

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**FINANCIAL STATEMENTS**  
**WITH AUDITORS' REPORT THEREON**  
**SEPTEMBER 30, 2017 and 2016**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
North East Texas Regional Mobility Authority  
Tyler, Texas

### Report on the Financial Statements

We have audited the accompanying statements of financial position and the statements of revenues, expenses, and changes in net position of the North East Texas Regional Mobility Authority (Authority), as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

## **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, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Prothro Wilhel. & Company, PLLC". The signature is written in a cursive, flowing style.

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas  
February 12, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2017 AND 2016  
(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, 2017 and 2016. 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, 2017, the Authority consisted of the following counties: Bowie, Cherokee, Gregg, Harrison, Kaufman, Panola, Rusk, Smith, Titus, Upshur, Wood, and Van Zandt.

**FINANCIAL HIGHLIGHTS**

- Due from other agencies increased \$1,338,800 and consists of amounts due from other tolling authorities for toll tag and video transactions as well as late fees from the operation of Toll 49.
- Capital assets increased \$37,559,340, net of depreciation expense of \$6,448,795. The increase relates to construction in progress on Segment 4 of Toll 49.
- Long-term liabilities decreased \$1,375,974 mainly due to the amortization of premiums related to the Revenue Bonds.
- Toll revenues decreased \$78,579 and total expenses increased \$2,543,202 as of the fiscal year ended September 30, 2017.

**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.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2017 AND 2016  
(UNAUDITED)**

**FINANCIAL ANALYSIS OF THE AUTHORITY**

**Net Position and Changes in Net Position**

The Authority's total assets decreased \$9,146,131 from 2016 to 2017. In addition, current assets decreased \$46,705,471 and noncurrent assets increased \$37,559,340.

Total liabilities decreased \$4,707,937. The Authority's net position decreased \$4,438,194.

**Net Position**

	<u><b>2017</b></u>	<u><b>2016</b></u>
Current assets	\$ 112,315,894	\$ 159,021,365
Noncurrent assets	<u>291,041,450</u>	<u>253,482,110</u>
 Total assets	 <u><u>\$ 403,357,344</u></u>	 <u><u>\$ 412,503,475</u></u>
 Total liabilities	 <u><u>\$ 218,863,009</u></u>	 <u><u>\$ 223,570,946</u></u>
 Net position	 <u><u>\$ 184,494,335</u></u>	 <u><u>\$ 188,932,529</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2017 AND 2016  
(UNAUDITED)**

**FINANCIAL ANALYSIS OF THE AUTHORITY – continued**

	<u>2017</u>	<u>2016</u>
Revenues:		
Toll revenues – electronic, net	\$ 8,952,800	\$ 8,144,374
Toll revenues – video, net	5,164,269	6,051,274
Contributions – member counties	30,000	35,300
Grants and related revenue	<u>-</u>	<u>4,627,638</u>
Total operating revenues	<u>14,147,069</u>	<u>18,858,586</u>
Expenses:		
General expenses	1,190,058	913,367
Toll operating expenses	<u>11,738,064</u>	<u>9,471,553</u>
Total expenses	<u>12,928,122</u>	<u>10,384,920</u>
Nonoperating revenues (expenses)	<u>(5,657,141)</u>	<u>(7,409,361)</u>
Change in net position	(4,438,194)	1,064,305
Net position, beginning of year	<u>188,932,529</u>	<u>187,868,224</u>
Net position, end of year	<u><u>\$ 184,494,335</u></u>	<u><u>\$ 188,932,529</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2017 AND 2016  
(UNAUDITED)**

**Capital Assets and Long-Term Debt**

The Authority's capital assets, net of accumulated depreciation, increased by \$37,559,340 primarily due to construction in progress.

	<b>2017</b>	<b>2016</b>
Property, toll roads, and equipment, net	\$ 242,460,514	\$ 243,042,627
Construction in progress	71,895,959	27,380,364
Accumulated depreciation	(23,315,023)	(16,940,880)
 Total capital assets, net	 <u>\$ 291,041,450</u>	 <u>\$ 253,482,110</u>

**Long-Term Debt**

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, 2017, the Authority had received the total interlocal agreement amount of \$411,600. No costs were incurred by the Authority for the years ended September 30, 2017 and 2016, respectively.

Senior Lien Revenue Bonds, Series 2016A:

The terms of the Senior Lien Bonds are as follows:

1. The Authority issued bonds to fund the construction of Segment 4 and paying off the remaining balance of the interim loan.
2. The Senior Lien Bond was issued June 16, 2016 in the amount of \$124,735,000, and has a stated maturity date of January 1, 2046.
3. Interest on the aggregate disbursed principal amount of the bond shall be accrued at an interest rate of 5.00 percent per annum, with such interest being payable on each January 1 and July 1, commencing July 1, 2017. Accrued interest payable on the Senior Lien Bond at September 30, 2017 was \$1,559,188.
4. The initial principal payment is due January 1, 2022.

Subordinate Lien Revenue Bonds, Series 2016B:

The terms of the Subordinate Lien Bonds are as follows:

1. The Authority issued bonds to fund the construction of Segment 4 and paying off the remaining balance of the interim loan.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2017 AND 2016  
(UNAUDITED)**

**Long-Term Debt – continued**

2. The Subordinate Lien Bond was issued June 16, 2016 in the amount of \$56,615,000, and has a stated maturity date of January 1, 2046.
3. Interest on the aggregate disbursed principal amount of the bond shall be accrued at an interest rate of 5.00 percent per annum, with such interest being payable on each January 1 and July 1, commencing July 1, 2017. Accrued interest payable on the Subordinate Lien Bond at September 30, 2017 was \$707,687.
4. The initial principal payment is due January 1, 2020.

As of September 30, 2017 and 2016, the Authority had the following long-term debt:

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Long-term liabilities:		
Revenue bonds payable	\$ 208,530,036	\$ 209,906,010

**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, 1001 ESE Loop 323, Suite 420, Tyler, Texas 75701.

# **FINANCIAL STATEMENTS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2017 AND 2016**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents	\$ 195,127	\$ 186,550
Due from other agencies	6,962,701	5,623,901
Grants receivable	-	4,040,014
Other assets	305,406	3,205
Restricted assets:		
Cash and cash equivalents	44,636,019	149,167,695
Investments	60,216,641	-
Total current assets	112,315,894	159,021,365
Noncurrent assets:		
Capital assets:		
Property, toll roads, and equipment	242,460,514	243,042,627
Construction in progress	71,895,959	27,380,364
Accumulated depreciation	(23,315,023)	(16,940,880)
Total noncurrent assets	291,041,450	253,482,110
<b>TOTAL ASSETS</b>	<b>\$ 403,357,344</b>	<b>\$ 412,503,475</b>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable	\$ 8,066,098	\$ 10,780,880
Accrued interest payable	2,266,875	2,644,687
Unearned revenue	-	239,369
Total current liabilities	10,332,973	13,664,936
Long-term liabilities:		
Bonds payable	208,530,036	209,906,010
Total long-term liabilities	208,530,036	209,906,010
Total liabilities	218,863,009	223,570,946
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	179,583,589	172,416,875
Restricted	4,715,621	16,326,099
Unrestricted	195,125	189,555
Total net position	184,494,335	188,932,529
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 403,357,344</b>	<b>\$ 412,503,475</b>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Toll revenues - electronic, net	\$ 8,952,800	\$ 8,144,374
Toll revenues - video, net	5,164,269	6,051,274
Contributions - member counties	30,000	35,300
Grant and other revenue	-	4,627,638
	<hr/>	<hr/>
Total operating revenues	14,147,069	18,858,586
	<hr/>	<hr/>
<b>GENERAL EXPENSES</b>		
Administrative	221,899	106,119
Salaries and Payroll taxes	540,568	231,308
Grant and related expenses	-	312,250
Legal and professional	427,591	263,690
	<hr/>	<hr/>
Total general expenses	1,190,058	913,367
	<hr/>	<hr/>
<b>TOLL OPERATING EXPENSES</b>		
Depreciation expense	6,448,795	6,520,063
General engineering consultants	617,026	674,176
Project director	179,549	246,176
Roadway maintenance	3,482,922	881,115
Toll equipment maintenance	381,367	520,812
Transmission line charges	103,784	95,113
Legal fees	301,435	345,469
Toll operating system support	68,914	66,738
Utilities	14,960	17,857
Insurance	32,712	27,886
Other operating expenses	106,600	76,148
	<hr/>	<hr/>
Total toll operating expenses	11,738,064	9,471,553
	<hr/>	<hr/>
Total expenses	12,928,122	10,384,920
	<hr/>	<hr/>
Operating income	1,218,948	8,473,666
	<hr/>	<hr/>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Financing expenses	-	(3,556,187)
Traffic and revenue study	(43,471)	(264,058)
Interest income	180,701	26,807
Income on investments (net of fees)	359,102	-
Interest expense (net of capitalized interest)	(5,456,733)	(3,615,923)
Loss on impairments/disposals	(696,740)	-
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(5,657,141)	(7,409,361)
	<hr/>	<hr/>
Change in net position	(4,438,194)	1,064,305
	<hr/>	<hr/>
<b>NET POSITION, beginning of year</b>	188,932,529	187,868,224
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<b>NET POSITION, end of year</b>	<u>\$ 184,494,335</u>	<u>\$ 188,932,529</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from toll revenues	\$ 12,778,269	\$ 12,199,474
Receipts from member counties	30,000	35,300
Receipts from grants and other revenues	-	593,494
Payments to employees	(540,568)	(228,564)
Payments to vendors	(9,238,583)	(3,048,436)
	<hr/>	<hr/>
Net cash flows provided by operating activities	3,029,118	9,551,268
	<hr/>	<hr/>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(42,470,081)	(15,553,142)
Receipts from capital grants	4,040,014	-
Proceeds from revenue bonds	-	276,299,984
Payments on loans and debt	-	(124,062,965)
Payments on interest	(9,445,312)	(1,691,119)
Financing expenses	-	(3,556,187)
	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	(47,875,379)	131,436,571
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments (net)	(60,216,641)	-
Income on investments (net of fees)	359,102	-
Interest earned	180,701	26,807
	<hr/>	<hr/>
Net cash flows provided by (used in) investing activities	(59,676,838)	26,807
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(104,523,100)	141,014,646
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	149,354,245	8,339,599
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 44,831,145</u>	<u>\$ 149,354,245</u>
	<hr/>	<hr/>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 1,218,948	\$ 8,473,666
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,448,795	6,520,063
Traffic and revenue study	(43,471)	(264,058)
Change in assets and liabilities:		
Decrease (Increase) in grants receivable	-	(4,034,144)
Increase in due from other agencies	(1,641,002)	(1,732,116)
Increase (Decrease) in accounts payable	(2,714,782)	587,857
Decrease in unearned revenue	(239,369)	-
	<hr/>	<hr/>
Net cash flows provided by operating activities	<u>\$ 3,029,118</u>	<u>\$ 9,551,268</u>
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## **NOTES TO THE FINANCIAL STATEMENTS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**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 more significant Authority’s accounting policies are described below:

**Reporting Entity**

The Authority was formed by the State of Texas in 2004. At September 30 2017, the member counties included: Bowie, Cherokee, Gregg, Harrison, Kaufman, Panola, Rusk, Smith, Titus, Upshur, Wood and Van Zandt.

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 Position; a Statement of Revenues, Expenses, and Changes in Net Position; 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 Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. 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.

**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.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**1. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and demand deposits as of September 30, 2017 and 2016. These deposits are fully collateralized or covered by federal deposit insurance.

**Restricted Assets**

Certain proceeds from the Authority's bonds and grants are classified as restricted assets because their use is restricted by applicable bond covenants. In addition, the bond covenants specify that toll revenues collected be held in bank accounts for the purposes of construction, operation and maintenance, renewal and replacement, and debt service of Toll 49.

**Capital Assets**

Capital assets are reported at cost and typically include property, equipment, and infrastructure assets. Construction in progress costs are not depreciated until construction is complete and the assets are placed in service. Depreciation is computed on the straight-line method over the following estimated useful lives:

- Bridges – 45 years
- Roads – 30 years
- Gantries – 20 years
- Signage, guardrails, and lighting – 10 years
- Equipment – 7 years

The Authority reviews its capital assets to evaluate prominent events or changes in circumstances affecting them to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. In 2017, it was determined that a portion of Segment 3B met the requirements to be impaired. Total loss on impairment and disposals was \$696,740 in 2017 as reflected in the Statements of Revenues, Expenses, and Changes in Net Position.

**Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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 position are available.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**1. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Income Taxes**

The Authority is a quasi-governmental entity formed by the State of Texas. As a result, income earned by the operation of the Authority is exempt from state or federal income taxes.

**Toll Revenues and Related Costs**

Toll revenues and related costs associated with the collection of toll revenues are reported on the financials at their net amounts.

**Reclassifications**

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation.

**2. CASH AND INVESTMENTS**

The cash and investments are reflected on the statement of net position at September 30, 2017 and 2016 as follows:

	<u>September 30,</u> <u>2017</u>	<u>September 30,</u> <u>2016</u>
Cash and cash equivalents	\$ 195,127	\$ 425,919
Restricted cash and cash equivalents	44,636,019	148,928,326
Investments	60,216,641	-
Total	<u>\$ 105,047,787</u>	<u>\$ 149,354,245</u>

The Authority utilizes various methods to measure the fair value of investments on a recurring basis. *GASBS Statements No. 72, Fair Value Measurement and Application*, establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are:

**Level 1**

Inputs are unadjusted quoted prices in active markets for identical assets and liabilities that the Authority has the ability to access.

**Level 2**

Inputs are observable other than quoted prices included in Level 1 for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**2. CASH AND INVESTMENTS – continued**

**Level 3**

Inputs are unobservable for the asset or liability, to the extent relevant observable inputs are not available, representing the Authority's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Investments measured at net asset value do not have significant terms or conditions for redemption or commitment for additional funding. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following tables summarize the inputs used as of September 30, 2017 for the Authority's investments measured at fair value:

Investment Type	Fair Value Hierarchy - September 30, 2017			
	Level 1	Level 2	Level 3	Fair Value
Federal Farm Credit Bank	\$ -	\$ 17,259,470	\$ -	\$ 17,259,470
Federal National Mortgage Assn.	-	9,514,260	-	9,514,260
United States Treasury	-	22,291,740	-	22,291,740
Federal Home Loan Bank	-	5,216,622	-	5,216,622
Freddie MAC	-	5,934,549	-	5,934,549
Total	<u>\$ -</u>	<u>\$ 60,216,641</u>	<u>\$ -</u>	<u>\$ 60,216,641</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**2. CASH AND INVESTMENTS – continued**

As of September 30, 2017, the Authority's investments in debt securities mature as follows:

Investment Type	Investment Maturities - September 30, 2017			
	90 Days or Less	91 Days to 180 Days	181 Days to 365 Days	Greater than 365 Days
Federal Farm Credit Bank	\$ 2,605,188	\$ 6,057,211	\$ 8,268,253	\$ 328,818
Federal National Mortgage Assn.	1,655,798	4,836,116	3,022,346	-
United States Treasury	7,087,978	699,651	9,798,027	4,706,085
Federal Home Loan Bank	772,690	1,502,595	2,941,336	-
Freddie MAC	2,506,592	1,336,527	670,471	1,420,959
Total	<u>\$ 14,628,246</u>	<u>\$ 14,432,100</u>	<u>\$ 24,700,433</u>	<u>\$ 6,455,862</u>

The Authority's eligible investments are governed by the 2016 senior and subordinate lien revenue bond indentures, state statutes and the Authority's investment policy. By contractual agreement, the Authority may invest all or a portion of the funds from the senior and subordinate lien revenue bonds. The investments maximum stated maturity of an individual investment cannot exceed five years unless approved by the Board of Directors. Interest earned or profits realized from any investments must be retained in the investment account. Any profit realized from the liquidation of investment must be retained in the investment account. Likewise, any loss resulting from the liquidation of investment must be charged to the investment account. As of September 30, 2017, all of the Authority's investments were rated AAA by Moody's Corporation.

**Custodial Credit Risk - 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, 2017 and 2016.

**Custodial Credit Risk - Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority and are held by the counterparty, its trust or agent, but not in the Authority's name. The Authority's investment securities are not exposed to custodial credit risk because all securities are held by the Authority's custodial bank in the Authority's name.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. CASH AND INVESTMENTS – continued**

**Interest Rate Risk**

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. According to the Authority's investment policy, interest rate risk may be mitigated by:

- a) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing projects, thereby avoiding the need to sell securities on the open market prior to maturity; and,
- b) By investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools and limiting the average maturity of the portfolio in accordance with its policy.

**3. RESTRICTED ASSETS**

Restricted assets of the Authority consist primarily of cash and cash equivalents, toll receivables and payables from restricted accounts including unspent bond proceeds and related bond debt at September 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Cash:		
Rusk County Interlocal agreement	\$ -	\$ 239,369
Bond debt service accounts	16,347,821	16,227,194
Construction fund	7,438,318	103,790,679
Revenue fund	1,125,665	214,943
Operating and maintenance fund	1,856,725	1,108,807
Renewal and replacement fund	1,097,901	625,101
General fund	9,869,230	16,520,940
Capitalized interest project fund	6,900,359	10,440,662
Total restricted cash	<u>44,636,019</u>	<u>149,167,695</u>
Other restrictions:		
Restricted receivables	6,962,701	9,664,115
Amounts payable out of restricted assets	<u>(46,883,099)</u>	<u>(142,505,711)</u>
Total other restrictions	<u>(39,920,398)</u>	<u>(132,841,596)</u>
Restricted net position	<u>\$ 4,715,621</u>	<u>\$ 16,326,099</u>

Included in restricted cash is the general fund. According to the loan covenants of the Senior and Subordinate lien revenue bonds, cash from the general fund will be used to satisfy deficiencies in the bond debt service accounts, if necessary. After satisfying those requirements, such cash may be expended or transferred from time to time for any of the following purposes, with no one item having priority over any of the others:

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**3. RESTRICTED ASSETS – continued**

- a) To purchase, redeem or repay obligations;
- b) To pay maintenance expenses and operating expenses;
- c) To make payments into the construction fund;
- d) To fund improvements, extensions and replacements of the System; or
- e) For any other lawful purpose.

The Authority has the right under the bond indentures to pledge amounts on deposit in the general fund to the payment of any obligation of the Authority authorized under the Act to which it was created.

**4. DUE FROM OTHER AGENCIES**

Due from other agencies consists of amounts due from other tolling authorities for toll tag transactions and other agencies for video transactions and late fees from Toll 49.

	<u>2017</u>	<u>2016</u>
Tolls receivable	\$ 3,461,470	\$ 2,914,550
Fees receivable	3,501,231	2,709,351
Due From Other Agencies	<u>\$ 6,962,701</u>	<u>\$ 5,623,901</u>

**5. CAPITAL ASSETS**

Capital assets of the Authority consisted of the following as of September 30, 2017 and 2016:

	<u>September 30, 2016</u>	<u>Additions</u>	<u>Transfers / Retirements</u>	<u>September 30, 2017</u>
Property, Toll Roads, and Equipment:				
Toll 49 Right of Way	\$ 39,798,777	\$ -	\$ -	\$ 39,798,777
Toll 49 Bridges	64,191,695	-	-	64,191,695
Toll 49 Highway	126,943,754	-	(766,711)	126,177,043
Toll 49 Gantries and toll equipment	12,060,180	-	-	12,060,180
Office equipment and other	48,220	136,126	(4,681)	179,665
Trucks and Auto	-	53,154	-	53,154
Construction in progress	27,380,364	44,622,929	(107,334)	71,895,959
Total Capital Assets	<u>270,422,990</u>	<u>44,812,209</u>	<u>(878,726)</u>	<u>314,356,473</u>
Less Accumulated Depreciation	<u>(16,940,880)</u>	<u>(6,448,628)</u>	<u>74,485</u>	<u>(23,315,023)</u>
Total Capital Assets, net	<u>\$ 253,482,110</u>	<u>\$ 38,363,581</u>	<u>\$ (804,241)</u>	<u>\$ 291,041,450</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**5. CAPITAL ASSETS – continued**

	<u>September 30,</u> <u>2015</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>September 30,</u> <u>2016</u>
Property, Toll Roads, and Equipment:				
Toll 49 Right of Way	\$ 39,808,067	\$ -	\$ (9,290)	\$ 39,798,777
Toll 49 Bridges	64,191,695	-	-	64,191,695
Toll 49 Highway	126,943,754	-	-	126,943,754
Toll 49 Gentries and toll equipment	12,074,528	338,570	(352,918)	12,060,180
Office equipment and other	61,986	16,235	(30,000)	48,220
Construction in progress	<u>3,615,829</u>	<u>23,764,536</u>	<u>-</u>	<u>27,380,364</u>
Total Capital Assets	246,695,859	24,119,341	(392,208)	270,422,990
Less Accumulated Depreciation	<u>(10,673,209)</u>	<u>(6,520,063)</u>	<u>252,392</u>	<u>(16,940,880)</u>
Total Capital Assets, net	<u>\$ 236,022,650</u>	<u>\$ 17,599,278</u>	<u>\$ (139,816)</u>	<u>\$ 253,482,110</u>

Depreciation expense for the years ended September 30, 2017 and 2016 was \$6,448,795 and \$6,520,063, respectively.

**Capitalization of Interest**

During the year, the Authority incurred interest costs totaling \$5,456,733. Interest incurred during the construction period relating to the construction of property, plant, and equipment, totaling \$2,234,792 was capitalized during the year.

**6. ACCOUNTS PAYABLE**

Accounts payable consisted of the following at September 30, 2017 and 2016:

	<u>September 30,</u> <u>2017</u>	<u>September 30,</u> <u>2016</u>
Accounts payable – construction	\$ 5,819,018	\$ 9,347,037
Accounts payable – operations	2,182,629	1,389,510
Accounts payable – other	<u>64,451</u>	<u>44,333</u>
Total	<u>\$ 8,066,098</u>	<u>\$ 10,780,880</u>

**7. LONG-TERM LIABILITIES**

The following summarizes long-term debt activity of the Authority for the years ended September 30, 2017 and 2016:

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
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**7. LONG-TERM LIABILITIES – continued**

	September 30, 2016	Additions/ Amortization	Reductions	September 30, 2017
<b>Long-term liabilities:</b>				
Bonds - Senior lien	\$ 124,735,000	\$ -	\$ -	\$ 124,735,000
Bonds - Subordinate lien	56,615,000	-	-	56,615,000
Subtotal	<u>181,350,000</u>	<u>-</u>	<u>-</u>	<u>181,350,000</u>
 Bond premium payable:				
Bond premiums	28,956,440	-	-	28,956,440
Bond premiums amortization	(400,430)	(1,375,974)	-	(1,776,404)
Subtotal	<u>28,556,010</u>	<u>(1,375,974)</u>	<u>-</u>	<u>27,180,036</u>
 Total long-term liabilities	<u>\$ 209,906,010</u>	<u>\$ (1,375,974)</u>	<u>\$ -</u>	<u>\$ 208,530,036</u>
 Current year interest payable:				
Bond accrued interest	<u>\$ 2,644,687</u>	<u>\$ 9,067,500</u>	<u>\$ (9,445,313)</u>	<u>\$ 2,266,875</u>
	2015	Additions	Reductions	2016
<b>Long-term liabilities:</b>				
FAA payable	\$ 12,250,000	\$ -	\$ (12,250,000)	\$ -
SIB loan payable	45,854,604	958,361	(46,812,965)	-
Interim loan	-	65,000,000	(65,000,000)	-
Bonds - Senior lien	-	124,735,000	-	124,735,000
Bonds - Subordinate lien	-	56,615,000	-	56,615,000
Subtotal	<u>58,104,604</u>	<u>247,308,361</u>	<u>(124,062,965)</u>	<u>181,350,000</u>
 Bond premium payable:				
Bond premiums	-	28,956,440	-	28,956,440
Bond premiums amortization	-	(400,430)	-	(400,430)
Subtotal	<u>-</u>	<u>28,556,010</u>	<u>-</u>	<u>28,556,010</u>
 Total long-term liabilities	<u>\$ 58,104,604</u>	<u>\$ 275,864,371</u>	<u>\$ (124,062,965)</u>	<u>\$ 209,906,010</u>
 Current year interest payable:				
Bond accrued interest	\$ -	\$ 2,644,687	\$ -	\$ 2,644,687
Interim loan accrued interest	-	297,917	(297,917)	-
SIB accrued interest	319,454	1,073,748	(1,393,202)	-
Total current year interest payable	<u>\$ 319,454</u>	<u>\$ 4,016,352</u>	<u>\$ (1,691,119)</u>	<u>\$ 2,644,687</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
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**7. LONG-TERM LIABILITIES - continued**

**Additions to long-term liabilities**

	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Interest expense	\$ 5,456,733	\$ 3,615,922
Capitalized interest	2,234,793	-
Bond premium amortization	1,375,974	400,430
Additions to long-term liabilities	<u>\$ 9,067,500</u>	<u>\$ 4,016,352</u>

**Financial Assistance Agreement**

On March 7, 2006, the Authority entered into an agreement with TxDOT for the purpose of obtaining 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. The loan was paid in full on April 30, 2016 utilizing funds obtained from an interim loan.

**State Infrastructure Bank Loan**

On March 1, 2011, the Authority entered into agreements with TxDOT totaling approximately \$39 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. The loan was paid in full on April 30, 2016 utilizing funds obtained from an interim loan.

**Interim Loan**

The Authority obtained an interim loan from Bank of America on April 30, 2016 in the amount of \$65,000,000. The funds were used to pay off the FAA and SIB loans. The loan was paid off on June 16, 2016 by the Senior and Subordinate Lien Revenue bonds.

**Senior and Subordinate Lien Revenue Bonds:**

On June 16, 2016, the Authority issued two bonds totaling approximately \$181 million for the purpose of providing financial assistance in connection with the design, development, financing, right-of-way acquisition, and construction of Segment 4 of the Toll 49.

**Senior Lien Revenue Bonds:**

The terms of the Senior Lien Bonds are as follows:

1. The Authority issued bonds to fund the construction of Segment 4 and paying the remaining balance of the interim loan.
2. The Senior Lien Bond was issued June 16, 2016 in the amount of \$124,735,000, and has a stated maturity date of January 1, 2046.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

**7. LONG-TERM LIABILITIES - continued**

**Senior and Subordinate Lien Revenue Bonds - continued**

3. Interest on the aggregate disbursed principal amount of the bond shall accrued at an interest rate of 5.00 percent per annum, with such interest being payable on each January 1 and July 1, commencing July 1, 2017. Accrued interest payable on the Senior Lien Bond at September 30, 2017 and 2016 was \$1,559,188 and \$1,819,052, respectively.
4. The initial principal payment is due January 1, 2022.

**Subordinate Lien Revenue Bonds:**

The terms of the Subordinate Lien Bonds are as follows:

1. The Authority issued bonds to fund the construction of Segment 4 and paying the remaining balance of the interim loan.
2. The Subordinate Lien Bond was issued June 16, 2016 in the amount of \$56,615,000, and has a stated maturity date of January 1, 2046.
3. Interest on the aggregate disbursed principal amount of the bond shall accrued at an interest rate of 5.00 percent per annum, with such interest being payable on each January 1 and July 1, commencing July 1, 2017. Accrued interest payable on the Subordinate Lien Bond at September 30, 2017 and 2016 was \$707,687 and \$825,635, respectively.
4. The initial principal payment is due January 1, 2020.

Future payments of principal and interest on the Authority's Revenue Bonds as of September 30, 2017 are as follows:

<b><u>Fiscal Year Ended September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Amount</u></b>
2018	\$ -	\$ 9,067,500	\$ 9,067,500
2019	-	9,067,500	9,067,500
2020	1,400,000	9,032,500	10,432,500
2021	500,000	8,985,000	9,485,000
2022	1,320,000	8,939,500	10,259,500
2023-2027	13,315,000	43,093,125	56,408,125
2028-2032	24,740,000	38,301,500	63,041,500
2033-2037	38,350,000	30,532,000	68,882,000
2038-2042	50,970,000	19,308,250	70,278,250
2043-2046	50,755,000	5,230,375	55,985,375
Total obligations	<u>\$ 181,350,000</u>	<u>\$ 181,557,250</u>	<u>\$ 362,907,250</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

**8. INTERLOCAL AGREEMENTS**

**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, 2017 and 2016, the Authority incurred no expenses 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. These funds were refunded to Rusk County in 2017.

**Other Interlocal Agreements**

On June 14, 2016, the Authority approved program grant funds in the amount of \$400,000 to be made available from the operating account to reimburse member counties or otherwise assist in the funding of the development of priority transportation projects selected under the program.

On May 9, 2017, the Authority approved program grant funds in the amount of \$500,000 to be made available to selected projects in Upshur, Wood, and Kaufman counties on a reimbursement basis.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
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**9. TOLL REVENUES AND RELATED COSTS**

Electronic and video revenues and related costs are detailed below for the years ended September 30, 2017 and 2016:

	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Toll revenue – electronic	\$ 9,626,841	\$ 8,731,329
Less: electronic processing costs	(674,041)	(586,955)
Toll revenue – electronic, net	<u>\$ 8,952,800</u>	<u>\$ 8,144,374</u>
 Toll revenue – video	 \$ 3,664,950	 \$ 4,251,018
Video violation fees	1,751,473	2,094,696
Less: video processing costs	(252,154)	(294,440)
Toll revenue – video, net	<u>\$ 5,164,269</u>	<u>\$ 6,051,274</u>

**10. LEASES**

The Authority entered into an operating lease during the year for a 3,702 square foot office space located at the Woodgate Centre in Tyler, Texas. Total cost for this operating lease was \$45,857 for the year ended September 30, 2017. Future minimum lease payments under a non-cancelable operating lease are as follows:

<b>September 30,</b>	<b>Amount</b>
2018	\$ 61,083
2019	61,083
2020	61,777
2021	62,009
2022	15,502
Total	<u>\$ 261,454</u>

**11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of September 30, 2017 the Authority is involved in various contract disputes during the normal course of operations. Based upon the status of claims and the information available, the Authority believes that no liability will be incurred as a result of the claims.

**12. SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through February 12, 2018, which is the date the financial statements were made available to management.

## **COMPLIANCE AND INTERNAL CONTROL**



**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**

The Board of Directors  
North East Texas Regional Mobility Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North East Texas Regional Mobility Authority (Authority), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 12, 2018.

**Internal Control Over Financial Reporting**

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

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

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

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

**Compliance and Other Matters**

In connection with our engagement to audit the financial statements of the Authority, 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*. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

**Purpose of this Report**

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

A handwritten signature in blue ink that reads "Prothro, Wilhelmi & Company, PLLC". The signature is written in a cursive, flowing style.

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas  
February 12, 2018