

**Anzalduas International Crossing**

**Financial Statements  
And Independent Auditors' Report**

**September 30, 2011 and 2010**

# ANZALDUAS INTERNATIONAL CROSSING

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## Independent Auditors' Report

To the Board of Trustees  
Anzalduas International Crossing  
McAllen, Texas

We have audited the accompanying statements of net assets of the Anzalduas International Crossing (the "Anzalduas Bridge"), an enterprise fund of the City of McAllen, Texas, as of September 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of Anzalduas Bridge's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audits 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 Anzalduas Bridge'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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position of Anzalduas Bridge, an enterprise fund of the City of McAllen, Texas, and do not purport to, and do not, present fairly the financial position of the City of McAllen, Texas, as of September 30, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Anzalduas Bridge as of September 30, 2011 and 2010, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**SAN ANTONIO**  
100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

**AUSTIN**  
811 BARTON SPRINGS ROAD, SUITE 550  
AUSTIN, TEXAS 78704  
512 476 0717

TOLL FREE: 800 879 4966  
WEB: PADGETT-CPA.COM

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012 on our consideration of the Anzalduas Bridge'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Anzalduas Bridge's basic financial statements. The Schedule of Income Distribution; Schedule of Changes in Restricted Assets – Cash and Investments; Toll Bridge System (Combined) – McAllen International Toll Bridge and Anzalduas International Crossing; Schedule of Net Assets Information, Schedule of Revenues, Expenses, and Changes in Fund Net Assets Information, and Schedule of Cash Flows Information, which are listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Vehicle and Passenger Traffic (Unaudited); Schedule of Car and Truck Traffic Revenue (Unaudited); Schedule of Board Advances From McAllen International Toll Bridge Fund (Unaudited) and the Schedule of Insurance Coverage (Unaudited) have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Padgett, Stratemann & Co., L.L.P.*

Certified Public Accountants  
January 30, 2012

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**Anzalduas International Crossing  
Management's Discussion and Analysis  
September 30, 2011**

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This discussion and analysis is intended to provide an overview of the of the Anzalduas International Crossing's (Anzalduas Bridge) financial performance for the fiscal year ending September 30, 2011 and the related effect on its financial condition. Please read it in conjunction with the basic financial statements, which follow and include the notes thereto, which are necessary for a complete understanding of the data contained in the financial statements. Following the notes to the financial statements is certain supplementary information.

***ANZALDUAS BRIDGE OPERATIONAL HIGHLIGHTS***

This is the first year of full operations for the Anzalduas Bridge. As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets, operating income amounted to \$171K. However, net assets decreased by \$1.4M principally due to increase in revenues, but offset by an increase in expenses. The southbound car crossings at Anzalduas were 20% over last year's crossing; however, last year's crossing was based on 9½ months of operation. Although the Hidalgo Bridge experienced a 16% decline in southbound car crossings, the combined system-wide resulted in an overall decline of 10%.

***Overview of the Financial Statements***

These reports consists of several financial statements and includes, the Statement of Net Assets, Statement of Revenue, Expenses and Changes in Fund Net Assets, and the Statement of Cash Flows for the current fiscal year ending September 30, 2011 as well as the previous fiscal year.

***Required Financial Statements***

The Statement of Net Assets includes all of the assets and liabilities of the Anzalduas Bridge and provide information about the nature of the resources (assets) and obligations to creditors (liabilities). The assets and liabilities are presented in a format that distinguishes between current and long-term categories. Over time, increases or decreases in net assets may be a useful indicator of whether the financial position of the Anzalduas Bridge is improving or deteriorating.

**Anzalduas International Crossing  
Management's Discussion and Analysis  
September 30, 2011**

The Statement of Revenues, Expenses, and Changes in Fund Net Assets analyzes the Anzalduas Bridge's operations of the current year only.

The Statement of Cash Flows is the final required financial statement. This statement provides information on the cash receipts, cash payments, and net changes in cash resulting from operations, financing and investment activities.

Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found in the section following the Statements of Cash Flows.

***FINANCIAL POSITION SUMMARY***

Net assets, and its components, over time serve as a meaningful measure of the Anzalduas Bridge's financial position. As of September 30, 2011, net assets amounted to \$2.6M. Both liabilities, payable from restricted assets and long term liabilities decreased by \$1.3M combined. The decreased resulted in the issuing of payments to reduce board advances as follows: start up fund reduced by \$397K and board advance "A" reduced by \$883K.

A summary of the Anzalduas Bridge's condensed Statement of Net Assets Information is presented in the following page.

**Anzalduas International Crossing  
Management's Discussion and Analysis  
September 30, 2011**

**Condensed Schedule of Net Assets Information**

	FY 10-11	FY 09-10	FY 08-09
<b>ASSETS:</b>			
Current assets	\$ 1,112,662	\$ 2,058,570	\$ 813,558
Restricted assets	990,343	1,734,944	2,658,684
Net capital assets	52,004,355	52,928,507	53,469,958
Other assets	876,273	919,193	962,113
 Total assets	 <u>\$ 54,983,633</u>	 <u>\$ 57,641,214</u>	 <u>\$ 57,904,313</u>
 <b>LIABILITIES:</b>			
Current liabilities	\$ 99,315	\$ 1,301,384	\$ 1,779
Payable from restricted assets	969,177	1,002,952	1,395,175
Long-term liabilities	51,259,984	51,313,821	51,252,928
 Total liabilities	 <u>\$ 52,328,476</u>	 <u>\$ 53,618,157</u>	 <u>\$ 52,649,882</u>
 <b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	\$ 14,737,317	\$ 15,948,778	\$ 16,331,663
Restricted for improvements	67,686	-	-
Restricted per revenue bond ordinance	773,455	461,680	378,845
Unrestricted	(12,923,301)	(12,387,401)	(11,456,077)
 Total net assets	 <u>\$ 2,655,157</u>	 <u>\$ 4,023,057</u>	 <u>\$ 5,254,431</u>

***Revenues, Expenses and Changes in Fund Net Assets***

The changes in net assets amounted to a decrease of \$1.4M from the previous year.

Condensed Schedule of Revenues, Expenses, and Changes in Fund Net Assets provide additional information on the changes in the Anzalduas Bridge fund. This condensed information is presented in the following page.

**Anzalduas International Crossing  
Management's Discussion and Analysis  
September 30, 2011**

**Condensed Schedule of Revenues, Expenses,  
and Changes in Fund Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Tolls	\$ 2,291,677	\$ 1,702,849	\$ -
Other Income	99,558	60,214	-
Total operating revenues	<u>2,391,235</u>	<u>1,763,063</u>	<u>-</u>
Operating expenses:			
Salaries	246,772	198,458	-
Payroll taxes and benefits	86,977	66,883	-
Insurance	12,000	34,496	-
Materials and supplies	15,289	9,658	-
Maintenance	36,100	22,228	-
Miscellaneous services	311,657	150,349	-
Depreciation	<u>1,511,334</u>	<u>1,120,415</u>	<u>-</u>
Total operating expenses	<u>2,220,129</u>	<u>1,602,487</u>	<u>-</u>
Operating income	<u>171,106</u>	<u>160,576</u>	<u>-</u>
Nonoperating revenues (expenses):			
Interest income	3,184	3,427	-
Interest income - restricted assets	1,358	2,888	151,887
Interest expense	(1,804,655)	(1,835,132)	(1,854,167)
Amortization of bond premium	(17,044)	(17,044)	(17,044)
Interest expense - Board advance - relating to Series 2007A Bonds and Start up Fund	(460,943)	(458,353)	(437,474)
Capitalization of interest expense	<u>-</u>	<u>-</u>	<u>1,709,258</u>
Total nonoperating revenue (expenses)	<u>(2,278,100)</u>	<u>(2,304,214)</u>	<u>(447,540)</u>
Income (loss) before operating transfers	(2,106,994)	(2,143,638)	(447,540)
Capital contributions	-	141,988	1,077,223
Transfers-in -other	4,626	-	-
Transfers-in - McAllen International Toll Bridge Fund	<u>734,468</u>	<u>770,276</u>	<u>776,829</u>
Changes in net assets	(1,367,900)	(1,231,374)	1,406,512
Total net assets at beginning of year	<u>4,023,057</u>	<u>5,254,431</u>	<u>3,847,919</u>
Total net assets at end of year	<u>\$ 2,655,157</u>	<u>\$ 4,023,057</u>	<u>\$ 5,254,431</u>



**Anzalduas International Crossing  
Management's Discussion and Analysis  
September 30, 2011**

***TOLL RATES***

The toll rates adopted by the board of trustees on southbound crossings into Mexico are the following:

<u>Category</u>	<u>FY 10-11</u>	<u>FY 09-10</u>
Pedestrians	\$0.75	\$0.50
Cars	\$3.00	\$2.50
Trucks (Depending on # of Axles)	\$7.00-\$20.00	\$7.00-\$20.00
Buses (Depending on # of Axles)	\$7.00-\$9.00	\$7.00-\$9.00
Motorcycles	\$1.00	\$1.00
Extra Axle	\$3.00	\$3.00

Effective June 1, 2011 the board of trustees approved an increase of 50¢ per car crossings and 25¢ to pedestrian crossings. The board also decided to transfer 25¢ of the increase in the car crossings to a new bridge's capital improvement fund for future improvements.

Currently, the presidential permit does not allow for southbound cargo crossings.

***REVENUES***

The forecast for toll revenues was estimated at \$2M. Actual toll revenues came in at \$2.3M. Other operating income of \$99K was mainly the result in the exchange of the Mexican peso to U.S. Dollars. Interest income during the year was \$5K as compared to \$6K in 2010. Other changes in net assets included net transfer from the McAllen International Bridge in the amount of \$734K. This transfer supported debt service requirements of Series 2007B bonds.

***EXPENSES***

Operating expenses came in at \$2.2M, including depreciation in the amount of \$1.5M. All non-operating expenses were relatively flat.

***CAPITAL ASSETS AND DEBT ADMINISTRATION***

***Capital Assets***

Total capital assets at September 30, 2011 are reflected at \$52M. For the current year, an additional \$587K was added from the final residual of bond proceeds. This amount was mainly for additional improvements outside the parameter of the compound.

**Anzalduas International Crossing  
Management's Discussion and Analysis  
September 30, 2011**

Depreciation expense was \$1.5M.

The following table reflects the capital assets:

	<b>Capital Assets</b>		
	<u>FY 10-11</u>	<u>FY 09-10</u>	<u>FY 08-09</u>
Land	\$ 2,936,598	\$ 2,936,598	\$ 2,936,598
Buildings	2,997,470	2,997,470	-
Improvements other than buildings	47,243,241	46,656,059	-
Machinery and equipment	1,458,795	1,458,795	-
Construction in progress	<u>-</u>	<u>-</u>	<u>50,533,360</u>
 Total capital assets	 54,636,104	 54,048,922	 53,469,958
Accumulated depreciation	<u>(2,631,749)</u>	<u>(1,120,415)</u>	<u>-</u>
 Total capital assets, net	 <u><u>\$ 52,004,355</u></u>	 <u><u>\$ 52,928,507</u></u>	 <u><u>\$ 53,469,958</u></u>

### *Debt*

At the end of this fiscal year, the Anzalduas Bridge had \$37.6M in revenue bonds outstanding resulting from the bond offering in fiscal year 2007. These bonds have a rating of "A" from FitchRatings as well as Standard & Poors. The proceeds, as well as other sources of funding, were used to construct the bridge structure, including all related infrastructure and facilities.

### ***ECONOMIC FACTORS***

During the budget process for fiscal year 2011-12, the elected and appointed officials considered many factors driving bridge crossings including job growth, growth in new housing, bank deposits, retail sales growth, the unemployment rate, inflation, the level of growth in the maquiladora industry, the dollar exchange rate with the Mexican peso as well as anticipated level of Winter Texan tourists that spend between 4 to 6 months during the winter months in our area.

Taking the above factors into account as well as the fact that the car toll increase will be effective for a full year, toll revenues were budgeted conservatively. Operating expenses were marginally increased and provision was made to service debt repayment requirements.

**Anzalduas International Crossing  
Management's Discussion and Analysis  
September 30, 2011**

***CONTACTING THE CITY'S FINANCIAL MANAGEMENT***

This financial report is designed to inform the citizens, taxpayers and customers of the City of McAllen, the City of Hidalgo, and the City of Mission, which shares in the *net surplus revenues* of the Bridge's operations as well as its investors and creditors about the Anzalduas Bridge's finances and to provide accountability for the resources that it receives. If you have any questions about the report or need additional financial information, contact the Finance Director's Office at the City of McAllen, P.O. Box 220 McAllen, Texas 78505.



# Basic Financial Statements

**Anzalduas International Crossing**  
**Statements of Net Assets**  
**September 30, 2011 and 2010**  
**Assets**

	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash	\$ 105,324	\$ 71,720
Certificates of deposit	200,000	200,000
Investments	807,000	1,786,458
Accrued interest receivable	<u>338</u>	<u>392</u>
Total current assets	<u>1,112,662</u>	<u>2,058,570</u>
<b>Restricted Assets</b>		
Cash	67,686	3,705
Investments	922,657	1,300,166
Other receivables	-	20,000
Advance receivable	<u>-</u>	<u>411,073</u>
Total restricted assets	<u>990,343</u>	<u>1,734,944</u>
<b>Capital Assets – at cost</b>		
Land	2,936,598	2,936,598
Buildings	2,997,470	2,997,470
Improvements other than buildings	47,243,241	46,656,059
Machinery and equipment	<u>1,458,795</u>	<u>1,458,795</u>
	54,636,104	54,048,922
Less accumulated depreciation	<u>2,631,749</u>	<u>1,120,415</u>
Net capital assets	<u>52,004,355</u>	<u>52,928,507</u>
<b>Other Assets</b>		
Unamortized bond issue cost	<u>876,273</u>	<u>919,193</u>
Total other assets	<u>876,273</u>	<u>919,193</u>
Total assets	<u><u>\$ 54,983,633</u></u>	<u><u>\$ 57,641,214</u></u>

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

## Liabilities and Net Assets

<b>Current Liabilities</b>	<u>2011</u>	<u>2010</u>
Accounts payable	\$ 87,891	\$ -
Accrued liabilities	11,424	21,966
Due to other funds	<u>-</u>	<u>1,279,418</u>
Total current liabilities	<u>99,315</u>	<u>1,301,384</u>
 <b>Liabilities Payable From Restricted Assets</b>		
Accounts payable	-	61,142
Current installments of revenue bonds	820,000	790,000
Accrued revenue bond interest	<u>149,177</u>	<u>151,810</u>
Total liabilities payable from restricted assets	<u>969,177</u>	<u>1,002,952</u>
 <b>Long-Term Liabilities</b>		
Revenue bonds – excluding current installments	36,795,000	37,615,000
Compensated absences	4,496	-
Bond premium	528,312	554,189
Advance from McAllen International Toll Bridge Fund - Anzalduas Special & Startup Fund	9,925,342	9,466,742
Advance from McAllen International Toll Bridge Fund - Board Advance relating to Series 2007 A Bonds	<u>4,006,834</u>	<u>3,677,890</u>
Total long-term liabilities	<u>51,259,984</u>	<u>51,313,821</u>
Total liabilities	<u>52,328,476</u>	<u>53,618,157</u>
 <b>Net Assets</b>		
Invested in capital assets-net of related debt	14,737,317	15,948,778
Restricted per revenue bond ordinances	773,455	461,680
Restricted for improvements	67,686	-
Unrestricted	<u>(12,923,301)</u>	<u>(12,387,401)</u>
Total net assets	<u>2,655,157</u>	<u>4,023,057</u>
Total liabilities and net assets	<u><u>\$ 54,983,633</u></u>	<u><u>\$ 57,641,214</u></u>

# Anzalduas International Crossing

## Statements of Revenues, Expenses, and Changes in Fund Net Assets

Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Tolls	\$ 2,291,677	\$ 1,702,849
Other Income	<u>99,558</u>	<u>60,214</u>
Total operating revenues	<u>2,391,235</u>	<u>1,763,063</u>
Operating expenses:		
Salaries	246,772	198,458
Payroll taxes and benefits	86,977	66,883
Insurance	12,000	34,496
Materials and supplies	15,289	9,658
Maintenance	36,100	22,228
Miscellaneous services	311,657	150,349
Depreciation	<u>1,511,334</u>	<u>1,120,415</u>
Total operating expenses	<u>2,220,129</u>	<u>1,602,487</u>
Operating income	<u>171,106</u>	<u>160,576</u>
Nonoperating revenues (expenses):		
Interest income	3,185	3,427
Interest income-restricted accounts	1,358	2,888
Interest expense	(1,804,655)	(1,835,132)
Amortization of bond premium	(17,044)	(17,044)
Interest expense - Board advance - relating to Series 2007 A Bonds and Start up Fund	<u>(460,943)</u>	<u>(458,353)</u>
Total nonoperating revenues (expenses)	<u>(2,278,099)</u>	<u>(2,304,214)</u>
Loss before operating transfers	(2,106,993)	(2,143,638)
Capital contributions	-	141,988
Transfers-in other	4,626	-
Transfers-in - McAllen International Toll Bridge Fund	<u>734,467</u>	<u>770,276</u>
Changes in net assets	(1,367,900)	(1,231,374)
Total net assets at beginning of year	<u>4,023,057</u>	<u>5,254,431</u>
Total net assets at end of year	<u><u>\$ 2,655,157</u></u>	<u><u>\$ 4,023,057</u></u>

*The accompanying notes are an integral part of these statements*



# Anzalduas International Crossing

## Statements of Cash Flows

Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	\$ 2,391,235	\$ 1,763,063
Payments to suppliers	(301,111)	(202,775)
Payments to employees	<u>(325,839)</u>	<u>(257,331)</u>
Net cash provided by operating activities	<u>1,764,285</u>	<u>1,302,957</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Advance receivable	431,073	205,536
Reimbursement of board advances	(1,279,418)	-
Transfer from health insurance fund	4,626	-
Advance from McAllen International Toll Bridge- Board A	326,833	1,697,834
Transfer from McAllen International Toll Bridge - Board B	<u>734,468</u>	<u>770,276</u>
Net cash provided by noncapital financing activities	<u>217,582</u>	<u>2,673,646</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(648,326)	(1,622,059)
Contributions	-	214,716
Interest paid	(1,807,288)	(1,837,648)
Principal paid on long-term debt	<u>(790,000)</u>	<u>(755,000)</u>
Net cash used by capital and related financing activities	<u>(3,245,614)</u>	<u>(3,999,991)</u>
<b>Cash Flows From Investing Activities</b>		
Receipt of interest	4,593	6,315
Proceeds from sales and maturities of investments	3,286,395	3,119,057
Purchase of investments	<u>(1,929,656)</u>	<u>(3,287,016)</u>
Net cash provided (used) by investing activities	<u>1,361,332</u>	<u>(161,644)</u>
Net increase (decrease) in cash	97,585	(185,032)
Cash at beginning of year	<u>75,425</u>	<u>260,457</u>
Cash at end of year	<u><u>\$ 173,010</u></u>	<u><u>\$ 75,425</u></u>

*The accompanying notes are an integral part of these statements*

# Anzalduas International Crossing

## Statements of Cash Flows

Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of Cash Per Statements of Cash Flows to the Statements of Net Assets</b>		
Unrestricted cash	\$ 105,324	\$ 71,720
Restricted cash	<u>67,686</u>	<u>3,705</u>
	<u>\$ 173,010</u>	<u>\$ 75,425</u>
<b>Reconciliation of Operating Income to Net Cash Used by Operating Activities</b>		
	<u>\$ 171,106</u>	<u>\$ 160,576</u>
Adjustment to reconcile operating income to net cash used by operating activities:		
Depreciation	1,511,334	1,120,415
Changes in assets and liabilities:		
Accounts payable and accrued liabilities	<u>81,845</u>	<u>21,966</u>
Total adjustments	<u>1,593,179</u>	<u>1,142,381</u>
Net cash provided by operating activities	<u>\$ 1,764,285</u>	<u>\$ 1,302,957</u>

*The accompanying notes are an integral part of these statements*

**Anzalduas International Crossing**  
Notes to Financial Statement  
September 30, 2011 and 2010

***1. Summary of Significant Accounting Policies***

***Reporting Entity***

Pursuant to the Hidalgo-Mission-McAllen Interlocal Government Agreement, executed April 1, 2003 ("2003 Agreement"), the City of McAllen, Texas (the "City") and the City of Mission own and operate the Anzalduas International Crossing ("Anzalduas Bridge") linking United States, south of the City of Mission, Texas and the westernmost part Reynosa, Tamaulipas, Mexico. According to that agreement, the ownership interest of the City of McAllen and the City of Mission are 66 2/3% and 33 1/3%, respectively. The agreement also provides that complete management and control of the Anzalduas Bridge, with the exception of fixing rates and charges for services and the issuance of debt, which is reserved by the Board of Commissioners of McAllen, shall be vested in a Board of Trustees consisting of five (5) voting-members, two members of which are appointed from the existing members of the Hidalgo Bridge Board by McAllen with the Mayors of the cities of McAllen, Hidalgo and Mission serving as ex-officio board members. The Mayor of Granjeno also serves as an ex-officio non-voting member of the board. In addition, the budget is subject to final approval by the Board of Commissioners of McAllen. The agreement also provides that these cities as well as the City of Hidalgo will share in the unallocated balance of surplus net revenues at the following percentages: City of McAllen, 44%; City of Mission, 23%; and the City of Hidalgo, 33%.

In order to finance the construction of the Anzalduas Bridge, the City of McAllen issued \$39,160,000 in revenue bonds during fiscal year ending 2007 in two separate series, \$26,000,000 Series 2007 A and \$13,160,000 Series 2007 B. The bonds are secured by a pledge of the net revenues of the McAllen International Toll Bridge ("Hidalgo Bridge"), located in Hidalgo, Texas and the Anzalduas Bridge. According to the 2003 Agreement, both the City of McAllen and the City of Hidalgo are responsible for Series 2007 A bonds from each city's respective share of net revenues of the Hidalgo Bridge. The City of McAllen is responsible for Series 2007 B bonds from its share of net revenues of the Hidalgo Bridge as well as the City of Mission from its share of net revenues of the Anzalduas Bridge. Commencement of operations was December 15, 2009. The City of McAllen issues publicly available audited financial statements for the Hidalgo Bridge, which may be obtained by writing to City of McAllen Finance Department, P.O. Box 220, McAllen, Texas 78505.

The activities of the Anzalduas Bridge are to be financed through the collection of tolls.

The accompanying financial statements of the Anzalduas Bridge are prepared in conformity with accounting principles generally accepted in the United States of America for local governmental units as prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants. Its financial statements are included in the basic financial statements of the City of McAllen as promulgated by requirements defining the reporting entity.

**Anzalduas International Crossing**  
Notes to Financial Statement  
September 30, 2011 and 2010

In compliance with provisions for proprietary funds as prescribed by GASB, the Anzalduas Bridge's activity is accounted for in a manner similar to private business enterprises. Transactions are accounted for on a flow of economic resources measurement focus. With this focus, all assets and liabilities associated with this entity are included in the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net assets. The financial statements have been prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

*Basis of Accounting*

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Anzalduas Bridge has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Anzalduas Bridge enterprise fund are charges to customers for toll crossing and services. Operating expenses for enterprise funds include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In 2011, the Bridge adopted the following new GASB pronouncement:

- GASB Statement No. 59, *Financial Instruments Omnibus*. This statement address financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

*Capital Assets*

Capital assets are capitalized because they are used in the production of services sold. Capital assets are recorded at cost if purchased or constructed. Net interest cost pertaining to qualifying assets which are related to construction in progress is capitalized as outlined in Financial Accounting Standards Board Statement No. 34. For the year ended September 30, 2011, no capitalized interest was recorded.

**Anzalduas International Crossing**  
**Notes to Financial Statement**  
**September 30, 2011 and 2010**

Depreciation will be provided over the estimated useful lives of the assets using the straight-line method. Depreciation expense for the year ended September 30, 2011 was \$1,511,334. The estimated useful lives for depreciation provision will be as follows:

Furniture and office equipment	3-5 years
Maintenance equipment	5 years
Paving and sidewalks	10-20 years
Toll-registering equipment	30 years
Bridge	40 years
Buildings	40 years

Maintenance, repairs, and renewals that do not materially add to the value of the property nor appreciably prolong its life will be charged to expense as incurred. Gains and losses on disposition of capital assets will be included in income.

*Long-Term Obligations*

Long-term obligations of the Anzalduas Bridge include bonds expected to be paid entirely by net revenues of the Anzalduas Bridge, except during a startup period during which time net revenues will be advanced from the Hidalgo Bridge. The outstanding bonds are secured by the net revenues of the Hidalgo Bridge as well as those of the Anzalduas Bridge.

*Advances*

*Anzalduas Special and Start Up Fund Advance Payable from Anzalduas International Crossing to McAllen International Toll Bridge*

Beginning with fiscal year ending September 30, 1991, the Hidalgo Bridge has financed the development costs for the Anzalduas International Crossing from a restricted account of that fund, the Anzalduas Special and Start Up Fund. According to the 2003 Agreement, the amount that may be spent from that fund for expenditures relating to the obtaining of the Anzalduas Bridge Presidential Permit and for the design or construction cost, operation expenses of the Anzalduas Bridge, and initial debt service on bonds related to the Anzalduas Bridge is limited to no more than \$6,000,000. This advance is to be repaid with interest accruing at the interest rate on bonds issued to finance the Anzalduas Bridge, from the net revenues of the Anzalduas Bridge after all bond ordinance requirements have been met. As of September 30, 2011 the Anzalduas Special and Start Up Fund advance payable to the Hidalgo Bridge amounts to \$9,925,342 (\$9,466,742 in 2010), of which the City of McAllen's portion is \$6,352,218 and the City of Hidalgo's portion, \$3,573,124. During this fiscal year, the balance was increased by accrued interest in the amount of \$458,600.

**Anzalduas International Crossing**  
**Notes to Financial Statement**  
**September 30, 2011 and 2010**

*Board Advances Payable from Anzalduas International Crossing to McAllen International Toll Bridge*

The 2003 Agreement also provides for advances to be made between the Hidalgo Bridge and the Anzalduas Bridge as the need arises. The agreement provides that advances will accrue interest at a rate equal to the City of McAllen's bank depository rate. This advance is to be repaid from the net revenues of the Anzalduas Bridge after all bond ordinance requirements have been met and the Anzalduas Special and Start Up Fund advance payable has been paid. As of September 30, 2011 the board advances payable to the Hidalgo Bridge amounts to \$4,006,834 (\$3,677,890 in 2010), of which the City of McAllen's portion is \$2,564,374 and the City of Hidalgo's portion, \$1,442,460. During the year the balance was increased by accrued interest of \$2,110 and board advances of \$326,834.

*Board Advance "B"*

During this fiscal year, the Hidalgo Bridge also transferred \$734,467 (\$770,276 in 2010) to the Anzalduas Bridge in support of the Series 2007 B bonds. The 2003 Agreement provides that advances will accrue interest at a rate equal to the City of McAllen's bank depository rate. This advance is deducted from the City of McAllen's share of unallocated net surplus revenues of the Hidalgo Bridge. The City of Mission is responsible for repaying directly to the City of McAllen for its prorata share from its share of the net revenues of the Anzalduas Bridge after all bond ordinance requirements have been met and the Anzalduas Special and Start Up Fund advance and the board advances for Series 2007 A have been paid. As of September 30, 2011 the board advance owed by the City of Mission to the City of McAllen amounts to \$1,014,864 (\$762,227 in 2010).

*Bond Issuance Cost*

Bond issuance costs are deferred and amortized over the life of the respective issue on a straight-line basis.

*Accumulated Unpaid Compensated Absences*

Accumulated unpaid compensated absences, consisting of vested accrued vacation and sick leave, will be recorded in accordance with Governmental Accounting Standards Board Statement No. 16.

**Anzalduas International Crossing**  
**Notes to Financial Statement**  
**September 30, 2011 and 2010**

*Income Distributions*

Pursuant to the Hidalgo-Mission-McAllen Interlocal Government Agreement, executed April 1, 2003, each city will share in the unallocated balance of surplus net revenues at the following percentages: City of McAllen, 44%; City of Mission, 23%; and the City of Hidalgo, 33%.

*Restricted Assets*

Restricted assets represent interest-bearing checking accounts, investments, and other receivables, which are reserved for current debt service as well as the bond construction fund. One year subsequent to the commencement of operations, a contingency fund will be established and funded at the rate of \$3,750 per month until the fund reaches \$500,000. These restricted accounts are requirements of bond ordinances related to the revenues bonds outstanding. Net assets are restricted to the extent of such legally imposed restrictions.

*Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, cash and cash equivalents are considered to be cash on hand and demand deposits. All certificates of deposit transactions, regardless of original maturity, are considered investing activities and, thus, are not considered cash equivalents.

**2.     *Cash and Investments***

State statutes authorize the City to invest in obligations of the U.S. Treasury, U.S. government agency securities, direct obligations of the State of Texas or any other state, or its agencies, certificates of deposit, banker's acceptance, commercial paper, repurchase agreements, mutual funds and qualified investment pools. The City's Investment Policy, which governs investments within the Anzalduas Bridge limits investments to U.S. Treasuries, U.S. government agencies, excluding those issued by the Student Loan Marketing Association and Tennessee Valley Authority, as well as certificates of deposit. Investments are stated at fair value, as required under Governmental Accounting Standards Board Statement No. 31. The fair value is based on the quoted value of each investment on the last business day of the Anzalduas Bridge's fiscal year.

**Anzalduas International Crossing**  
**Notes to Financial Statement**  
**September 30, 2011 and 2010**

***Investments***

Investments at fair value, including accrued interest, as of September 30, 2011 are as follows:

Investment Maturities (in Years) at the end of September 30, 2011

	Fair Value	Less Than 1	1-2	2-3	3-4
Tex Pool	\$ 1,729,657	\$ 1,729,657	\$ -	\$ -	\$ -
Certificates of deposit	200,338	200,338	-	-	-
	<u>\$ 1,929,995</u>	<u>\$ 1,929,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investment Maturities (in Years) at the end of September 30, 2010

	Fair Value	Less Than 1	1-2	2-3	3-4
Tex Pool	\$ 3,086,624	\$ 3,086,624	\$ -	\$ -	\$ -
Certificates of deposit	200,392	200,392	-	-	-
	<u>\$ 3,287,016</u>	<u>\$ 3,287,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

***Public funds investment pools***

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code and are subject to the provisions of the Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the values of its shares.

The Anzalduas Bridge investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at book value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment



## **Anzalduas International Crossing**

### **Notes to Financial Statement**

**September 30, 2011 and 2010**

company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Act. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller of Public Accounts has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value. The Anzalduas Bridge believes that TexPool operates as a 2a-7 like pool as described in GASB Statement No. 59, Financial Instrument Omnibus.

*Interest rate risk.* The investment policy states that no investment shall exceed seven years in maturity. By limiting the exposure of its investments by less than one year as reflected in the previous schedule, the Anzalduas Bridge reduces its risk to the rising interest rates.

*Credit risk.* As of September 30, 2011, the investments in the State's investment pool was rated AAAM by Standards and Poor's. The City's investment policy limits authorized investments to TexPool, certificates of deposits, U.S. Treasuries and federal government agencies, excluding Student Loan Marketing Association and Tennessee Valley Authority.

*Concentration of credit risk.* The Anzalduas Bridge investment holdings at September 30, 2011 were strictly confined to TexPool. The investment policy is silent in the concentration of holdings in the various types of securities and investments.

### **3. Capital Assets**

Capital assets activity for the year ended September 30, 2011 and September 30, 2010 are presented in the following tables:

# **Anzalduas International Crossing**

## Notes to Financial Statement

September 30, 2011 and 2010

	Balance at September 30, 2010	Additions	Retirement/ Transfer	Balance at September 30, 2011
Land	\$ 2,936,598	\$ -	\$ -	\$ 2,936,598
Buildings	2,997,470	-	-	2,997,470
Improvements other than buildings	46,656,059	587,182	-	47,243,241
Machinery and equipment	1,458,795	-	-	1,458,795
Total assets	54,048,922	587,182	-	54,636,104
Less accumulated depreciation	1,120,415	1,511,334	-	2,631,749
Net capital assets	\$ 52,928,507	\$ (924,152)	\$ -	\$ 52,004,355

	Balance at September 30, 2009	Additions	Retirement/ Transfer	Balance at September 30, 2010
Land	\$ 2,936,598	\$ -	\$ -	\$ 2,936,598
Buildings	-	2,997,470	-	2,997,470
Improvements other than buildings	-	46,656,059	-	46,656,059
Machinery and equipment	-	1,458,795	-	1,458,795
Construction in progress	50,533,360	-	(50,533,360)	-
Total assets	53,469,958	51,112,324	(50,533,360)	54,048,922
Less accumulated depreciation	-	1,120,415	-	1,120,415
Net capital assets	\$ 53,469,958	\$ 49,991,909	\$ (50,533,360)	\$ 52,928,507

### **4. Revenue Bonds Payable**

Long term liability activities for the year ended September 30, 2011 and September 30, 2010 are reflected in the following page:

**Anzalduas International Crossing**  
**Notes to Financial Statement**  
**September 30, 2011 and 2010**

	Balance at September 30, 2010	Additional Obligations and Net Increases	Retirement and Net Decreases	Balance at September 30, 2011	Amounts Due Within One Year
Revenue bonds payable	<u>\$38,405,000</u>	<u>\$ -</u>	<u>\$ (790,000)</u>	<u>\$37,615,000</u>	<u>\$ 820,000</u>

	Balance at September 30, 2009	Additional Obligations and Net Increases	Retirement and Net Decreases	Balance at September 30, 2010	Amounts Due Within One Year
Revenue bonds payable	<u>\$39,160,000</u>	<u>\$ -</u>	<u>\$ (755,000)</u>	<u>\$38,405,000</u>	<u>\$ 790,000</u>

The aggregate maturities of revenue bonds payable as of September 30, 2011, including interest payments, are as follows:

<u>Year Ending</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.00%	820,000	1,773,719	2,593,719
2013	4.00%	1,150,000	1,734,319	2,884,319
2014	4.00%	1,200,000	1,685,819	2,885,819
2015	4.00%	1,250,000	1,633,756	2,883,756
2016		1,305,000	1,579,463	2,884,463
2017-2021	4.20-4.30%	7,465,000	6,956,416	14,421,416
2022-2026	4.50-5.00%	9,480,000	4,928,524	14,408,524
2027-2031	4.625-5.00%	12,135,000	2,278,803	14,413,803
2032	5.00%	<u>2,810,000</u>	<u>70,250</u>	<u>2,880,250</u>
		<u>\$ 37,615,000</u>	<u>\$ 22,641,069</u>	<u>\$ 60,256,069</u>

**5. Deficit Unrestricted Net Assets**

The unrestricted portion of net assets reflects a deficit in the amount of \$12,923,301 primarily as a result of advances from the Hidalgo Bridge, as authorized by the board trustees. These advances supported the annual debt service requirements and interest on the advances. The Hidalgo Bridge Board of trustees has no intention of calling these advances, which will be repaid once the fund is able to.

## **Anzalduas International Crossing**

### **Notes to Financial Statement**

**September 30, 2011 and 2010**

#### **6. Retirement Plan**

The City and Anzalduas Bridge provide pension benefits for all full-time employees, except firefighters, through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (the "TMRS"), an agent multiple-employer public employee retirement system.

TMRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 1-877-634-8595; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

The table describes the plan provisions adopted by the City:

	Plan Year 2010	Plan Year 2011
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated Service Credit	100% Transfers	0%
Annuity Increase (to retire)	0% of CPI	0% of CPI

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. Since the Anzalduas Bridge is a component of the overall financial City wide audit report, additional pension disclosures are reflected in the City's Comprehensive Annual Financial Report.

**Anzalduas International Crossing  
Notes to Financial Statement  
September 30, 2011 and 2010**

**7. Accounting for Postemployment Benefits Other Than Pensions**

The City, as an entity wide, will report GASB Statement Number 45. The City instituted an internal service fund to account for health benefits related to current and future retirees. Since the Anzalduas Bridge recently commenced its operations, no budget provisions were made towards the annual required contribution. The current staffing represents a fraction of total City employees management believes that any future requirements will have minimal impact on the Anzalduas Bridge fund.



# Supplemental Information





**Anzalduas International Crossing**  
**Schedule of Income Distribution**  
**September 30, 2011 and 2010**

	September 30	
	<u>2011</u>	<u>2010</u>
Revenues	\$ 2,394,420	\$ 1,766,490
Maintenance, operation expenses, and capital assets purchase	<u>708,795</u>	<u>487,072</u>
Net Revenues	1,685,625	1,279,418
Less:		
Bond Requirements:		
Transfer to Debt Service Fund - Series 2007 "A" (\$26M Issue)	1,663,765	1,697,834
Less: Amount Provided by Board Advance from McAllen Intl Bridge Fund	<u>(326,833)</u>	<u>(815,001)</u>
Net Transfer Provided by Anzalduas Intl Crossing Revenues for Debt Service	1,336,932	882,833
Transfer to Contingency Fund	33,750	-
Transfer to Capital Improvement Fund	<u>67,685</u>	<u>-</u>
Balance Available After Bond Requirements	<u>247,258</u>	<u>396,585</u>
Repayment of Advances from McAllen International Toll Bridge		
"Anzalduas Special and Start-Up Advancement Fund" (\$6M Limit)	-	(1) (396,585)
"Board Advancement to Anzalduas Bridge Board" (with respect to advances for		
transfers to debt service fund Series 2007 "A" (\$26M Issue)	-	-
Retain in Working Capital	<u>(247,258)</u>	<u>-</u>
Unallocated Balance of Surplus Net Revenue Attributable to Cities	<u>\$ -</u>	<u>\$ -</u>

(1) As per agreement dated 2003, start up fund must be reimbursed first before any other distributions.

**Anzalduas International Crossing**  
**Schedule of Changes in Restricted Assets-Cash and Investments**  
**Year Ended September 30, 2011**

	Contingency Reserve	Current Debt Service Series A-\$26M	Current Debt Service Series B-\$13M
Cash and investments at September 30, 2010	\$ -	\$ 356,838	\$ 256,731
Add:			
Transfers	33,750	1,663,765	1,208,667
Interest earned	12	-	240
Total additions	33,762	1,663,765	1,208,907
Less payments:			
Principal payments	-	435,000	355,000
Capital assets	-	-	-
Interfund transfers	-	22	36
Interest and fiscal charges	-	1,221,465	585,823
Total payments	-	1,656,487	940,859
Cash and investments at September 30, 2011	\$ 33,762	\$ 364,116	\$ 524,779
Cash and investments at September 30, 2011 are comprised of the following:			
Cash	\$ -	\$ -	\$ -
Investments	33,762	364,116	524,779
	\$ 33,762	\$ 364,116	\$ 524,779

<u>Capital Improvement</u>	<u>Bridge Revenue Bonds Series B-\$13M</u>	<u>Total</u>
\$ -	\$ 1,121,375	\$ 1,734,944
67,684	35	2,973,901
<u>2</u>	<u>1,115</u>	<u>1,369</u>
<u>67,686</u>	<u>1,150</u>	<u>2,975,270</u>
-	-	790,000
-	648,326	648,326
-	474,199	474,257
<u>-</u>	<u>-</u>	<u>1,807,288</u>
-	1,122,525	3,719,871
<u>\$ 67,686</u>	<u>\$ -</u>	<u>\$ 990,343</u>
\$ 67,686	\$ -	\$ 67,686
<u>-</u>	<u>-</u>	<u>922,657</u>
<u>\$ 67,686</u>	<u>\$ -</u>	<u>\$ 990,343</u>

**Toll Bridge System**  
**McAllen International Toll Bridge and Anzalduas International Crossing**  
**Schedule of Net Assets Information**  
**Year Ended September 30, 2011**

	McAllen Int'l Toll Bridge	Anzalduas Int'l Crossing	Total
<b>Current Assets</b>			
Cash	\$ 170,456	\$ 105,324	\$ 275,780
Certificates of deposit	400,000	200,000	600,000
Investments	1,413,190	807,000	2,220,190
Accrued interest receivable	677	338	1,015
Other receivables	69,451	-	69,451
Total current assets	<u>2,053,774</u>	<u>1,112,662</u>	<u>3,166,436</u>
<b>Restricted Assets</b>			
Cash (all interest-bearing)			
Capital improvement	<u>4,151</u>	<u>67,686</u>	<u>71,837</u>
Total restricted cash	<u>4,151</u>	<u>67,686</u>	<u>71,837</u>
Certificates of deposit/ investments- reserved for distribution	4,170,498	-	4,170,498
Investments	<u>1,061,149</u>	<u>922,657</u>	<u>1,983,806</u>
Total restricted assets – excluding current bond installments	<u>5,235,798</u>	<u>990,343</u>	<u>6,226,141</u>
<b>Capital Assets – at cost</b>			
Land	573,798	2,936,598	3,510,396
Buildings	10,698,086	2,997,470	13,695,556
Improvements other than buildings	2,411,169	47,243,241	49,654,410
Machinery and equipment	1,784,526	1,458,795	3,243,321
Construction in progress	<u>2,450</u>	<u>-</u>	<u>2,450</u>
	15,470,029	54,636,104	70,106,133
Less accumulated depreciation	<u>(8,192,701)</u>	<u>(2,631,749)</u>	<u>(10,824,450)</u>
Net capital assets	<u>7,277,328</u>	<u>52,004,355</u>	<u>59,281,683</u>
<b>Other Assets</b>			
Unamortized bond issue cost	3,987	876,273	880,260
Excess of purchase price over assets acquired	609,713	-	609,713
Board advances	<u>13,932,176</u>	<u>-</u>	<u>13,932,176</u>
Total other assets	<u>14,545,876</u>	<u>876,273</u>	<u>15,422,149</u>
Total assets	<u>\$ 29,112,776</u>	<u>\$ 54,983,633</u>	<u>\$ 84,096,409</u>

## Liabilities and Net Assets

	McAllen Int'l Toll Bridge	Anzalduas Int'l Crossing	Total
<b>Current Liabilities</b>			
Due to City of Hidalgo	\$ 711,158	\$ -	\$ 711,158
Accounts payable and accrued liabilities	59,308	99,315	158,623
Compensated absences due one year	52,000	-	52,000
Other payables	37,185	-	37,185
<b>Total current liabilities</b>	<u>859,651</u>	<u>99,315</u>	<u>958,966</u>
<b>Liabilities Payable From Restricted Assets</b>			
Due to City of McAllen-interest on investments	2,084	-	2,084
Current installments of revenue bonds	285,000	820,000	1,105,000
Accrued revenue bond interest	1,104	149,177	150,281
<b>Total liabilities payable from restricted assets</b>	<u>288,188</u>	<u>969,177</u>	<u>1,257,365</u>
<b>Long-Term Liabilities</b>			
Revenue bonds -- excluding current installments	-	36,795,000	36,795,000
Compensated absences	38,113	4,496	42,609
Deferred revenue	96,106	-	96,106
Other long term payables	-	14,460,488	14,460,488
<b>Total long-term liabilities</b>	<u>134,219</u>	<u>51,259,984</u>	<u>51,394,203</u>
<b>Total liabilities</b>	<u>1,282,058</u>	<u>52,328,476</u>	<u>53,610,534</u>
<b>Net Assets</b>			
Invested in capital assets-net of related debt	6,996,315	14,737,317	21,733,632
Restricted per revenue bond ordinances	667,878	773,455	1,441,333
Restricted for improvements	396,305	67,686	463,991
Restricted for distribution to the City of McAllen	4,168,414	-	4,168,414
Unrestricted	15,601,806	(12,923,301)	2,678,505
<b>Total net assets</b>	<u>27,830,718</u>	<u>2,655,157</u>	<u>30,485,875</u>
<b>Total liabilities and net assets</b>	<u>\$ 29,112,776</u>	<u>\$ 54,983,633</u>	<u>\$ 84,096,409</u>

**Toll Bridge System**  
**McAllen International Toll Bridge and Anzalduas International Crossing**  
**Schedule of Revenues, Expenses, and Changes in Fund Net Assets Information**  
**Year Ended September 30, 2011**

	McAllen Int'l Toll Bridge	Anzalduas Int'l Crossing	Total
Operating revenues:			
Tolls	\$ 9,063,280	\$ 2,291,677	\$ 11,354,957
Rental income	1,353,180	-	1,353,180
Other income	386,727	99,558	486,285
Total operating revenues	<u>10,803,187</u>	<u>2,391,235</u>	<u>13,194,422</u>
Operating expenses:			
Salaries	870,120	246,772	1,116,892
Payroll taxes and benefits	308,584	86,977	395,561
Insurance	50,368	12,000	62,368
Materials and supplies	77,588	15,289	92,877
Maintenance	121,032	36,100	157,132
Bridge security	320,417	-	320,417
Miscellaneous services	529,785	311,657	841,442
Depreciation and amortization	563,023	1,511,334	2,074,357
Total operating expenses	<u>2,840,917</u>	<u>2,220,129</u>	<u>5,061,046</u>
Operating income	<u>7,962,270</u>	<u>171,106</u>	<u>8,133,376</u>
Nonoperating revenues (expenses):			
Distribution of income to the City of Hidalgo	(2,900,664)	-	(2,900,664)
Interest income	5,135	4,543	9,678
Interest expense	(18,865)	(1,804,655)	(1,823,520)
Amortization/discount of bond premium	(9,569)	(17,044)	(26,613)
Interest expense-Board advance relating to Series 2007 A Bonds and Start up fund	<u>460,943</u>	<u>(460,943)</u>	<u>-</u>
Total nonoperating (expenses) revenues	<u>(2,463,020)</u>	<u>(2,278,099)</u>	<u>(4,741,119)</u>
Income before operating transfers and contributions	5,499,250	(2,106,993)	3,392,257
Capital contributions	124,593	-	124,593
Transfers to the City of McAllen	(4,429,189)	-	(4,429,189)
Transfers in-other	2,609	4,626	7,235
Transfers to debt service Series "B" 2007 bonds	<u>(734,467)</u>	<u>734,467</u>	<u>-</u>
Changes in net assets	462,796	(1,367,900)	(905,104)
Total net assets at beginning of year	<u>27,367,922</u>	<u>4,023,057</u>	<u>31,390,979</u>
Total net assets at end of year	<u>\$ 27,830,718</u>	<u>\$ 2,655,157</u>	<u>\$ 30,485,875</u>

**Toll Bridge System**  
**McAllen International Toll Bridge and Anzalduas International Crossing**  
**Schedule of Cash Flows Information**  
**Year Ended September 30, 2011**

	McAllen Int'l Toll Bridge	Anzalduas Int'l Crossing	Total
<b>Cash Flows From Operating Activities</b>			
Receipts from customers	\$ 10,839,756	\$ 2,391,235	\$ 13,230,991
Payments to suppliers	(1,089,011)	(301,111)	(1,390,122)
Payments to employees	(1,183,222)	(325,839)	(1,509,061)
Net cash provided by operating activities	<u>8,567,523</u>	<u>1,764,285</u>	<u>10,331,808</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Distribution of income to the City of Hidalgo	(3,061,491)	-	(3,061,491)
Operating transfers to the City of McAllen	(4,432,415)	-	(4,432,415)
Advance receivable	-	431,073	431,073
Reimbursement of board advances	1,279,418	(1,279,418)	-
Transfer from health insurance fund	2,609	4,626	7,235
Advance from McAllen International Toll Bridge-Board A	(326,833)	326,833	-
Advance from McAllen International Toll Bridge-Board B	(734,468)	734,468	-
Net cash used by noncapital financing activities	<u>(7,273,180)</u>	<u>217,582</u>	<u>(7,055,598)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(93,337)	(648,326)	(741,663)
Principal paid on long-term debt	(270,000)	(790,000)	(1,060,000)
Interest paid	(19,878)	(1,807,288)	(1,827,166)
Net cash used by capital and related financing activities	<u>(383,215)</u>	<u>(3,245,614)</u>	<u>(3,628,829)</u>
<b>Cash Flows From Investing Activities</b>			
Receipt of interest	5,243	4,593	9,836
Proceeds from sales and maturities of investments	6,035,172	3,286,395	9,321,567
Purchase of investments	(7,045,953)	(1,929,656)	(8,975,609)
Net cash provided (used) by investing activities	<u>(1,005,538)</u>	<u>1,361,332</u>	<u>355,794</u>
Net increase (decrease) in cash	(94,410)	97,585	3,175
Cash at beginning of year	<u>269,017</u>	<u>75,425</u>	<u>344,442</u>
Cash at end of year	<u>\$ 174,607</u>	<u>\$ 173,010</u>	<u>\$ 347,617</u>

**Toll Bridge System**  
**McAllen International Toll Bridge and Anzalduas International Crossing**  
**Schedule of Cash Flows Information**  
**Year Ended September 30, 2011**

(Continued)

	McAllen Int'l Toll Bridge	Anzalduas Int'l Crossing	Total
<b>Reconciliation of Cash Per Statements of Cash Flows to the Statements of Net Assets</b>			
Unrestricted cash	\$ 170,456	\$ 105,324	\$ 275,780
Restricted cash	4,151	67,686	71,837
	<u>\$ 174,607</u>	<u>\$ 173,010</u>	<u>\$ 347,617</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
	<u>\$ 7,962,270</u>	<u>\$ 171,106</u>	<u>\$ 8,133,376</u>
Adjustment to reconcile operating income to net cash provided by operating activities:			
Depreciation	563,023	1,511,334	2,074,357
Changes in assets and liabilities:			
Accounts payable	10,179	81,845	92,024
Accrued liabilities	6,102	-	6,102
Accumulated unpaid absences	(10,620)	-	(10,620)
Deferred revenue	36,569	-	36,569
	<u>605,253</u>	<u>1,593,179</u>	<u>2,198,432</u>
Total adjustments			
	<u>\$ 8,567,523</u>	<u>\$ 1,764,285</u>	<u>\$ 10,331,808</u>
<b>Noncash investing, capital and financing activities:</b>			
Contribution of capital assets from outside source	<u>\$ 124,593</u>	<u>\$ -</u>	<u>\$ 124,593</u>



**Anzalduas International Crossing**  
**Schedule of Vehicle and Passenger Traffic**  
**(Unaudited)**

	Year Ended September 30,	
	<u>2010</u>	<u>2011</u>
Vehicular traffic southbound:		
Cars	705,035	846,077
Trucks	768	742
Buses	<u>1,746</u>	<u>3,355</u>
Total vehicles	<u>707,549 (1)</u>	<u>850,174</u>
Passenger traffic southbound:		
Passengers in cars	1,762,588 (2)	2,115,193
Passengers and drivers – buses	<u>50,634 (2)</u>	<u>97,295</u>
Total persons	<u>1,813,222</u>	<u>2,212,488</u>

(1) Source: Anzalduas International Crossing Traffic Count Report.

(2) Calculation based on historical average of 2.5  
as per Hidalgo bridge crossings.

**Anzalduas International Crossing**  
**Schedule of Car and Truck Traffic Revenue**  
**(Unaudited)**

	Year Ended September 30,	
	2010	2011
Southbound traffic:		
Cars	705,035	846,077
Trucks	<u>768</u>	<u>742</u>
Total car and truck traffic	<u><u>705,803</u></u>	<u><u>846,819</u></u>
Truck traffic percentage	0.11%	0.09%
Car and truck revenue:		
Cars	\$ 1,684,515	\$ 2,249,809
Trucks	<u>5,732</u>	<u>5,194</u>
Total car and truck revenue	<u><u>\$ 1,690,247</u></u>	<u><u>\$ 2,255,003</u></u>
Truck revenue percentage	0.34%	0.23%
Average revenue per car	\$ 2.39	\$ 2.66
Average revenue per truck	\$ 7.46	\$ 7.00

**Anzalduas International Crossing**  
**Schedule of Board Advances from McAllen International Toll Bridge Fund**  
**September 30, 2011**  
**(Unaudited)**

**Anzalduas Special & Startup Fund:**

Balance at September 30, 2010	Additions Advances	Implied Interest	Balance at September 30, 2011
<u>\$ 9,466,742</u>	<u></u>	<u>\$458,600</u>	<u>\$ 9,925,342</u>

**Board advance "A" to Anzalduas International Crossing:**

Balance at September 30, 2010	Additions (1) Advances	Implied Interest	Balance at September 30, 2011
<u>\$ 3,677,890</u>	<u>\$ 326,833</u>	<u>\$ 2,110</u>	<u>\$ 4,006,833</u>

**Combined totals of advances to Anzalduas International Crossing:**

Balance at September 30, 2010	Additions Advances	Implied Interest	Balance at September 30, 2011
<u>\$ 13,144,632</u>	<u>\$ 326,833</u>	<u>\$460,710</u>	<u>\$ 13,932,175</u>

**Distribution of Advances:**

City of McAllen- Share @ 64%	\$ 8,412,564	\$ 209,173	\$294,854	\$ 8,916,591
City of Hidalgo- Share @ 36%	<u>4,732,068</u>	<u>117,660</u>	<u>165,856</u>	<u>5,015,584</u>
	<u>\$ 13,144,632</u>	<u>\$ 326,833</u>	<u>\$460,710</u>	<u>\$ 13,932,175</u>

**Anzalduas International Crossing**  
**Schedule of Board Advances from McAllen International Toll Bridge Fund**  
**September 30, 2011**  
**(Unaudited)**

Activity Schedule-Anzalduas Special & Startup Fund:

Payments to be collected are distributable to the cities of Hidalgo and McAllen @ 36% and 64%, respectively.

	Bond Rate	# Days	Advance	Interest	(1) (Payment)	Balance
10/1/2010	Opening balance			-	-	\$ 9,466,742
10/31/2010	4.74%	31	-	38,110	-	9,504,852
11/30/2010	4.74%	30	-	37,030	-	9,541,882
12/31/2010	4.74%	31	-	38,413		9,580,295
1/31/2011	4.74%	31	-	38,568		9,618,863
2/28/2011	4.74%	28	-	34,976		9,653,839
3/31/2011	4.74%	31	-	38,864		9,692,703
4/30/2011	4.74%	30	-	37,762		9,730,465
5/31/2011	4.74%	31	-	39,172		9,769,637
6/30/2011	4.74%	30	-	38,061		9,807,699
7/31/2011	4.74%	31	-	39,483		9,847,182
8/31/2011	4.74%	31	-	39,642		9,886,824
9/30/2011	4.74%	30	-	38,518		9,925,342

**Anzalduas International Crossing**  
**Schedule of Board Advances from McAllen International Toll Bridge Fund**  
**September 30, 2011**  
**(Unaudited)**

Activity Schedule-Board Advances "A":

Payments to be collected are distributable to the cities of Hidalgo and McAllen @ 36% and 64% respectively.

	Bank Rate	# Days	Advance	Interest	(Payment)	Balance
Opening balance						\$ 3,677,890
10/01/10			27,190	-	-	3,705,080
10/31/10	0.10%	31		315	-	3,705,395
11/01/10			27,190	-	-	3,732,584
11/30/10	0.07%	30		215	-	3,732,798
12/01/10			27,190	-	-	3,759,987
12/31/10	0.09%	31		287	-	3,760,276
01/01/11			27,190	-	-	3,787,465
01/31/11	0.07%	31		225	-	3,787,690
02/01/11			27,190	-	-	3,814,880
02/28/11	0.09%	28		263	-	3,815,143
03/01/11			27,190	-	-	3,842,333
03/31/11	0.08%	31		261	-	3,842,593
04/01/11			27,190	-	-	3,869,783
04/30/11	0.05%	30		159	-	3,869,942
05/01/11			27,190	-	-	3,897,132
05/31/11	0.02%	31		66	-	3,897,199
06/01/11			27,190	-	-	3,924,389
06/30/11	0.03%	30		97	-	3,924,485
07/01/11			27,190			3,951,675
07/31/11	0.01%	31		34		3,951,709
08/01/11			27,190			3,978,899
08/31/11	0.05%	31		169		3,979,068
09/01/11			27,743			4,006,811
09/30/11	0.01%	30		20		4,006,833

**Anzalduas International Crossing**  
**Schedule of Board Advances from McAllen International Toll Bridge Fund**  
**September 30, 2011**  
**(Unaudited)**

Activity Schedule-Board Advances "B":

Payments to be collected from the City of Mission are distributable to the City of McAllen only

	<u>Bank Rate</u>	<u># Days</u>	<u>Advance</u>		<u>Interest</u>	<u>(Payment)</u>	<u>Balance</u>
			<u>Total</u>	<u>Applicable to Mission</u>			
Opening balance							\$ 762,227
10/01/10			78,925	\$ 27,095	-	-	789,322
10/31/10	0.10%	31	-	-	67	-	789,389
11/01/10			78,925	\$ 27,095	-	-	816,484
11/30/10	0.07%	30	-	-	47	-	816,531
12/01/10			78,925	\$ 27,095	-	-	843,626
12/31/10	0.09%	31	-	-	64	-	843,689
01/01/11			78,925	\$ 27,095	-	-	870,784
01/31/11	0.07%	31	-	-	52	-	870,837
02/01/11			78,925	\$ 27,095	-	-	897,931
02/28/11	0.09%	28	-	-	62	-	897,993
03/01/11			78,992	\$ 27,118	-	-	925,111
03/31/11	0.08%	31	-	-	63	-	925,174
04/01/11			78,992	\$ 27,118	-	-	952,291
04/30/11	0.05%	30	-	-	40	-	952,331
05/01/11			78,992	\$ 27,118	-	-	979,449
05/31/11	0.02%	31	-	-	18	-	979,467
06/01/11			78,992	\$ 27,118	-	-	1,006,585
06/30/11	0.03%	30	-	-	24	-	1,006,608
07/01/11			7,958	\$ 2,732	-	-	1,009,340
07/31/11	0.01%	31	-	-	10	-	1,009,349
08/01/11			7,958	\$ 2,732	-	-	1,012,081
08/31/11	0.05%	31	-	-	43	-	1,012,124
09/01/11			7,957	\$ 2,732	-	-	1,014,856
09/30/11	0.01%	30	-	-	5	-	1,014,864

**Anzalduas International Crossing**  
**Schedule of Insurance Coverage**  
**Year Ended September 30, 2011**  
**(Unaudited)**

<u>Property</u>	<u>Insurance Company</u>	<u>Period of Coverage</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Bridge and surrounding area	Texas Municipal League	10/01/10 to 09/30/11	Fire and extended coverage and physical damage and business (\$10,000 deductible except \$25,000 flood and earthquake)	\$31,036,076
Bridge and surrounding area	Texas Municipal League	10/01/10 to 09/30/11	Bridge use, occupancy, and business interruptions (\$10,000 deductible, except \$25,000 flood and earthquake)	\$ 10,273,000
Workers' compensation	HealthSmart Benefit Solutions	10/01/10 to 09/30/11	Employer's liability - job-related injuries	Statutory
Workers' compensation	Star Insurance Co.	10/01/10 to 09/30/11	Aggregate excess and specific (\$400,000 per occurrence)	\$ 1,000,000
General liability	Texas Municipal League	10/01/10 to 09/30/11	General: (\$10,000 deductible) Bodily injury Property damage	\$ 2,000,000
Errors and omissions liability	Montalvo Insurance/ Illinois National Insurance Co.	10/01/10 to 09/30/11	Each wrongful act (\$25,000 deductible)	\$ 4,000,000
Crime section: Employee dishonesty	Texas Municipal League	10/01/10 to 09/30/11	Limit of coverage (\$5,000 deductible)	\$ 1,000,000
Forgery or alteration	Texas Municipal League	10/01/10 to 09/30/11	Limit of coverage (\$1,000 deductible)	\$ 50,000
Theft, disappearance and destruction	Texas Municipal League	10/01/10 to 09/30/11	Limit of coverage (\$1,000 deductible)	\$ 50,000
Computer fraud	Texas Municipal League	10/01/10 to 09/30/11	Limit of coverage (\$5,000 deductible)	\$ 1,000,000





## **Independent Auditors' Report**

**To the Board of Trustees  
Anzalduas International Crossing  
McAllen, Texas**

We have audited the accompanying statements of net assets of the Anzalduas International Crossing (the "Anzalduas Bridge"), an enterprise fund of the City of McAllen, Texas, as of September 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of Anzalduas Bridge's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audits 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 Anzalduas Bridge'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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position of Anzalduas Bridge, an enterprise fund of the City of McAllen, Texas, and do not purport to, and do not, present fairly the financial position of the City of McAllen, Texas, as of September 30, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Anzalduas Bridge as of September 30, 2011 and 2010, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**SAN ANTONIO**  
100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

**AUSTIN**  
811 BARTON SPRINGS ROAD, SUITE 550  
AUSTIN, TEXAS 78704  
512 476 0717

**TOLL FREE: 800 879 4966**  
**WEB: PADGETT-CPA.COM**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012 on our consideration of the Anzalduas Bridge'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Anzalduas Bridge's basic financial statements. The Schedule of Income Distribution; Schedule of Changes in Restricted Assets – Cash and Investments; Toll Bridge System (Combined) – McAllen International Toll Bridge and Anzalduas International Crossing; Schedule of Net Assets Information, Schedule of Revenues, Expenses, and Changes in Fund Net Assets Information, and Schedule of Cash Flows Information, which are listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Vehicle and Passenger Traffic (Unaudited); Schedule of Car and Truck Traffic Revenue (Unaudited); Schedule of Board Advances From McAllen International Toll Bridge Fund (Unaudited) and the Schedule of Insurance Coverage (Unaudited) have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Padgett, Stratmann & Co., L.L.P.*

Certified Public Accountants  
January 30, 2012