

Independent Auditor's Report

To the Board of Directors  
Hidalgo County Regional Mobility Authority  
Weslaco, Texas

Members of the Board:

We have audited the accompanying financial statements of the Hidalgo County Regional Mobility Authority as of and for the year ended December 31, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hidalgo County Regional Mobility Authority as of December 31, 2010, and the respective changes in net assets and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis, on pages 2 through 4 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
LONG CHILTON, LLP  
Certified Public Accountants

McAllen, Texas  
May 18, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hidalgo County Regional Mobility Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

### FINANCIAL HIGHLIGHTS

- The Authority's net assets increased by \$4.7 million as a result of vehicle registration fees received from Hidalgo County to fund the long-term transportation projects in Hidalgo County.
- Capital assets were \$17.2 million and 22.6 million as of December 31, 2009 and 2010, respectively. All capital costs pertain to construction in progress relating to advance planning, schematic design, environmental clearance, and financial planning.
- Long-term liabilities increased from \$9.8 million in 2009 to \$14.8 million in 2010. This variance was the result of borrowing an additional \$5.3 million against a line of credit with First National Bank of Edinburg and the starting of the repayment of principal during 2010. The funds from the line of credit are restricted to use on capital projects.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - *management's discussion and analysis* (this section), and *the basic financial statements*.

The basic financial statements presented are: the Statements of Net Assets, Statement of Revenues, Expenditures and Changes in Net Assets and the Statement of Cash Flows. These statements are presented in accordance with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis for State and Local Governments.

The statements are prepared under the accrual basis of accounting in which revenues and assets are recognized when earned or acquired, and expenses and liabilities are recognized when incurred regardless of when cash is received or paid.

### FINANCIAL ANALYSIS OF THE AUTHORITY

#### Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$13,671,926 at the close of this fiscal year.

A portion of the Authority's net assets (59.3%) reflects its investment in capital assets (capitalized planning costs related to Loop Project), less related debt used to acquire those assets that is still outstanding. Net assets restricted for long-term transportation projects (39%) represent resources that are subject to external restriction on how they may be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$59,310. Following is a brief summary of the Authority's net assets.

Table 1  
Net Assets  
(in thousands of dollars)

	2010	2009	Total % Change 2010-2009
Current and other assets	\$ 5,928	\$ 1,929	67%
Capitalized bond and other debt issuance costs	150	96	36%
Capital assets	<u>22,628</u>	<u>17,275</u>	24%
Total assets	28,706	19,300	33%
Current Liabilities	1,350	507	62%
Long-term obligations	<u>13,684</u>	<u>9,847</u>	28%
Total liabilities	15,034	10,354	31%
Net assets:			
Invested in capital assets, net of related debt	8,114	7,725	5%
Restricted	5,499	1,160	79%
Unrestricted (deficit)	59	61	-3%
Total net assets	<u>\$ 13,672</u>	<u>\$ 8,946</u>	35%

**Statement of Revenues, Expenses and Changes in Net Assets**

Governmental activities increased the Authority's net assets by \$4.7million. This increase is largely due to the receipt of grant funds from Hidalgo County from a \$10.00 surcharge on all County vehicle registrations. The total funds received from the County were \$4,727,830. These funds are restricted by State law for capital projects. Program expenses, which consist of administrative costs that could not be allocated to the Loop Project, totaled \$2,571 for 2010. Table 2 compares the 2010 change in net assets to the 2009 change in net assets.

Table 2  
Changes in Net Assets  
(in thousands of dollars)

	2010	2009	Total % Change 2010-2009
Revenues:			
Vehicle Registration Fees - Restricted	<u>\$ 4,728</u>	<u>\$ 4,541</u>	4%
Total revenue	4,728	4,541	4%
Expenses			
Administrative	<u>2</u>	<u>1</u>	50%
Total expenses	2	1	50%
Change in net assets	4,726	4,540	4%
Net assets, beginning of the year	<u>8,946</u>	<u>4,406</u>	51%
Total net assets, end of the year	<u>\$ 13,672</u>	<u>\$ 8,946</u>	35%

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

As of December 31, 2010 the Authority had invested approximately \$22.6 million in construction in progress, including engineering fees and preliminary costs such as funding, consulting, environmental, legal and traffic analysis fees. No tangible property or equipment has been acquired to date. Depreciation and amortization on construction in progress will not begin until each project is complete. Additional information on the Authority's capital assets can be found in the notes to the financial statements.

### **Long-Term Debt**

The Authority has two long-term notes outstanding as of December 31, 2010. One note payable to Hidalgo County represents funds loaned by the County for general operations with a balance of \$200,000 was provided to the Authority for the purpose of assisting in its organization efforts and its general operations. A second note payable to First National Bank has a balance of \$14.7 million at December 31, 2010 represents funds drawn to date against a \$15 million line of credit. These funds are restricted to paying Transportation Project Costs. Additional information on the Authority's long-term debt can be found in the notes to the financial statements.

## **ECONOMIC FACTORS FOR NEXT YEAR**

The Authority's income from the Vehicle Registration Fee income remain stable with a small increase year over year. The proceeds are sufficient to repayment debt obligations and continue with preliminary planning leading to construction. We anticipate Right of Way acquisition to begin in late 2011 and construction to begin in early 2012. The Debt Markets for projects similar to the Authority's are challenging but Hidalgo County and TxDot have indicated financing assistance will be considered if needed.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patrons and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hidalgo County Regional Mobility Authority, 510 S. Pleasantview Drive, Weslaco, Texas 78596.

# **BASIC FINANCIAL STATEMENTS**

**HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2010**

Assets

Current assets:		
Cash - unrestricted	\$	260,572
Cash - restricted		5,002,302
Vehicle registration fee receivable		<u>665,470</u>
Total current assets	\$	5,928,344
Capital assets:		
Office equipment, net		2,787
Construction work in progress		<u>22,625,405</u>
Total capital assets, net		22,628,192
Other assets:		
Bond issuance costs, net		<u>149,895</u>
Total assets	\$	<u><u>28,706,431</u></u>

Liabilities and Net Assets

Current liabilities:		
Due to LRGVDC	\$	1,028
Accrued expenses		235
Payables from restricted assets:		
Accrued expenses		93,538
Interest payable		75,239
Note payable		<u>1,180,454</u>
Total current liabilities	\$	1,350,493
Noncurrent liabilities:		
Note payable		<u>13,684,012</u>
Total liabilities		15,034,505
Net assets:		
Invested in capital assets, net of related debt		8,113,621
Restricted for:		
Debt service		150,000
Long-term transportation projects		5,348,995
Unrestricted		<u>59,310</u>
Total net assets		<u>13,671,926</u>
Total liabilities and net assets	\$	<u><u>28,706,431</u></u>

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

**HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**DECEMBER 31, 2010**

Revenues:		
Vehicle registration fees	<u>\$ 4,727,830</u>	
Total revenues		\$ 4,727,830
Expenses:		
Administrative	991	
Insurance and bonding	12	
Meals and entertainment	2	
Accounting fees	365	
Legal and professional	882	
Depreciation	<u>319</u>	
Total expenses		<u>2,571</u>
Change in net assets		4,725,259
Net assets, January 1, 2010		<u>8,946,667</u>
Net assets, December 31, 2010		<u><u>\$ 13,671,926</u></u>

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

**HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**DECEMBER 31, 2010**

Cash flows from operating activities:		
Receipts from Department of Transportation	\$ 4,412,380	
Payments to vendors	<u>(2,265)</u>	
Net cash flows provided from operating activities		<u>\$ 4,410,115</u>
Cash flows from capital and related financing activities:		
Acquisitions for construction in progress	(5,690,564)	
Loan proceeds	5,342,924	
Principal paid on capital debt	(325,546)	
Payments for debt issue cost	<u>(53,429)</u>	
Net cash flows used in capital and related financing activities		<u>(726,615)</u>
Net increase in cash and cash equivalents		3,683,500
Cash and cash equivalents at beginning of year		<u>1,579,375</u>
Cash and cash equivalents at end of year		<u>\$ 5,262,875</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 4,725,259	
Depreciation	319	
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivables	(315,450)	
Increase (Decrease) in accrued expenses	<u>(13)</u>	
Net cash flows provided by operating activities		<u>\$ 4,410,115</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest expense	<u>\$ 373,643</u>	

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



HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Hidalgo County Regional Mobility Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently. The more significant of the Authority's accounting policies are described below:

**A. Reporting Entity**

The Authority is an independent governmental agency created in November 2005 pursuant with Chapter 370 of the Transportation Code. The Authority is governed by a seven-member Board of Directors (the Board) appointed by the Governor of the State of Texas and the Hidalgo County Commissioners' Court. The Board is responsible for setting policies, identifying priorities and ensuring the Authority is operated effectively. Board members, appointed to serve two-year terms, are volunteers and are not compensated for their service.

The Authority was created to be a proactive partner empowering the community to address congestion and mobility concerns through local means with local leadership. It was created to plan, develop, fund and maintain a transportation system to serve the estimated 1.5 million residents living in Hidalgo County by 2025. The authority's mission is to develop a publicly owned transportation asset that creates jobs through increased mobility and access, is locally funded for reliable delivery, pays for itself in terms of future maintenance and also funds new projects to meet the future transportation needs of the County. In its petition to create the Hidalgo County Regional Mobility Authority, Hidalgo County identified the Hidalgo Loop (the Loop) as the initial project to be developed under the guidance of the Authority. The planning for the Loop was started in 2000 by Hidalgo County and the Hidalgo County Metropolitan Planning Organization. The Authority has concluded its planning effort for the Loop around the urban part of Hidalgo County and had just received an offer to build its first project, the International Border Trade Corridor (IBTC). Our planning identified the IBTC as the most important project to improve mobility in the County.

The Authority is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14, *"The Reporting Entity"*. There are no component units included within the reporting entity.

**B. Basis of Accounting**

The operations of the Authority are accounted for within a single proprietary (enterprise) fund on an accrual basis. The accounting and financial reporting treatment applied is determined by measurement focus. The transactions of the Authority are accounted on a flow of economic resources measurement focus. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized and all assets and liabilities associated with the operation of the Authority are included in the Statement of Net Assets. Operating expenses include the cost of administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. These deposits are fully collateralized or covered by federal deposit insurance.

**D. Capital Assets**

All capital assets at year end represent capitalized costs for legal, consulting and engineering relating to advance planning on the Loop Project. Depreciation and amortization on construction in progress will not begin until the project is complete.

**E. Grants and Contracts**

Revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The Authority considers all grant and contributions to be 100% collectible.

**F. Restricted Assets**

Certain proceeds of the Authority's loans and grants are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable loan covenants and grant agreements.

**G. Income Taxes**

The Authority is an instrumentality of the State of Texas. As such, income earned in the exercise of its essential government functions is exempt from state or federal income taxes.

**H. Classification of Operating and Non-operating Revenues and Expenses**

The Authority defines operating revenues and expenses as those revenues and expenses generated by a specified program offering either a good or service. This definition is consistent with GASB Statement No. 9 which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Authority's policy is to first apply the expense toward restricted resources, and then towards unrestricted resources available for use.

**I. Estimates**

The preparation of financial statements in conformity with GAAP 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 expenses during the reporting period. Actual results could differ from those estimates.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2010

**NOTE 2 - DEPOSITS AND INVESTMENTS**

At December 31, 2010, the carrying amount of the Authority's cash was \$5,262,874. The bank balance was \$5,281,240 as of December 31, 2010. The Authority's carrying amount at year end is as follows:

	Type	Amount
General Operating	Unrestricted	\$ 260,572
Loop Project	Restricted	3,792,200
Vehicle Registration	Restricted	1,060,102
Debt Service	Restricted	150,000
		\$ 5,262,874

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. The Authority's cash deposits at December 31, 2010 and during the year then ended were entirely covered by FDIC insurance.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. As previously stated, at year end, all funds were invested in demand deposit accounts at First National Bank of Edinburg. The Letter of Credit from the Federal Home Loan Bank securing the Authority's deposits is dependent upon the financial condition of the financial institution. However, the concentration of credit risk is mitigated by the fact that the Authority has debt outstanding with the bank that exceeds the amount of the deposits in the bank. Deposits could be offset against balances owed to the bank.

Interest Rate Risk

Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. Interest rate risk may be mitigated by investing operating funds primarily in shorter term securities, money market funds or similar investment pools and limiting the average maturity of the portfolio. All deposits of the Authority were invested in demand deposit accounts at year end.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation. All deposits were backed by federal deposit insurance, an agency of the federal government.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority had no foreign currency transactions during the year 2010.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2010

**NOTE 3 – DISAGGREGATION OF PAYABLES**

Payables as of December 31, 2010 for the Authority are as follows:

Engineering Services	\$ 34,112
Legal Services	36,212
Administration Expenses	<u>23,450</u>
	<u>\$ 93,773</u>

**NOTE 4 - CAPITAL ASSETS**

Capital assets at year end totaled \$22,628,192 and represented capitalized costs relating to advance planning for the Loop Project. Capital asset activity for the year ended December 31, 2010, was as follows:

	Balance 1/1/2010	Increases	Decreases	Balance 12/31/2010
Capital Assets, not being depreciated:				
Construction in Progress	<u>\$ 17,272,123</u>	<u>\$ 5,353,282</u>	<u>\$ -</u>	<u>\$ 22,625,405</u>
Capital Assets, being depreciated:				
Office Equipment	<u>3,186</u>	<u>-</u>	<u>-</u>	<u>3,186</u>
Less accumulated depreciation for:				
Office Equipment	<u>(80)</u>	<u>(319)</u>	<u>-</u>	<u>(399)</u>
Total Capital Assets being depreciated (Net)	<u>3,106</u>	<u>(319)</u>	<u>-</u>	<u>2,787</u>
Total Capital Assets (Net)	<u>\$ 17,275,229</u>	<u>\$ 5,352,963</u>	<u>\$ -</u>	<u>\$ 22,628,192</u>

Construction in progress consists of the following:

Administrative	\$ 265,749
Accounting fees	46,237
Consulting and engineering	3,684,387
Financial consulting fees	537,745
Insurance and bonding	1,170
Interest expense	401,392
Legal and Professional	298,414
Loop Project	<u>118,188</u>
	<u>\$ 5,353,282</u>

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2010

**NOTE 5 - LONG-TERM OBLIGATIONS**

Long-term obligations outstanding at December 31, 2010 were as follows:

	Beginning Balance 1/1/2010	Increases	Decreases	Ending Balance 12/31/2010	Due Within One Year
Hidalgo County	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ -
First National Bank	9,647,088	5,342,924	325,546	14,664,466	1,180,454
	<u>\$ 9,847,088</u>	<u>\$ 5,342,924</u>	<u>\$ 325,546</u>	<u>\$ 14,864,466</u>	<u>\$ 1,180,454</u>

The note payable to Hidalgo County was funded as a result of an Interlocal Agreement between Hidalgo County and the Authority to loan funds to the Authority for the purpose of providing initial operating funds for the Loop Project. The Agreement allows for additional funding for operations if needed. The terms of the loan call for 8.25% annual interest with repayment from the proceeds of the first available revenues received by the Authority from the Project. If bonds are issued, a portion of the proceeds from the bonds shall be used to retire the loan.

The note payable to First National Bank represents funds advanced against a \$15 million line of credit. The loan proceeds are restricted to payment of Transportation Project Costs. The loan is secured by a pledge of the Vehicle Registration Fee collected by the County and remitted by the County to the Authority. The line of credit is payable in monthly installments of \$148,347 including interest at 3.5% through 2020.

*Bond Obligations*

The Authority and Hidalgo County authorized the pledge of the vehicle registration fee revenues to secure payment of the Hidalgo County Regional Mobility Authority Debt in a term not exceeding 40 years.

Debt service requirements on long-term debt at December 31, 2010 are as follows:

Year Ended December 31	Principal	Interest	Total
2011	\$ 1,180,454	\$ 451,353	\$ 1,631,807
2012	1,528,146	452,018	1,980,164
2013	1,376,690	403,474	1,780,164
2014	1,425,655	354,510	1,780,165
2015	1,476,361	303,804	1,780,165
2016-2020	7,877,161	196,944	8,074,105
	<u>\$ 14,864,467</u>	<u>\$ 2,162,103</u>	<u>\$ 17,026,570</u>

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 6 – CONSTRUCTION COMMITMENTS**

At December 31, 2010, the Authority had remaining construction commitments:

<u>Project</u>	<u>Authorization</u>	<u>Expended</u>	<u>Remaining</u>
Corridor Engineering Services	\$ 1,280,818	\$ 1,161,598	\$ 119,220
Anzalduas Overpass	917,689	708,556	209,133
US 83 Expressway Connection	1,852,343	437,099	<u>1,415,244</u>
			<u>\$1,743,597</u>

**NOTE 7 – PRELIMINARY DEVELOPMENT PROJECT**

Traffic congestion continues to build in Hidalgo County so the need for the Authority's project continues to grow. During the year of 2010 the Authority received an injection from the Texas Dept. of Transportation of over \$80,000,000 if construction has been let before April 21st of 2013. The Authority's consultant believes that that deadline is within the ability of the Authority.