

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
FOR THE YEAR ENDED DECEMBER 31, 2021

TABLE OF CONTENTS
Page No.

FINANCIAL SECTION:

Independent Auditor's Report	3-5
Management's Discussion and Analysis	6-11
Basic Financial Statements:	
Statement of Net Position and Governmental Funds Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	18
Notes to the Basic Financial Statements	19-25
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	29
Supplementary Schedules:	
Schedule of Cash	33
Schedule of Taxes Receivable	34
Schedule of Operating Expenditures	35

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BUFFO & BERKMAN

CERTIFIED PUBLIC ACCOUNTANTS

324 E. HIDALGO BOX 710 956-689-2479

RAYMONDVILLE, TEXAS 78580

Independent Auditor's Report

Board of Directors
Willacy County Drainage
District No. 1
Raymondville, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Willacy County Drainage District No. 1, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Willacy County Drainage District No. 1's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Willacy County Drainage District No. 1, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Willacy County Drainage District No. 1, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibility of Management 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, and for the design, implementation, and maintenance for internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Willacy County Drainage District No. 1's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with Generally Accepted Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements

In performing an audit in accordance with Generally Accepted Auditing Standards, we

- exercise professional judgment and maintain professional skepticism throughout the audit
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Willacy County Drainage District No. 1's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Willacy County Drainage District No. 1's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matter, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information such as management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Willacy County Drainage District No. 1's basic financial statements. The accompanying supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

BUFFO & BERKMAN
Raymondville, Texas
May 24, 2023

**WILLACY COUNTY DRAINAGE DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2022

(UNAUDITED)

Our discussion and analysis of Willacy County Drainage District Number 1's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2022. Please read it in conjunction with the District's basic financial statements which begin on page 15.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the District as a whole and represent a long-term view of the District's property, obligations, and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for ad valorem tax assessments and the non-appropriated budget.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent year by \$10,430,566 (*net position*). Of this amount \$3,219,787 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- This District's total net position increased by \$885,800.
- As of the close of the current year, the District's governmental funds reported combined ending fund balances of \$2,920,728. An increase of \$761,333 in comparison with the prior year. \$2,895,042 is *available for spending* at the District's discretion (*unassigned fund balance*).

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 15. Its primary objective is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities while the Statement of Activities includes all the income and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies

All of the current year's income and expenses are taken into account regardless of when cash is received or paid. All the District's assets are reported whether they serve the current or future years. Liabilities are considered whether they must be paid in the current or future years. These two statements report the District's net position and changes in them. The District's net position (the difference between assets, liabilities and deferred inflows) provides one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To assess fully the overall health of the District; however, you should consider nonfinancial factors as well, such as the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

Government Activities - The District's basic services are reported here, including operating expenditures. Ad valorem taxes finance these activities.

Reporting the District's Governmental Funds

Governmental Fund - The District reports its basic services in the general fund. This fund uses modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash), and it reports balances that are available for future spending. The governmental fund statements provide a detailed short-term

view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation statements in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$9,544,766 to \$10,430,566. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$3,219,787 at December 31, 2022.

This increase in governmental net position was the net result of four factors. First, the District's revenues exceeded the expenditures by \$761,333. Second, the District's recognition of depreciation decreased the net position by \$322,716. Third, the District's net position was increased by miscellaneous reclassifications of income by \$153,894. Fourth, the District increased its net position by \$293,289, as the result of the purchase of capital assets.

TABLE I
NET POSITION

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 3,290,485	\$ 2,333,160
Capital assets	<u>7,210,779</u>	<u>7,240,206</u>
Total assets	<u>\$ 10,501,264</u>	<u>\$ 9,573,366</u>
Other liabilities	<u>\$ 70,698</u>	<u>\$ 28,600</u>
Total liabilities	<u>\$ 70,698</u>	<u>\$ 28,600</u>
Net position:		
Invested in capital assets, net of related debt	\$ 7,210,779	\$ 7,240,206
Unrestricted	<u>3,219,787</u>	<u>2,304,560</u>
Total net position	<u>\$ 10,430,566</u>	<u>\$ 9,544,766</u>

TABLE II
CHANGE IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
Income:		
Ad valorem taxes	\$ 1,866,620	\$ 1,826,188
Interest income	2,706	1,456
Penalties and interest	23,446	36,479
Machine hire	96,702	109,123
Administrative	54,855	39,808
Miscellaneous	<u>6,258</u>	<u>0</u>
Total income	<u>\$ 2,050,587</u>	<u>\$ 2,013,054</u>
Expenses:		
Service operations:		
Operating	\$ 842,071	\$ 724,383
Depreciation	<u>322,716</u>	<u>280,252</u>
Total expenses	<u>\$ 1,164,787</u>	<u>\$ 1,004,635</u>
CHANGE IN NET POSITION	\$ 885,800	\$ 1,008,419
NET POSITION, JANUARY 1	<u>9,544,766</u>	<u>8,536,347</u>
NET POSITION, DECEMBER 31	<u>\$ 10,430,566</u>	<u>\$ 9,544,766</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2022, the District had approximately \$7,210,779 (net of accumulated depreciation) invested in a broad range of capital assets, including land, structures and improvements and equipment.

This year's major additions included:

Equipment	\$ 293,289
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ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the year 2023 budget. The District expects revenues to equal expenditures for year 2023.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have a question about this report or need additional financial information, contact the District Administration Office, at P. O. Drawer 20, Lyford, Texas, 78569.

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BASIC FINANCIAL STATEMENTS

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WILLACY COUNTY DRAINAGE DISTRICT NO. 1
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2022

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 1,363,392	\$	\$ 1,363,392
Ad Valorm taxes receivable	1,832,700		1,832,700
Allowance for uncollectible taxes	(122,533)		(122,533)
Receivables	190,840		190,840
Prepayments	25,686		25,686
Deposits	400		400
Capital assets (net of accumulated depreciation)			
Land and easements		4,108,694	4,108,694
Structures and improvements		1,176,439	1,176,439
Equipment	<u> </u>	<u>1,925,646</u>	<u>1,925,646</u>
Total assets	<u>\$ 3,290,485</u>	<u>\$ 7,210,779</u>	<u>\$ 10,501,264</u>
LIABILITIES			
Accounts payable	<u>\$ 70,698</u>	<u>\$</u>	<u>\$ 70,698</u>
Total liabilities	<u>\$ 70,698</u>	<u>\$</u>	<u>\$ 70,698</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue – ad valorem taxes	<u>\$ 299,059</u>	<u>\$(299,059)</u>	<u>\$ -0-</u>
Total infow of resources	<u>\$ 299,059</u>	<u>\$(299,059)</u>	<u>\$ -0-</u>
FUND BALANCE/NET POSITION			
Fund balances:			
Nonspendable	\$ 25,686	\$(25,686)	
Unassigned	<u>2,895,042</u>	<u>(2,895,042)</u>	
Total fund balances	<u>\$ 2,920,728</u>	<u>\$(2,920,728)</u>	
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 3,290,485</u>		
Net position:			
Invested in capital assets, net of related debt		\$ 7,210,779	\$ 7,210,779
Unrestricted		<u>3,219,787</u>	<u>3,219,787</u>
Total net position		<u>\$ 10,430,566</u>	<u>\$ 10,430,566</u>

The accompanying notes are an integral part of this statement.

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
DECEMBER 31, 2022

Total Fund Balances - Governmental Funds \$ 2,920,728

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$11,112,397 and the accumulated depreciation was \$3,872,191. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position. 7,240,206

The 2022 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. (322,716)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows as income. The net effect is to increase net position. 299,059

Current year capital outlays are expenditures in the fund financial statements, but should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2022 capital outlays is to increase net position. 293,289

Net Position of Governmental Activities \$ 10,430,566

The accompanying notes are an integral part of this statement.

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	Adjustments	Statement of Activities
REVENUES/INCOME			
Ad valorem taxes	\$ 1,712,726	\$ 153,894	\$ 1,866,620
Interest	2,706		2,706
Penalties and interest	23,446		23,446
Machine hire	96,702		96,702
Administrative	54,855		54,855
Miscellaneous	6,258		6,258
Total revenues/income	\$ 1,896,693	\$ 153,894	\$ 2,050,587
EXPENDITURES/EXPENSES			
Service operations:			
Operating	\$ 842,071	\$	\$ 842,071
Capital outlay	293,289	(293,289)	
Depreciation	-0-	322,716	322,716
Total expenditures/expenses	\$ 1,135,360	\$ 29,427	\$ 1,164,787
Excess (deficiency) of revenues over expenditures	\$ 761,333	\$ 124,467	
Other financing sources:			
Excess (deficiency) of revenues and other sources over expenditures	\$ 761,333	\$(761,333)	
Change in net position		885,800	\$ 885,800
Fund balances/net position:			
Beginning of the year	2,159,395	7,385,371	9,544,766
End of the year	\$ 2,920,728	\$ 7,509,838	\$10,430,566

The accompanying notes are an integral part of this statement.

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Total Net Change in Fund Balances - Governmental Funds	\$ 761,333
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2022 capital outlays is to increase net position.	293,289
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(322,716)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows as income, adjusting current year income to show the income earned from the current year's ad valorem taxes. The net effect of these reclassifications and recognitions is to increase net position.	<u>153,894</u>
Change in Net Position of Governmental Activities	<u>\$ 885,800</u>

The accompanying notes are an integral part of this statement.

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. CREATION OF DISTRICT

The Willacy County Drainage District No. 1 was organized as a drainage district in 1969 under the provisions of Section 53, Texas Water Code.

B. REPORTING ENTITY

The Board of Directors (the “Board”), a seven member group, has governance responsibilities over all activities related to the Drainage District. The District is a financial reporting entity as defined by the Government Accounting Standards Board (“GASB) in its Statement No. 14, “The Financial Reporting Entity”, since the board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. There are no component units included within the reporting entity. The District receives funding from local and federal sources and must comply with the requirements of the federal sources.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District’s activities. *Governmental activities* include operations supported primarily by tax assessments.

The fund financial statements provide reports on the financial condition and results of operations for the general fund.

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Tax assessments are recognized as revenues in the year for which they are levied.

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

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The District does consider taxes as available if they are collectible within 60 days after year end.

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures. The District reports the following major governmental fund:

General Fund - The General Fund is used to account for financial resources used for general operations. It is the basic fund of the District and covers all activities. Any fund balances are considered resources available for current operations.

E. OTHER ACCOUNTING POLICIES

1. Cash includes cash on hand, in bank checking and savings accounts, and bank certificate of Deposits with maturity dates of less than 90 days.
2. The District records purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is restricted for the same amount.
3. Capital assets, which include land, structures, improvements and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. OTHER ACCOUNTING POLICIES (Continued)

Structures and improvements and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	50
Equipment	5-15

4. Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments within the deferred expenditures (expenses) line in both government-wide and fund financial statements.
5. The Drainage District follows these procedures in establishing the budgetary data reflected in the financial statements:
 1. Prior to September 1, the General Manager submits to the Board of Directors a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
 2. Public hearings are conducted to obtain taxpayer comments.
 3. Prior to January 1, the budget is legally enacted by Board approval.
 4. The General Manager is authorized to change spending of budgeted amounts between expenditure categories within the General Fund however, any revisions that alter the total expenditures of the General Fund must be approved by the Board of Directors.
 5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
 6. The official Non-Appropriated Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget for the General Fund was not amended during the year.
6. Encumbrance accounting which uses purchase orders, contracts and other commitments for the expenditure of resources is not utilized in the Governmental Fund of the Willacy County Drainage District No. 1. Expenditures are recognized when the goods purchased are received or when services have been performed.

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. FUND BALANCE POLICIES

The District has classified its fund balances in the following classifications:

Nonspendable	\$ 25,686
Restricted	
Committed	
Assigned	
Unassigned	\$2,895,042

The Board of Trustees is the District's decision making authority for both committing and restricting fund balances.

The Board of Trustees must by formal board action establish, modify or rescind a fund balance commitment.

When the District incurs an expense for which it may use either restricted or unassigned assets, it uses the restricted assets first unless unassigned assets will have to be returned because they were not used.

II. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

LEGAL AND CONTRACTUAL PROVISIONS GOVERNING DEPOSITS AND INVESTMENTS

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

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

II. DETAILED NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

POLICIES GOVERNING DEPOSITS AND INVESTMENTS

In compliance with the Public Funds Investment Acts, the District has adopted a deposit and investment policy. That policy does address the following risks:

a. Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District had no deposits exposed to Custodial Credit Risk at December 31, 2022.

b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District had no investments at December 31, 2022, exposed to Custodial Credit Risk.

c. Interest Rate Risk: Investments strategies have as the primary objective of investment liquidity. As a means of minimizing risk of loss due to interest rate fluctuations, certificates of deposit cannot have a stated final maturity date which exceed 365 days.

B. AD VALOREM TAXES

Ad valorem taxes are levied by October 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which levied. On January 1 of each year, a lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed.

C. DELINQUENT TAXES RECEIVABLES

Delinquent taxes are accounted for in the General Fund. Allowances for uncollectible tax receivables accounts within the General Fund are based on historical experience in collecting taxes.

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

II. DETAILED NOTES ON ALL FUNDS (Continued)

D. CAPITAL ASSET ACTIVITY

Capital asset activity for the District, for the year ended December 31, 2022, was as follows:

	<u>Balance</u> <u>12-31-21</u>	<u>Addition</u>	<u>Deletion</u>	<u>Balance</u> <u>12-31-22</u>
Governmental Activities:				
Land	\$ 4,108,694	\$	\$	\$ 4,108,694
Structures and improvements	4,048,257			4,048,257
Equipment	<u>2,955,446</u>	<u>293,289</u>		<u>3,248,735</u>
Total at historical cost	<u>\$ 11,112,397</u>	<u>\$ 293,289</u>	<u>\$ -0-</u>	<u>\$ 11,405,686</u>
Less accumulated depreciation for:				
Structures and improvements	\$(2,790,343)	\$(241,241)	\$	\$(2,871,818)
Equipment	<u>(1,081,848)</u>	<u>(81,475)</u>		<u>(1,323,089)</u>
Total accumulated depreciation	<u>\$(3,872,191)</u>	<u>\$(322,716)</u>	<u>\$ -0-</u>	<u>\$(4,194,907)</u>
Governmental activities capital assets, net	<u>\$ 7,240,206</u>	<u>\$(29,427)</u>	<u>\$ -0-</u>	<u>\$ 7,210,779</u>

E. PENSION COVERAGE FOR DISTRICT EMPLOYEES

The District provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after completing two years of service. The District contributes 3% of the employee's base salary each month.

The District's total payroll for 2022 was \$371,030. The District's contribution was calculated using a base salary amount of \$330,193. The District made the required contribution of \$9,906.

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

II. DETAILED NOTES ON ALL FUNDS (Continued)

F. DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources at December 31, 2022, consisted of the following:

General Fund

Net ad valorem taxes	<u>\$ 299,059</u>
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G. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The District is a member of the Texas Municipal League Intergovernmental Risk Pool, a joint self-insurance pool of Texas Political Subdivisions, which provides workers' compensation coverage and liability and property coverage for the District based upon a sharing of risks among members of the pool.

The District continues to carry commercial insurance for the risks of loss from employee dishonesty and for the bonding of its directors. There have been no claims resulting from these risks in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in the prior year.

H. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 24, 2023, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

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REQUIRED SUPPLEMENTARY INFORMATION

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WILLACY COUNTY DRAINAGE DISTRICT NO. 1
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Actual</u>	Final and Original Budget	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	\$ 1,712,726	\$ 1,578,202	\$ 134,524
Interest	2,706	3,704	(998)
Penalties and interest	23,446	20,881	2,565
Machine hire	96,702	22,860	73,842
Administrative	54,855	43,541	11,314
Miscellaneous	<u>6,258</u>	<u>14,684</u>	<u>(8,426)</u>
Total revenues	<u>\$ 1,896,693</u>	<u>\$ 1,683,872</u>	<u>\$ 212,821</u>
Expenditures:			
Service operations:			
Operating	\$ 842,071	\$ 1,483,872	\$ 641,801
Capital outlays	<u>293,289</u>	<u>200,000</u>	<u>(93,289)</u>
Total expenditures	<u>\$ 1,135,360</u>	<u>\$ 1,683,872</u>	<u>\$ 548,512</u>
Excess (deficiency) of revenues over expenditures	\$ 761,333	\$ -0-	\$ 761,333
Fund balances:			
Beginning of the year	<u>2,159,395</u>	<u>2,159,395</u>	<u>-0-</u>
End of the year	<u>\$ 2,920,728</u>	<u>\$ 2,159,395</u>	<u>\$ 761,333</u>

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SUPPLEMENTARY SCHEDULES

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WILLACY COUNTY DRAINAGE DISTRICT NO. 1
SCHEDULE OF CASH
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>General Fund</u>
<u>Cash:</u>	
Petty cash	\$ 40
Cash on deposit at	
First Community Bank:	
Checking account	31,869
Money market account	1,310,078
Payroll account	<u>21,405</u>
 Total cash	 <u>\$ 1,363,392</u>

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
 SCHEDULE OF TAXES RECEIVABLE
 FOR THE YEAR ENDED DECEMBER 31, 2022

Changes in taxes receivable:

Taxes receivable at beginning of year	\$ 1,782,903	
Adjustments	(47,709)	\$ 1,735,194
2022 year – levy	\$ 1,770,010	
Adjustments	<u>131,833</u>	1,901,843
2022 collections:		
Current year	\$ 260,788	
Prior years	<u>1,543,549</u>	<u>1,804,337</u>
Taxes receivable at end of year		<u>\$ 1,832,700</u>

Taxes receivable by year:

2022	\$ 1,641,055
2021	32,373
2020	19,282
2019	15,706
2018	12,928
2017	12,157
2016	10,984
2015	9,933
2014	9,299
2013 and prior	<u>68,983</u>
	<u>\$1,832,700</u>

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
SCHEDULE OF OPERATING EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>2022</u>
Salaries	\$ 371,030
Professional services	23,149
Insurance	100,424
Tax collecting fees	53,471
Willacy County Appraisal District	38,226
Telephone	6,442
Operating supplies	85,618
Travel and meals	3,104
Payroll taxes	28,457
Equipment and building maintenance	32,057
Utilities	4,183
Ditch maintenance	64,504
Legal advertising	294
Office	12,358
Miscellaneous	8,848
Retirement	<u>9,906</u>
 Total operating expenditures	 <u>\$ 842,071</u>