

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY

MANAGEMENT LETTER

SEPTEMBER 30, 2008



January 5, 2009

To the Board of Directors
North East Texas Regional Mobility Authority

In planning and performing our audit of the financial statements of the North East Texas Regional Mobility Authority (the "Authority") as of and for the year ended September 30, 2008, we considered the Authority's internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated January 5, 2009, on the financial statements of the Authority.

We will review the status of these comments during our next audit engagement. Also, we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

2008-1

Condition

Cash and accounts payable for non-financial assistance agreement expenses are not kept separate from financial assistance agreement accounts on the general ledger. This condition increases the risk that funds from the financial assistance agreement could be used for non-financial assistance agreement expenses and not be detected. However, the Authority had sufficient non-financial assistance agreement funds available to cover these expenses during the year ended September 30, 2008.

Recommendation

We recommend separate accounts be maintained for cash and accounts payable for non-financial and financial assistance agreement accounts.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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2008-2

Condition

The Authority incurred a deficit net asset balance of \$471,925 and \$386,345 for the years ended September 30, 2008 and 2007, respectively.

Recommendation

While a significant portion of the Authority's expenditures related to the Loop 49 Project are covered by the Financial Assistance Agreement, it will be important for the board of directors to carefully monitor the availability of the financial resources under the Financial Assistance Agreement. Contributions from participating counties are the main source of revenue to supplement the operations of the Authority; consideration should be given to finding other sources of revenue for non-Loop 49 expenditures.

This report is intended solely for the information and use of the Board of Directors, management of the North East Texas Regional Mobility Authority, and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Inotnio, Wilhel & Company, PLLC

Certified Public Accountants

Tyler, Texas
January 5, 2009

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
FINANCIAL STATEMENTS
WITH AUDITORS' REPORT THEREON
SEPTEMBER 30, 2008 and 2007

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

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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 (the Authority), as of September 30, 2008 and 2007, and the related statements of activities and cash flows for the year 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the year 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 January 5, 2009 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 read in conjunction with this report in considering the results of our audit.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of 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*, the State of Texas Single Audit Circular, and is 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.

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

Inotkw, Wilhel. & Company, PLLC

Certified Public Accountants

Tyler, Texas
January 5, 2009

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008 and 2007**

Management's discussion and analysis of the North East Texas Regional Mobility Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the years ended September 30, 2008 and 2007. 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 and held its inaugural meeting of the Board of Directors in April 2005. The Authority was formed through the joint efforts of Smith and Gregg counties. During 2006 and 2007, the Texas Transportation Commission approved the addition of ten counties to the Authority; Cherokee, Harrison, Rusk, Upshur, Bowie, Cass, Panola, Titus, Van Zandt, and Wood.

FINANCIAL HIGHLIGHTS

- On December 11, 2007, a ribbon cutting was held for the opening of the second segment of Loop 49 Project and tolling was initiated in March 2008.
- Program implementation, engineering, and design costs related to the Loop 49 Project totaled \$4,152,094 at September 30, 2008 and \$2,826,047 at September 30, 2007.
- Accounts payable related to the financial assistance agreement totaled \$613,096 at September 30, 2008 and \$376,350 at September 30, 2007. Accounts payable – other of \$48,435 and \$58,018 at September 30, 2008, and 2007, respectively, related to costs of the Authority not covered by the financial assistance agreement; these amounts will be paid from funds received by the member counties.
- Revenues of the Authority consisted of contributions from member counties of \$23,000 and \$16,000 for the years ended September 30, 2008 and 2007, respectively.
- Toll revenues on the first and second segments of Loop 49 have not been assigned by TxDOT to the Authority. As a result, Loop 49 toll revenues have not been received or accrued by the Authority at September 30, 2008 and 2007.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008 and 2007**

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 an enterprise fund under 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 they are incurred.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets and Changes in Net Assets

The Authority's net assets were a deficit of (\$386,345) for the year ended September 30, 2007 and (\$471,925) for the year ended September 30, 2008. The deficits are the result of limited revenue of the Authority outside the financial assistance agreement.

	Net Assets	
	2008	2007
Current assets	\$ 632,250	\$ 385,516
Capital assets	<u>4,159,594</u>	<u>2,843,547</u>
Total assets	<u>\$ 4,791,844</u>	<u>\$ 3,229,063</u>
Total liabilities	<u>5,263,769</u>	<u>3,615,408</u>
Net assets:		
Investment in capital assets	-	-
Deficit	<u>(471,925)</u>	<u>(386,345)</u>
	<u>\$ (471,925)</u>	<u>\$ (386,345)</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008 and 2007**

FINANCIAL ANALYSIS OF THE AUTHORITY - continued

Changes in Net Assets

	2008	2007
Revenues:		
Contributions	\$ 23,000	\$ 16,000
Total revenues	<u>23,000</u>	<u>16,000</u>
Expenses:		
Professional services	95,541	211,615
Administrative	<u>13,039</u>	<u>14,790</u>
Total expenses	<u>108,580</u>	<u>226,405</u>
Change in net assets	(85,580)	(210,405)
Net Assets, beginning of year	<u>(386,345)</u>	<u>(175,940)</u>
Net Assets, end of year	<u>\$ (471,925)</u>	<u>\$ (386,345)</u>

Capital Assets

The Authority's capital assets as of September 30, 2008 and 2007 totaled \$4,159,594 and \$2,843,547, respectively. Capital assets represent construction work in progress that include implementation costs, engineering, and design fees related to the development of the Loop 49 Project in Smith County.

Capital Assets

	2008	2007
Property and equipment	\$ 30,000	\$ 30,000
Accumulated depreciation	(22,500)	(12,500)
Construction work in progress	<u>4,152,094</u>	<u>2,826,047</u>
Total capital assets	<u>\$ 4,159,594</u>	<u>\$ 2,843,547</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008 and 2007**

Financial Assistance Payable

On March 7, 2006, the Authority entered into an agreement with the Texas Department of Transportation ("TxDOT") for the purpose of providing financial assistance in connection with the further development of the proposed Loop 49 Project. Under the terms of the agreement, TxDOT will provide financial assistance, in the form of a loan, to the Authority in an amount up to \$12,250,000.

At of September 30, 2008 and 2007, the Authority had requested \$4,602,238 and \$3,181,040, respectively in financial assistance related to program implementation, engineering, and design costs and attorney fees in connection with the Loop 49 Project.

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, 305 S. Broadway, Suite 100, Tyler, Texas 75702.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 19,154	\$ 9,166
Financial assistance agreement receivable	613,096	376,350
Total current assets	<u>632,250</u>	<u>385,516</u>
Capital assets:		
Property and equipment, net	7,500	17,500
Construction work in progress	4,152,094	2,826,047
Total capital assets	<u>4,159,594</u>	<u>2,843,547</u>
 TOTAL ASSETS	 <u><u>\$ 4,791,844</u></u>	 <u><u>\$ 3,229,063</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - financial assistance agreement	\$ 613,096	\$ 376,350
Accounts payable - other	48,435	58,018
Total current liabilities	<u>661,531</u>	<u>434,368</u>
Financial assistance agreement payable	<u>4,602,238</u>	<u>3,181,040</u>
Total liabilities	<u>5,263,769</u>	<u>3,615,408</u>
 NET ASSETS		
Invested in capital assets, net of related debt	-	-
Deficit	<u>(471,925)</u>	<u>(386,345)</u>
Total net assets	<u>(471,925)</u>	<u>(386,345)</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 4,791,844</u></u>	 <u><u>\$ 3,229,063</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Contributions	\$ 23,000	\$ 16,000
Total operating revenues	<u>23,000</u>	<u>16,000</u>
 OPERATING EXPENSES		
Legal and professional	86,579	172,452
Marketing	8,962	39,163
General and administrative	3,039	4,790
Depreciation expense	10,000	10,000
Total operating expenses	<u>108,580</u>	<u>226,405</u>
 Change in net assets	(85,580)	(210,405)
 NET ASSETS, beginning of year	<u>(386,345)</u>	<u>(175,940)</u>
 NET ASSETS, end of year	<u><u>\$ (471,925)</u></u>	<u><u>\$ (386,345)</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from county contributions	\$ 23,000	\$ 16,000
Decrease in non financial assistance agreement accounts payable	(9,583)	-
Payments to vendors	(98,580)	(216,404)
Net cash flows used in operating activities	(85,163)	(200,404)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from financial assistance agreement	1,421,198	2,464,992
Construction in progress	(1,326,047)	(2,262,600)
Increase in property and equipment	-	-
Net cash provided by capital and related financing activities	95,151	202,392
 CASH FLOWS FROM INVESTING ACTIVITIES	-	-
Net increase in cash and cash equivalents	9,988	1,988
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,166	7,178
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 19,154	\$ 9,166
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ (85,580)	\$ (210,405)
Adjustments to reconcile operating income to net cash provided by operating provided by operating activities:		
Depreciation	10,000	10,000
Change in assets and liabilities:		
(Increase) decrease in financial assistance receivable	(236,746)	339,699
Increase (decrease) in financial assistance payable	-	-
Increase (decrease) in accounts payable - financial assistance agreement	236,746	(347,698)
Increase (decrease) in accounts payable - other	(9,583)	8,000
(Increase) decrease in construction work in progress	-	-
(Increase) decrease in property and equipment	-	-
	\$ (85,163)	\$ (200,404)

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 and 2007**

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. The more significant Authority’s accounting policies are described below:

Reporting Entity

The North East Texas Regional Mobility Authority (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 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 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 they are incurred.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits at September 30, 2008 and 2007. These deposits are fully collateralized by the respective financial institution or covered by federal deposit insurance.

Capital Assets

Capital assets are reported at cost and typically include property, equipment, and infrastructure assets. Capital assets at September 30, 2008 and 2007 consisted of software costs depreciated over three years and construction in progress which included program implementation and engineering costs. Construction in progress costs are not depreciated until construction is complete and the assets are placed in service.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 and 2007

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.

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 or collateralized as required by state statutes at September 30, 2008 and 2007.

3. CAPITAL ASSETS

Capital asset activity for the years ending September 30, 2008 and 2007 were as follows:

	<u>September 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2008</u>
Property and equipment	\$ 30,000	\$ -	\$ -	\$ 30,000
Accumulated depreciation	(12,500)	(10,000)	-	(22,500)
Net property and equipment	<u>\$ 17,500</u>	<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ 7,500</u>

	<u>September 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2007</u>
Property and equipment	\$ 30,000	\$ -	\$ -	\$ 30,000
Accumulated depreciation	(2,500)	(10,000)	-	(12,500)
Net property and equipment	<u>\$ 27,500</u>	<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ 17,500</u>

Depreciation expense for the years ending September 30, 2008 and 2007 was \$10,000 and \$10,000 respectively.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 and 2007**

3. CAPITAL ASSETS - continued

As described in Note 5, the Authority entered into a financial assistance agreement with the Texas Department of Transportation for design and engineering services related to four segments of the Loop 49 Project in Smith County. Construction costs associated with this agreement for the period ended September 30, 2008 and 2007 are as follows:

	<u>September 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2008</u>
Construction in Progress:				
Loop 49 Program implementation	\$ 325,947	\$ -	\$ -	\$ 325,947
Loop 49 Segment 5 - Engineering	1,288,358	249,090	-	1,537,448
Loop 49 Segment 3a Design	597,614	660,258	-	1,257,872
Loop 49 GEC activities	589,545	383,730	-	973,275
Loop 49 Project manager	24,583	32,969	-	57,552
Total construction in progress	<u>\$ 2,826,047</u>	<u>\$ 1,326,047</u>	<u>\$ -</u>	<u>\$ 4,152,094</u>

	<u>September 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2007</u>
Construction in Progress:				
Loop 49 Program implementation	\$ 227,799	\$ 98,148	\$ -	\$ 325,947
Loop 49 Segment 5 - Engineering	335,136	953,222	-	1,288,358
Loop 49 Segment 3a Design	-	597,614	-	597,614
Loop 49 GEC activities	-	589,545	-	589,545
Loop 49 Project manager	-	24,583	-	24,583
Total construction in progress	<u>\$ 562,935</u>	<u>\$ 2,263,112</u>	<u>\$ -</u>	<u>\$ 2,826,047</u>

4. ACCOUNTS PAYABLE

Accounts payable – financial assistance agreement are direct costs associated with Loop 49 and indirect costs (as defined by the Financial Assistance Agreement, Note 5) payable at September 30, 2008 and 2007 and consisted of the following:

	2008	2007
Attorney fees – Loop 49	\$ 19,318	\$ 25,361
Attorney fees – the Authority	4,381	32,724
Engineering fees	582,837	314,215
Marketing – Loop 49/the Authority	4,269	1,550
Other professional fees	2,291	2,500
Total	<u>\$ 613,096</u>	<u>\$ 376,350</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 and 2007**

4. ACCOUNTS PAYABLE - continued

Accounts payable – other are costs associated with the operation of the Authority that are not covered by the Financial Assistance Agreement (as defined, Note 5) and consisted of the following:

	2008	2007
Attorney fees – the Authority	\$ 48,435	\$ 58,018

5. FINANCIAL ASSISTANCE AGREEMENT

On March 7, 2006, the Authority entered into an agreement with the Texas Department of Transportation (“TxDOT”) for the purpose of providing financial assistance in connection with the further development of the proposed Loop 49 Project.

On November 17, 2005, and January 26, 2006, the Texas Transportation Commission (“Commission”), pursuant to its constitutional and statutory authority and the Toll Equity Rules, gave preliminary and final approval to the award by TxDOT of financial assistance in an amount not to exceed \$12,250,000, in the form of a loan, for the further study and development of four segments of the Loop 49 Project in Smith County, including the costs of certain design and engineering services necessary for project development, traffic and revenue studies as needed, and legal and financial advisory services.

The terms of the financial assistance agreement are as follows:

1. TxDOT will provide financial assistance to the Authority in the amount up to \$12,250,000 to be used for the further study and development of four segments of the Loop 49 Project in Smith County, including the costs of certain design and engineering services necessary for project development, traffic and revenue studies as needed, and legal and financial advisory services. Costs payable through the financial assistance are limited to salaries and other direct costs that are incurred during the course of the project related work performed by the Authority’s staff and legal, financial, engineering, and other consultants, as well as incidental administrative and other expenses of the indirect overhead of the Authority, provided that (a) only those direct and indirect costs determined to be reasonable and allowable under OMB Circular A-87 may be reimbursed, (b) the amount of indirect costs to be reimbursed in a month will be determined by multiplying the percentage of direct costs on the applicable project to total costs in that month by the amount of indirect costs, and (c) in the event the Authority subsequently receives additional financial assistance from TxDOT related to other projects the aggregate of incidental expenses and indirect overhead allocations may not exceed 100% of those expenses.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 and 2007

5. FINANCIAL ASSISTANCE AGREEMENT - continued

The total amount of indirect costs paid under the terms of the financial assistance agreement for the years ended September 30, 2008 and 2007 was \$17,863 and \$74,142 respectively, and related to attorney fees.

At September 30, 2008 and 2007, the Authority submitted a request for payment from TxDOT related to engineering and attorney fees related to the Loop 49 project totaling \$613,096 and \$376,350, respectively. These amounts are reflected on the Statement of Net Assets as a Financial Assistance Receivable and Financial Assistance Payable.

2. Amounts disbursed to, or on behalf of, the Authority pursuant to the agreement must be repaid to TxDOT. The obligation to begin making repayments shall accrue upon the occurrence of any of the following:
 - (a) The Authority can issue bonds secured by revenue of the Loop 49 Project that, when combined with other funding sources, is sufficient to complete the project and repay the financial assistance, in which case the total amount of funds advanced shall be repaid from bond proceeds; or
 - (b) The Loop 49 Project is opened for normal and continuous operations and used by the traveling public, provided that the Authority shall not be obligated to pay TxDOT more than ten percent (10%) of the project revenues it receives in any single calendar year, such obligation to continue until the full amount disbursed by TxDOT under the agreement is repaid.

As of September 30, 2008 and 2007, the Authority elected option (b) for repayment of the financial assistance agreement. The first segment of the Loop 49 Project was opened as a toll road on November 27, 2006. On December 11, 2007, the second segment of Loop 49 Project opened. However, as of September 30, 2008, TxDOT has not assigned the toll revenues to the Authority. As a result, Loop 49 toll revenues have not been received or accrued by the Authority at September 30, 2008 and 2007.

During the year ended September 30, 2008 TxDOT clarified its position on the Authority's right to receive Loop 49 toll revenues by stating that:

“The terms of transferring toll revenue and who will cover the operations and collections costs will be set forth in a separate agreement.”

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 and 2007**

6. COMMITMENTS AND CONTENGENCIES

In connection with the Financial Assistance Agreement, the Authority has entered into engineering contracts for the development of certain segments of the Loop 49 Project. Commitments related to work authorizations are as follows at September 30, 2008:

Work Authorization #1	\$ 349,956
Work Authorization #2	1,705,000
Work Authorization #3	3,672,000
Work Authorization #4	693,673
Work Authorization #6	<u>590,000</u>
	\$ 7,010,629
Amounts expended at September 30, 2008	<u>(4,422,467)</u>
Total Commitments	<u>\$ 2,588,162</u>

7. SUBSEQUENT EVENTS

On November 6, 2008 the Texas Transportation Commission approved the issuance of \$1.5 billion in Proposition 14 bonds, with \$20 million designated for Loop 49 Segment 5 between FM 756 and SH 110.



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

Board of Directors
North East Texas Regional Mobility Authority

We have audited the financial statements of the North East Texas Regional Mobility Authority (the Authority) as of September 30, 2008 and 2007 and have issued our report dated January 5, 2009. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

PROTHRO, WILHELM AND COMPANY, PLLC
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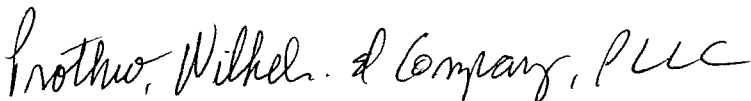
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 5, 2009.

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


Certified Public Accountants

Tyler, Texas
January 5, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND 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 (the Authority) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, and State of Texas Single Audit Circular that are applicable to its major state program for the year ended September 30, 2008. 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 are applicable to its state program for the year ended September 30, 2008.


Internal Control Over Compliance

The 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

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



Certified Public Accountants

Tyler, Texas
January 5, 2009

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
SEPTEMBER 30, 2008**

<u>STATE GRANTOR</u>	<u>STATE NUMBER</u>	<u>STATE EXPENDITURES</u>
<u>TEXAS DEPARTMENT OF TRANSPORTATION</u>		
Financial Assistance Agreement	-	\$ 1,421,198
Total State Grants		<u>\$ 1,421,198</u>

**NORTH EAST TEXAS REGIONAL MOBILITY
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE PERIODS ENDING SEPTEMBER 30, 2008**

NOTE – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of state awards includes the state grant 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 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
SEPTEMBER 30, 2008**

Section I. – Summary of Auditor’s Results

Financial Statements

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

State Awards

Internal Control over major programs:
 • Material weakness(es) identified? _____Yes X No
 • Significant deficiency(s) identified that are not considered to be material weaknesses? _____Yes X None

Type of auditor’s report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 or the State of Texas Single Audit Circular? _____ Yes X No

Identification of major programs:

STATE

<u>State Number</u>	<u>Name of State Program</u>
-	Financial Assistance Agreement

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

The North East Texas Regional Mobility was classified as a high-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
SEPTEMBER 30, 2007**

Section II – Financial Statement Findings

None.

Section III – State Award Findings and Questioned Costs

None.