## Financial Statements and Independent Auditor's Report

# HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY

**December 31, 2011** 

LONG CHILTON, LLP Certified Public Accountants 4100 North Twenty-Third Street McAllen, Texas 78504 (956) 686-3701

# HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY Year Ended December 31, 2011

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# FINANCIAL SECTION



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### 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, 2011, 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 financial position of Hidalgo County Regional Mobility Authority as of December 31, 2011, and the changes in financial position 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 3 through 5 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

Long Chilton, ZZP

McAllen, Texas March 28, 2012

#### 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, 2011. 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 \$5.0 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 \$22.6 million and \$25.6 million as of December 31, 2010 and 2011, respectively. All capital costs pertain to construction in progress relating to advance planning, schematic design, environmental clearance, and financial planning.
- Long-term liabilities decreased from \$13.7 million in 2010 to \$12.1 million in 2011. This decrease was largely the result of principal payments of \$1.4 million being applied against a line of credit with First National Bank of Edinburg. 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 \$18,637,129 at the close of this fiscal year.

A portion of the Authority's net assets (67.1%) 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 (32%) 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 \$57,373. Following is a brief summary of the Authority's net assets.

Table 1 Net Assets (in thousands of dollars)

	2011	2010	Total % Change 2011-2010
Current and other assets	\$ 6,784	\$ 5,928	13%
Capitalized bond and other debt issuance costs	131	150	-15%
Capital assets	25,613	22,628	12%
Total assets	32,528	28,706	12%
Current Liabilities	1,843	1,351	27%
Long-term obligations	12,048	13,684	-14%
Total liabilities	13,891	15,035	-8%
Net assets:			
Invested in capital assets, net of related debt	12,505	8,114	35%
Restricted	6,075	5,499	9%
Unrestricted (deficit)	57	59	-4%
Total net assets	\$ 18,637	\$ 13,672	27%

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

Governmental activities increased the Authority's net assets by \$5.0 million. 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 \$4,967,459. 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 \$2,349 for 2011. Table 2 compares the 2011 change in net assets to the 2010 change in net assets.

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

	2011	2010	Total % Change 2011-2010
Revenues: Vehicle registration fees - Restricted	\$ 4,967	\$ 4,728	5%
Total revenue	4,967	4,728	5%
Expenses Administrative	2	2	0%
Total expenses	2	2	0%
Change in net assets Net assets, beginning of the year Total net assets, end of the year	4,965 13,672 \$ 18,637	4,726 8,946 \$ 13,672	5% 35% 27%

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### **Capital Assets**

As of December 31, 2011 the Authority had invested approximately \$25.7 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, 2011. One note payable to Hidalgo County representing 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 \$13.4 million at December 31, 2011 which represents the remaining balance on 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 vehicle registration fees remains stable with a small increase year over year. The proceeds are sufficient for repayment of debt obligations and to continue with preliminary planning leading to construction. We anticipate the Trade Corridor Connector from FM 396 Bryan Road to US 281 Military to be operational by May, 2017 with land acquisition being completed by June, 2014 and construction starting by July, 2014. 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, 2011

#### Assets

Cash - unrestricted         \$ 258,498           Cash - restricted         6,178,308           Vehicle registration fee receivable         347,560           Total current assets         \$ 6,784,365           Capital assets:         2,469           Offfice equipment, net         2,469           Construction work in progress         25,610,421           Total capital assets, net         \$ 32,528,413           City of the sasets:           Bond issuance costs, net         \$ 131,158           Total assets         \$ 32,528,413           Current liabilities:           Due to LRGVDC         \$ 1,028           Accrued expenses         97           Payables from restricted assets:         370,154           Accrued expenses         370,154           Interest payable         80,489           Note payable         1,391,913           Total current liabilities         \$ 1,843,681           Noncurrent liabilities           Note payable         12,047,602           Total liabilities and feelated debt         12,504,532           Restricted for:         150,000           Long-term transportation projects         5,925,224           Unrestricted         57,373	Current assets:				
Vehicle registration fee receivable         347,560           Total current assets         \$ 6,784,365           Capital assets:         2,469           Construction work in progress         25,610,421           Total capital assets, net         25,612,889           Other assets:           Bond issuance costs, net         131,158           Total assets         \$ 32,528,413           Current liabilities:           Due to LRGVDC         \$ 1,028           Accrued expenses         97           Payables from restricted assets:         370,154           Accrued expenses         370,154           Interest payable         1,391,913           Total current liabilities:         \$ 1,843,681           Noncurrent liabilities:         \$ 1,843,681           Noncurrent liabilities:         \$ 1,843,681           Note payable         12,047,602           Total liabilities         13,891,284           Net assets:         112,047,602           Restricted for:         12,047,602           Debt service         150,000           Long-term transportation projects         5,925,224           Unrestricted         57,373           Total net assets         18,637,129     <	Cash - unrestricted	\$	258,498		
Total current assets   \$ 6,784,365	Cash - restricted		6,178,308		
Capital assets:       2,469       2,469       25,610,421       25,612,889         Total capital assets, net       25,610,421       25,612,889         Other assets:         Bond issuance costs, net       131,158         Total assets       \$ 32,528,413         Current liabilities:         Due to LRGVDC       \$ 1,028         Accrued expenses       97         Payables from restricted assets:       370,154         Accrued expenses       370,154         Interest payable       80,489         Note payable       1,391,913         Total current liabilities       \$ 1,843,681         Noncurrent liabilities:       \$ 1,843,681         Noncurrent liabilities       \$ 13,891,284         Net assets:       10,007,602         Total liabilities       15,000         Long-term transportation projects       5,925,224         Unrestricted       57,373         Total net assets       18,637,129	Vehicle registration fee receivable		347,560		
Office equipment, net         2,469           Construction work in progress         25,610,421           Total capital assets, net         25,612,889           Other assets:         325,612,889           Courrent liabilities:         \$32,528,413           Liabilities and Net Assets         \$32,528,413           Current liabilities:         \$1,028           Due to LRGVDC         \$1,028           Accrued expenses         97           Payables from restricted assets:         370,154           Interest payable         80,489           Note payable         1,391,913           Total current liabilities         \$1,843,681           Noncurrent liabilities:         \$1,843,681           Noncurrent liabilities         \$13,891,284           Net assets:         \$1,000           Invested in capital assets, net of related debt         \$12,504,532           Restricted for:         \$150,000           Long-term transportation projects         \$5,925,224           Unrestricted         \$57,373           Total net assets         \$18,637,129	Total current assets			\$	6,784,365
Office equipment, net         2,469           Construction work in progress         25,610,421           Total capital assets, net         25,612,889           Other assets:         325,612,889           Bond issuance costs, net         131,158           Total assets         \$ 32,528,413           Liabilities and Net Assets           Current liabilities:           Due to LRGVDC         \$ 1,028           Accrued expenses         97           Payables from restricted assets:         370,154           Interest payable         80,489           Note payable         1,391,913           Total current liabilities         \$ 1,843,681           Noncurrent liabilities:         \$ 1,843,681           Noncurrent liabilities         \$ 13,891,284           Net assets:         11,000           Invested in capital assets, net of related debt         12,504,532           Restricted for:         Debt service         150,000           Long-term transportation projects         5,925,224           Unrestricted         57,373           Total net assets         18,637,129	Capital assets:				
Total capital assets, net       25,612,889         Other assets:       Bond issuance costs, net       131,158         Total assets       \$ 32,528,413         Liabilities and Net Assets         Current liabilities:         Due to LRGVDC       \$ 1,028         Accrued expenses       97         Payables from restricted assets:       370,154         Accrued expenses       370,154         Interest payable       80,489         Note payable       1,391,913         Total current liabilities:       \$ 1,843,681         Noncurrent liabilities:       \$ 12,047,602         Total liabilities       13,891,284         Net assets:       11,000         Invested in capital assets, net of related debt       12,504,532         Restricted for:       Debt service       150,000         Long-term transportation projects       5,925,224         Unrestricted       57,373         Total net assets       18,637,129			2,469		
Other assets:           Bond issuance costs, net         131,158           Total assets         131,158           Current liabilities:           Due to LRGVDC         \$ 1,028           Accrued expenses         97           Payables from restricted assets:           Accrued expenses         370,154           Interest payable         80,489           Note payable         \$ 1,843,681           Noncurrent liabilities:           Note payable         \$ 12,047,602           Total liabilities         13,891,284           Net assets:           Invested in capital assets, net of related debt         \$ 12,504,532           Restricted for:         Debt service         \$ 150,000           Long-term transportation projects         \$ 5,925,224           Unrestricted         \$ 5,7373           Total net assets         \$ 18,637,129	Construction work in progress		25,610,421		
Total assets   131,158     Total assets   \$ 32,528,413     Liabilities and Net Assets	Total capital assets, net				25,612,889
Total assets   \$ 32,528,413	Other assets:				
Total assets   \$ 32,528,413	Bond issuance costs, net				131,158
Current liabilities:   Due to LRGVDC					
Current liabilities:       1,028         Due to LRGVDC       \$ 1,028         Accrued expenses       97         Payables from restricted assets:       370,154         Accrued expenses       370,154         Interest payable       80,489         Note payable       1,391,913         Total current liabilities:       \$ 1,843,681         Noncurrent liabilities:       \$ 12,047,602         Total liabilities       13,891,284         Net assets:       \$ 12,504,532         Restricted for:       \$ 150,000         Long-term transportation projects       5,925,224         Unrestricted       57,373         Total net assets       18,637,129	Total assets			<u>\$</u>	32,528,413
Due to LRGVDC       \$ 1,028         Accrued expenses       97         Payables from restricted assets:       370,154         Accrued expenses       370,154         Interest payable       80,489         Note payable       1,391,913         Total current liabilities:       \$ 1,843,681         Noncurrent liabilities:       \$ 12,047,602         Total liabilities       13,891,284         Net assets:       Invested in capital assets, net of related debt       12,504,532         Restricted for:       Debt service       150,000         Long-term transportation projects       5,925,224         Unrestricted       57,373         Total net assets       18,637,129	Liabilities and Net Assets				
Accrued expenses       97         Payables from restricted assets:       370,154         Accrued expenses       370,154         Interest payable       80,489         Note payable       1,391,913         Total current liabilities:       \$ 1,843,681         Noncurrent liabilities:       \$ 12,047,602         Total liabilities       13,891,284         Net assets:       Invested in capital assets, net of related debt       12,504,532         Restricted for:       Debt service       150,000         Long-term transportation projects       5,925,224         Unrestricted       57,373         Total net assets       18,637,129	Current liabilities:	•			
Payables from restricted assets:  Accrued expenses Interest payable Note payable Total current liabilities: Note payable Total liabilities: Note payable Total liabilities  Net assets: Invested in capital assets, net of related debt Restricted for: Debt service Long-term transportation projects Total net assets  Investricted Total net assets  Investricted	Due to LRGVDC	\$	1,028		
Accrued expenses Interest payable Note payable Note payable Total current liabilities  Noncurrent liabilities: Note payable Total liabilities: Note payable Total liabilities  Net assets: Invested in capital assets, net of related debt Restricted for: Debt service Long-term transportation projects Unrestricted Total net assets  Invested in capital assets  Invested in capital assets, net of related debt Investricted In	Accrued expenses		97		
Interest payable 80,489 Note payable 1,391,913 Total current liabilities \$ 1,843,681  Noncurrent liabilities: Note payable 12,047,602 Total liabilities 13,891,284  Net assets: Invested in capital assets, net of related debt 12,504,532  Restricted for: Debt service 150,000 Long-term transportation projects 5,925,224 Unrestricted 57,373 Total net assets 18,637,129					
Note payable 1,391,913 Total current liabilities \$ 1,843,681  Noncurrent liabilities: Note payable 12,047,602  Total liabilities 13,891,284  Net assets: Invested in capital assets, net of related debt 12,504,532  Restricted for: Debt service 150,000 Long-term transportation projects 5,925,224  Unrestricted 57,373  Total net assets 18,637,129					
Total current liabilities \$ 1,843,681  Noncurrent liabilities: Note payable \$ 12,047,602  Total liabilities \$ 13,891,284   Net assets: Invested in capital assets, net of related debt \$ 12,504,532  Restricted for: Debt service \$ 150,000  Long-term transportation projects \$ 5,925,224  Unrestricted \$ 57,373  Total net assets \$ 18,637,129	- ·		•		
Noncurrent liabilities: Note payable  Total liabilities  12,047,602  Total liabilities  13,891,284  Net assets: Invested in capital assets, net of related debt Restricted for: Debt service Debt service 150,000 Long-term transportation projects 5,925,224 Unrestricted Total net assets  18,637,129			1,391,913		
Note payable 12,047,602  Total liabilities 13,891,284  Net assets: Invested in capital assets, net of related debt 12,504,532  Restricted for: Debt service 150,000  Long-term transportation projects 5,925,224  Unrestricted 57,373  Total net assets 18,637,129	Total current liabilities			\$	1,843,681
Total liabilities 13,891,284  Net assets: Invested in capital assets, net of related debt 12,504,532  Restricted for: Debt service 150,000 Long-term transportation projects 5,925,224  Unrestricted 57,373  Total net assets 18,637,129					
Net assets: Invested in capital assets, net of related debt  Restricted for:  Debt service  Long-term transportation projects  Unrestricted  Total net assets  12,504,532  150,000  5,925,224  18,637,129	Note payable				12,047,602
Invested in capital assets, net of related debt  Restricted for:  Debt service  Long-term transportation projects  Unrestricted  Total net assets  12,504,532  150,000  5,925,224  18,637,129	Total liabilities				13,891,284
Restricted for:  Debt service 150,000  Long-term transportation projects 5,925,224  Unrestricted 57,373  Total net assets 18,637,129	Net assets:				
Debt service 150,000 Long-term transportation projects 5,925,224 Unrestricted 57,373 Total net assets 18,637,129	Invested in capital assets, net of related debt		12,504,532		
Long-term transportation projects  Unrestricted  Total net assets  5,925,224  57,373  18,637,129	Restricted for:				
Unrestricted	Debt service		150,000		
Total net assets 18,637,129	Long-term transportation projects		5,925,224		
Total net assets	Unrestricted		57,373		
Total liabilities and net assets \$ 32,528,413	Total net assets			_	18,637,129
	Total liabilities and net assets			\$	32,528,413

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, 2011

			C	Capitalized		
	N	on-GAAP		Expenses	GAAP Basis	
Revenues:						
Vehicle registration fees	\$	4,967,459	\$	-	\$	4,967,459
Local contributions		93		<u>-</u>		93
Total revenues	\$	4,967,551			\$	4,967,551
Expenses:						
Administrative		234,816		(232,468)		2,348
Consulting and engineering		1,997,802		(1,997,802)		-
Financial consulting fees		45,880		(45,880)		-
Interest expense	,	508,811		(508,811)		-
Amortization expense		18,737		(18,737)		-
Legal and professional		172,056		(172,056)		-
Other loop project		9,262	_	(9,262)	_	
Total expenses		2,987,364		(2,985,016)	_	2,348
Change in net assets	\$	1,980,187	\$	(2,985,016)		4,965,203
Net assets, January 1, 2011					_	13,671,926
Net assets, December 31, 2011					\$	18,637,129

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

### HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY

# STATEMENT OF CASH FLOWS DECEMBER 31, 2011

Cash flows from operating activities: Receipts from Department of Transportation Receipts from local contributions Payments to vendors Net cash flows provided from operating activities	\$ 5,285,369 93 (2,167)	<u>\$</u>	5,283,294
Cash flows from capital and related financing activities: Acquisitions for construction in progress Principal paid on capital debt Payments for debt issue cost Net cash flows used in capital and related financing activities	 (2,703,149) (1,424,951) 18,737	_	(4,109,363)
Net increase in cash and cash equivalents Cash and cash equivalents at beginning of year Cash and cash equivalents at end of year		\$	1,173,931 5,262,875 6,436,806
Reconciliation of change in net assets to net cash provided by operating activities:			
Change in net assets Depreciation Changes in assets and liabilities:	\$ 4,965,203 319		
(Increase) Decrease in accounts receivables Increase (Decrease) in accrued expenses	 317,910 (137)		
Net cash flows provided by operating activities		<u>\$</u>	5,283,294
Supplemental Disclosure of Cash Flow Information: Cash paid during the year for: Interest expense	\$ 503,561	•	

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

## 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 system 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 System (the Loop System) as the initial set of projects to be developed under the guidance of the Authority. The planning for the Loop System was started in 2000 by Hidalgo County and the Hidalgo County Metropolitan Planning Organization. The Authority has concluded its additional planning effort for the Loop System around the urban part of Hidalgo County in 2010. Based on this effort, the Authority identified 2 independent projects, the Trade Corridor Connector (TCC) and the International Bridge Trade Corridor (IBTC), that provide utility to County residents and together begin building the Loop System. Additional state aid through the Texas Department of Transportation and the addition of a potential third project, the La Joya Relief Route, has required the Authority to re-examine the initial projects. A five-year Strategic Plan approved in March 2012 should focus the Authority's efforts to begin development of the Loop System projects.

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.

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

#### B. Basis of Accounting (continued)

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.

### 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 operational.

#### 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.

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

#### I. Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (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.

#### **NOTE 2 - DEPOSITS AND INVESTMENTS**

At December 31, 2011, the carrying amount of the Authority's cash was \$6,436,806. The bank balance was \$7,000,690 as of December 31, 2011. The Authority's carrying amount at year end is as follows:

	Type	Amount
General Operating	Unrestricted	\$ 258,498
Loop Project	Restricted	1,614,142
Vehicle Registration	Restricted	4,414,166
Debt Service	Restricted	150,000
		\$ 6,436,806

#### 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, 2011 and during the year then ended were 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.

#### 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.

#### NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

#### 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.

#### **NOTE 3 – DISAGGREGATION OF PAYABLES**

Payables as of December 31, 2011 for the Authority are as follows:

<b>Engineering Services</b>	\$	342,457
Legal Services		18,113
Administration Expenses	_	9,681
	\$	370,251

#### **NOTE 4 - CAPITAL ASSETS**

Capital assets at year end totaled \$25,612,890 and represented capitalized costs relating to advance planning for the Loop Project. Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011
Capital Assets, not being depreciated: Construction in Progress	\$22,625,405	\$ 2,985,016	\$ -	\$25,610,421
Capital Assets, being depreciated:	Ψ 22,023,403	\$ 2,965,010	<u>Ψ -</u>	\$25,010,421
Office Equipment	3,186			3,186
Less accumulated depreciation for:				
Office Equipment	(399)	(318)		(717)
Total Capital Assets being depreciated (Net)	2,787	(318)		2,469
Total Capital Assets (Net)	\$22,628,192	\$ 2,984,698	\$ -	\$25,612,890

### Construction in progress consists of the following:

Administrative	\$ 232,468
Consulting and engineering	1,997,802
Financial consulting fees	45,880
Interest expense	508,811
Amortization expense	18,737
Legal and Professional	172,056
Other Loop Project	 9,262
	\$ 2,985,016

#### **NOTE 5 - LONG-TERM OBLIGATIONS**

Long-term obligations outstanding at December 31, 2011 were as follows:

	Beginning			Ending	
	Balance			Balance	Due Within
	1/1/2011	Increases	Decreases	12/31/2011	One Year
Hidalgo County	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ -
First National Bank	14,664,466		1,424,951	13,239,515	1,391,913
	\$ 14,864,466	\$ -	\$ 1,424,951	\$ 13,439,515	\$ 1,391,913

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, 2011 are as follows:

Principal	Interest	Total
\$ 1,391,913	\$ 452,018	\$ 1,843,931
1,576,690	403,474	1,980,164
1,425,655	354,510	1,780,165
1,476,361	303,804	1,780,165
1,528,119	252,045	1,780,164
6,040,777	438,621	6,479,398
\$ 13,439,515	\$ 2,204,472	\$ 15,643,987
	\$ 1,391,913 1,576,690 1,425,655 1,476,361 1,528,119 6,040,777	\$ 1,391,913 \$ 452,018 1,576,690 403,474 1,425,655 354,510 1,476,361 303,804 1,528,119 252,045 6,040,777 438,621

#### **NOTE 6 – CONSTRUCTION COMMITMENTS**

At December 31, 2011, the Authority had remaining construction commitments:

Project	Authorization		Expended		Remaining	
Surveying Services	- \$	603,263	\$	99,837	\$	503,426
Surveying Services		415,439		35,000		380,439
Program Management		5,000,000		497,051		4,502,949
Engineering Services		5,887,542		804,547		5,082,995
					\$	10,469,809

#### NOTE 7 – PRELIMINARY DEVELOPMENT PROJECT

On October 27, 2011 the HCRMA entered into an agreement with Dannenbaum Engineering Corporation to act as the Authority's Program Manager. The priority of the Program Manager is to develop a detailed Strategic Plan. In 2010 the plan was to build the International Border Trade Corridor (IBTC); however, after careful consideration and due to new funding sources and additional projects the Strategic Plan will provide several options and scenarios with the following projects IBTC, TCC, US 281 and the La Joya Relief Route to identify the most important and cost effective project to improve mobility in Hidalgo County. Based on the options and scenarios the Authority will adopt a comprehensive 8 year plan for the development and construction of transportation projects in Hidalgo County.