

AUDITED ANNUAL FINANCIAL REPORT



FOR THE YEAR ENDED
DECEMBER 31, 2023



HCRMA
HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY





Hidalgo County Regional Mobility Authority

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Audited Annual Financial Report

For the Year Ended
December 31, 2023

Hidalgo County Regional Mobility Authority

AUDITED ANNUAL FINANCIAL REPORT YEAR ENDED DECEMBER 31, 2023

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hidalgo County Regional Mobility Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Hidalgo County Regional Mobility Authority (the Authority), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority'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 business-type activities of the Authority, as of December 31, 2023, and the respective changes in financial position and cash flows 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority 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 Authority'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.

Auditors' 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 auditors' 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 and *Government 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 and *Government 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 Authority'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 Authority'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 on pages 5-8 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2024, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Burton McCallister & Long, LLP

McAllen, Texas
April 15, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

As management of the Hidalgo County Regional Mobility Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2023.

FINANCIAL HIGHLIGHTS

- The Authority's net position grew by nearly \$39.8 million or 45.6%. This growth is mainly due to slight increase in operating revenues, moderate increase in investment earnings, conservative administrative operational costs and a decrease in debt service interest (\$1.5M).
- Capital assets (net of depreciation) increased by \$59.5M primarily due to the 365Toll Road construction.
- Capital grant revenue from the federal government totaled \$36.6M.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the notes to the financial statements.

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units on an accrual basis. 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, and depreciation of assets is recognized in the statements of revenues, expenses, and changes in net position. All assets and liabilities associated with the operation of the Authority are included in the statement of net position.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, total assets resources exceeded liabilities by roughly \$126.9 million at the close of the year ended December 31, 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Authority's condensed Statement of Net Position along with last year's balances are presented for comparison in the following table:

Authority's Net Position		
Table 1 - Dollars in Millions		
	2023	2022
Assets		
Current and other assets	\$ 185.6	\$ 192.0
Capital assets	258.6	199.1
Total assets	444.2	391.1
 Liabilities		
Other liabilities	13.7	4.2
Long-term liabilities	303.6	302.1
Total liabilities	317.3	306.3
 Net Position		
Net invested in capital assets, net of related debt	12.6	11.2
Restricted	84.2	139.7
Unrestricted	30.1	(63.8)
Total net position	\$ 126.9	\$ 87.1

By far the largest portion of the Authority's net position (\$126.9 million) is reflected in its net investment in capital assets, mainly in construction in progress, less any related debt used to acquire those assets that are still outstanding. The Authority will use these capital assets to provide services to users; consequently, these assets are not available for future spending. Although the Authority's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents resources for debt service that are subject to bond covenants totaling \$23,256,071 and bond proceeds restricted to be used for projects totaling \$60,862,607. Unrestricted net position totaled \$30,181,662.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Authority's condensed Changes in Net Position along with last year's numbers are presented for comparison in the table below.

Authority's Changes in Net Position		
Table 2 - Dollars in Millions		
	<u>2023</u>	<u>2022</u>
Operating revenues		
Charges for services	<u>\$ 8.4</u>	<u>\$ 8.0</u>
	8.4	8.0
Operating expenses	<u>1.6</u>	<u>1.5</u>
Operating income	6.8	6.5
Non-operating revenues (expenses)	<u>33.0</u>	<u>25.6</u>
Change in net position	39.8	32.1
Net position - beginning	<u>87.1</u>	<u>55.0</u>
Net position - ending	<u>\$126.9</u>	<u>\$ 87.1</u>

The authority's net position increased by nearly \$39.8 million, mainly due to investment earnings and less debt service expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets (net of accumulated depreciation) amount to \$258.6 million. This investment in capital assets includes construction in progress as well as land, leasehold improvements, infrastructure, office equipment, and right to use building. The total increase in the Authority's capital assets for the current year was \$59.6M or 30%. The details of the change in capital assets from last year are reflected in the table below.

Authority's Capital Assets		
(Net of Depreciation)		
Table 3- Dollars in thousands		
	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 225	\$ 273
Office equipment	17	23
Land	1,356	1,356
Right to use-Building	186	230
Infrastructure	2,707	2,808
Construction in progress	<u>254,192</u>	<u>194,422</u>
	<u>\$ 258,683</u>	<u>\$199,111</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

Additional information on the Authority’s capital assets can be found in the Notes to the Financial Statements in this report under section II, subsection C-Capital Assets.

Long-Term Obligations

At the end of the current year, the Authority had total contractually obligated long-term debt of \$289.1 million (not including unamortized premium activity). The details of the change in debt from last year are as indicated:

Authority's Long-Term Obligations
Table 4 - Dollars in thousands
(not including unamortized activity)

	<u>2023</u>	<u>2022</u>
Bonds	<u>\$ 289,197</u>	<u>\$ 287,052</u>
	<u>\$ 289,197</u>	<u>\$ 287,052</u>

The net increase in long-term debt was \$2.1M. This was the net result of additional principal accretion of \$4.3M and principal reduction of (\$2.2M) current amounts due for the year.

ECONOMIC FACTORS AND NEXT YEAR

- The continued growth of vehicle registration fees is expected.
- The continued growth of overweight permit fees usage is expected.
- Continued partnership with Texas Department of Transportation is expected.

All these factors were considered in preparing the Authority’s budget for the year 2024.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority’s finances for all those with an interest in the Authority’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Hidalgo County Regional Mobility Authority, 203 W. Newcombe Ave., Pharr, TX 78577.

BASIC FINANCIAL STATEMENTS

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS

Current assets:	
Cash and cash equivalents	\$ 40,209,459
Cash with fiscal agent	62,152
Investments	39,453,042
Accrued interest	164,752
Receivables (net of allowance for uncollectible):	
Vehicle registration fees receivable	474,330
Overweight permit fee receivable	29,754
Due from governmental agencies	10,537,277
Prepaid expense	48,132
Restricted assets:	
Cash and cash equivalents	27,132,973
Investments	66,346,628
Prepaid expense	898
Accrued interest	782,076
Total current assets	185,241,473
Noncurrent assets:	
Prepaid bond insurance	275,498
Capital assets:	
Land	1,356,039
Leasehold improvements	388,932
Office equipment	40,946
Right-to-use asset - building	437,340
Infrastructure roads	3,010,637
Construction in progress (nondepreciable)	254,192,172
Accumulated depreciation	(491,277)
Accumulated amortization	(251,471)
Total capital assets	258,683,318
Total noncurrent assets	258,958,816
Total assets	\$ 444,200,289

LIABILITIES

Current liabilities payable not from restricted assets:	
Accounts payable	\$ 538,321
Accrued wages	39,617
Lease payable	208,697
Current portion of long-term debt	2,858,690
Unearned revenue	62,152
Current liabilities payable from restricted assets:	
Accounts payable	9,435,597
Accrued interest payable	535,214
Total current liabilities payable	13,678,288
Noncurrent liabilities:	
Long-term debt (net of current portion)	303,626,442
Total noncurrent liabilities	303,626,442
Total liabilities	317,304,730

NET POSITION

Net invested in capital assets	12,595,219
Restricted for:	
Debt service	23,256,071
Capital projects	60,862,607
Unrestricted	30,181,662
Total net position	126,895,559
Total liabilities and net position	\$ 444,200,289

The notes to the financial statements are an integral part of this financial statement.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

Operating revenues:	
Charges for sales and services:	
Vehicle registration fees	\$ 7,042,180
Overweight permit fees	<u>1,346,636</u>
Total operating revenues	<u>8,388,816</u>
Operating expenses:	
Personnel services	900,332
Supplies	15,459
Other services and charges	519,178
Depreciation and amortization expense	<u>198,640</u>
Total operating expenses	<u>1,633,609</u>
Operating income	<u>6,755,207</u>
Non-operating revenues (expenses):	
Miscellaneous	5,119
Investment earnings- unrestricted	2,920,237
Investment earnings- restricted	6,046,235
Intergovernmental - grant	36,575,925
Intergovernmental - cities contributions	80,000
Bond interest expense	(6,722,078)
Principal bond accretion on 2022A and B	(4,384,585)
Interest expense/fees - bonds	(33,747)
Interest expense - amortization bond premiums/deferred charges on refunding	<u>(1,475,648)</u>
Total non-operating revenues (expenses)	<u>33,011,458</u>
Change in net position	39,766,665
Total net position - beginning	<u>87,128,894</u>
Total net position - ending	<u>\$ 126,895,559</u>

The notes to the financial statements are an integral part of this financial statement.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from vehicle registrations, overweight permit fees, and other	\$ 8,373,910
Payments to employees	(886,993)
Payments to suppliers	(15,459)
Payments for contractual services	(194,257)
Net cash provided by operating activities	7,277,201

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from other governmental entities	80,000
Net cash provided by noncapital financing activities	80,000

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments related to acquisition and construction of capital	(56,705,252)
Principal paid on long-term debt	(2,240,000)
Interest paid on long-term debt	(6,534,100)
Proceeds from capital grant	37,049,847
Principal payments on lease payable	(43,874)
Interest paid on lease payable	(9,886)
Net cash used by capital and related financing activities	(28,483,265)

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchase of investments	(6,361,281)
Interest income	8,522,620
Net cash provided by investing activities	2,161,339

Net decrease in cash and cash equivalents and restricted cash and cash equivalents	(18,964,725)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of fiscal year	86,369,309
Cash and cash equivalents and restricted cash and cash equivalents, end of fiscal year	\$ 67,404,584

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 6,755,207
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	198,640
(Increase) decrease in receivable -Vehicle Registration Fees	23,270
(Increase) decrease in accounts receivable -Promiles	(15,672)
(Increase) decrease in prepaid expense	29,934
Increase (decrease) in accounts payable	294,988
Increase (decrease) in accrued wages	13,339
Increase (decrease) in unearned revenue	(22,505)
Total adjustments	521,994
Net cash provided by operating activities	\$ 7,277,201

The notes to the financial statements are an integral part of this financial statement.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE I - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Hidalgo County Regional Mobility Authority (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 Hidalgo 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 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 emphasizes the Authority's efforts to begin development of the Loop System projects, which prioritize 365 Tollway (formerly TCC), the International Border Trade Corridor, and State Highway 68 (formerly Segment D).

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 financial statements of 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 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 financial statements of the Authority measure and report all assets, liabilities, revenues, expenditures, and gains and losses using the economic resources measurement focus and accrual basis of accounting. 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 Position. 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 FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2023

**NOTE I - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
 (Continued)**

C. Cash and Cash Equivalents, Cash with Fiscal Agent, and Investments

Cash and cash equivalents include demand deposits held with financial entities and short-term highly liquid investments that are readily convertible and have original maturities of three months or less.

Cash with fiscal agent include cash held by a third party for prepaid overweight permit fees (ProMiles Software Development Corp.). These deposits are fully collateralized or covered by federal deposit insurance.

Investments are reported at fair value. The net change in fair value of investments is recorded on the statements of revenues, expenses and changes in net position and includes the unrealized and realized gains and losses on investments. The Authority's major investments are held by a third party, Wilmington Trust, per bond covenants. The Authority's local government investment pools are recorded at amortized cost as permitted by GASB Statement No. 79, "*Certain Investment Pools and Pool Participants.*"

D. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. As the Authority constructs or acquires capital assets each year, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increase its estimated useful life.

Land and construction in progress, which include capitalized costs for legal, consulting and engineering relating to the planning on the loop projects, are not depreciated. Depreciation on construction in progress will not begin until the projects are operational. Leasehold improvements, equipment and infrastructure assets are depreciated using the straight-line method over the following estimated useful lives:

Capital asset classes	Lives
Leasehold improvements	10
Office equipment	5
Infrastructure - roads	30

E. Restricted Assets

Proceeds from the Authority's bonds are restricted for projects. Certain resources that are set aside for debt service are classified as restricted assets on the Statement of Net Position because their use is limited by applicable bonds covenants. These restricted assets are held and disbursed by Wilmington Trust, fiscal agent.

F. Receivables

All receivables are shown net of allowance for uncollectible balances, which are estimated based on historical activity. On December 31, 2023, all receivables are expected to be collected, therefore, no allowance for uncollectible balances was deemed necessary.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

**NOTE I - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(Continued)**

G. Net Position

The difference between assets and deferred outflows of resources less liabilities is reported as net position. Net position is comprised of the following components:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources that are attributable to the acquisition, construction and improvement of those assets or related debt are included in this component of net position.
- *Restricted* net position consists of restricted assets reduced by liabilities related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- *Unrestricted* net position is the net amount of the assets, deferred outflows of resources and liabilities that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available, a flow assumption must be made about the order in which the resources are considered to be applied. The Authority's policy is to consider restricted net position as having been used first before unrestricted net position is applied.

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.

As previously noted, 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 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.

J. Personnel Liabilities

The Authority does not have any employees nor any personnel liabilities; the employees who perform operating activities for the Authority are loaned to the Authority by the City of Pharr, TX. All personnel are employees of the City of Pharr. Actual costs incurred by the City of Pharr are reimbursed by the Authority.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE I - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(Continued)

K. 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. Bond obligations issued by state and local governments are tax-exempt only if the issuers pay rebate to the federal government of the earnings on the investment of the proceeds of a tax-exempt issue more than the yield on such obligations and any income earned on such excess.

L. Bond Premiums, Discounts, Issuance Costs, and Deferred Outflows

The Authority amortizes premiums and discounts over the estimated useful life of the bonds as an adjustment to interest expense using the straight-line method. Bond issuance cost is expensed as incurred, in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 65 *“Items Previously Reported as Assets and Liabilities.”* Deferred gains/losses on refunding (the difference between the reacquisition price and the carrying value of existing (debt) are recorded as deferred outflows of resources and amortized over the shorter of the life of the original bonds or the life of the refunding bonds.

M. Reclassifications

Certain amounts in prior year’s presentation have been reclassified to conform to the current year’s presentation. These reclassifications have no effect on previously reported changes in net position.

N. Rounding Adjustments

Throughout this annual financial report, dollar amounts are rounded, thereby creating differences between the details and the totals.

O. New Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following pronouncement:

GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—and intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITA are based on the standards established in Statement No. 87, Leases, as amended.

The Authority has no arrangements of this type that would impact the financial reporting.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON THE AUTHORITY'S ACTIVITY

A. Cash and Investments

Plains Capital Bank maintains the Authority's deposits for safekeeping and secures the funds with pledged securities in an amount sufficient to protect the Authority's funds, currently at 105% of unsecured deposits. The pledge of securities is provided in excess of the deposits above the Federal Deposit Insurance Corporation ("FDIC") insurance. At December 31, 2023, the Authority's deposits were entirely covered by federal deposit insurance or were secured by collateral held by the Authority's agent in the Authority pursuant to the Authority's Depository Agreement with Plains Capital Bank. At December 31, 2023, the carrying amount of the Authority's deposits was \$113,806 and bank balance was \$123,812.

The Authority invests in Local Government Investment Cooperative ("LOGIC"). LOGIC is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "PFIA"). These two acts provide for the creation of public funds investment pools (including LOGIC) and authorize eligible government entities to invest their public funds under their control through the investment pools. As permitted by GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*," the Authority's investments in LOGIC are stated at cost, which approximates fair value.

The Authority classifies its investments with LOGIC as cash and cash equivalents for financial reporting purposes as balances may be withdrawn at any time without penalty. On December 31, 2023, investments in LOGIC totaled \$67,342,432 of which \$27,132,973 was restricted by bond covenants and \$40,209,459 was unrestricted.

The Authority has investments that are unrestricted and restricted. The unrestricted investments are the funds not legally restricted for a specific purpose and are invested in government securities, which are held by Wilmington Trust. The Authority's restricted investments are from funds received from the issuance of debt and restricted by bond covenants for a specific purpose. Wilmington Trust is the fiscal agent for the Authority who is authorized to invest the restricted funds; they are currently investing in government securities.

The Authority categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The three levels of fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability either directly or indirectly.
- Level 3: Unobservable inputs—market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing asset or liability.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON AUTHORITY'S ACTIVITY - (Continued)

A. Cash and Investments – (Continued)

The Authority has the following fair value measurement as of December 31, 2023:

	Fair Value Measurement Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Government Securities - Unrestricted	\$ 39,453,042	\$ 39,453,042	\$ -	\$ -
Government Securities - Restricted	66,346,628	66,346,628	-	-
	<u>\$ 105,799,670</u>	<u>\$ 105,799,670</u>	<u>\$ -</u>	<u>\$ -</u>

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. At year end, the Authority was not exposed to interest rate risk. All investments held by the Authority are short term in nature as follows:

	Investment Maturities (in Years) at the end of December 31, 2023			
	Fair Value	Less Than 1	1-2	2-3
Government Securities - Unrestricted	\$ 39,453,042	\$ 39,453,042	\$ -	\$ -
Government Securities - Restricted	66,346,628	66,346,628	-	-
	<u>\$ 105,799,670</u>	<u>\$ 105,799,670</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation. As of December 31, 2023, the investments in the State's investment pools were rated AAAM by Standards and Poor's. Investments in Government securities consisted of Federal Home Loan Banks rated A-1+, Federal Home Loan Mortgage Corp rated AAA, Federal National Mortgage Association rated AAA, Federal Home Loan Banks rated AAA, Federal Farm Credit Banks Funding Corp rated AAA and United States Treasury rated AAA.

Custodial Credit Risk

Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits and investments are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name.

The Authority has a process of maintaining contact with the trust department of its depository bank to eliminate all custodial credit risk once a need for an increase in collateral is identified the trust department adjusts the collateral amount accordingly. As of December 31, 2023, the Authority's bank balance was not exposed to custodial credit risk and was over-insured and over-collateralized via Plains Capital investment in federal securities held by a third party in the name of the Authority to cover the amount of deposits over the FDIC collateral.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON AUTHORITY'S ACTIVITY - (Continued)

A. Cash and Investments – (Continued)

Concentration of Credit Risk

The Authority's investment holdings at December 31, 2023 were strictly confined in government securities. The investment policy is silent in the concentration of holdings in the various types of securities and investments.

B. Unearned Revenue

The Authority reports unearned revenue in connection with resources that have been received, but not yet earned. As of December 31, 2023, the Authority's unearned revenues totaling \$62,152 were due to prepayments by customers who purchase commercial truck overweight permits. The third party who is acting as the Authority's Fiscal Agent is Promiles, the company that owns the software that is used for online overweight permit purchases.

C. Capital Assets

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

	Balance 12/31/2022	Increases	Disposals/ Transfers	Balance 12/31/2023
Capital Assets, not being depreciated:				
Land	\$ 1,356,039	\$ -	\$ -	\$ 1,356,039
Construction in progress	194,421,544	59,770,628	-	254,192,172
Total Capital Assets not being depreciated	195,777,583	59,770,628	-	255,548,211
Capital Assets, being depreciated:				
Leasehold improvements	388,932	-	-	388,932
Office equipment	40,946	-	-	40,946
Right-to-use asset - building	437,340	-	-	437,340
Infrastructure - roads	3,010,637	-	-	3,010,637
Total Capital Assets being depreciated	3,877,855	-	-	3,877,855
Less accumulated depreciation and amortization for:				
Leasehold improvements	(115,964)	(47,497)	-	(163,461)
Office equipment	(17,698)	(6,054)	-	(23,752)
Right-to-use asset - building	(207,737)	(43,734)	-	(251,471)
Infrastructure - roads	(202,709)	(101,355)	-	(304,064)
Total accumulated depreciation and amortization	(544,108)	(198,640)	-	(742,748)
Total Capital Assets being depreciated (net)	3,333,747	(198,640)	-	3,135,107
Total Capital Assets, Net	<u>\$ 199,111,330</u>	<u>\$ 59,571,988</u>	<u>\$ -</u>	<u>\$ 258,683,318</u>

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON AUTHORITY'S ACTIVITY - (Continued)

C. Capital Assets - (Continued)

Increase in construction in progress consists of the following:

Consulting and engineering	\$ 2,535,083
Legal and professional	190,152
Loop project: 365 Tollway/IBTC	56,304,784
Capitalized wages	740,609
	<u>\$ 59,770,628</u>

D. Non-capitalized Construction Costs

Non-capitalized construction costs include costs associated with projects which will not be owned or maintained by the Authority once the project is completed. Costs associated with these projects are expensed as incurred. For the year ended December 31, 2023, the Authority did not have any non-capitalized construction costs.

E. Long-Term Obligations

1. Revenue Bonds

The Authority originally issued a Series 2013 bond for which it pledged revenues derived from vehicle registration fees to pay the debt. The beginning balance outstanding was \$1,425,000. At year end, the amount outstanding was paid, and no obligation remained.

On February 10, 2022, the Authority issued and received proceeds amounting to \$151,650,345 from the issuance of the Series 2022A Senior Lien Bonds issued in part as Current Interest Bonds (the "Series 2022A Senior Lien CIBs") and Capital Appreciation Bonds (the "Series 2022A Senior Lien CABs"). It also issued the Series 2022B Junior Lien Bonds in the amount of \$63,884,707 in part as Current Interest Bonds (the "Series 2022B Junior Lien CIBs") and Capital Appreciation Bonds (the "Series 2022B Junior Lien CABs"). The purpose of these two bond issues is for the construction of the 365 Toll Road and to retire the Jr. Lien Bond Series 2016 in the amount of \$23,534,334.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON AUTHORITY'S ACTIVITY - (Continued)

E. Long-Term Obligations (Continued)

1. Revenue bonds (Continued)

At December 31, 2023, the Authority had the following long-term bonds outstanding:

\$9,870,000 refunding bonds, Series 2020A due in various installments through 2050 with interest of 3.00% to 4.00%.		\$ 9,870,000
\$58,015,000 refunding bonds, Series 2020B due in various installments through 2043 with interest of 2.91% to 2.97%.		55,585,000
\$151,650,345 Senior Lien Toll and Vehicle Registration Fee Revenue Bond, Series 2022A due in various installments through 2056 with interest of 3.50% to 5.00%. Bonds are secured with a pledge of dedicated Vehicle Registration Fees and Toll revenues.	151,650,345	
Principal accretion on Senior Lien Toll and Vehicle Registration Fee Revenue Bonds, Series 2022A.	5,693,408	
Total outstanding balance on Senior Lien Series 2022A Bonds		157,343,753
\$63,884,707 Junior Lien Toll and Vehicle Registration Fee Revenue and Refunding Bond, Series 2022B due in various installments through 2056 with interest of 3.50% to 5.00%. Bonds are secured with a pledge of dedicated Vehicle Registration Fees and Toll revenues.	63,884,707	
Principal accretion on Junior Lien Toll and Vehicle Registration Fee Revenue and Refunding Bond, Series 2022B.	2,513,437	
Total outstanding balance on Junior Lien Series 2022B Bonds		66,398,144
Total principal outstanding		289,196,897
Bond premium		17,288,235
Total long term bonds payable		\$ 306,485,132

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON AUTHORITY'S ACTIVITY - (Continued)

E. Long-Term Obligations (Continued)

1. Revenue Bonds (Continued)

Debt service requirements on long-term obligations at December 31, 2023 including principal accretion are as follows:

Year Ended December 31	Principal	Interest	Total
2024	\$ 2,325,000	\$ 6,422,567	\$ 8,747,567
2025	2,345,000	6,400,154	8,745,154
2026	2,365,000	6,375,204	8,740,204
2027	2,400,000	6,342,945	8,742,945
2028	3,475,000	6,307,809	9,782,809
2029-2033	35,435,000	28,876,787	64,311,787
2034-2038	59,370,000	19,532,364	78,902,364
2039-2043	69,561,634	23,252,917	92,814,551
2044-2048	44,118,604	60,587,496	104,706,100
2049-2053	47,261,201	80,767,245	128,028,446
2054-2056	20,540,458	59,394,540	79,934,998
	<u>\$289,196,897</u>	<u>\$304,260,028</u>	<u>\$ 593,456,925</u>

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. The current net debt service position was \$23,256,071 for the year ended December 31, 2023. These funds are required by the bond ordinance to be set aside to pay the bond debt. These funds are managed by a Trustee, Wilmington Trust, and are currently held in the Logic Investment Pool and government securities.

Long-term obligations outstanding on December 31, 2023 are as follows:

	Balance 12/31/2022	Increases	Decreases	Balance 12/31/2023	Due Within One Year
Bonds Payable:					
Revenue Bond Series 2013	\$ 1,425,000	\$ -	\$ 1,425,000	\$ -	\$ -
Revenue Bond Series 2020A	9,870,000	-	-	9,870,000	-
Revenue Bond Series 2020B	56,400,000	-	815,000	55,585,000	2,325,000
Revenue Bond Series 2022A	154,302,560	3,041,193	-	157,343,753	-
Revenue Bond Series 2022B	65,054,751	1,343,393	-	66,398,144	-
Premium on Bonds-2013	53,043	-	53,043	-	-
Premium on Bonds-2020A	1,255,852	-	45,256	1,210,596	45,256
Premium on Bonds-2022A	12,078,598	-	356,126	11,722,472	356,126
Premium on Bonds-2022B	4,487,476	-	132,309	4,355,167	132,308
Total Long-Term Obligations	<u>\$304,927,280</u>	<u>\$ 4,384,586</u>	<u>\$ 2,826,734</u>	<u>\$ 306,485,132</u>	<u>\$ 2,858,690</u>

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON AUTHORITY'S ACTIVITY - (Continued)

E. Long-Term Obligations (Continued)

2. Arbitrage

In 2013 and 2022, the Authority issued long-term debt for capital construction projects. These bonds are subject to arbitrage regulations. Arbitrage regulations call for the return of the difference in interest revenue against interest expense. On December 31, 2023, there was no liability of arbitrage that would have been owed to the federal government.

F. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	Not applicable

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE II - DETAILED NOTES ON AUTHORITY'S ACTIVITY - (Continued)

G. Lease Payable

Effective March 1, 2018, the Authority entered into a building lease agreement with a 60-month term and monthly installments of \$4,480. The agreement includes a renewal option for an additional 60 months. Management uses the Authority's incremental borrowing rate 4.25% to discount the lease payments. On December 31, 2023, the Authority recognized a right-to-use asset as follows:

Right-to-use asset	\$	437,340
Amortization		<u>(251,471)</u>
Right-to-use asset, net	\$	<u>185,869</u>

On December 31, 2023, the Authority recognized a lease liability totaling \$208,697. Future payments on this lease are as follows:

December 31,	Principal	Interest	Total Payment
2024	\$ 45,775	\$ 7,985	\$ 53,760
2025	47,759	6,001	53,760
2026	49,829	3,931	53,760
2027	51,988	1,772	53,760
2028	13,346	95	13,441
	<u>\$ 208,697</u>	<u>\$ 19,784</u>	<u>\$ 228,481</u>

Additionally, the Authority leases certain office equipment. The total costs of the Authority's leases were \$75,435 for the year ended December 31, 2023.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE III - OTHER INFORMATION

A. City Contributions

In 2018, the Authority adopted the 2019-2023 Strategic Plan Update – Program Manager Strategy No. 8, which included the International Bridge Trade Corridor and State Highway 68 projects. The Authority requested partnership with several cities in the form of Interlocal agreements to assist in paying for the preparation of the projects. The year ending December 31, 2023, was the tenth and final year of the agreement. The cities and the terms of the Interlocal agreements are reflected as follows:

City	Years	Amount/Year
Alamo	10	\$ 15,000
Donna	10	-
Edinburg	10	25,000
Pharr	10	25,000
San Juan	10	15,000
		\$ 80,000

For the year ended December 31, 2023, actual collections from city contributions totaled \$80,000.

B. Litigation

The Authority is currently a defendant in a lawsuit. The lawsuit remains pending, and it is the opinion of management and its outside attorneys that the possible outcome of the lawsuit and an estimate of the loss, if any, cannot presently be determined.

C. Project Commitments

On December 31, 2023, the Authority had the following remaining project commitments:

Project	Authorization	Expended	Remaining
Program management	\$ 5,491,329	\$ 3,145,411	\$ 2,345,918
Engineering/surveying	2,844,312	2,662,404	181,908
Environmental	1,585,189	1,031,488	553,701
Material testing	7,428,050	1,164,950	6,263,100
Toll system	13,980,669	1,216,842	12,763,827
Construction	286,220,445	103,107,333	183,113,112
	\$317,549,994	\$112,328,428	\$205,221,566

This table is not meant to reconcile to the balance of construction in progress. This table consists of current project commitments authorized by the Board.

HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE III - OTHER INFORMATION - (Continued)

D. Impairment of Assets

The Authority reviews the carrying values of assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use the eventual disposition. In cases where undiscounted expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying values exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and other economic factors. The Authority recorded no impairments for the year ended December 31, 2023.

E. Letter of Credit

On November 8, 2023, the Authority acquired an unsecured Irrevocable Standby Letter of Credit from Plains Capital Bank that will expire on November 8, 2024. As of December 31, 2023, the authority has not drawn upon the letter of credit, which has been issued in the maximum amount of \$50,000 with interest of 1% with Plains Capital Bank.

F. Major Vendors

One vendor accounted for 91% of vendor payments for the year ended December 31, 2023.

G. Subsequent Events

Management has evaluated subsequent events through April 15, 2024, the date these financials statements were available to be issued. No subsequent events were noted.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Hidalgo County Regional Mobility Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Hidalgo County Regional Mobility Authority (the Authority), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bunter McCall & Long, L.L.P.

McAllen, Texas
April 15, 2024

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Hidalgo County Regional Mobility Authority

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hidalgo County Regional Mobility Authority's (the Authority) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2023. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Burton McClintock & Long, LLP

McAllen, Texas
April 15, 2024

**HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Federal Grantor/ Pass-Through Grantor/ State Grantor/ Program Title	ALN	Grant/Contract Identifying Award Number	Expenditures
FEDERAL AWARDS			
<u>HIGHWAY PLANNING AND CONSTRUCTION CLUSTER</u>			
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<u>Passed through from Texas Department of Transportation:</u>			
Highway Planning and Construction	20.205	CSJ # 0921-02-368	\$ 36,575,925
			<u>36,575,925</u>
Total passed through Texas Department of Transportation			<u>36,575,925</u>
Total U.S. Department of Transportation			<u>\$ 36,575,925</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 36,575,925</u>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the federal grant activity for the Hidalgo County Regional Mobility Authority (the Authority) for the year ended December 31, 2023. The reporting entity is defined in Note I.A to the Authority's financial statements. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Authority, it is not intended and does not present the financial position, changes in net assets, or cash flows of the Authority.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented using the flow of economic resources measurement focus and use the accrual basis of accounting, which is described in Note I.B of the Authority's notes to the financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time a liability is incurred. Federal grant funds are generally considered earned to the extent expenditures made under the provisions of the grant are made and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. The Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule may not agree with the amounts reported in the related Federal financial reports filed with the grantor agencies because of accruals made in the schedule which will be included in future reports filed with agencies.

Reconciliation of Schedule of Federal Awards to Comprehensive Annual Financial Report

The following is a reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the Statement of Revenues, Expenses, and Changes in Net Position within the Hidalgo County Regional Mobility Authority's Annual Financial Report:

	Federal Expenditures per SEFA
Intergovernmental revenues on financial statements:	<u>\$ 36,575,925</u>

**HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal Control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes _____ none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of major programs:

<i>Assistance Listing Number (ALN)</i>	<i>Name of Federal Program or Cluster</i>
20.205	Highway Planning and Construction Program

Dollar threshold used to distinguish between Type A and Type B programs: \$1,097,278

Auditee qualifies as a low-risk auditee? _____ yes X no

**HIDALGO COUNTY REGIONAL MOBILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

ALN 20.205 – Highway Planning and Construction

Reference Number 2023-001	Quality Assurance Program Verification Activities
Criteria:	The provisions of 23 CFR Part 637 require that the quality of the materials be validated by verification sampling and testing. The sampling and testing should be performed by qualified sampling and testing personnel.
Condition Found:	<p>We selected a sample of 40 sampling and testing activities and verified whether technicians performing testing were certified by Texas Department of Transportation (TxDOT). In the sample tested, we noted one technician, who performed 4 of the 40 tests selected in our sample, was not certified.</p> <p>In November 2023, TxDOT performed a monitoring compliance review and had previously noted the same observation regarding the same technician that was not certified. Management indicated that prompt corrective action was taken to address this issue. None of the testing reports reviewed in our sample by this technician occurred after the findings report was issued TxDOT.</p>
Effect:	Quality and materials testing performed by technicians who are not certified by TxDOT does not meet the requirements of 23 CFR Part 637.
Questioned Costs:	\$0
Cause:	Controls were not enforced to ensure all technicians performing sampling and testing activities were properly certified.
Recommendation:	We recommend HCRMA strengthen internal controls to ensure all technicians performing testing are properly certified.
Repeat Finding from Prior Year(s):	N/A
Views of Responsible Officials:	See management’s corrective action plan.



Board of Directors

S. David Deanda, Jr., Chairman
Ezequiel Reyna, Jr., Vice-Chairman
Juan Carlos Del Ángel, Secretary/Treasurer
Gabriel Kamel, Director
Francisco “Frank” Pardo, Director
Sergio Saenz, Director
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Corrective Action for Federal Award Findings

Reference Number 2023-001 Quality Assurance Program Verification Activities

(ALN 20.205)

Corrective Action:

Upon notification by TxDOT of the non-compliance on the 365 Tollway Project, the Authority took the following action:

1. Suspended work with consultant on November 10, 2023, and subsequently terminated their contract on December 21, 2023, for non-compliance with quality assurance requirements.
2. Enforced the contract with its Owner’s Independent Assurance Program (IAP) consultant to provide continuous monitoring of all technician certifications/accreditations for the life of the project.
3. Procured services to perform forensic investigation and evaluation of the work performed by the non-compliant technicians to confirm materials meet quality assurance standards.

Proposed Completion Date: The IAP is monitoring all technician certifications/accreditation and will continue monitoring for the life of the project. The forensic investigation and evaluation of the work performed by the non-compliant technicians will be completed by December 2024.

Name of contact person: Pilar Rodriguez, P.E., Executive Director

Contact Information: (956) 402-3762 prodriguez@hcrma.net