

**WILLACY COUNTY
DRAINAGE DISTRICT NO. 1**

**ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2023**



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**WILLACY COUNTY DRAINAGE
DISTRICT NO. 1**

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

To the 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 Willacy County Drainage District No. 1 (the "District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District'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 Willacy County Drainage District No. 1, as of December 31, 2023, and the respective changes in financial position, thereof 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 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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 District'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 District'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 District'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 matters, 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 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 information, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Roberto Lopez

Roberto Lopez CPA PC

Harlingen, Texas
November 25, 2024

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023

This discussion and analysis of Willacy County Drainage District No. 1's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2023. The MD&A should be read in conjunction with the District's basic financial statements.

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 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 \$10,795,009 (net position). Of this amount \$3,707,925 (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 \$364,443.
- As of the close of the current year, the District's governmental funds reported combined ending fund balances of \$3,297,632. An increase of \$376,904 in comparison with the prior year. \$3,267,093 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 7. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2023

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 non-financial 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 \$10,430,566 to \$10,795,009. 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 \$3,707,925 at December 31, 2023.

This increase in governmental net position was the net result of four factors. First, the District's revenues exceeded the expenditures by \$373,682. Second, the District's recognition of depreciation decreased the net position by \$315,042. Third, the District's net position was increased by miscellaneous reclassifications of income by \$111,233. Fourth, the District increased its net position by \$191,348, as the result of the purchase of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023

The following table reflects a summary of Net Position compared to prior year.

Table I		
NET POSITION		
DECEMBER 31,		
	2023	2022
Assets:		
Current and other assets	\$ 3,958,157	\$ 3,290,485
Capital assets	7,087,084	7,210,779
Total assets	11,045,240	10,501,264
Liabilities:		
Other liabilities	250,233	70,698
Total liabilities	250,233	70,698
Net Position:		
Net invested in Capital Assets,	7,087,084	7,210,779
Unrestricted	3,707,925	3,219,787
Total Net Position	\$ 10,795,009	\$ 10,430,566

Table II		
CHANGES IN NET POSITION		
DECEMBER 31,		
	2023	2022
Revenues:		
Ad valorem taxes	\$ 1,506,117	\$ 1,866,620
Interest income	6,268	2,706
Penalties and interest	29,498	23,446
Machine hire	-	96,702
Administrative	63,916	54,855
Miscellaneous	81,795	6,258
Total Revenues	\$ 1,687,594	\$ 2,050,587
Expenses:		
Service Operation	1,011,332	842,071
Depreciation	315,042	322,716
Total Expenses	\$ 1,326,374	\$ 1,164,787
Change in Net Position:	361,219	885,800
Beginning Net position	10,430,566	9,544,766
Prior period adjustment	3,222	-
Ending Net Position	\$ 10,795,009	\$ 10,430,566

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2023, the District had approximately \$7,087,084 (net of accumulated depreciation) invested in a broad range of capital assets, including land, structures, and improvements and equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGES AND RATES

The District's elected and appointed officials considered many factor when setting the year 2024 budget. The District expects revenues to equal expenditures for the year 2024.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers 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 any questions about this report or need additional financial information, contact the District Administration Office, at P.O. Drawer 20, Lyford, Texas, 78569.

BASIC FINANCIAL STATEMENTS

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
December 31, 2023

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 2,249,186	\$ -	\$ 2,249,186
Ad valorem taxes receivable	1,637,372	-	1,637,372
Allowance for uncollectible taxes	(120,757)	-	(120,757)
Receivables	161,817	-	161,817
Prepayments	30,539	-	30,539
Capital assets (net of accumulated depreciation)			
Land and easements	-	4,108,694	4,108,694
Structures and improvements	-	1,145,206	1,145,206
Equipment	-	1,833,185	1,833,185
Total Assets	<u>3,958,157</u>	<u>7,087,084</u>	<u>11,045,242</u>
Liabilities			
Current Liabilities:			
Accounts payable	179,359	-	179,359
Payroll liabilities	70,874	-	70,874
Total Current Liabilities	<u>250,233</u>	<u>-</u>	<u>250,233</u>
Total Liabilities	<u>250,233</u>	<u>-</u>	<u>250,233</u>
Deferred Inflows of Resources			
Unavailable revenue, flat rate	410,292	(410,292)	-
Total Deferred Inflows of Resources	<u>410,292</u>	<u>(410,292)</u>	<u>-</u>
Fund Balance/Net Position			
Fund balances:			
Nonspendable:			
Prepayments	30,539	(30,539)	-
Unassigned	3,267,093	(3,267,093)	-
Total (deficit) fund balances	<u>3,297,632</u>	<u>(3,297,632)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>3,958,157</u>		
Net Position			
Net invested in capital assets		7,087,084	7,087,084
Unrestricted net position		3,707,925	3,707,925
Total Net Position		<u>\$ 10,795,009</u>	<u>\$ 10,795,009</u>

The accompanying notes are an integral part of these financial statements

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
December 31, 2023

Total Fund Balances - Governmental Funds \$ 3,297,632

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 \$11,405,686 and the accumulated depreciation was \$4,194,907. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position. 7,210,779

Deferred outflows and inflows are not financial resources and therefore are not reported in the funds. The net effect of including the deferred outflows and inflows is to increase net position. 410,292

Current year capital outlays, are expenditures in the fund financial statements, but they should be shown as increase in capital assets in the government-wide financial statements. The net effect of including the 2023 capital outlays is to increase net position. 191,348

The 2023 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. (315,042)

Net Position of Governmental Activities \$ 10,795,009

The accompanying notes are an integral part of these financial statements

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS, REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the year ended December 31, 2023

	General Fund	Adjustments	Statement of Net Position
Revenues/Income			
Ad valorem taxes	\$ 1,394,884	\$ 111,233	\$ 1,506,117
Interest	6,268	-	6,268
Penalties and interest	29,498	-	29,498
Administrative	63,916	-	63,916
Miscellaneous	81,795	-	81,795
Total Revenues/Income	<u>1,576,361</u>	<u>111,233</u>	<u>1,687,594</u>
Expenditures/Expenses			
Service operations:			
Operating	1,011,332	-	1,011,332
Capital Outlay	191,348	(191,348)	-
Depreciation	-	315,042	315,042
Total Expenditures/Expenses	<u>1,202,680</u>	<u>123,694</u>	<u>1,326,374</u>
Excess (deficiency) of revenues over expenditures/expenses	<u>373,682</u>	<u>(12,461)</u>	
Other financing sources:			
Excess (deficiency) of revenues and other sources over expenditures	373,682	(373,682)	
Change in net position		361,221	361,221
Fund balance/net position			
Beginning of the year	2,920,728	7,509,838	10,430,566
Prior period adjustment	3,222	-	3,222
End of the year	<u>\$ 3,297,632</u>	<u>\$ 7,497,377</u>	<u>\$ 10,795,009</u>

The accompanying notes are an integral part of these financial statements

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, 2023

Total Net Change in Fund Balance - Governmental Funds	\$ 373,682
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 2023 capital outlays is to increase net position.	191,348
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.	(315,042)
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 of revenue and adjusting current year income to show the resources earned from the current year's ad valorem tax. The net effect of these reclassifications and recognitions is to increase net position.	<u>111,233</u>
Change in Net Position of Governmental Activities	<u>\$ 361,221</u>

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

**WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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.

2. The 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.

3. 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.

4. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Income is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Flat rate assessments are recognized as income 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, deferred inflow of resources and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become 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 considers flat rate and lawn contracts as available if they are collectible within 60 days after year end.

**WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

5. 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 activities' 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 the 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.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Structures & improvements	50 years
Equipment	5-15 years

4. Certain prepayments to vendors reflect costs applicable to future accounting period and are recorded as prepayments within the deferred expenditures (expenses) line in both government-wide and fund financial statements.

**WILLACY COUNTY DRAINAGE DISTRICT NO. 1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2023**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 included 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 the 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

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.

7. Fund Balance Policies

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

Nonspendable	\$	30,539
Restricted		
Committed		
Assigned		
Unassigned	\$	3,267,093

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.

**WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

8. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

9. Deferred Outflows/Inflows of Resources

Unavailable tax assessment revenues are classified as deferred inflows and are defined as an acquisition of net assets by the District that is applicable to a future reporting period.

10. Leases

The District has adopted FASB ASC 842, Leases, with a date of initial application of January 1, 2022. For leases with a lease term greater than one year, the District recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The District determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in operating lease right-of-use assets, current portion operating lease liabilities, and operating lease liabilities, net of current portion, the District's Statement of Net Position at December 31, 2023. Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the District uses a risk free rate of a period comparable with that of the lease term. The District considers the lease term to be noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the District is reasonably certain not to exercise the option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

The operating lease right-of-use assets also include any lease payments and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

NOTE B – 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)

**WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

NOTE B – DEPOSITS AND INVESTMENTS – (Continued)

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) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also required the District to have independent 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 had 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 Risk at December 31, 2023.
- 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, 2023, 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.

NOTE C – 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 attached to property to secure the payment of all taxes, penalties and interest ultimately imposed.

NOTE D – 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
FOR THE YEAR ENDED DECEMBER 31, 2023**

NOTE E – FASB ASC 606 NEW ACCOUNTING GUIDANCE

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and required the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for good or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. Collectively, we refer to the new Topic 606 and Subtopic 640-40 as the “new guidance.” No retrospective transition was necessary from the adoption of the new guidance.

NOTE F – CAPITAL ASSETS ACTIVITY

Capital asset activity for the District, for the year ended December 31, 2023, was as follows:

	Beginning Balance 12-31-2022	Additions	Deletions	Ending Balance 12-31-2023
Governmental Activities:				
Land	\$ 4,108,694	\$ -	\$ -	\$ 4,108,694
Structures and improvements	4,048,257	11,989	-	4,060,246
Equipment	3,248,735	179,359	-	3,428,094
Total at historical cost	<u>\$ 11,405,686</u>	<u>\$ 191,348</u>	<u>\$ -</u>	<u>\$ 11,597,034</u>
Less accumulated depreciation for:				
Structures and improvements	(2,871,818)	(43,222)	-	(2,915,040)
Equipment	(1,323,089)	(271,820)	-	(1,594,909)
Total accumulated depreciation	<u>(4,194,907)</u>	<u>(315,042)</u>	<u>-</u>	<u>(4,509,949)</u>
Governmental activities capital assets, net	<u>\$ 7,210,779</u>	<u>\$ (123,695)</u>	<u>\$ -</u>	<u>\$ 7,087,084</u> NET

NOTE G – PENDING LITIGATION

The District currently has no pending litigation and is not aware of any litigation.

NOTE H – 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 \$378,134. The District’s contribution was calculated using a base salary amount of \$193,441. The District made the required contribution of \$5,803.

**WILLACY COUNTY DRAINAGE DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

NOTE I – DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources at December 31, 2023, consisted of the following:

<u>General Fund</u>	
Net ad valorem taxes	<u>\$ 410,292</u>

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage of, 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 Subdivision, 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.

NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 25, 2024, 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.

REQUIRED SUPPLEMENTARY INFORMATION

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For the fiscal year ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Ad valorem taxes	\$ 1,564,106	\$ 1,564,106	\$ 1,394,884	\$ (169,222)
Interest	1,456	1,456	6,268	4,812
Penalties and interest	36,479	36,479	29,498	(6,981)
Machine hire	109,123	109,123	-	(109,123)
Administrative	39,808	39,808	63,916	24,108
Miscellaneous	-	-	81,795	81,795
Total revenues	<u>1,750,972</u>	<u>1,750,972</u>	<u>1,576,361</u>	<u>(174,611)</u>
Expenses				
Service operations:				
Operating	1,550,972	1,550,972	1,011,332	539,640
Capital Outlays	200,000	200,000	191,348	8,652
Total expenses	<u>1,750,972</u>	<u>1,750,972</u>	<u>1,202,680</u>	<u>548,292</u>
Excess (deficiency) of revenues over expenditures	-	-	373,682	373,681
Beginning of the year,				
Fund Balance	2,920,728	2,920,728	2,920,728	-
Prior period adjustment	-	-	3,222	3,222
End of the year,				
Fund Balance	<u>\$ 2,920,728</u>	<u>\$ 2,920,728</u>	<u>\$ 3,297,632</u>	<u>\$ 376,903</u>

SUPPLEMENTARY SCHEDULES

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
SCHEDULE OF CASH
For the year ended December 31, 2023

Cash:	<u>General Fund</u>
Petty cash	\$ 46
Cash on deposit at	
First Community Bank:	
Checking account	35,095
Money market account	2,173,262
Payroll account	<u>40,783</u>
Total cash	<u>\$ 2,249,186</u>

WILLACY COUNTY DRAINAGE DISTRICT NO. 1
 SCHEDULE OF OPERATING EXPENDITURES
 For the year ended December 31, 2023

	2023
Salaries	\$ 378,134
Professional services	15,008
Insurance	120,881
Tax collecting fees	50,292
Willacy County Appraisal District	48,420
Telephone	4,659
Operating supplies	11,385
Travel and meals	1,601
Payroll taxes	29,230
Equipment and building maintenance	63,347
Utilities	4,838
Ditch maintenance	130,161
Legal advertising	735
Office	73,463
Miscellaneous	73,375
Retirement	5,803
Total operating expenditures	\$ 1,011,332

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