

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY

FINANCIAL STATEMENTS

WITH AUDITOR'S REPORT THEREON

SEPTEMBER 30, 2012 and 2011

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North East Texas Regional Mobility Authority

We have audited the accompanying statements of financial position of the North East Texas Regional Mobility Authority (Authority), as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

PROTHRO, WILHELMI AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 7 be presented to supplement the basic financial statements. Such information, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular, and is not a required part of the financial statements. The schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
June 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012 AND 2011
(UNAUDITED)**

Management's discussion and analysis of the North East Texas Regional Mobility Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the years ended September 30, 2012 and 2011. Please read it in conjunction with the Authority's financial statements which follow this section.

The Authority was created by the State of Texas in 2004. At September 30, 2012, the Authority consisted of the following counties: Smith, Gregg, Cherokee, Harrison, Rusk, Upshur, Bowie, Cass, Panola, Titus, Van Zandt, and Wood.

FINANCIAL HIGHLIGHTS

- Financing in the form of a State Infrastructure Bank Loan (SIB) and a Toll Equity Loan (TEL) from the Texas Department of Transportation (TxDOT) was obtained during 2011 for the construction of Segment 3B of the Toll 49 project. As of September 30, 2012, these loans totaled \$83,131,430 and related accrued interest totaled \$579,149.
- As of September 30, 2012, all funding received under the original Financial Assistance agreement had been received and totaled \$12,250,000.
- Accounts payable related to the Toll 49 project totaled \$711,206 and \$1,308,134 at September 30, 2012, and September 30, 2011, respectively.
- Revenues of the Authority consisted of contributions from member counties \$34,000 and \$32,000 for the years ended September 30, 2012 and 2011, respectively. In addition, revenues received from the Smith County Multi-modal grant were \$104,921 and \$ -0-, respectively, and revenues from the Rusk County interlocal agreement were \$19,073, and \$10,161, respectively for the years ended September 30, 2012, and 2011.
- Operating expenses consisting of professional fees and administrative costs totaled \$669,415 and \$685,988, for the years ending September 30, 2012, and 2011, respectively.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012 AND 2011**

OVERVIEW OF FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements comprise the financial statements and notes to the financial statements.

The Authority is a special-purpose government that is engaged in business-type activities and accounted for as a proprietary fund in accordance with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB). As a result, the operations of the Authority are accounted for on the accrual method of accounting. Under this method, revenues are recognized in the period in which they are earned and expenses are recognized in the period the liability is incurred.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets and Changes in Net Assets

The decrease in current assets of \$7,169,040 in 2012 was due to expending the proceeds from the SIB and TEL loans on the construction of Segment 3B. Noncurrent assets increased by \$50,639,280 in 2012 and consisted of construction costs related to Segment 3B of the Toll 49 project.

The Authority's liabilities were primarily comprised of the SIB and TEL loans as well as a Financial Assistance agreement with TxDOT. Total liabilities exceeded total assets by (\$1,693,069) for the year ended September 30, 2011 and (\$2,202,412) for the year ended September 30, 2012. The net asset deficits are the result of the operations of the Authority being funded by the Financial Assistance agreement and the SIB and TEL loans until such time that the Toll 49 project is completed and TxDOT transfers toll revenue collections to the Authority.

	Net Assets	
	2012	2011
Current assets	\$ 7,502,378	\$ 14,671,418
Noncurrent assets	87,327,218	36,687,938
 Total assets	 <u>\$ 94,829,596</u>	 <u>\$ 51,359,356</u>
 Total liabilities	 <u>\$ 97,032,008</u>	 <u>\$ 53,052,425</u>
 Net assets:		
Deficit	<u>(2,202,412)</u>	<u>(1,693,069)</u>
 Total net assets	 <u>\$ (2,202,412)</u>	 <u>\$ (1,693,069)</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF THE AUTHORITY - continued

Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Revenues:		
Contributions – member counties	\$ 34,000	\$ 32,000
Smith County Multi-modal grant	104,921	-
Rusk County Interlocal agreement	19,073	10,161
Interest income	2,078	761
	<hr/>	<hr/>
Total revenues	160,072	42,922
	<hr/>	<hr/>
Expenses:		
Professional services	536,786	459,771
Administrative	105,491	199,078
Amortization	27,138	27,139
	<hr/>	<hr/>
Total expenses	669,415	685,988
	<hr/>	<hr/>
Change in net assets	(509,343)	(643,066)
Net Assets, beginning of year	<u>(1,693,069)</u>	<u>(1,050,003)</u>
Net Assets, end of year	<u>\$ (2,202,412)</u>	<u>\$ (1,693,069)</u>

Capital Assets and Long-Term Debt

The Authority's capital assets as of September 30, 2012 and 2011 totaled \$86,621,626 and \$35,955,208, respectively. Capital assets represent development and construction work in progress that include design/build costs, implementation costs, engineering, and design fees related to the development and construction of certain sections of the Toll 49 project.

Capital Assets

	<u>2012</u>	<u>2011</u>
Property and equipment	\$ 30,000	\$ 30,000
Accumulated depreciation	(30,000)	(30,000)
Development and construction in progress	83,900,620	33,349,816
Land – right of way	2,721,006	2,605,392
	<hr/>	<hr/>
Total capital assets	<u>\$ 86,621,626</u>	<u>\$ 35,955,208</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012 AND 2011**

Long-Term Debt

Financial Assistance Agreement

On March 7, 2006, the Authority entered into an agreement with TxDOT for the purpose of providing financial assistance up to \$12,250,000 in connection with the study and development of four segments (#1, 2, 3A and 5) of Toll 49 in Smith County. Costs related to the financial assistance agreement included design, engineering, and traffic and revenue studies.

As of September 30, 2012, the Authority had received all funding permitted under the financial assistance agreement. In addition, Segments 1 and 2 of Toll 49 were open to traffic as of September 2011, and Segment 5 was opened in June 2012.

Interlocal Agreement

On May 20, 2009, the Authority entered into an agreement with Rusk County for the purpose of expediting the development of the extension of Loop 571.

As of September 30, 2012, the Authority had received the total interlocal agreement amount of \$411,600. This amount will be used for performing or supervising the completion of property acquisitions, environmental studies, reports, permits, and related legal and project director services in connection with the Loop 571 project. Costs of \$19,073 and \$10,161 were incurred by the Authority as of September 30, 2012 and 2011, respectively.

State Infrastructure Bank and Toll Equity Loan Agreements

On March 1, 2011, the Authority entered into two agreements with TxDOT for the purpose of providing financial assistance in connection with the construction and further development of Segment 3B of the Toll 49 Project. Under the terms of the agreement, TxDOT will provide financial assistance, in the form of two loans, to the Authority in an amount up to \$89,232,600.

As of September 30, 2012 the Authority had outstanding loans totaling \$83,131,430 and accrued interest of \$579,149 related to the design, development, financing, right-of-way acquisition and construction of Segment 3B of Toll 49.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012 AND 2011**

Long-Term Debt

	2012	2011
Financial assistance agreement	\$12,250,000	\$12,250,749
State infrastructure bank loan	36,519,748	17,077,519
Toll equity loan	46,611,682	21,796,753
Total long-term debt	\$ 95,381,430	\$ 51,125,021

Opening of Toll 49

On February 28, 2013, the Texas Transportation Commission approved the transfer of Segments 1, 2, 3A, 5, and the right of way underlying Segment 3B of Toll 49 upon substantial completion of Segment 3B. Segment 3B of Toll 49 was substantially completed on March 28, 2013, per written notice of the project manager, CH2M HILL. With the opening of Segment 3B, the Authority will be the tolling agency responsible for operations, maintenance, and toll collection of Toll 49.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide taxpayers, patrons, and other interested parties with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North East Texas Regional Mobility Authority, 909 ESE Loop 323, Suite 360, Tyler, Texas 75701.

FINANCIAL STATEMENTS

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 100,561	\$ 86,743
Grant receivable	27,194	-
Total current assets	<u>127,755</u>	<u>86,743</u>
Restricted assets:		
Cash and cash equivalents	<u>7,374,623</u>	<u>14,584,675</u>
Total restricted assets	<u>7,374,623</u>	<u>14,584,675</u>
Noncurrent assets:		
Capital assets:		
Development and Construction in progress	83,900,620	33,349,816
Land - right of way	<u>2,721,006</u>	<u>2,605,392</u>
Total capital assets	86,621,626	35,955,208
Loan issuance costs, net	<u>705,592</u>	<u>732,730</u>
Total noncurrent assets	<u>87,327,218</u>	<u>36,687,938</u>
TOTAL ASSETS	<u><u>\$ 94,829,596</u></u>	<u><u>\$ 51,359,356</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 802,779	\$ 1,368,857
Deferred revenue	<u>268,650</u>	<u>287,723</u>
Total current liabilities	<u>1,071,429</u>	<u>1,656,580</u>
Long-term liabilities:		
Financial assistance agreement payable	12,250,000	12,250,749
Loans payable - SIB/TEL	83,131,430	38,874,272
Accrued interest payable - SIB/TEL	<u>579,149</u>	<u>270,824</u>
Total long-term liabilities	<u>95,960,579</u>	<u>51,395,845</u>
Total liabilities	<u>97,032,008</u>	<u>53,052,425</u>
NET ASSETS		
Deficit	<u>(2,202,412)</u>	<u>(1,693,069)</u>
Total net assets	<u>(2,202,412)</u>	<u>(1,693,069)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 94,829,596</u></u>	<u><u>\$ 51,359,356</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Contributions - member counties	\$ 34,000	\$ 32,000
Smith County Multi-modal grant	104,921	-
Rusk County - interlocal agreement	<u>19,073</u>	<u>10,161</u>
Total operating revenues	<u>157,994</u>	<u>42,161</u>
OPERATING EXPENSES		
Legal and professional	395,187	445,011
Marketing	17,605	4,600
General and administrative	105,491	199,078
Amortization expense	27,138	27,139
Smith County Multi-modal study	104,921	-
Rusk County - interlocal agreement	<u>19,073</u>	<u>10,160</u>
Total operating expenses	<u>669,415</u>	<u>685,988</u>
Operating loss	<u>(511,421)</u>	<u>(643,827)</u>
NONOPERATING REVENUES		
Interest income	<u>2,078</u>	<u>761</u>
Total nonoperating revenues	<u>2,078</u>	<u>761</u>
Change in net assets	(509,343)	(643,066)
NET ASSETS, beginning of year	<u>(1,693,069)</u>	<u>(1,050,003)</u>
NET ASSETS, end of year	<u><u>\$ (2,202,412)</u></u>	<u><u>\$ (1,693,069)</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from member counties	\$ 34,000	\$ 32,000
Receipts from Smith County - Multimodal grant	104,921	-
Receipts Rusk County - interlocal agreement	19,073	10,161
Payments to vendors	<u>(1,252,544)</u>	<u>(138,657)</u>
Net cash flows used in operating activities	<u>(1,094,550)</u>	<u>(96,496)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from financial assistance agreement	-	571,822
Proceeds from SIB and TEL agreements	44,564,734	38,385,227
Acquisition and development of construction in progress	(50,550,804)	(21,991,684)
Purchase of land - right of way	<u>(115,614)</u>	<u>(2,605,392)</u>
Net cash provided by (used in) capital and related financing activities	<u>(6,101,684)</u>	<u>14,359,973</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(7,196,234)	14,263,477
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,671,418</u>	<u>407,941</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,475,184</u>	<u>\$ 14,671,418</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ (509,343)	\$ (643,066)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization	27,138	27,139
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(27,194)	755,608
Decrease in loan issuance costs	-	(732,730)
Increase (decrease) in accounts payable	(566,078)	506,714
Decrease in deferred revenue	<u>(19,073)</u>	<u>(10,161)</u>
Net cash flows used in operating activities	<u>\$ (1,094,550)</u>	<u>\$ (96,496)</u>

NOTES TO THE FINANCIAL STATEMENTS

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

General Statement

The financial statements of the North East Texas Regional Mobility Authority (Authority) have been prepared in conformity with accounting practices generally accepted in the United States of America as applied to government units. Generally accepted accounting principles for government units include those principles prescribed by the Governmental Accounting Standards Board (GASB). The Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently apply. The more significant Authority's accounting policies are described below:

Reporting Entity

The Authority was created by the State of Texas in 2004 and the Authority held its inaugural meeting of the Board of Directors in April 2005. However, the financial activities of the Authority did not begin until July 1, 2005. The Authority was formed through the joint efforts of Smith and Gregg counties. In June 2006, the Texas Transportation Commission (Commission) approved the addition of four counties; Cherokee, Harrison, Rusk, and Upshur. On July 26, 2007, the Texas Transportation Commission approved the addition of six additional counties; Bowie, Cass, Panola, Titus, Van Zandt, and Wood, bringing the total members of the Authority to twelve.

Under the power given by the State Legislature, the Authority has the ability to finance, acquire, design, construct, operate, maintain, expand or extend local transportation projects. The primary purpose of the Authority is to accelerate the development of transportation projects that will enhance the quality of life and economic environment in North East Texas.

Basis of Presentation

The operations of the Authority are accounted for within a single proprietary fund. Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits as of September 30, 2012 and 2011.

Restricted Assets

Certain proceeds from the State Infrastructure Bank Loan Agreement (SIB) and Toll Equity Loan Agreement (TEL) with the Texas Department of Transportation (TxDOT) and interlocal agreement with Rusk County, Texas are classified as restricted assets because their use is restricted by applicable contract covenants.

Capital Assets

Capital assets are reported at cost and typically include property, equipment, and infrastructure assets. Capital assets at September 30, 2012 and 2011 consisted of right of way purchases, software costs depreciated over three years, and construction in progress which included program implementation, development, engineering, and construction costs. Construction in progress costs are not depreciated until construction is complete and the assets are placed in service.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The Authority's policy is to first use restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Estimates

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

2. DEPOSITS

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Authority's deposits were fully insured as required by state statutes at September 30, 2012 and 2011.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

3. RESTRICTED ASSETS

Restricted assets of the Authority consist primarily of cash and cash equivalents at September 30, 2012 and 2011 and are restricted for the following purposes:

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Rusk County Interlocal agreement	\$ 268,650	\$ 287,723
SIB and TEL agreements	<u>7,105,973</u>	<u>14,296,952</u>
Total	<u>\$ 7,374,623</u>	<u>\$ 14,584,675</u>

4. CONCENTRATIONS

The Authority relies primarily on the financial assistance agreement, SIB, TEL and contributions to fund its operations. Operating contributions are derived from membership dues of Counties from the East Texas area under the reporting entity. This amount is subject to change due to the varying number of members.

5. LOAN ISSUANCE COSTS

Loan issuance costs associated with the SIB/TEL agreements (as defined, Note 8) in the gross amount of \$759,868 have been capitalized and reported on the Statements of Net Assets net of accumulated amortization. The issuance costs will be amortized over life of the loan agreements. Amortization for the years ended September 30, 2012, and 2011 are summarized as follows:

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Loan issuance costs	\$ 732,730	\$ -
Additions	-	759,868
Less: amortization	<u>(27,138)</u>	<u>(27,138)</u>
Loan issuance costs, net	<u>\$ 705,592</u>	<u>\$ 732,730</u>

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

6. CAPITAL ASSETS

As described in Note 8, the Authority entered into a financial assistance agreement, SIB, and TEL agreements with TxDOT for design, engineering, and construction services related to four segments of the Toll 49 Project in Smith County. Construction costs associated with these agreements for the period ended September 30, 2012 and 2011 are as follows:

	<u>September 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2012</u>
Development and Construction in progress:				
Toll 49 program implementation	\$ 325,947	\$ -	\$ -	\$ 325,947
Toll 49 segment 5 - engineering	1,937,460	-	-	1,937,460
Toll 49 segment 3A design	2,787,831	-	-	2,787,831
Toll 49 segment 3B design	1,494,850	-	-	1,494,850
Toll 49 GEC activities	2,484,679	311,022	-	2,795,701
Toll 49 project manager	517,115	166,580	-	683,695
Toll 49 procurement	1,836,501	-	-	1,836,501
Toll 49 segment 3B construction	21,289,475	46,978,522	-	68,267,997
Toll 49 segment 3B interest	675,958	2,945,849	-	3,621,807
Toll 49 environmental studies	-	148,831	-	148,831
	<u>33,349,816</u>	<u>50,550,804</u>	<u>-</u>	<u>83,900,620</u>
Total development and construction in progress				
Land – right-of-way	<u>2,605,392</u>	<u>115,614</u>	<u>-</u>	<u>2,721,006</u>
Total capital assets	<u>\$ 35,955,208</u>	<u>\$ 50,666,418</u>	<u>\$ -</u>	<u>\$ 86,621,626</u>

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

	September 30, 2010	Additions	Retirements	September 30, 2011
Development and Construction in progress:				
Toll 49 program implementation	\$ 325,947	\$ -	\$ -	\$ 325,947
Toll 49 segment 5 - engineering	1,937,460	-	-	1,937,460
Toll 49 segment 3A design	2,724,389	63,442	-	2,787,831
Toll 49 segment 3B design	1,464,646	30,204	-	1,494,850
Toll 49 GEC activities	2,220,849	263,830	-	2,484,679
Toll 49 project manager	341,568	175,547	-	517,115
Toll 49 procurement	1,610,543	225,958	-	1,836,501
Toll 49 segment 3B construction	-	21,289,475	-	21,289,475
Toll 49 segment 3B interest	-	675,958	-	675,958
Total development and construction in progress	10,625,402	22,724,414	-	33,349,816
Land – right-of-way	-	2,605,392	-	2,605,392
Total capital assets	<u>\$ 10,625,402</u>	<u>\$ 25,329,806</u>	<u>\$ -</u>	<u>\$ 35,955,208</u>

There was no depreciation expense for the years ending September 30, 2012 and 2011.

7. ACCOUNTS PAYABLE

Accounts payable consisted of the following at September 30, 2012 and 2011:

Accounts payable – FAA are direct development costs associated with Segments 1, 2, 3A, and 5 of Toll 49 and indirect costs of the Authority (defined by the Financial Assistance Agreement, Note 8).

Accounts payable – SIB/TEL are construction costs associated with Toll 49 Segment 3B (defined by the State Infrastructure Bank Loan Note and Toll Equity Loan Note, Note 8)

Accounts payable – other are costs associated with the operation of the Authority that are not covered by the FAA or the SIB and TEL loans (defined in Note 8).

	September 30, 2012	September 30, 2011
Accounts payable – FAA	\$ -	\$ -
Accounts payable – SIB/TEL	711,206	1,308,134
Accounts payable – other	91,572	60,723
Total	<u>\$ 802,779</u>	<u>\$ 1,368,857</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

8. LONG-TERM LIABILITIES

The Authority entered into a financial assistance agreement, SIB and TEL agreements with the TxDOT for design, engineering and construction services related to four segments of the Toll 49 Project in Smith County. The following summarizes long-term debt activity of the Authority for the year ended September 30, 2012 and 2011:

	<u>September 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2012</u>
Long-term liabilities:				
FAA payable	\$ 12,250,749	\$ -	\$ 749	\$ 12,250,000
SIB loan payable	17,077,519	19,442,229	-	36,519,748
SIB accrued interest payable	118,973	135,448	-	254,421
TEL payable	21,796,753	24,814,929	-	46,611,682
TEL accrued interest payable	151,851	172,877	-	324,728
Total long-term liabilities	<u>\$ 51,395,845</u>	<u>\$ 44,565,483</u>	<u>\$ 749</u>	<u>\$ 95,960,579</u>

	<u>September 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2011</u>
Long-term liabilities:				
FAA payable	\$ 11,678,927	\$ 571,822	\$ -	\$ 12,250,749
SIB loan payable	-	17,077,519	-	17,077,519
SIB accrued interest payable	-	118,973	-	118,973
TEL loan payable	-	21,796,753	-	21,796,753
TEL accrued interest payable	-	151,851	-	151,851
Total long-term liabilities	<u>\$ 11,678,927</u>	<u>\$ 39,716,918</u>	<u>\$ -</u>	<u>\$ 51,395,845</u>

Financial Assistance Agreement

On March 7, 2006, the Authority entered into an agreement with TxDOT for the purpose of providing financial assistance up to \$12,250,000 in connection with the study and development of four segments (1, 2, 3A, and 5) of the Toll 49 project in Smith County. Costs related to the financial assistance agreement included design, engineering, and traffic and revenue studies.

As of September 30, 2012, the Authority had received all funding permitted under the financial assistance agreement. In addition, segments 1 and 2 of Toll 49 were open to traffic as of September 30, 2011, and Segment 5 was opened in June 2012.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

8. LONG-TERM LIABILITIES – continued

Financial Assistance Agreement - continued

On February 28, 2013, the Texas Transportation Commission approved the transfer of Segments 1, 2, 3A, and 5 upon substantial completion of Segment 3B which occurred on March 28, 2013. On April 1, 2013, the Authority began collecting toll revenues on Toll 49 (Note 11).

Rusk County Interlocal Agreement

On May 20, 2009, the Authority entered into an agreement with Rusk County, Texas for the purpose of expediting the development of the extension of Loop 571.

The terms of the interlocal agreement are as follows:

1. The Authority shall perform, or supervise the performance of, services related to the development of the Project, including completing of property acquisition; preparation of environmental studies, reports, and permits; and related legal and project director services.
2. Rusk County shall provide funds to the Authority in the amount of \$411,600 to be used for the development of the project.

For the years ended September 30, 2012 and 2011, the Authority incurred expenses of \$19,073 and \$10,161 respectively, in connection with the extension of Loop 571.

In connection with the interlocal agreement, the Authority defers revenue related to funds received in advance for the development of the extension of Loop 571. These amounts are reported as revenues when expended in order to present a proper matching of revenues and expenses. As of September 30, 2012 and 2011, the amount of deferred revenue totaled \$268,650 and \$287,723, respectively.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

State Infrastructure Bank Loan (SIB) and Toll Equity Loan (TEL)

On March 1, 2011, the Authority entered into two agreements with TxDOT totaling approximately \$89 million for the purpose of providing financial assistance in connection with the design, development, financing, right-of-way acquisition and construction of Segment 3B of the Toll 49.

State Infrastructure Bank Loan Agreement:

The terms of the SIB agreement are as follows:

1. TxDOT will lend the Authority thirty-nine million two hundred thousand dollars (\$39,200,000) for the purpose of paying a portion of Segment 3B Project Costs incurred by or on behalf of the Authority.
2. The SIB Loan is dated March 15, 2011 and has a stated maturity date of February 1, 2039. Interest on the aggregate disbursed principal amount of the SIB Loan shall accrete at an interest rate of 4.18 percent per annum from the closing date to February 1, 2016, with such interest being compounded on each February 1 and August 1, commencing August 1, 2011, and ending on the final accretion date. Semi-annual interest payments begin on August 1, 2016 and the initial principal payment is due February 1, 2020. Accrued interest payable on the SIB loan at September 30, 2012 was \$254,421.

Toll Equity Loan Agreement:

The terms of the TEL agreement are as follows:

1. TxDOT will lend the Authority fifty million thirty-two thousand six hundred dollars (\$50,032,600) for the purpose of paying a portion of Segment 3B Project Costs incurred by or on behalf of the Authority.
2. The Toll Equity Loan is dated March 15, 2011 and will mature and be due and payable on February 1, 2039. Interest on the aggregate disbursed principal amount of the Toll Equity Loan shall accrete at an interest rate of 4.18 percent per annum from the closing date to February 1, 2016, with such interest being compounded on each February 1 and August 1, commencing August 1, 2011, and ending on the final accretion date. Semi-annual interest payments begin on August 1, 2016, and the principal is due in one lump sum on February 1, 2039. Accrued interest payable on the TEL loan at September 30, 2012 was \$324,728.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

State Infrastructure Bank Loan Agreement and Toll Equity Loan Agreement:

The following terms are identical for both the SIB and TEL agreements:

1. Interest will be calculated on a 360-day year composed of twelve 30-day months.
2. The Authority is responsible for contracting for and funding all project costs with respect to Segment 3B, in compliance with all applicable federal, TxDOT, and local laws, regulations, policies, and ordinances. TxDOT has certain review and approval rights and responsibilities related to Segment 3B as prescribed in the Agreement, including ensuring that the completion of the Project is performed in compliance with all applicable laws, regulations, and policies and in accordance with the time frames and other requirements of construction contracts.
3. The Authority shall ensure that, on or prior to the date of substantial completion of Segment 3B, all electronic tolling system hardware necessary to operate Segment 3B in compliance with the requirements set forth by TxDOT will be installed and operational.
4. In accordance with Section IV. of the agreement between TxDOT and the Authority and upon completion of Segment 3B, it is anticipated that all toll revenues will be the property of the Authority in order to secure financing necessary to repay the SIB and TEL loans and that the Authority will pledge such revenues in connection with that financing.

Segment 3B of Toll 49 was substantially completed on March 28, 2013, per written notice of the project manager, CH2M HILL. On February 28, 2013, the Texas Transportation Commission approved the transfer of the right of way underlying Segment 3B of Toll 49. On April 1, 2013, the Authority began collecting toll revenues on Toll 49 (Note 11).

9. SMITH COUNTY MULTI-MODAL FACILITY FEASIBILITY STUDY

On September 1, 2011, the Authority was awarded a \$130,000 grant from TxDOT to assist in providing a conceptual feasibility study for the Smith County Multi-modal Facility. As of September 30, 2012 and 2011, the amount of receipts and disbursements totaled \$104,921 and \$0 respectively.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

10. COMMITMENTS AND CONTENGENCIES

In connection with the Financial Assistance Agreement, Interlocal Agreement, SIB and TEL agreements, the Authority has entered into engineering contracts for the development of certain segments of the Toll 49 Project and Rusk County Loop 571. Commitments related to work authorizations are as follows at September 30, 2012:

Work Authorization #1	\$ 349,996
Work Authorization #2	1,945,000
Work Authorization #3	2,831,490
Work Authorization #4	693,673
Work Authorization #6	415,313
Work Authorization #7	561,200
Work Authorization #8	1,986,777
Work Authorization #9	1,916,205
Work Authorization #10	311,600
Work Authorization #11	360,018
Work Authorization #12	281,330
Work Authorization #13	1,607,441
Work Authorization #14	3,850,000
Work Authorization #15	2,232,500
Work Authorization #16	20,599
Work Authorization #17	1,500,000
Work Authorization #18	315,849
Work Authorization #19	130,000
Work Authorization #20	350,000
Work Authorization #21	106,200
Total	<u>21,765,191</u>
Amounts expended at September 30, 2012	<u>(13,284,891)</u>
Total remaining commitments	<u>\$ 8,480,300</u>

In connection with the SIB and TEL agreements, the Authority has entered into a design/build construction contract for the development and construction of Segment 3B of the Toll 49 Project. The commitment related to this contract is as follows at September 30, 2012:

Design/Build Developer	\$ 70,068,399
Approved Change Orders 1-7	<u>949,619</u>
Total at September 30, 2012	<u>71,018,018</u>
Amounts expended at September 30, 2012	<u>(59,981,863)</u>
Total remaining commitments	<u>\$ 11,036,155</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

11. SUBSEQUENT EVENTS

On February 28, 2013, the Texas Transportation Commission approved the transfer of Segments 1, 2, 3A, 5, and the right of way underlying Segment 3B of Toll 49 upon substantial completion of Segment 3B. Segment 3B of Toll 49 was substantially completed on March 28, 2013, per written notice of the project manager, CH2M HILL. With the opening of Segment 3B, the Authority will be the tolling agency responsible for operations, maintenance, and toll collection of Toll 49.

The Authority has evaluated subsequent events through June 20, 2013, which is the date the financial statements were made available to management.

COMPLIANCE AND INTERNAL CONTROL

**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***

Board of Directors
North East Texas Regional Mobility Authority

We have audited the financial statements of the North East Texas Regional Mobility Authority (Authority) as of and for the years ended September 30, 2012 and 2011 and have issued our report dated June 20, 2013. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

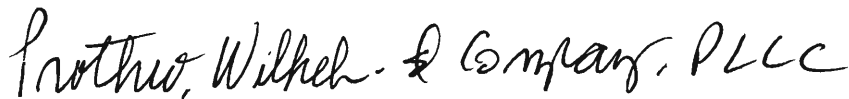
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of the board of directors, others within the entity, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
June 20, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE
OF TEXAS SINGLE AUDIT CIRCULAR**

The Board of Directors
North East Texas Regional Mobility Authority

Compliance

We have audited the compliance of the North East Texas Regional Mobility Authority (Authority) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, and State of Texas Single Audit Circular that could have a direct and material effect on each of the Authority's major state programs for the year ended September 30, 2012. The Authority's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 Audit Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Those standards; OMB Circular A-133 and State of Texas Single Audit Circular, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2012.

Internal Control Over Compliance

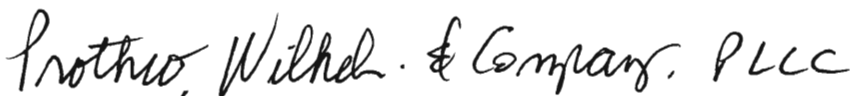
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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 state program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, others within the entity, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
June 20, 2013

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTORS NUMBER	EXPENDITURES
FEDERAL TRANSIT ADMINISTRATION PASS THROUGH FROM:			
Texas Department of Transportation State Planning and Research	20.515	51110F7102	<u>\$ 96,850</u>
		Total Federal Expenditures	<u>96,850</u>
TEXAS DEPARTMENT OF TRANSPORTATION			
State Infrastructure Bank Loan Agreement (SIB) and Toll Equity Loan Agreement (TEL)		-	<u>51,061,605</u>
		Total State Expenditures	<u>\$ 51,061,605</u>

**NORTH EAST TEXAS REGIONAL MOBILITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
FOR THE YEAR ENDING SEPTEMBER 30, 2012**

NOTE – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant and loan activity of the North East Texas Regional Mobility Authority and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with OMB Circular A-133 and the State of Texas Uniform Grant Management Standards Chapter IV “Texas State Single Audit Circular”. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Section I. – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

State Awards

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 ?	No

Identification of major programs:

STATE

<u>State Number</u>	<u>Name of State Program</u>
-	State Infrastructure Bank Loan Agreement
-	Toll Equity Loan Agreement

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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The North East Texas Regional Mobility was classified as a low-risk auditee in accordance with OMB Circular A-133 and State of Texas Single Audit Circular.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Section II – Financial Statement Findings

None

Section III – Federal and State Award Findings and Questioned Costs

None

Section IV – Summary Schedule of Prior Audit Findings

None