</i> | | |
|---|----------------------|---------------|---------------|
| | 2017 | 2016 | 2015 |
| Land | \$ 1,571,195 | \$ 1,571,195 | \$ 1,571,195 |
| Canals and laterals | 17,796,082 | 17,796,082 | 17,796,082 |
| Improvements | 12,396,141 | 12,396,141 | 12,428,767 |
| Other infrastructure | 8,957,354 | 8,957,354 | 8,619,624 |
| Furniture, fixtures, and office equipment | 352,613 | 349,646 | 332,980 |
| Machinery and equipment | 5,874,329 | 5,742,711 | 5,387,663 |
| Construction in progress | 3,295,395 | 870,102 | 277,556 |
| Total capital assets | 50,243,109 | 47,683,231 | 46,413,867 |
| Less: accumulated depreciation | 23,469,511 | 22,395,337 | 21,271,761 |
| Total capital assets, net | \$ 26,773,598 | \$ 25,287,894 | \$ 25,142,106 |

Hidalgo County Irrigation District No. One Management Discussion and Analysis

Capital Assets and Debt Administration (Continued)

The following table summarizes the changes in capital assets.

Table 4

| <i>August 31,</i> | <i>(As restated)</i> | | |
|---|----------------------|---------------|---------------|
| | 2017 | 2016 | 2015 |
| Balance at beginning of the year | \$ 25,287,894 | \$ 25,142,106 | \$ 24,074,412 |
| Additions | 157,085 | 687,588 | 3,477,407 |
| Retirements | (22,500) | (10,770) | - |
| Depreciation | (1,096,674) | (1,123,576) | (1,065,172) |
| Accumulated depreciation (retired assets) | 22,500 | - | - |
| Increase (decrease) in construction in progress | 2,425,293 | 592,546 | (1,344,541) |
| Total changes in capital assets | \$ 26,773,598 | \$ 25,287,894 | \$ 25,142,106 |

In September 10, 2015, the District was awarded a financing agreement with the Texas Water Development Board. The agreement authorizes bond borrowing of \$7,100,000 from the State Water Implementation Revenue Fund for Texas (SWIRFT). The funds are for construction improvements to the District's main canal. The bond is scheduled to be repaid over 30 years with annual principal and bi-annual interest payments at approximate annual rate of 3.0%. The District started making interest payments in February 2016; as of August 31, 2017 and 2016 the District had paid \$178,173 and \$123,899, respectively, in interest. The bond funds were provided to an escrow agent and disbursed with adequately supported and approved requests.

Economic Factors and Next Year's Budget

The income from next year's budget will come from levy assessment collections, water sales (agricultural and municipal) and sales of surplus property.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Hidalgo County Irrigation District No. One, P.O. Box 870, Edinburg, TX 78540.

Hidalgo County Irrigation District No. One Statements of Net Position

| <i>August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|---------------------------------------|-------------------|----------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 93,180 | \$ 181,917 |
| Investments | 6,890,236 | 4,720,656 |
| Accounts receivable | 213,284 | 463,400 |
| Levy and assessments receivable, net | 756,307 | 733,336 |
| Water rights receivable | 2,200,000 | - |
| Inventory | 24,273 | 28,580 |
| Prepaid insurance | 33,779 | 33,779 |
| Other | 27,903 | 22,279 |
| Restricted cash | 4,337,019 | 6,522,281 |
| Restricted investments | 604,764 | 370,000 |
| Total current assets | 15,180,745 | 13,076,228 |
| Noncurrent assets | | |
| Capital assets, net | 26,773,598 | 25,287,894 |
| Total noncurrent assets | 26,773,598 | 25,287,894 |
| Total assets | 41,954,343 | 38,364,122 |
| Deferred outflows of resources | | |
| Deferred outflows related to pensions | 108,257 | 118,407 |

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Hidalgo County Irrigation District No. One Statements of Net Position *(Continued)*

| <i>August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|--|---------------|---------------------------|
| Liabilities | | |
| Current liabilities | | |
| Current portion of long-term bonds payable | \$ 185,000 | \$ 185,000 |
| Accounts payable | 106,987 | 198,740 |
| Project cost-sharing advance | 321,808 | - |
| Accrued liabilities | 16,368 | 8,760 |
| Unearned water revenue | 141,546 | 143,466 |
| Retainage payable | 84,046 | - |
| Compensated absences payable | 35,004 | 15,827 |
| Total current liabilities | 890,759 | 551,793 |
| Noncurrent liabilities | | |
| Net pension liability | 173,796 | 188,643 |
| Bonds payable, net of current portion | 6,730,000 | 6,915,000 |
| Total noncurrent liabilities | 6,903,796 | 7,103,643 |
| Total liabilities | 7,794,555 | 7,655,436 |
| Deferred inflows of resources | | |
| Deferred inflows related to pensions | 24,110 | 22,865 |
| Net position | | |
| Net investment in capital assets | 19,858,598 | 18,187,894 |
| Restricted for: | | |
| Debt service reserve | 382,156 | 378,844 |
| Capital improvement projects | 4,559,627 | 6,513,437 |
| Unrestricted | 9,443,554 | 5,724,053 |
| Total net position | \$ 34,243,935 | \$ 30,804,228 |

The accompanying notes are an integral part of these financial statements.

Hidalgo County Irrigation District No. One Statements of Revenues, Expenses and Changes in Net Position

| <i>For the years ended August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|--|----------------------|---------------------------|
| Operating revenues | | |
| Water sales | \$ 2,886,844 | \$ 2,261,555 |
| Flat rate levy | 416,279 | 415,757 |
| Demand charges | 22,495 | 33,743 |
| Penalties | 92,780 | 63,684 |
| Tax certificates | 510 | 380 |
| Total operating revenues | 3,418,908 | 2,775,119 |
| Operating expenses | | |
| Administrative expenses | 715,600 | 645,471 |
| Penitas plant operating expenses | 914,624 | 827,660 |
| Water delivery expenses | 334,941 | 358,061 |
| M&O maintenance | 1,156,744 | 1,176,455 |
| Penitas main canal | 412,671 | 428,809 |
| Total operating expenses | 3,534,580 | 3,436,456 |
| Operating income (loss) | (115,672) | (661,337) |
| Non-operating revenues (expenses) | | |
| Ordinary dividends | 19,027 | 8,770 |
| Interest earned | 72,872 | 46,280 |
| Oil and gas royalties | 6,098 | 4,156 |
| Investment fees | (21,830) | (16,830) |
| Gain on sale of right of ways and capital assets | 63,011 | 230,633 |
| Sale of municipal water rights | 3,301,550 | - |
| Administrative fees - exclusion | 3,600 | 6,000 |
| Miscellaneous | 3,256 | 8,376 |
| Lease | 6,245 | 9,600 |
| Subdivision processing fees | 7,850 | 9,250 |
| Easement crossing | 16,700 | 95,900 |
| Contributions for capital projects | 77,000 | 246,166 |
| Total non-operating revenues | 3,555,379 | 648,301 |
| Change in net position | 3,439,707 | (13,036) |
| Net position - beginning | 30,804,228 | 30,817,264 |
| Net position - ending | \$ 34,243,935 | \$ 30,804,228 |

The accompanying notes are an integral part of these financial statements.

Hidalgo County Irrigation District No. One Statements of Cash Flows

| <i>For the years ended August 31,</i> | <i>(Restated)</i> | |
|--|-------------------|--------------|
| | 2017 | 2016 |
| Cash flows from operating activities | | |
| Payments received from customers | \$ 3,250,825 | \$ 2,152,092 |
| Payments received from assessments | 393,308 | 389,839 |
| Payments to employees | (1,118,491) | (1,074,657) |
| Payments to suppliers | (1,383,529) | (963,386) |
| Net cash provided (used) by operating activities | 1,142,113 | 503,888 |
| Cash flows from capital and related financing activities | | |
| Acquisition or construction of capital assets | (2,545,147) | (1,145,465) |
| Proceeds from SWIRFT Bond | - | 7,100,000 |
| Payment on SWIRFT bond | (185,000) | - |
| Interest and other financing fees paid | (178,173) | (123,899) |
| Proceeds from sale of municipal water rights | 1,101,550 | - |
| Proceeds from the sale of right of ways and capital assets | 63,011 | 230,633 |
| Contributed capital | 77,000 | 246,166 |
| Other receipts | 353,836 | 112,255 |
| Net cash provided (used) by capital and related financing activities | (1,312,923) | 6,419,690 |
| Cash flows from investing activities | | |
| Royalties, dividends and interest | 97,997 | 59,206 |
| Purchase of investments | (7,723,161) | (5,558,306) |
| Sale of investments | 5,543,805 | 5,029,844 |
| Investment fees | (21,830) | (16,830) |
| Net cash provided (used) by investing activities | (2,103,189) | (486,086) |
| Net cash inflow (outflow) from all activities | (2,273,999) | 6,437,492 |
| Cash and cash equivalents at beginning of the year | 6,704,198 | 266,706 |
| Cash and cash equivalents at end of the year | \$ 4,430,199 | \$ 6,704,198 |

(Continued)

The accompanying notes are an integral part of these financial statements.

Hidalgo County Irrigation District No. One Statements of Cash Flows *(Continued)*

| <i>For the years ended August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|---|---------------------|----------------------------------|
| Reconciliation of operating income to net cash | | |
| Provided by operating activities | | |
| Operating loss | \$ (104,425) | \$ (661,336) |
| Depreciation | 1,096,674 | 1,123,576 |
| (Increase) decrease in: | | |
| Water receivable | 250,116 | (198,987) |
| Levy assessments receivable | (22,971) | (25,918) |
| Inventory | 4,307 | 2,015 |
| Deferred outflows of resources | 10,150 | (88,524) |
| Other | - | 36,914 |
| Increase (decrease) in: | | |
| Pension liability | (14,847) | 188,643 |
| Accounts payable | (91,753) | 120,046 |
| Accrued liabilities | 7,608 | (2,115) |
| Deferred water revenue | (1,920) | (8,283) |
| Compensated absences | 19,178 | 2,231 |
| Deferred inflow of resources | 1,245 | 15,627 |
| Net cash provided by operating activities | \$ 1,153,362 | \$ 503,889 |
| Supplemental information: | | |
| Cash paid for the year | | |
| Interest expense | \$ 178,173 | \$ 123,899 |

The accompanying notes are an integral part of these financial statements.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hidalgo County Irrigation District No. One (District) is considered to be a special-purpose primary government under the Governmental Accounting Standards Board (GASB) Statement 34 and its financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Creation of District

The Hidalgo County Irrigation District No. One was created in 1919 by the authority of the State of Texas. The District operates as an irrigation district under Chapter 58 of the Texas Water Code.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GASB 14 and 39. Based upon the application of these criteria, no other entities are included in the accompanying financial statements.

Basis of Accounting, Measurement Focus and Financial Statement Presentation

The District's fund is an enterprise fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Proprietary funds are accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Enterprise fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

The financial statements of the District have been prepared on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Property taxes are recognized as revenues in the year for which they are levied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations.

As business-type activities, the District's operating revenues are defined as the result of exchange transactions with those who purchase, use, or directly benefit from the goods or services of the District. The principal operating revenues are fees related to water sales. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Hidalgo County Irrigation District No. One

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-operating revenues include activities that have the characteristic of non-exchange transactions such as property tax and other revenue sources that are defined as non-operating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting and GASB No. 34, such as investment income. The major non-operating revenue is investment income and grant revenue. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as non-operating revenues or non-operating expenses.

New Accounting Standards Adopted

In fiscal year 2017, the District adopted one new statement of financial accounting standards issued by the Governmental Accounting Standards Board:

Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68 and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Capital Assets

Capital assets are stated at historical cost. It is the policy of the District to capitalize all property and equipment costs except immaterial items. Significant repairs and betterments which extend the lives of existing capital assets are also capitalized.

Public domain ("infrastructure") general fixed assets consisting of canals, laterals, checks, gates, bridges, pipelines, drainage systems, reservoirs, pumping plants and paving are capitalized and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of assets. No residual values are maintained. The following useful lives are used:

| | |
|---------------------------------|-------------|
| Buildings | 40 years |
| Infrastructure and improvements | 10-50 years |
| Equipment | 5-15 years |

Compensated Absences

Vested or accumulated vacation leave of the proprietary fund is recorded as an expense and liability of the fund as benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction Work in Progress

Construction work in progress represents costs accumulated for the replacement of sections of the District's canal lining and other projects that were not completed at year end.

Investments

The District can legally invest in adequately secured investments in accordance with the Public Funds Investment Act. This policy allows the District to invest in certificates of deposit, repurchase agreements, obligations of the U.S. Government and its Agencies or instrumentalities and State obligations. The District's investments consist of bank certificates of deposit and short-term obligations of the U.S. Government and its Agencies. These investments are valued at cost.

Inventories

Inventories are valued at the lower of cost or market, using the first-in/first-out (FIFO) method.

Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, accounts receivable, accounts payable and accrued liabilities: The carrying amount approximates fair value because of the short maturity of those instruments.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Net Investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

The District's policy considers restricted as applied first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Statement of Cash Flows

Since all certificates of deposit have original maturities in the excess of three months these transactions are considered investing activities and thus not considered cash equivalents. The District considers all other highly liquid investments with a maturity of three months or less from the date of the original purchase to be cash equivalents.

Budget Policies

Each fiscal year, the Board of Directors adopts an operating budget. The adopted budget is not a spending limitation under law, but rather an operating plan. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgetary amendments were made to the originally adopted budget. Expenses at the department level may not legally exceed the total budget.

Use of Estimates

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

Deferred Outflows of Resources and Deferred Inflows of Resources/Other Assets and Liabilities

Certain defined transactions that do not qualify for treatment as either assets or liabilities are required to be accounted for and reported as either deferred outflows of resources or deferred inflows of resources.

Deferred outflows of resources – a consumption of net position by the government that is applicable to a future reporting period and so will not be recognized as an outflow of resources (expenses) until then. It has a positive effect on net position, similar to assets. Deferred outflows of resources results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently four years.

Deferred inflows of resources – an acquisition of net assets by the government that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenues) until then. It has a negative effect on net position, similar to liabilities. Deferred inflows of resources result from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 2 - FLAT RATE ASSESSMENT AND WATER RATE

The District's flat rate assessment was \$20.00 per acre per year for the years ended August 31, 2017 and 2016. The District's water rates for the years ended August 31, 2017 and 2016 were:

| | | |
|--------------------------------------|----|--------|
| Citrus, farmland and pastures | | |
| Un-metered in district (ac. ft.) | \$ | 15.00 |
| Metered in district (ac. ft.) | \$ | 24.50 |
| Un-metered out of district (ac. ft.) | \$ | 38.75 |
| Metered out of district (ac. ft.) | \$ | 30.00 |
| Lakes and ponds | | |
| Un-metered in district (ac. ft.) | \$ | 25.00 |
| Metered in district (ac. ft.) | \$ | 40.00 |
| Un-metered out of district (ac. ft.) | \$ | 60.00 |
| Metered out of district (ac. ft.) | \$ | 50.00 |
| Yards | | |
| In district (2 hrs) | \$ | 45.00 |
| Out of district (2 hrs) | \$ | 60.00 |
| Annual (main canal) | \$ | 400.00 |
| Annual water commercial | \$ | 850.00 |

Delinquent taxes receivable are comprised of the following:

| August 31, | 2017 | 2016 |
|---|---------------------|--------------|
| Flat rate assessments | \$ 1,192,314 | \$ 1,162,968 |
| Allowance for uncollectible | (436,007) | (429,632) |
| Levy and assessments receivable, net | \$ 756,307 | \$ 733,336 |

Flat rate assessments are levied in one installment on November 1 based on the District's total taxable acreage. The installment of the flat rate assessments is due by January 31 of the following year. No discounts are offered. The installment of the flat rate assessments becomes delinquent February 1 of the following year. At the time assessments become delinquent, penalty and interest charges are applicable.

NOTE 3 – DESIGNATED UNRESTRICTED NET POSITION

Unrestricted net position includes amounts set aside by the District for future capital improvements and escrow deposits. The amounts are as follows:

| August 31, | 2017 | 2016 |
|-------------------------------------|---------------------|----------------------------|
| Designated for capital improvements | \$ 2,338,000 | (Restated) \$ 2,349,289 |

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 4 - DEPOSITS AND INVESTMENTS

The District's deposits, including certificates of deposits, are in Plains Capital Bank and are carried at cost. The District's restricted and unrestricted deposits and investments at year end are summarized as follows:

| <i>August 31,</i> | 2017 | | 2016 | |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| Checking | \$ 2,518,037 | \$ 2,554,163 | \$ 270,365 | \$ 312,764 |
| Money market | 1,912,162 | 1,912,162 | 6,484,489 | 6,484,489 |
| Certificates of deposit | 7,495,000 | 7,495,000 | 5,040,000 | 5,040,000 |
| Total cash and investments | \$ 11,925,199 | \$ 11,961,325 | \$ 11,794,854 | \$ 11,837,253 |

| <i>August 31,</i> | (Restated) | |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| Reconciliation to statement of net position: | | |
| Cash and cash equivalents | \$ 93,180 | \$ 181,917 |
| Investments | 6,890,236 | 4,720,656 |
| Restricted cash and cash equivalents | 4,337,019 | 6,522,281 |
| Restricted investments | 604,764 | 370,000 |
| Total cash and investments | \$ 11,925,199 | \$ 11,794,854 |

Credit Risk

At August 31, 2017 and 2016 the District's bank balances were covered by Federal Depository Insurance Corporation (FDIC) insurance for \$250,000. Checking deposits in excess of FDIC insurance are covered with collateralized securities held by Plains Capital Bank in the District's name. The value of collateralized securities held at August 31, 2017 and 2016 was \$4,298,070 and \$1,396,711, respectively. The certificates of deposit and money market deposit are with various banks which are held by Plains Capital Bank on behalf of the District. All certificates of deposit were covered by FDIC insurance at August 31, 2017 as they vary in amounts from \$20,000 to \$249,000 and bear interest at rates which vary from 1.15% to 1.65%. All certificates carry maturities of less than 12 months, the earliest of which matures on December 15, 2017 and the latest on July 25, 2018. At August 31, 2016, these certificates varied in amounts from \$14,000 to \$249,000 and bear interest at rates which varied from 1.04% to 1.25%. All certificates carried maturities of less than 16 months, the earliest of which matured on December 17, 2016 and the latest on December 23, 2017.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 4 - DEPOSITS AND INVESTMENTS *(Continued)*

Investments Policy

Statutes authorize the District to invest (subject to limitations) in obligations, including letters of credit, of the United State or its agencies and instrumentalities, direct obligations of this state or its agencies and instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, certificates of deposit, repurchase agreements, banker's acceptances, commercial paper, mutual funds, guaranteed investment contracts, and investment pools.

The main goal of the District's investment policy is to ensure its safety and maximize financial returns within current market conditions in accordance with its policy. No individual investment transaction should be undertaken that jeopardizes the total capital position of the overall portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Portfolio diversification is employed as a way to control the risk. The District's investment portfolio is required to have sufficient liquidity to meet anticipated cash flow requirements. At August 31, 2017 and 2016, the District's type of investments (money markets and certificates of deposit) and the related maturities (less than 12 and 16 months, respectively) limited the District's interest rate risk.

Concentration of Credit Risk

Portfolio diversification is employed in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer, as a way to control the risk. As of August 31, 2017 & 2016, the District's investments are comprised of cash, money market funds and certificates of deposit with maturities of less than 16 months, which are insured by the institution on behalf of the District.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 5 - SCHEDULE OF CHANGES IN CAPITAL ASSETS

Capital assets activity for the District was as follows:

| | <i>(As restated)</i> | | | |
|--|----------------------------------|---------------------|------------------|--------------------------------|
| | Beginning Balance 9/1/2016 | Increases | Decreases | Ending Balance 8/31/2017 |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,571,195 | \$ - | \$ - | \$ 1,571,195 |
| Construction in progress | 870,102 | 2,482,969 | 57,676 | 3,295,395 |
| Total assets not being depreciated | 2,441,297 | 2,482,969 | 57,676 | 4,866,590 |
| Capital assets being depreciated: | | | | |
| Canals and laterals | 17,796,082 | - | - | 17,796,082 |
| Other infrastructure | 8,957,354 | - | - | 8,957,354 |
| Improvements | 12,396,141 | - | - | 12,396,141 |
| Furniture, fixtures, and office equipment | 349,646 | 2,967 | - | 352,613 |
| Machinery and equipment | 5,742,711 | 154,118 | 22,500 | 5,874,329 |
| Total assets being depreciated | 45,241,934 | 157,085 | 22,500 | 45,376,519 |
| Less accumulated depreciation: | | | | |
| Canals and laterals | (5,675,025) | (404,364) | - | (6,079,389) |
| Other infrastructure | (3,999,994) | (160,609) | - | (4,160,603) |
| Improvements | (8,541,007) | (266,434) | - | (8,807,441) |
| Furniture, fixtures, and equipment | (310,182) | (9,483) | - | (319,665) |
| Machinery and equipment | (3,869,129) | (255,784) | 22,500 | (4,102,413) |
| Total accumulated depreciation | (22,395,337) | (1,096,674) | 22,500 | (23,469,511) |
| Net capital assets being depreciated | 22,846,597 | (939,589) | - | 21,907,008 |
| Total capital assets, net | \$ 25,287,894 | \$ 1,543,380 | \$ 57,676 | \$ 26,773,598 |

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 5 - SCHEDULE OF CHANGES IN CAPITAL ASSETS *(Continued)*

| | Beginning Balance 9/1/2015 | Increases | Decreases | <i>(As restated)</i> Ending Balance 8/31/2016 |
|---|----------------------------------|--------------------|-------------------|--|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,571,195 | \$ - | \$ - | \$ 1,571,195 |
| Construction in progress | 277,556 | 941,046 | 348,500 | 870,102 |
| Total assets not being depreciated | 1,848,751 | 941,046 | 348,500 | 2,441,297 |
| Capital assets being depreciated: | | | | |
| Canals and laterals | 17,796,082 | - | - | 17,796,082 |
| Other infrastructure | 8,619,624 | 348,500 | 10,770 | 8,957,354 |
| Improvements | 12,396,141 | - | - | 12,396,141 |
| Furniture, fixtures, and office equipment | 332,980 | 16,666 | - | 349,646 |
| Machinery and equipment | 5,420,289 | 322,422 | - | 5,742,711 |
| Total assets being depreciated | 44,565,116 | 687,588 | 10,770 | 45,241,934 |
| Less accumulated depreciation: | | | | |
| Canals and laterals | (5,270,245) | (404,780) | - | (5,675,025) |
| Other infrastructure | (3,838,994) | (161,000) | - | (3,999,994) |
| Improvements | (8,274,161) | (266,846) | - | (8,541,007) |
| Furniture, fixtures, and equipment | (302,005) | (8,177) | - | (310,182) |
| Machinery and equipment | (3,586,356) | (282,773) | - | (3,869,129) |
| Total accumulated depreciation | (21,271,761) | (1,123,576) | - | (22,395,337) |
| Net capital assets being depreciated | 23,293,355 | (435,988) | 10,770 | 22,846,597 |
| Total capital assets, net | \$ 25,142,106 | \$ 505,058 | \$ 359,270 | \$ 25,287,894 |

Depreciation expense by department was as follows:

| <i>August 31,</i> | 2017 | 2016 |
|-----------------------------------|---------------------|---------------------|
| Administration | \$ 11,623 | \$ 13,656 |
| Penitas plant | 175,558 | 209,656 |
| Water delivery | 40,150 | 29,858 |
| M & O | 618,542 | 619,215 |
| Penitas main canal | 250,801 | 251,191 |
| Total depreciation expense | \$ 1,096,674 | \$ 1,123,576 |

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 6 - RETIREMENT

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a defined benefit pension plan in the Texas County and District Retirement System (TCDRS). TCDRS is a state-wide, agent multiple-employer public employee retirement system. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of a participating employer must be enrolled in the plan.

Detailed information about the Texas County and District Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.tcdrs.org/TCDRS%20Publications/2015CAFR.pdf>.

Benefits

The plan provides retirement, disability, and survivor benefits. Provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS (TCDRS Act). All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. TCDRS is a savings-based plan. For the District's plan, 5% of each employee's pay is deposited into his or her TCDRS. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (150%) and is converted into an annuity. Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service time add up to at least 75. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer. There are no automatic COLAs. Each year the District may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.

Contributions

A combination of three elements funds the District's plan: employee deposits, employer contributions, and investment income. Investment income funds a large part of the benefits employees earn. The District's contribution rate is calculated annually on an actuarial basis, although the District may elect to contribute at a higher rate. There are two approaches for making extra contributions: (a) paying an elected contribution rate higher than the required rate and (b) making an extra-lump-sum contribution to the employer account. The District's contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contributions rates are set by the District and are currently 5%.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 6 – RETIREMENT PLAN *(Continued)*

Annual Pension Cost

For the employer's accounting year ending August 31, 2017, the pension cost for the TCDRS plan for its employees was \$56,338 and the actual contributions were \$56,338. For the employer's accounting year ending August 31, 2016, the pension cost for the TCDRS plan for its employees was \$49,380 and the actual contributions were \$49,380.

The annual required contributions were actuarially determined as a fixed percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2015 and December 31, 2016, the basis for determining the contribution rates for calendar years 2016 and 2017. The December 31, 2016 actuarial valuation is the most recent valuation.

Net Pension Liability

The District's Net Pension Asset (NPA) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Economic Assumptions

TCDRS system-wide economic assumptions:

| | |
|------------------------------|------|
| Real rate of return | 5.0% |
| Inflation | 3.0% |
| Long-term investment returns | 8.0% |

Employer-specific economic assumptions:

| | |
|---|------|
| Growth in membership | 0.0% |
| Payroll growth for funding calculations | 0.0% |

The assumed long-term investment return of 8% is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 8% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 6 – RETIREMENT PLAN *(Continued)*

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting volatility and correlation. The capital market assumptions and information, as well as the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Benchmark | Target Allocation | Geometric Real Rate of Return (Expected minus Inflation) |
|------------------------------------|--|-------------------|--|
| US Equities | Dow Jones U.S. Total Stock Market Index | 13.50% | 4.70% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index | 16.00% | 7.70% |
| Global Equities | MSCI World (net) Index | 1.50% | 5.00% |
| Int'l Equities -Developed Markets | MSCI World Ex USA (net) | 10.00% | 4.70% |
| Int'l Equities -Emerging Markets | MSCI EM Standard (net) Index | 7.00% | 5.70% |
| Investment-Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | 0.60% |
| High-Yield Bonds | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 3.70% |
| Opportunistic Credit | Citigroup High-Yield Cash-Pay Capped Index | 2.00% | 3.83% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 10.00% | 8.15% |
| Distressed Debt | Cambridge Associates Distressed Securities Index | 3.00% | 6.70% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index | 2.00% | 3.85% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.00% | 5.60% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index | 6.00% | 7.20% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 20.00% | 3.85% |

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 6 – RETIREMENT PLAN *(Continued)*

Discount Rate

The discount rate used to measure Total Pension Liability was 8.10%. In order to determine the discount rate to be used, an alternative method was used in order to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable. Based on these requirements, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Since the projected fiduciary net position is projected to be sufficient to pay projected benefits in all future years, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Change in Net Pension Liability/ (Asset)

| | Increase (Decrease) | | |
|--|-----------------------------------|----------------------------------|---|
| | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability / (Asset) (a) -(b) |
| Balances as of December 31, 2015 | \$ 1,138,215 | \$ 949,572 | \$ 188,643 |
| Changes for the year: | | | |
| Service cost | 72,441 | - | 72,441 |
| Interest on total pension liability(1) | 94,588 | - | 94,588 |
| Effect of economic/demographic gains or losses | (8,176) | - | (8,176) |
| Benefit payments | (12,203) | (12,203) | - |
| Administrative expenses | - | (768) | 768 |
| Member contributions | - | 37,364 | (37,364) |
| Net investment income | - | 70,685 | (70,685) |
| Employer contributions | - | 59,408 | (59,408) |
| Other(2) | - | 7,011 | (7,011) |
| Net changes | 146,650 | 161,497 | (14,847) |
| Balances as of December 31, 2016 | \$ 1,284,865 | \$ 1,111,069 | \$ 173,796 |

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

No plan changes valued.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 6 – RETIREMENT PLAN *(Continued)*

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's Net Pension Liability/(Asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

| | 1% Decrease 7.10% | Current Discount Rate 8.10% | 1% Increase 9.10% |
|---------------------------------|-------------------------|-----------------------------------|-------------------------|
| Total pension liability | \$ 1,428,268 | \$ 1,284,865 | \$ 1,161,872 |
| Fiduciary net position | 1,111,069 | 1,111,069 | 1,111,069 |
| Net pension liability / (asset) | \$ 317,199 | \$ 173,796 | \$ 50,803 |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended August 31, 2017 and August 31, 2016, the District recognized pension expense of \$49,271 and \$202,040, respectively.

The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| August 31, 2017 | Deferred Inflows of Resources | Deferred Outflows of Resources |
|--|-------------------------------------|--------------------------------------|
| Differences between expected and actual experience | \$ 24,110 | \$ - |
| Changes of assumptions | - | 5,986 |
| Net difference between projected and actual earnings | - | 65,712 |
| Contributions made subsequent to measurement date | N/A | 36,559 |
| Total | \$ 24,110 | \$ 108,257 |

| August 31, 2016 | Deferred Inflows of Resources | Deferred Outflows of Resources |
|--|-------------------------------------|--------------------------------------|
| Differences between expected and actual experience | \$ 22,865 | \$ - |
| Changes of assumptions | - | 7,482 |
| Net difference between projected and actual earnings | - | 78,005 |
| Contributions made subsequent to measurement date | N/A | 32,920 |
| Total | \$ 22,865 | \$ 118,407 |

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 6 – RETIREMENT PLAN *(Continued)*

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

For the year ended December 31:

| | | |
|------------|----|---------|
| 2017 | \$ | 16,695 |
| 2018 | | 16,695 |
| 2019 | | 15,858 |
| 2020 | | (1,659) |
| 2021 | | - |
| Thereafter | | - |

NOTE 7 – COMPENSATED ABSENCES

All full-time eligible employees accrue vacation leave time at the rate of 1 day per month, with exception of June and December which accrue 2 days, for a total of 14 days. The employees can accumulate a maximum of 21 days. However, first year employees have to accrue vacation for a year before they can use their vacation leave.

Employees who resign, are dismissed, or separated from employment are entitled to be paid all unused vacation time.

The District recognized the accrued liability for the unpaid annual leave in the amount of \$35,004 at August 31, 2017 and \$15,827 at August 31, 2016, respectively. The District considers all of this liability as current or due within one year.

Sick leave cannot vest; therefore, a liability is not recorded.

NOTE 8 – LEGAL COMPLIANCE – BUDGETS

Water districts in Texas must comply with constitutional provisions, statutory laws, public policy established by common law, and the Texas Water Commission volume of Permanent Rules, Chapter 293. The District believes it is in compliance with all requirements.

NOTE 9 – ECONOMIC DEPENDENCY

The District has five major customers from water sales. These major customers account for approximately 77% of water sales revenue for the year ended August 31, 2017 and 83% of water sales revenue for the year ended August 31, 2016. The District has conducted business with these customers for over 17 years.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 10 – RISK MANAGEMENT

The District is exposed to various uncertainties for losses related to intentional or unintentional torts; theft of, damage to and destruction of real and personal property; errors and omissions; catastrophes and pollution claims for which the District carries commercial insurance through an intergovernmental risk pool. There have been no significant reductions in insurance coverage from the previous year. No negotiated settlements or jury awards have exceeded policy limits. District management is not aware of any pending or alleged claims for which expected liability would exceed the policy limits of the present coverage.

NOTE 11 – BONDS PAYABLE

In September 10, 2015, the District was awarded a financing agreement with the Texas Water Development Board. The agreement authorizes bond borrowing of \$7,100,000 from the State Water Implementation Revenue Fund for Texas (SWIRFT). The funds are for construction improvements to the District's main canal. The bond is scheduled to be repaid over 30 years with annual principal and bi-annual interest payments at approximate annual rate of 3.0%. As of August 31, 2017 and 2016 the District had paid \$176,998 and \$123,899, respectively, in interest. The bond funds were provided to an escrow agent and disbursed with adequately supported and approved requests. The bonds are not rated.

Bonds payable at year end were as follows:

August 31, 2017

| Description | Interest | Date Payable | Bonds Outstanding |
|----------------------------------|-------------|--------------|---------------------|
| System Revenue Notes Series 2015 | 0.75-3.440% | 8/15 | \$ 6,915,000 |

August 31, 2016

| Description | Interest | Date Payable | Bonds Outstanding |
|----------------------------------|-------------|--------------|-------------------|
| System Revenue Notes Series 2015 | 0.75-3.440% | 8/15 | \$ 7,100,000 |

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 11 – BONDS PAYABLE (Continued)

Changes in long-term activity for the years ended were as follows:

| Description | Beginning Balance 8/31/2016 | Increase | Decrease | Ending Balance 8/31/2017 | Due within One year |
|----------------------|-----------------------------------|----------|------------|--------------------------------|------------------------|
| System Revenue Notes | | | | | |
| Series 2015 | \$ 7,100,000 | \$ - | \$ 185,000 | \$ 6,915,000 | \$ 185,000 |

| Description | Beginning Balance 8/31/2015 | Increase | Decrease | Ending Balance 8/31/2016 | Due within One year |
|----------------------|-----------------------------------|--------------|----------|--------------------------------|------------------------|
| System Revenue Notes | | | | | |
| Series 2015 | \$ - | \$ 7,100,000 | \$ - | \$ 7,100,000 | \$ 185,000 |

The following is a summary of the annual long-term debt requirements to maturity:

| Year ending August 31, | 2017 | | | 2016 | | |
|---------------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|-----------------------|
| | Principal | Interest | Total Debt Service | Principal | Interest | Total Debt Service |
| 2017 | N/A | N/A | N/A | \$ 185,000 | \$ 176,998 | \$ 361,998 |
| 2018 | \$ 185,000 | \$ 176,166 | \$ 361,166 | 185,000 | 176,166 | 361,166 |
| 2019 | 190,000 | 174,926 | 364,926 | 190,000 | 174,926 | 364,926 |
| 2020 | 190,000 | 173,292 | 363,292 | 190,000 | 173,292 | 363,292 |
| 2021 | 195,000 | 171,298 | 366,298 | 195,000 | 171,298 | 366,298 |
| 2022 | 195,000 | 168,918 | 363,918 | N/A | N/A | N/A |
| Thereafter | 5,960,000 | 2,308,017 | 8,268,017 | 6,155,000 | 2,476,935 | 8,631,935 |
| Total | \$ 6,915,000 | \$ 3,172,617 | \$ 10,087,617 | \$ 7,100,000 | \$ 3,349,615 | \$ 10,449,615 |

The bond agreements place certain restrictions on the District, including the establishment of escrow bank accounts. The escrow account is used to accumulate the “average annual debt service” requirement. As of August 31, 2017 and 2016, the required reserves were \$382,156 and \$378,844, respectively. The District has complied with all reserve requirements.

Pledge of Revenues

The District has pledged future water revenues, net of specified operating expenses, to repay the \$7,100,000 in revenue bonds issued.

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 12 – CONSTRUCTION COMMITMENTS

For the year ended August 31, 2017, the District has construction commitments of \$3,141,279 for construction contract on the Main Canal Lining Project with Foremost Paving Inc. There were no significant construction commitments at August 31, 2016.

NOTE 13 – RECLASSIFICATIONS AND CORRECTIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. In addition, a correction of a misstatement in the prior period in the amount of \$123,898 was made to capitalize interest. As such, expenses, capital assets, and net position have been restated for 2016. The effects of the reclassifications and adjustments are summarized below.

| Changes to 2016 statement of net position | <i>As reported</i> | <i>As restated</i> |
|--|----------------------|----------------------|
| Current assets | | |
| Investments | \$ 2,363,512 | \$ 4,720,656 |
| Other receivables | 776 | - |
| Other | 21,503 | 22,279 |
| Restricted cash and cash equivalents | 9,249,426 | 6,522,281 |
| Restricted investments | - | 370,000 |
| Total effect on current assets | \$ 11,635,217 | \$ 11,635,216 |
| Noncurrent assets | | |
| Capital assets, net | \$ 25,163,995 | \$ 25,287,894 |
| Total effect on noncurrent assets | \$ 25,163,995 | \$ 25,287,894 |
| Current liabilities | | |
| Accounts payable | \$ 209,361 | \$ 198,740 |
| Accrued liabilities | (1,861) | 8,760 |
| Total effect on current liabilities | \$ 207,500 | \$ 207,500 |
| Net position | | |
| Net investment in capital assets | \$ 25,163,995 | \$ 18,187,894 |
| Restricted | - | 6,892,281 |
| Unrestricted | 5,516,335 | 5,724,053 |
| Total effect on net position | \$ 30,680,330 | \$ 30,804,228 |

Hidalgo County Irrigation District No. One Notes to Financial Statements

NOTE 13 – RECLASSIFICATIONS AND CORRECTIONS *(Continued)*

| Changes to 2016 statement of revenues, expenses and changes in net position | <i>As reported</i> | <i>As restated</i> |
|---|----------------------|----------------------|
| Operating expenses | | |
| Administrative expenses | \$ 786,199 | \$ 645,471 |
| Total effect on operating expenses | 786,199 | 645,471 |
| Non-operating revenues (expenses) | | |
| Investment fees | - | (16,830) |
| Miscellaneous | 151,376 | 8,376 |
| Contributions for capital projects | 103,166 | 246,166 |
| Total effect on non-operating revenues (expenses) | 254,542 | 237,712 |
| Change in net position | (136,934) | (13,036) |
| Net position - ending | \$ 30,680,330 | \$ 30,804,228 |

DRAFT

Hidalgo County Irrigation District No. One Schedule of Employer Contributions

| <i>For the year ended August 31,</i> | 2017 | 2016 |
|--|-------------------|------------|
| Actuarially determined contribution (1) | \$ 37,364 | \$ 27,961 |
| Contributions in relation to the actuarially determined contribution (1) | 37,364 | 27,961 |
| Contribution deficiency (excess) | \$ - | \$ - |
| | | |
| Covered-employee payroll (2) | \$ 747,275 | \$ 699,024 |
| Contributions as a percentage of covered-employee payroll | 5.0% | 4.0% |

⁽¹⁾ TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

⁽²⁾ Payroll is calculated based on contributions as reported to TCDRS.

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Hidalgo County Irrigation District No. One Schedule of Changes in Net Pension Liability and Related Ratios

| <i>For the years ended August 31,</i> | 2017 | 2016 |
|--|---------------------|---------------------|
| Total Pension Liability | | |
| Service cost | \$ 72,441 | \$ 53,473 |
| Interest on total pension liability | 94,588 | 79,400 |
| Effect of plan changes | - | 155,290 |
| Effect of assumption changes or inputs | - | 8,979 |
| Effect of economic/demographic (gains) or losses | (8,176) | (20,924) |
| Benefit payments/refunds of contributions | (12,203) | (22,568) |
| Net change in total pension liability | 146,650 | 253,650 |
| Total pension liability, beginning | 1,138,215 | 884,565 |
| Total pension liability, ending (a) | \$ 1,284,865 | \$ 1,138,215 |
| Fiduciary Net Position | | |
| Employer contributions | \$ 59,408 | \$ 27,961 |
| Member contributions | 37,364 | 34,951 |
| Investment income net of investment expenses | 70,685 | (10,726) |
| Benefit payments/refunds of contributions | (12,203) | (22,568) |
| Administrative expenses | (768) | (676) |
| Other | 7,011 | (848) |
| Net change in fiduciary net position | 161,497 | 28,094 |
| Fiduciary net position, beginning | 949,572 | 921,478 |
| Fiduciary net position, ending (b) | \$ 1,111,069 | \$ 949,572 |
| Net pension liability / (asset), ending = (a) - (b) | \$ 173,796 | \$ 188,643 |
| Fiduciary net position as a % of total pension liability | 86.47% | 83.43% |
| Pensionable covered payroll | \$ 747,275 | \$ 699,024 |
| Net pension liability as a % of covered payroll | 23.26% | 26.99% |

Hidalgo County Irrigation District No. One Notes to Required Supplementary Information

Notes to Schedule of Employer Contributions

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 12.3 years (based on contribution rate calculated 12/31/16 valuation) |
| Asset valuation method | SAF: 5-yr smoothed value |
| Inflation | 3.00% |
| Salary increases | Varies by age and service; 4.9% average over career including inflation |
| Investment return | 8.00%, net of investment expenses, including inflation |
| Retirement age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014 |

Other information:

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

No changes in plan provisions are reflected in the Schedule of Employer Contributions for 2015. For 2016, employer contributions reflect that the current service matching rate was increased to 150%.

Hidalgo County Irrigation District No. One Schedule of Revenues Compared to Budget

For the year ended August 31, 2017

| | (Unaudited) | | Actual Amounts | Variance with |
|---|---------------------|---------------------|---------------------|------------------------|
| | Budgeted Amounts | | | Final Budget |
| | Original | Final | | Positive (Negative) |
| Operating Revenues | | | | |
| Irrigation - District | \$ 294,560 | \$ 391,928 | \$ 407,650 | \$ 15,722 |
| Water - District #15 | 837,372 | 1,346,520 | 1,330,478 | (16,042) |
| Water - Sharyland Water Supply | 250,829 | 137,696 | 136,707 | (989) |
| Water - North Alamo Water Supply | 53,484 | 47,646 | 76,253 | 28,607 |
| Water - City of Edinburg | 310,682 | 559,141 | 382,486 | (176,655) |
| Water - HCMud | 183,007 | 215,912 | 184,022 | (31,890) |
| Water - for sale | 18,958 | 209,733 | 208,600 | (1,133) |
| Water rental | 168,356 | - | 160,648 | 160,648 |
| Flat rate | 433,333 | 392,073 | 416,279 | 24,206 |
| Demand charges | 33,743 | 33,743 | 22,495 | (11,248) |
| Penalties | 57,651 | 90,984 | 92,780 | 1,796 |
| Tax certificates | 401 | 509 | 510 | 1 |
| Non-operating Revenues and Capital | | | | |
| Contributions | | | | |
| Ordinary dividends | - | - | 19,027 | 19,027 |
| Interest earned | - | - | 72,872 | 72,872 |
| Oil and gas royalties | 4,197 | 6,123 | 6,098 | (25) |
| Sale of land and fixed assets | 173,852 | 68,262 | 63,011 | (5,251) |
| Sale of municipal water rights | 3,300,000 | 1,193,346 | 3,301,550 | 2,108,204 |
| Administrative fees - exclusions | 6,175 | 3,575 | 3,600 | 25 |
| Miscellaneous | 40,553 | 8,884 | 3,258 | (5,626) |
| Lease | 10,400 | 6,765 | 6,245 | (520) |
| Subdivision processing fees | 9,371 | 8,179 | 7,850 | (329) |
| Easement crossing | 103,892 | 18,092 | 16,700 | (1,392) |
| Pipeline revenue, installations and capital reimbursements | 107,430 | - | 77,000 | 77,000 |
| Total Revenues | \$ 6,398,246 | \$ 4,739,111 | \$ 6,996,119 | \$ 2,257,008 |

Hidalgo County Irrigation District No. One Schedule of Operating Expenses by Department Compared to Budget

For the year ended August 31, 2017

| | (Unaudited) | | Actual Amounts | Variance with |
|----------------------------------|-------------------|-------------------|-------------------|------------------------|
| | Budgeted Amounts | | | Final Budget |
| | Original | Final | | Positive (Negative) |
| Administrative | | | | |
| Workmen's compensation | \$ 4,343 | \$ 5,850 | \$ 5,180 | \$ 670 |
| Payroll taxes | 13,286 | 14,724 | 15,081 | (357) |
| Retirement fund | 8,931 | 4,785 | 13,070 | (8,285) |
| Manager's salary | 183,872 | 203,766 | 213,868 | (10,102) |
| Office salaries | - | - | (348) | 348 |
| Employee insurance | 36,511 | 36,197 | 37,608 | (1,411) |
| Vehicle insurance | 710 | 782 | 722 | 60 |
| Vehicle use | 748 | - | - | - |
| Property insurance expense | 6,251 | 6,949 | 6,414 | 535 |
| Errors & omissions | 3,549 | 4,319 | 3,987 | 332 |
| Investment fees | - | - | - | - |
| Utilities | 14,269 | 59,808 | 28,614 | 31,194 |
| Water assessments | 48,914 | 47,701 | 43,608 | 4,093 |
| Computer systems expense | 5,020 | 32,492 | 30,180 | 2,312 |
| Vehicle, gas and oil | 2,296 | 1,621 | 1,621 | - |
| Vehicle maintenance | 307 | 646 | 918 | (272) |
| Vehicle repairs | 97 | 303 | - | 303 |
| Legal expense | 146,448 | 126,104 | 127,724 | (1,620) |
| Claims & settlements | 115 | - | - | - |
| Operating expense | - | - | 206 | (206) |
| Swift loan interest payment | - | 179,173 | - | 179,173 |
| Audit expense | 20,942 | 18,000 | 18,000 | - |
| Office expense | 6,123 | 9,837 | 8,216 | 1,621 |
| Membership fees and subscription | 4,150 | 2,712 | 4,142 | (1,430) |
| Elections | 3,244 | - | 50 | (50) |
| Directors' and employees' bonds | 108 | 200 | 185 | 15 |
| Travel expense | 5,476 | 4,161 | 3,841 | 320 |
| Miscellaneous | 2,898 | 5,248 | 4,852 | 396 |
| Engineering | 50,642 | 67,096 | 106,771 | (39,675) |
| Title search | 5,850 | - | - | - |
| Professional fees | 16,900 | 20,226 | 20,170 | 56 |
| Equipment lease | 6,594 | 4,721 | 4,640 | 81 |
| Building maintenance | 1,985 | 3,397 | 3,398 | (1) |
| Office equipment maintenance | - | 1,365 | 1,260 | 105 |
| Depreciation | 40,000 | 13,656 | 11,623 | 2,033 |
| Total administrative | \$ 640,579 | \$ 875,839 | \$ 715,601 | \$ 160,238 |

(Continued)

Hidalgo County Irrigation District No. One
Schedule of Operating Expenses by Department Compared to Budget
(Continued)

For the year ended August 31, 2017

| | (Unaudited) | | Actual Amounts | Variance with Final Budget |
|---------------------------------|-------------------|---------------------|-------------------|-------------------------------|
| | Budgeted Amounts | | | Positive |
| | Original | Final | | (Negative) |
| Penitas Plant | | | | |
| Workmen's compensation | \$ 5,152 | \$ 5,536 | \$ 5,236 | \$ 300 |
| Payroll taxes | 6,954 | 7,290 | 7,200 | 90 |
| Retirement | 981 | 2,371 | 6,482 | (4,111) |
| Operating labor | 99,183 | 100,152 | 101,263 | (1,111) |
| Hospital insurance | 33,759 | 32,658 | 33,483 | (825) |
| Property liability insurance | 4,439 | 6,043 | 5,993 | 50 |
| Utilities | 2,545 | 2,775 | 2,614 | 161 |
| Engine oil and lube | - | 5,407 | - | 5,407 |
| Vehicle expense | 11,005 | 9,156 | 13,095 | (3,939) |
| Operating expense | 2,175 | 2,988 | 8,417 | (5,429) |
| Engine expense #1 | - | - | 1,795 | (1,795) |
| Engine expense #2 | 38,053 | 96,883 | 89,431 | 7,452 |
| Engine expense #3 | 48,612 | 226,756 | 126,863 | 99,893 |
| Engine expense #5 | 6,620 | 32,340 | 12,426 | 19,914 |
| Engine expense #6 | 4,853 | 23,063 | 6,581 | 16,482 |
| Energy - electricity | 71,260 | 156,547 | 140,759 | 15,788 |
| Energy - natural gas | 274,608 | 146,405 | 147,704 | (1,299) |
| Advertising | 260 | - | - | - |
| Maintenance expense | 297 | 500 | - | 500 |
| Miscellaneous | 803 | 154 | 141 | 13 |
| Pump expenses | 116,419 | - | - | - |
| Expense electric motor #4 | 2,218 | - | 25,115 | (25,115) |
| Uniform | - | 3,338 | 2,895 | 443 |
| Equipment maintenance costs | - | 535 | 409 | 126 |
| Building maintenance & supplies | 3,511 | 1,046 | 1,058 | (12) |
| Office expense | 1,105 | 118 | 105 | 13 |
| Depreciation | 196,633 | 209,656 | 175,558 | 34,098 |
| Total Penitas plant | \$ 931,445 | \$ 1,071,717 | \$ 914,623 | \$ 157,094 |

(Continued)

Hidalgo County Irrigation District No. One
Schedule of Operating Expenses by Department Compared to Budget
(Continued)

For the year ended August 31, 2017

| | (Unaudited) | | Actual Amounts | Variance with |
|---------------------------------|-------------------|-------------------|-------------------|------------------------|
| | Budgeted Amounts | | | Final Budget |
| | Original | Final | | Positive (Negative) |
| Water Delivery | | | | |
| Workmen's compensation | \$ 6,524 | \$ 6,419 | \$ 6,418 | \$ 1 |
| Payroll taxes | 11,076 | 11,173 | 11,371 | (198) |
| Retirement | 1,695 | 3,703 | 10,076 | (6,373) |
| Labor operating | 152,528 | 152,548 | 162,991 | (10,443) |
| Hospital insurance | 41,563 | 41,224 | 41,224 | - |
| Office expense | 495 | 660 | 609 | 51 |
| Vehicle insurance | 6,772 | 3,881 | 3,582 | 299 |
| Utilities | 11,625 | 10,106 | 10,119 | (13) |
| Vehicle maintenance and repair | 6,782 | 2,002 | 1,392 | 610 |
| Vehicle use | - | - | (3,900) | 3,900 |
| Operating and field expense | 11,502 | 2,133 | 1,439 | 694 |
| Relift operating expense | 32,187 | 40,694 | 40,285 | 409 |
| Gas and oil | 11,761 | 8,962 | 8,962 | - |
| District 15 meter expense | 2,163 | - | - | - |
| Building maintenance & supplies | 174 | - | - | - |
| Travel expense | 393 | 37 | 34 | 3 |
| Miscellaneous | 849 | 206 | 189 | 17 |
| Depreciation | 19,332 | 29,858 | 40,150 | (10,292) |
| Total water delivery | \$ 317,421 | \$ 313,606 | \$ 334,941 | \$ (21,335) |

(Continued)

Hidalgo County Irrigation District No. One
Schedule of Operating Expenses by Department Compared to Budget
(Continued)

For the year ended August 31, 2017

| | (Unaudited) | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|----------------------------------|---------------------|---------------------|---------------------|---|
| | Budgeted Amounts | | | |
| | Original | Final | | |
| M&O Maintenance | | | | |
| Workmen's compensation | \$ 12,345 | \$ 13,209 | \$ 12,210 | \$ 999 |
| Payroll taxes | 21,050 | 21,660 | 22,289 | (629) |
| Hospital insurance | 90,492 | 95,607 | 95,232 | 375 |
| Concrete canals - labor | 65,737 | 72,588 | 79,024 | (6,436) |
| Dirt canal - labor | - | 1,848 | 1,706 | 142 |
| Pipeline - labor | 61,681 | 57,900 | 61,885 | (3,985) |
| Shop - labor | 81,805 | 84,771 | 87,286 | (2,515) |
| Retirement | - | 4,708 | 17,051 | (12,343) |
| Vehicle use | - | - | (1,560) | 1,560 |
| Vehicle gas and oil | 647 | 19,895 | 19,835 | 60 |
| Vehicle maintenance | 2,999 | 3,258 | 3,638 | (380) |
| Vehicle insurance | 1,077 | 8,307 | 8,035 | 272 |
| Vehicle repairs | 6,912 | 4,414 | 3,997 | 417 |
| Liability insurance | 9,402 | 10,760 | 9,932 | 828 |
| Utilities | 6,528 | 7,178 | 7,714 | (536) |
| Operating expenses | 6,700 | 8,097 | 7,474 | 623 |
| Diesel | 2,582 | 240 | 74 | 166 |
| Penitas main canal - expense | 4,400 | - | - | - |
| Concrete canals - expense | 325 | - | - | - |
| Herbicide | 7,205 | 1,739 | 1,605 | 134 |
| Pipeline - expense | 1,134 | 6,269 | 6,194 | 75 |
| Warehouse supplies and expense | 15,486 | 4,653 | 21,439 | (16,786) |
| Equipment maintenance and repair | 192 | 2,007 | 1,853 | 154 |
| Portable pump | 389 | - | - | - |
| Tools & supplies | 1,541 | - | - | - |
| Building maintenance | 15,338 | 17,451 | 16,722 | 729 |
| Shop expense | 16,513 | 15,012 | 14,057 | 955 |
| Miscellaneous | 2,056 | 1,400 | 1,292 | 108 |
| Office expense | 7,209 | 214 | 198 | 16 |
| Uniform expense | 1,725 | 4,558 | 4,062 | 496 |
| Equipment costs | - | 1,102 | 34,958 | (33,856) |
| Depreciation | 652,000 | 619,215 | 618,542 | 673 |
| Total M&O maintenance | \$ 1,095,470 | \$ 1,088,060 | \$ 1,156,744 | \$ (68,684) |

(Continued)

Hidalgo County Irrigation District No. One
Schedule of Operating Expenses by Department Compared to Budget
(Continued)

For the year ended August 31, 2017

| | (Unaudited) | | Actual Amounts | Variance with |
|---------------------------------|---------------------|---------------------|---------------------|------------------------|
| | Budgeted Amounts | | | Final Budget |
| | Original | Final | | Positive (Negative) |
| Penitas Main Canal | | | | |
| Workmen's compensation | \$ 2,219 | \$ 2,448 | \$ 2,448 | \$ - |
| Payroll taxes | 55 | - | 42 | (42) |
| Labor | 77,845 | 81,993 | 81,612 | 381 |
| Retirement | 3,072 | 2,516 | 2,592 | (76) |
| Utilities | - | 1,778 | 1,779 | (1) |
| Employee insurance | 8,437 | 8,245 | 8,245 | - |
| Operating expenses | 2,934 | 3,373 | 2,462 | 911 |
| Main canal repairs | - | 8,939 | 8,251 | 688 |
| Equipment costs | - | - | 52,286 | (52,286) |
| Office expense | - | 66 | - | 66 |
| Drainage maintenance | 629 | 476 | 440 | 36 |
| Uniforms | 414 | 328 | 323 | 5 |
| Professional fees | 18,253 | 1,506 | 1,390 | 116 |
| Depreciation | 152,203 | 251,191 | 250,801 | 390 |
| Total Penitas main canal | \$ 266,061 | \$ 362,859 | \$ 412,671 | \$ (49,812) |
| | | | | |
| Total Operating Expenses | \$ 3,250,976 | \$ 3,712,081 | \$ 3,534,580 | \$ 177,501 |

Hidalgo County Irrigation District No. One Schedule of Revenues

| <i>For the years ended August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|---|---------------------|----------------------------------|
| Operating Revenues | | |
| Irrigation | \$ 407,650 | \$ 321,206 |
| Water - District #15 | 1,330,478 | 1,044,960 |
| Water - Sharyland Water Supply | 136,707 | 174,925 |
| Water - North Alamo Water Supply | 76,253 | 72,781 |
| Water - City of Edinburg | 382,486 | 269,132 |
| Water - HCMud | 184,022 | 193,146 |
| Water - other sales | 208,600 | 30,000 |
| Water rental | 160,648 | 155,405 |
| Flat rate | 416,279 | 415,757 |
| Demand charges | 22,495 | 33,743 |
| Penalties | 92,780 | 63,684 |
| Tax certificates | 510 | 380 |
| Total operating revenues | 3,418,908 | 2,775,119 |
| Non-operating Revenues and Capital Contributions | | |
| Ordinary dividends | 19,027 | 8,770 |
| Interest earned | 72,872 | 46,280 |
| Oil and gas royalties | 6,098 | 4,156 |
| Investment fees | (21,830) | (16,830) |
| Gain on the sale of land | 63,011 | 230,633 |
| Sale of municipal water rights | 3,301,550 | - |
| Administrative fees - exclusions | 3,600 | 6,000 |
| Miscellaneous | 3,257 | 8,376 |
| Lease | 6,245 | 9,600 |
| Subdivision processing fees | 7,850 | 9,250 |
| Easement crossing | 16,700 | 95,900 |
| Contributions for capital projects | 77,000 | 246,166 |
| Total non-operating revenues and capital contributions | 3,555,380 | 648,301 |
| Total Revenues | \$ 6,974,288 | \$ 3,423,420 |

Hidalgo County Irrigation District No. One Schedule of Operating Expenses by Department

| <i>For the years ended August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|---------------------------------------|-------------------|----------------------------------|
| Administrative | | |
| Workmen's compensation | \$ 5,180 | \$ 5,325 |
| Payroll taxes | 15,081 | 15,447 |
| Retirement fund | 13,070 | 52,433 |
| Manager's salary | 213,868 | 196,904 |
| Office salaries | (348) | (852) |
| Employee insurance | 37,608 | 35,951 |
| Vehicle insurance | 722 | 656 |
| Vehicle use | - | (720) |
| Property insurance expense | 6,414 | 5,419 |
| Errors & omissions | 3,987 | 3,276 |
| Utilities | 28,614 | 30,506 |
| Water assessments | 43,608 | 45,575 |
| Computer systems expense | 30,180 | 4,632 |
| Vehicle, gas and oil | 1,621 | 2,463 |
| Vehicle maintenance & repairs | 918 | 524 |
| Legal expense | 127,724 | 140,193 |
| Operaing expense | 206 | 610 |
| Audit expense | 18,000 | 19,331 |
| Office expense | 8,216 | 6,874 |
| Membership fees and subscriptions | 4,142 | 2,401 |
| Elections | 50 | 2,995 |
| Directors' and employees' bonds | 185 | 100 |
| Travel expense | 3,841 | 5,052 |
| Miscellaneous | 4,851 | 2,968 |
| Engineering | 106,771 | 15,445 |
| Professional fees | 20,170 | 28,930 |
| Tools &supplies | - | 107 |
| Equipment lease | 4,640 | 7,137 |
| Building maintenance | 3,398 | 2,133 |
| Office equipment maintenance | 1,260 | - |
| Depreciation | 11,623 | 13,656 |
| Total administrative | \$ 715,600 | \$ 645,471 |

(Continued)

Hidalgo County Irrigation District No. One
Schedule of Operating Expenses by Department (Continued)

| <i>For the years ended August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|---------------------------------------|-------------------|----------------------------------|
| Penitas Plant | | |
| Workmen's compensation | \$ 5,236 | \$ 4,439 |
| Payroll taxes | 7,200 | 7,677 |
| Retirement | 6,482 | 26,623 |
| Operating labor | 101,263 | 100,391 |
| Medical insurance | 33,483 | 31,245 |
| Property liability insurance | 5,993 | 4,402 |
| Utilities | 2,614 | 2,778 |
| Vehicle expense | 13,095 | 12,342 |
| Operating expense | 8,417 | 5,125 |
| Engine and pump expense | 237,096 | 202,805 |
| Energy - electricity | 140,759 | 142,564 |
| Energy - natural gas | 147,704 | 71,781 |
| Advertising | - | 240 |
| Miscellaneous | 142 | 741 |
| Expense electric motor #4 | 25,115 | 2,047 |
| Uniform | 2,895 | 1,336 |
| Equipment maintenance costs | 409 | - |
| Building maintenance & supplies | 1,058 | 1,416 |
| Office expense | 105 | 52 |
| Depreciation | 175,558 | 209,656 |
| Total Penitas plant | \$ 914,624 | \$ 827,660 |
| Water Delivery | | |
| Workmen's compensation | \$ 6,418 | \$ 5,599 |
| Payroll taxes | 11,371 | 12,202 |
| Retirement | 10,076 | 42,136 |
| Canal rider's salary | 162,991 | 152,684 |
| Medical insurance | 41,224 | 38,470 |
| Office expense | 609 | 457 |
| Vehicle insurance | 3,582 | 6,251 |
| Utilities | 10,119 | 11,718 |
| Vehicle maintenance and repair | 1,392 | 6,145 |
| Vehicle use | (3,900) | (3,976) |
| Operating and field expense | 1,439 | 11,278 |
| Relift operating expense | 40,285 | 30,765 |
| Gas and oil | 8,962 | 11,859 |
| Equipment maintenance & repairs | 34 | 362 |
| District 15 Meter Expense | - | 1,273 |
| Building maintenance & supplies | - | 161 |
| Miscellaneous | 189 | 819 |
| Depreciation | 40,150 | 29,858 |
| Total water delivery | \$ 334,941 | \$ 358,061 |

(Continued)

Hidalgo County Irrigation District No. One
Schedule of Operating Expenses by Department (Continued)

| <i>For the years ended August 31,</i> | 2017 | <i>(Restated)</i> 2016 |
|---------------------------------------|---------------------|----------------------------------|
| M&O Maintenance | | |
| Workmen's compensation | \$ 12,210 | \$ 10,507 |
| Payroll taxes | 22,289 | 22,834 |
| Medical insurance | 95,232 | 83,872 |
| Concrete canals - labor | 79,024 | 67,444 |
| Dirt canal - labor | 1,706 | - |
| Pipeline - labor | 61,885 | 63,207 |
| Shop - labor | 87,286 | 84,677 |
| Retirement | 17,051 | 66,244 |
| Vehicle use | (1,560) | (1,592) |
| Vehicle gas and oil | 19,835 | 9,660 |
| Vehicle maintenance | 3,638 | 2,949 |
| Vehicle insurance | 8,035 | 9,995 |
| Vehicle repairs | 3,997 | 6,649 |
| Liability insurance | 9,932 | 8,679 |
| Utilities | 7,714 | 7,274 |
| Operating expense | 7,474 | 6,447 |
| Diesel | 74 | 2,495 |
| Penitas main canal - expense | - | 4,062 |
| Concrete canals - expense | - | 300 |
| Herbicide | 1,605 | 6,602 |
| Pipeline - expense | 6,194 | 1,047 |
| Warehouse supplies and expense | 21,439 | 20,709 |
| Equipment maintenance and repair | 1,853 | 177 |
| Portable pump | - | 359 |
| Tools & supplies | - | 1,422 |
| Building maintenance | 16,722 | 14,876 |
| Shop expense | 14,057 | 15,334 |
| Miscellaneous | 1,292 | 1,898 |
| Office expense | 198 | 795 |
| Uniform expense | 4,062 | 2,012 |
| Equipment costs | 34,958 | 36,306 |
| Depreciation | 618,542 | 619,215 |
| Total M&O maintenance | \$ 1,156,744 | \$ 1,176,455 |

(Continued)

Hidalgo County Irrigation District No. One
Schedule of Operating Expenses by Department (Continued)

| <i>For the years ended August 31,</i> | 2017 | 2016 |
|---------------------------------------|---------------------|---------------------|
| Penitas Main Canal | | |
| Workmen's compensation | \$ 2,447 | \$ 1,879 |
| Payroll taxes | 42 | 451 |
| Labor | 81,612 | 77,233 |
| Retirement | 2,592 | 14,604 |
| Project Penitas Plant Expense | - | 177 |
| Utilities | 1,779 | 1,736 |
| Medical insurance | 8,245 | 7,809 |
| Operating expenses | 2,462 | 3,076 |
| Equipment expenses | 52,286 | 54,459 |
| Drainage maintenance & operations | 441 | 530 |
| Uniforms | 323 | 414 |
| Professional fees | 9,641 | 15,250 |
| Depreciation | 250,801 | 251,191 |
| Total Penitas main canal | \$ 412,671 | \$ 428,809 |
| Total Operating Expenses | \$ 3,534,580 | \$ 3,436,456 |

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Hidalgo County Irrigation District No. One Schedule of Levies and Assessments Receivable

| Roll Year Assessments | Levies and Assessments Receivable | Current Year Levy | Current Year Receipts | Adjustments | Levies and Assessments Receivable |
|------------------------------------|-----------------------------------|-------------------|-----------------------|-----------------|-----------------------------------|
| | 9/1/2016 | | | | 8/31/2017 |
| 1980 and prior years | \$ 9,476 | \$ - | \$ 220 | \$ - | \$ 9,256 |
| 1981 | 4,126 | - | 130 | - | 3,996 |
| 1982 | 5,848 | - | 122 | - | 5,726 |
| 1983 | 8,413 | - | 311 | - | 8,102 |
| 1984 | 10,722 | - | 341 | - | 10,381 |
| 1985 | 12,151 | - | 350 | - | 11,801 |
| 1986 | 13,020 | - | 338 | - | 12,682 |
| 1987 | 13,841 | - | 402 | - | 13,439 |
| 1988 | 14,725 | - | 398 | - | 14,327 |
| 1989 | 15,396 | - | 384 | 7 | 15,005 |
| 1990 | 17,994 | - | 399 | 16 | 17,579 |
| 1991 | 22,066 | - | 447 | 17 | 21,602 |
| 1992 | 14,394 | - | 384 | 11 | 13,999 |
| 1993 | 28,940 | - | 559 | 18 | 28,363 |
| 1994 | 30,996 | - | 707 | 18 | 30,271 |
| 1995 | 33,223 | - | 820 | 18 | 32,385 |
| 1996 | 34,760 | - | 815 | 18 | 33,927 |
| 1997 | 37,052 | - | 1,259 | 18 | 35,775 |
| 1998 | 40,376 | - | 1,322 | 18 | 39,036 |
| 1999 | 34,064 | - | 1,042 | 18 | 33,004 |
| 2000 | 25,793 | - | 910 | 18 | 24,865 |
| 2001 | 24,118 | - | 980 | - | 23,138 |
| 2002 | 19,280 | - | 605 | 18 | 18,657 |
| 2003 | 20,755 | - | 770 | 18 | 19,967 |
| 2004 | 18,560 | - | 822 | 71 | 17,667 |
| 2005 | 20,391 | - | 1,104 | 71 | 19,216 |
| 2006 | 22,444 | - | 1,376 | 53 | 21,015 |
| 2007 | 28,992 | - | 2,221 | 59 | 26,712 |
| 2008 | 34,964 | - | 3,174 | 76 | 31,714 |
| 2009 | 42,063 | - | 3,537 | 76 | 38,450 |
| 2010 | 26,725 | - | 3,711 | 89 | 22,925 |
| 2011 | 73,487 | - | 4,530 | 129 | 68,828 |
| 2012 | 59,488 | - | 5,888 | 149 | 53,451 |
| 2013 | 64,775 | - | 6,615 | 149 | 58,011 |
| 2014 | 78,012 | - | 7,829 | 129 | 70,054 |
| 2015 | 90,999 | - | 11,805 | 109 | 79,085 |
| 2016 | 110,539 | - | 20,889 | 297 | 89,353 |
| 2017 | - | 425,041 | 305,832 | 659 | 118,550 |
| Total Flat Rate Assessments | \$ 1,162,968 | \$ 425,041 | \$ 393,348 | \$ 2,347 | \$ 1,192,314 |

Hidalgo County Irrigation District No. One Comparative Schedule of Revenues, Expenses, and Changes in Net Position

| <i>Five years ended August 31,</i> | AMOUNT | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| | (Restated) | | | | |
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Operating revenue | | | | | |
| Water sales | \$ 2,886,844 | \$ 2,261,555 | \$ 1,102,177 | \$ 2,165,590 | \$ 2,315,627 |
| Flat rate levy assessments | 416,279 | 415,757 | 421,276 | 405,855 | 390,945 |
| Demand charges | 22,495 | 33,743 | 33,743 | 33,743 | 33,743 |
| Penalties and interest | 92,780 | 63,684 | 73,182 | 79,665 | 170,007 |
| Tax certificates | 510 | 380 | 190 | 400 | 220 |
| Total operating revenue | 3,418,908 | 2,775,119 | 1,630,568 | 2,685,253 | 2,910,542 |
| Operating expenses | 3,534,581 | 3,436,456 | 2,875,264 | 3,339,267 | 3,446,837 |
| Surplus (deficit) of operating revenues over expenses | (115,673) | (661,337) | (1,244,696) | (654,014) | (536,295) |
| Non-operating revenue and capital contributions | 3,555,380 | 648,301 | 1,265,622 | 2,471,425 | 817,515 |
| Change in net position | \$ 3,439,707 | \$ (13,036) | \$ 20,926 | \$ 1,817,411 | \$ 281,220 |

| <i>Five years ended August 31,</i> | PERCENT OF OPERATING REVENUE | | | | |
|--|------------------------------|--------|--------|--------|--------|
| | (Restated) | | | | |
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Operating revenue | | | | | |
| Water sales | 84.4% | 81.5% | 67.6% | 80.6% | 79.6% |
| Flat rate levy assessments | 12.2% | 15.0% | 25.8% | 15.1% | 13.4% |
| Demand charges | 0.7% | 1.2% | 2.1% | 1.3% | 1.2% |
| Penalties and interest | 2.7% | 2.3% | 4.5% | 3.0% | 5.8% |
| Tax certificates | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Total operating revenue | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating expenses | 103.4% | 123.8% | 176.3% | 124.4% | 118.4% |
| Surplus (deficit) of operating revenues over expenses | -3.4% | -23.8% | -76.3% | -24.4% | -18.4% |
| Non-operating revenue and capital contributions | 104.0% | 23.4% | 77.6% | 92.0% | 28.1% |
| Change in net position | 100.6% | -0.5% | 1.3% | 67.7% | 9.7% |

Hidalgo County Irrigation District No. One Long-Term Debt Service Requirements by Years

Bond Series 2015

| Due during year ending: | Principal Due (Aug. 15th) | Interest Due | Total Principal and Interest Due |
|-------------------------|------------------------------|---------------------|--|
| 2018 | \$ 185,000 | \$ 176,166 | \$ 361,166 |
| 2019 | 190,000 | 174,926 | 364,926 |
| 2020 | 190,000 | 173,292 | 363,292 |
| 2021 | 195,000 | 170,108 | 365,108 |
| 2022 | 195,000 | 167,563 | 362,563 |
| Thereafter | 5,960,000 | 2,224,920 | 8,184,920 |
| Totals | \$ 6,915,000 | \$ 3,086,975 | \$ 10,001,975 |

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Hidalgo County Irrigation District No. One
Change in Long-Term Bonded Debt

Bond Series 2015

| | |
|-------------------------------|--------------|
| Beginning bonds outstanding | \$ 7,100,000 |
| Bonds sold during the year | - |
| Bonds retired during the year | 185,000 |
| Ending bonds outstanding | \$ 6,915,000 |

| | |
|--|---|
| Interest rate: | 0.75-3.440% |
| Dates interest payable: | 2/15 & 8/15 |
| Maturity dates: | 2/15/2039 |
| Interest paid during the year: | \$ 176,998 |
| Paying agent's name and city: | <u>Plains Capital Bank, Edinburg, Texas 78538</u> |
| Bond authority (amount authorized and issued): | \$ 7,100,000 |
| Debt service cash balances as of August 31, 2017: | \$ 382,156 |
| Average annual debt service payment (principal and interest) for remaining term of all debt: | \$ 363,401 |

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Hidalgo County Irrigation District No. One Schedule of Insurance

| Policies | Type of Coverage | Coverage Amount |
|---------------------------------|----------------------------|-----------------|
| Property insurance | Real and personal property | \$ 3,925,331 |
| Comprehensive general liability | Ocurrence | 10,000,000 |
| | General aggregate | 10,000,000 |
| Boiler and machinery | | 2,453,330 |
| Auto liability | Ocurrence | 10,000,000 |
| | General aggregate | 10,000,000 |
| Auto physical damage | | ACV |
| Errors and omissions liability | Ocurrence | 10,000,000 |
| | General aggregate | 10,000,000 |
| Workers compensation | | Statutory |

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