NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY

FINANCIAL STATEMENTS

WITH AUDITORS' REPORT THEREON

SEPTEMBER 30, 2019 AND 2018

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

TABLE OF CONTENTS

ETERNAL VALUES INFINITE POTENTIAL
Prothro WILHELMI

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, 2019 and 2018, 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.

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, 2019 and 2018, 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 the Management's Discussion and Analysis (pages 3 through 8), Schedule of Changes in Net Pension Liability and Related Ratios (page 34), and Schedule of Employer Contributions (page 35) 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 ("GASB"), 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 March 3, 2020, 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 the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Prothro, Wilhelmi & Company, PLLC

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
March 3, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019 AND 2018

The North East Texas Regional Mobility Authority (Authority) presents the following discussion and analysis of the Authority's financial activities during the fiscal years that ended September 30, 2019 and 2018. This section is intended to be read in conjunction with the Authority's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Investments decreased $15,572,053 due to investments maturing and being used for Segment 4 of Toll 49 construction and other expenses.

- Property, toll roads and equipment were $374,936,061 and $254,783,227 as of September 30, 2019 and 2018, respectively. Property, toll roads and equipment increased $120,152,834 from 2018 to 2019 due to the completion of construction on Segment 4 of Toll 49 as well as other capital additions in 2019.

- Construction in progress was $2,593,233 and $112,154,371 as of September 30, 2019 and 2018, respectively. Construction in progress decreased $109,561,138 from 2018 to 2019 due to the completion of construction on Segment 4 of Toll 49 and it being placed in service and reclassed to Property, toll roads and equipment.

- Long-term liabilities decreased $2,776,464 from 2018 to 2019 due to 1) the reclassification of the current portion of revenue bonds due within a year to the current liabilities section and 2) the amortization of premiums related to the revenue bonds.

- Toll revenues (net of expenses) increased $4,228,148 from 2018 to 2019. The majority of the increase related to the completion of construction on Toll 49 and the opening of Segment 4.

- Total operating expenses were $17,192,042 and $10,787,264 in 2019 and 2018, respectively. The majority of the increase was related to increased depreciation expense due to Segment 4 being placed in service as well as a bad debt expense recorded to adjust the allowance accounts related to uncollected toll and fee revenue.

OVERVIEW OF FINANCIAL STATEMENTS

The financial section of this report consists of four parts: management's discussion and analysis, the basic financial statements, the notes to the financial statements and the required supplementary information.

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

Basic financial statements: The financial statements are designed to provide readers with an overview of the Authority's finances in a manner similar to a private-sector business.

The *Statements of Net Position* present information on all the Authority's assets and deferred outflows, as well as the Authority's liabilities and deferred inflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statements of Revenues, Expenses and Change in Net Position* present information showing how the Authority's net position changed during the fiscal years ended September 30, 2019 and 2018. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net position may serve as an indicator of the effect of the Authority's current year operations on its financial position.

The *Statements of Cash Flows* summarize all the Authority's cash flows into three categories as applicable: 1) cash flows from operating activities; 2) cash flows from capital related financing activities and 3) cash flows from investing activities. The Statements of Cash Flows, along with the related notes and information in other financial statements, can be useful in assessing the following:

- The Authority's ability to generate future cash flows.
- The Authority's ability to pay its debt at the debt matures.
- Reasons for the difference between the Authority's operating cash flows and operating income.
- The impact of the Authority's financial position of cash and noncash transactions from investing, capital and financing activities.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net position: As noted above, net position may serve over time as a useful indicator of the Authority's financial position. The net position reflects an un-expendable and expendable portion of net position. The Authority's assets and deferred outflows exceeded liabilities and deferred inflows by $175,002,045 and $182,815,582 as of September 30, 2019 and 2018, respectively.

Net Position

	2019	2018
Current assets	$ 46,787,971	$ 60,269,411
Noncurrent assets	337,718,760	337,251,707
Total assets	$ 384,506,731	$ 397,521,118
Deferred outflows of resources	88,073	65,975
Total assets and deferred outflows of resources	$ 384,594,804	$ 397,587,093
Current liabilities	$ 5,186,509	$ 7,605,544
Long-term liabilities	204,388,066	207,164,530
Total liabilities	209,574,575	214,770,074
Deferred inflows of resources	18,184	1,437
Total liabilities and deferred inflows of resources	$ 209,592,759	$ 214,771,511
Net position		
Invested in capital assets	$ 170,666,079	$ 176,477,197
Restricted	2,141,303	6,014,152
Unrestricted	2,194,663	324,233
Total net position	$ 175,002,045	$ 182,815,582
Total liabilities, deferred inflows of resources and net position	$ 384,594,804	$ 397,587,093

The largest portion of the Authority's net position is reflected in investment in capital assets net of any outstanding debt used to acquire those assets. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Authority's net position, $2,141,303, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $2,194,663 is unrestricted and may be used to meet the Authority's ongoing obligations.

Changes in net position: The Authority's operating revenues increased $4,259,218 from 2018 to 2019 as a result of the completion of construction projects and opening of Segment 4 of Toll 49. The average monthly tolling transactions increased from 30,927 in fiscal year 2018 to 37,446 in fiscal year 2019.

Total operating expenses increased $6,404,778 from fiscal year 2018 to fiscal year 2019. The increase is due to the increase in depreciation expense as a result of Segment 4 of Toll 49 being placed into service. Also, the increase is a result of a bad debt expense recorded to adjust the allowance accounts related to uncollected toll and fee revenue.

Total nonoperating expenses (net) increased $3,989,224 from fiscal year 2018 to fiscal year 2019. The increase is due to the implementation of GASB Statement No. 89, which states interest incurred during construction periods no longer must be capitalized. As a result, no interest was capitalized during fiscal year 2019.

The following table indicates change in net position for the Authority:

Changes in Net Position

	2019	2018
Revenues:		
Toll revenues – electronic, net	$ 11,374,158	$ 8,471,525
Toll revenues and fees – video, net	4,924,516	3,599,001
Contributions – member counties	36,000	34,000
Other operating revenue	41,070	12,000
Total operating revenues	16,375,744	12,116,526
Expenses:		
General expenses	1,387,027	1,255,864
Toll operating expenses	15,805,015	9,531,400
Total expenses	17,192,042	10,787,264
Nonoperating revenues (expenses)	(6,997,239)	(3,008,015)
Change in net position	(7,813,537)	(1,678,753)
Net position, beginning of year	182,815,582	184,494,335
Net position, end of year	$ 175,002,045	$ 182,815,582

Capital Assets and Long-Term Debt

The Authority's capital assets, net of accumulated depreciation, increased by $461,421. Segment 4 of Toll 49 was completed and placed in service. The costs of Segment 4 were transferred from construction in progress to property, tolls roads and equipment and depreciation of the asset was initiated. Equipment for the Maintenance Department was also purchased during fiscal year 2019.

Capital Assets

	2019	2018
Property, toll roads, and equipment, net	$ 374,936,061	$ 254,783,227
Construction in progress	2,593,233	112,154,371
Accumulated depreciation	(39,822,979)	(29,692,704)
Total capital assets, net	$ 337,706,315	$ 337,244,894

Long-Term Debt

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, 2019 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.

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, 2019 was $707,688.

4. The initial principal payment is due January 1, 2020.

As of September 30, 2019 and 2018, the Authority had the following long-term debt:

Long-Term Debt

	September 30, 2019	September 30, 2018
Long-term liabilities:		
Revenue bonds payable	$ 205,778,085	$ 207,154,060
Compensated absences	9,981	10,470
Total long-term liabilities	$ 204,388,066	$ 207,164,530

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide 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, 2019 AND 2018 (Restated)

		2019		2018 (Restated)
ASSETS				
Current assets:				
Cash and cash equivalents	$	375,485	$	281,580
Due from other agencies, net		3,956,010		6,505,873
Other assets		372,561		-
Restricted assets:				
Cash and cash equivalents		42,083,915		37,954,905
Investments		-		15,527,053
Total current assets		46,787,971		60,269,411
Noncurrent assets:				
Capital assets:				
Property, toll roads, and equipment		374,936,061		254,783,227
Construction in progress		2,593,233		112,154,371
Accumulated depreciation		(39,822,979)		(29,692,704)
Net capital assets		337,706,315		337,244,894
Pension asset		12,445		6,813
Total noncurrent assets		337,718,760		337,251,707
Total assets		384,506,731		397,521,118
Deferred outflows of resources related to pension		88,073		65,975
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	384,594,804	$	397,587,093
LIABILITIES				
Current liabilities:				
Accounts payable	$	1,341,483	$	5,320,708
Accrued expenses		152,415		-
Accrued interest payable		2,266,875		2,266,875
Compensated absences, current portion		25,736		17,961
Bonds payable, current portion		1,400,000		-
Total current liabilities		5,186,509		7,605,544
Long-term liabilities:				
Compensated absences, net of current portion		9,981		10,470
Bonds payable, net of current portion		204,378,085		207,154,060
Total long-term liabilities		204,388,066		207,164,530
Total liabilities		209,574,575		214,770,074
Deferred inflows of resources related to pension		18,184		1,437
NET POSITION				
Invested in capital assets, net of related debt		170,666,079		176,477,197
Restricted		2,141,303		6,014,152
Unrestricted		2,194,663		324,233
Total net position		175,002,045		182,815,582
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$	384,594,804	$	397,587,093

See accompanying notes to the financial statements.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (Restated)

	2019	2018 (Restated)
OPERATING REVENUES		
Toll revenues - electronic, net	$ 11,374,158	$ 8,471,525
Toll revenues and fees - video, net	4,924,516	3,599,001
Contributions - member counties	36,000	34,000
Other operating revenue	41,070	12,000
Total operating revenues	16,375,744	12,116,526
GENERAL EXPENSES		
Administrative	213,667	195,531
Salaries, benefits and payroll taxes	852,096	606,047
Legal and professional	321,264	454,286
Total general expenses	1,387,027	1,255,864
TOLL OPERATING EXPENSES		
Depreciation expense	10,130,540	6,377,681
General engineering consultants	271,254	277,091
Project director	81,573	102,828
Roadway maintenance	1,154,969	1,677,492
Toll equipment maintenance	329,062	409,405
Transmission line charges	93,653	82,109
Legal fees	199,924	265,256
Toll operating system support	179,974	214,828
Utilities	31,166	20,352
Insurance	64,411	36,150
Marketing and advertising	173,372	-
Bad debt expense	2,981,628	-
Traffic and revenue study	67,236	804
Other operating expenses	46,253	67,404
Total toll operating expenses	15,805,015	9,531,400
Total expenses	17,192,042	10,787,264
Operating income	$ (816,298)	$ 1,329,262
NONOPERATING REVENUES (EXPENSES)		
Interest income	868,340	440,350
Income on investments (net of fees)	110,849	493,824
Interest expense (net of capitalized interest)	(7,691,525)	(3,446,722)
Priority projects	(308,021)	(473,253)
Other income (loss)	23,118	(22,214)
Total nonoperating revenues (expenses)	(6,997,239)	(3,008,015)
Change in net position	(7,813,537)	(1,678,753)
NET POSITION, beginning of year	182,815,582	184,494,335
NET POSITION, end of year	$ 175,002,045	$ 182,815,582

See accompanying notes to the financial statements.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (Restated)

	2019	2018 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from toll revenues	$ 16,154,789	$ 12,527,354
Receipts from member counties	36,000	46,000
Receipts from other revenue sources	99,048	-
Payments to employees	(794,365)	(644,003)
Payments to vendors	(4,042,938)	(6,248,484)
Net cash flows provided by operating activities	11,452,534	5,680,867
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(14,301,466)	(48,358,537)
Payments on grants	(308,021)	(473,253)
Payments on interest	(9,067,500)	(9,067,500)
Net cash provided by (used in) capital and related financing activities	(23,676,987)	(57,899,290)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchase) of investments (net)	15,468,179	44,689,588
Income on investments (net of fees)	110,849	493,824
Interest earned	868,340	440,350
Net cash flows provided by (used in) investing activities	16,447,368	45,623,762
Net increase (decrease) in cash and cash equivalents	4,222,915	(6,594,661)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,236,485	44,831,146
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 42,459,400	$ 38,236,485
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ (816,298)	$ 1,329,262
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,130,540	6,377,681
Change in assets and liabilities:		
(Increase) decrease in due from other agencies	2,549,865	762,234
(Increase) decrease in other assets	(34,611)	-
(Increase) decrease in net pension asset	(5,632)	(6,813)
(Increase) decrease in deferred outflows of resources	(22,098)	(65,975)
Increase (Decrease) in accounts payable	(525,679)	(2,745,390)
Increase (Decrease) in accrued expenses	152,414	-
Increase in compensated absences payable	7,286	28,431
Increase in deferred inflows of resources	16,747	1,437
Net cash flows provided by operating activities	$ 11,452,534	$ 5,680,867

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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, 2019, 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.

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits as of September 30, 2019 and 2018. 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 tests for impairment of capital assets when significant unexpected decline in service utility occurs. There were no asset impairments in fiscal year 2019 or 2018.

Compensated Absences

Full-time regular employees are eligible for paid time off for sick and vacation time, which accrue per pay period. Employees with one to five years of service accrue 120 hours per year. Employees with five years of service and over accrue 176 hours per year. Employees' unused paid time off may carry over into subsequent years, except that employees may bank no more than 240 hours at any given time. If an employee reaches the 240 hour cap, the employee will accrue no more paid time off until the employee uses paid time off and falls below the 240 hour cap. Accrued paid time off on the Statements of Net Position is $35,717 and $28,431 as of September 30, 2019 and 2018, respectively.

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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.

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.

Pensions

The net pension asset/liability, deferred outflows and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Authority's participation in the Texas County and District Retirement System (TCDRS), an Agent Plan, and additions/deductions from TCDRS's fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized in the TCDRS net pension liability calculations when due and payable in accordance with the benefit terms. The investments are stated at fair value.

Deferred Outflows and Inflows of Resources

The Authority has classified as deferred inflows of resources items that represent acquisition of net position that applies to future periods and will not be recognized as a revenue until then. The Authority has classified as deferred outflows of resources certain items that represent a consumption of resources that applies to a future period and, therefore, will not be recognized as an expense until then.

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.

Reclassification

Certain reclassifications have been made to the prior year's amounts reflected within the statement of net position and the statement of revenues, expenses and changes in net position to enhance comparability with the current year's financial statements and to enhance the comparability with the periodic reporting completed by the Authority.

2. CASH AND INVESTMENTS

The cash and investments are reflected on the statement of net position at September 30, 2019 and 2018 as follows:

	September 30, 2019	September 30, 2018
Cash and cash equivalents	$ 375,485	$ 281,580
Restricted cash and cash equivalents	42,083,915	37,954,905
Investments	-	15,527,053
Total	$ 42,459,400	$ 53,763,538

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

<u>Level 1</u>
Inputs are unadjusted quoted prices in active markets for identical assets and liabilities that the Authority has the ability to access.

<u>Level 2</u>
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.

<u>Level 3</u>
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.

2. CASH AND INVESTMENTS – continued

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, 2019 for the Authority's investments measured at fair value:

	Fair Value Hierarchy			
Investment Type	Level 1	Level 2	Level 3	Fair Value
Federal Farm Credit Bank	$ -	$ 330,644	$ -	$ 330,644
United States Treasury	-	13,771,744	-	13,771,744
Federal Home Loan Bank	-	1,424,665	-	1,424,665
Total	$ -	$ 15,527,053	$ -	$15,527,053

As of September 30, 2019, the Authority's investments in debt securities mature as follows:

	Investment Maturities			
Investment Type	90 Days or Less	91 Days to 180 Days	181 Days to 365 Days	Greater than 365 Days
Federal Farm Credit Bank	$ 330,644	$ -	$ -	$ -
United States Treasury	5,715,263	5,271,154	2,785,327	-
Federal Home Loan Bank	1,424,665	-	-	-
Total	$7,470,572	$5,271,154	$2,785,327	$ -

2. CASH AND INVESTMENTS – continued

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, 2019, all 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, 2019 and 2018.

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.

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, 2019 and 2018 and are as follows:

	September 30, 2019	September 30, 2018
Cash:		
Bond debt service accounts	$ 19,410,736	$ 16,270,002
Construction fund	12,929,993	9,567,726
Revenue fund	361,600	922,393
Operating and maintenance fund	2,511,055	1,831,106
Renewal and replacement fund	3,791,430	2,445,677
General fund	3,079,101	3,397,099
Capitalized interest project fund	-	3,520,902
Total restricted cash	42,083,915	37,954,905
Other restrictions:		
Restricted receivables	3,956,010	6,505,874
Amounts payable out of restricted assets	(43,898,622)	(38,446,627)
Total other restrictions	(39,942,612)	(31,940,753)
Restricted net position	$ 2,141,303	$ 6,014,152

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:

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

The Authority changed collection providers for video transactions and violations from Toll 49 in October 2018. Outstanding video tolls and violation fees at the date of transition were transferred to a debt collection agency and an agreement was entered into with another collection provider for video tolls and violation fees occurring after November 1, 2018. Please see Note 8 for terms of the contract with the new collection provider, Cofiroute USA LLC.

During the year ended September 30, 2019, it was determined by the debt collection agency that only 15% of the outstanding video tolls and violation fees that were transferred would be collected in the future. In addition, the collection rate for video tolls and violation fees outstanding at September 30, 2019 was also adjusted to more accurately reflect the amount due from Cofiroute.

As a result, bad debt expense of $2,981,628 is reflected in the statement of revenues, expenses and change in net position. In prior years, this adjustment has been reflected as a direct reduction to toll and fee revenue.

	September 30, 2019	September 30, 2018
Tolls receivable - electronic	$ 1,128,388	$ 696,621
Tolls receivable - video and fees	11,024,490	11,633,455
Allowance for uncollectible video tolls and fees	(8,196,868)	(5,824,203)
	2,827,622	5,809,252
Due From Other Agencies	$ 3,956,010	$ 6,505,873

5. CAPITAL ASSETS

Capital assets of the Authority consisted of the following as of September 30, 2019:

	September 30, 2018	Additions	Transfers/ Retirements	September 30, 2019
Property, Toll Roads, and Equipment:				
Toll 49 Right of Way	$ 39,798,777	$ 8,105,627	$ -	$ 47,904,404
Toll 49 Bridges	64,191,695	20,095,000	-	84,286,695
Toll 49 Highway	138,498,591	87,508,786	-	226,007,377
Toll 49 Gantries and toll equipment	12,060,180	4,260,000	-	16,320,180
Office equipment and other	179,665	147,753	-	327,418
Trucks and Auto	54,319	35,666	-	89,985
Construction in progress	112,154,371	8,772,570	118,333,706	2,593,235
Total Capital Assets	366,937,598	128,925,402	118,333,706	377,529,294
Less Accumulated Depreciation	(29,692,704)	(10,130,540)	265	(39,822,979)
Total Capital Assets, net	$ 337,244,894	$ 118,794,862	$ 118,333,441	$ 337,706,315

5. CAPITAL ASSETS – continued

Capital assets of the Authority consisted of the following as of September 30, 2018:

	September 30, 2017	Additions	Transfers / Retirements	September 30, 2018
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	126,177,043	12,321,548	-	138,498,591
Toll 49 Gantries and toll equipment	12,060,180	-	-	12,060,180
Office equipment and other	179,665	-	-	179,665
Trucks and Auto	53,154	1,165	-	54,319
Construction in progress	71,895,959	54,758,230	(14,499,818)	112,154,371
Total Capital Assets	314,356,473	67,080,943	(14,499,818)	366,937,598
Less Accumulated Depreciation	(23,315,023)	(6,377,681)	-	(29,692,704)
Total Capital Assets, net	$ 291,041,450	$60,703,262	$(14,499,818)	$ 337,244,894

Depreciation expense for the years ended September 30, 2019 and 2018 was $10,130,541 and $6,377,681, respectively.

<u>Capitalization of Interest</u>

The Authority incurred interest costs totaling $7,691,525 during the year ended September 30, 2019. In addition, interest incurred during the construction period relating to the construction of property, plant, and equipment totaled $4,244,802. The Authority early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* As a result, no interest costs were capitalized during the year ended September 30, 2019.

6. ACCOUNTS PAYABLE

Accounts payable consisted of the following at September 30, 2019 and 2018:

	September 30, 2019	September 30, 2018
Accounts payable – construction	$ 1,079,191	$ 4,828,984
Accounts payable – operations	124,295	401,049
Accounts payable – other	137,997	90,675
Total	$ 1,341,483	$ 5,320,708

7. BONDS PAYABLE

The following summarizes long-term debt activity of the Authority for the years ended September 30, 2019 and 2018:

	September 30, 2018	Additions/ Amortization	Reductions	September 30, 2019
Long-term liabilities:				
Bonds - Senior lien	$ 124,735,000	$ -	$ -	$ 124,735,000
Bonds - Subordinate lien	56,615,000	-	-	56,615,000
Subtotal	181,350,000	-	-	181,350,000
Bond premium payable:				
Bond premiums	28,956,440	-	-	28,956,440
Bond premiums amortization	(3,152,380)	(1,375,975)	-	(4,528,355)
Subtotal	25,804,060	(1,375,975)	-	24,428,085
Total long-term liabilities	$ 207,154,060	$(1,375,975)	$ -	$ 205,778,085
Current year interest payable:				
Bond accrued interest	$ 2,266,875	$ 9,067,500	$(9,067,500)	$ 2,266,875

	September 30, 2017	Additions/ Amortization	Reductions	September 30, 2018
Long-term liabilities:				
Bonds - Senior lien	$ 124,735,000	$ -	$ -	$ 124,735,000
Bonds - Subordinate lien	56,615,000	-	-	56,615,000
Subtotal	181,350,000	-	-	181,350,000
Bond premium payable:				
Bond premiums	28,956,440	-	-	28,956,440
Bond premiums amortization	(1,776,404)	(1,375,976)	-	(3,152,380)
Subtotal	27,180,036	(1,375,976)	-	25,804,060
Total long-term liabilities	$ 208,530,036	$(1,375,976)	$ -	$ 207,154,060
Current year interest payable:				
Bond accrued interest	$ 2,266,875	$ 9,067,501	$(9,067,501)	$ 2,266,875

7. BONDS PAYABLE – continued

Additions to long-term liabilities

	September 30, 2019	September 30, 2018
Interest expense	$ 7,691,525	$ 3,446,722
Capitalized interest	-	4,244,803
Bond premium amortization	1,375,975	1,375,976
Additions to long-term liabilities	$ 9,067,500	$ 9,067,501

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 pay 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 accrue 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 was $1,559,188 as of both years ended September 30, 2019 and 2018.

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 accrue 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 was $707,688 as of both years ended September 30, 2019 and 2018.

7. BONDS PAYABLE – continued

Senior and Subordinate Lien Revenue Bonds - continued:

Subordinate Lien Revenue Bonds - continued:

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, 2019 are as follows:

Fiscal Year Ended September 30	Principal	Interest	Total Amount
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	1,655,000	8,865,125	10,520,125
2024	2,375,000	8,764,375	11,139,375
2025-2029	18,090,000	41,511,500	59,601,500
2030-2034	29,430,000	35,608,750	65,038,750
2035-2039	43,765,000	26,415,375	70,180,375
2040-2044	56,200,000	13,953,000	70,153,000
2045-2046	26,615,000	20,622,125	47,237,125
Total obligations	$181,350,000	$182,697,250	$364,047,250

8. INTERLOCAL AGREEMENTS

CTRMA Interlocal Agreement

On September 30, 2019, the Authority entered into an agreement with the Central Texas Regional Mobility Authority (CTRMA). Under the agreement, the Authority and CTRMA jointly evaluated and selected a vendor, Cofiroute USA, LLC (Cofiroute), for pay by mail processing, violations processing, collections and customer services.

Cofiroute will perform the review of license plates to ensure accuracy of images associated with pay by mail processing and collection efforts. In addition, CTRMA entered into an agreement with Kapsch TraffiCom USA, Inc. (Kapsch) to perform image reviews. Image reviews performed for CTRMA under the Kapsch agreement will also be performed for the Authority.

The contract provides that Cofiroute shall be entitled to retain a portion of the tolls and fees as full compensation for the services provided under the contract. Cofiroute will remit the tolls and fees collected for the Authority, net of the compensation owed to Cofiroute, to the Authority on a weekly basis.

8. INTERLOCAL AGREEMENTS - continued

CTRMA Interlocal Agreement - continued

The agreement between CTRMA and the Authority is effective until March 8, 2023.

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. These funds were refunded to Rusk County in 2018 and the interlocal agreement was terminated.

Other Interlocal Agreements

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 May 8, 2018, the Authority approved $350,000 to Bowie and $150,000 to Harrison counties also to be made available for selected projects. On May 14, 2019, the Authority approved program grant funds in the amount of $600,000 to be made available to selected projects in Titus and Upshur counties. All the grant funds are awarded on a reimbursement basis. During fiscal year 2019, $308,021 of the grant funds were expended for projects awarded in prior years.

9. TOLL REVENUES AND RELATED COSTS

Electronic and video revenues and related costs are detailed below for the years ended September 30, 2019 and 2018:

	September 30, 2019	September 30, 2018
Toll revenues – electronic	$ 12,222,330	$ 9,110,954
Less: electronic processing costs	(848,172)	(639,429)
Toll revenues – electronic, net	$ 11,374,158	$ 8,471,525
Toll revenues – video	$ 4,675,143	$ 2,933,613
Video violation fees	2,870,676	917,066
Less: video processing costs	(2,621,303)	(251,678)
Toll revenues and fees – video, net	$ 4,924,516	$ 3,599,001

9. TOLL REVENUES AND RELATED COSTS - continued

For the year ended September 30, 2019, video toll revenue and violation fees were recorded internally at their gross amounts in order to provide more useful information to management and the Board of Directors. Likewise, video processing fees were also recorded internally at their gross amounts. The net video toll revenue and fees of $4,924,516 presented in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended September 30, 2019, reflect the net portion of revenue after the provider's retention of their share of the video tolls and fees. Please see Note 8 for more information on the agreement with video toll collection provider. The gross video toll revenue, violation fees, and related processing costs for the year ended September 30, 2018 were not readily available by the former toll collection provider, however; the video toll revenue and fees of $3,599,001 for the year ended September 30, 2018, are presented at their net amounts in the Statement of Revenues, Expenses, and Changes in Net Position.

10. LEASES

The Authority entered into an operating lease during the fiscal year ended September 30, 2017 for a 3,702 square foot office space located at the Woodgate Centre in Tyler, Texas. Total cost for this operating lease was $61,083 for the year ended September 30, 2019. Future minimum lease payments under a non-cancelable operating lease are as follows:

For the year ended September 30,	Amount
2020	61,777
2021	62,009
2022	15,502
Total	$139,288

11. PENSION PLAN

Plan description: The Authority participates in the Texas County and District Retirement System (TCDRS). TCDRS is a statewide, agent multiple-employer, public employee retirement system. TCDRS is a nonprofit public trust providing pension, disability and death benefits for the eligible employees of participating counties and districts. TCDRS was established by legislative act in 1967 under authority of Article XVI of the Texas Constitution. The TCDRS Act (Subtitle F, Title 8, Texas Government Code) is the basis for TCDRS administration. TCDRS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That annual report may be downloaded at http://www.tcdrs.com.

11. PENSION PLAN - continued

Benefits provided: The Authority provides retirement, disability and death benefits for all its full and part-time non-temporary employees, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. TCDRS is a savings-based plan. For the Authority's plan, 6% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 200%) and is then converted to an annuity. Benefit terms are established under the TCDRS Act. They may be amended as of January 1 each year but must remain in conformity with the Act. Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more.

Plan membership: The following employees were covered by the benefit terms as of the valuation date December 31:

	2018	2017
Inactive employees entitled to, but not yet receiving benefits	1	-
Active employees	7	6
Total	8	6

Contributions: The Authority has elected the annually determined contribution rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Authority based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the Authority is actuarially determined annually. The Authority contributed using the actuarially rate of 9.02% for the months of the accounting year 2019 and 9.62% for the months of the accounting year 2018. The Authority's contributions to the plan were $60,592 and $48,634 for the year ended September 30, 2019 and 2018, respectively.

Net pension asset: The Authority's net pension asset was measured as of December 31, 2018 and 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Actuarial assumptions: The actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013, through December 31, 2016, except where required to be different by GASB Statement No. 68.

11. PENSION PLAN - continued

The total pension liability in the December 31, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
Inflation	2.75%	2.75%
Salary increases (including inflation plus average merit of 1/6% and productivity of 0.5% for 2018 and 2017)	4.85%	4.85%
Investment rate of return	8.00%	8.10%

Mortality rates were based on the following:

Depositing members: For the December 31, 2018 and 2017 valuation, 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.

Service retirees, beneficiaries and non-depositing members: For the December 31, 2018 valuation, 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

For the December 31, 2017 valuation, 110% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Disabled retirees: For the December 31, 2018 and 2017 valuations, 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Long-term rate of return on assets: The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

The capital market assumptions and information shown below are provided by TCDRS' investment consultant based on the December 31, 2018 information for a seven to ten-year time horizon.

11. PENSION PLAN - continued

Asset Class	Benchmark	Target Allocation(1)	Geometric Real Rate of Return (Expected Minus Inflation) (2)
United States Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity and Venture Capital Index(3)	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	5.40%
International Equities - Emerging	MSCI EM Standard (net) index	7.00%	5.90%
Investment - Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Index(4)	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index plus 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index(5)	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. Fund of Funds Composite Index	13.00%	3.90%

The capital market assumptions and information shown below are provided by TCDRS' investment consultant based on the December 31, 2017 information for a seven to ten-year time horizon.

Asset Class	Benchmark	Target Allocation(1)	Geometric Real Rate of Return (Expected Minus Inflation) (2)
United States Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity and Venture Capital Index(3)	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities - Developed	MSCI World Ex USA (net)	11.00%	4.55%
International Equities - Emerging	MSCI EM Standard (net) index	8.00%	5.55%
Investment - Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Index(4)	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index plus 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index(5)	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. Fund of Funds Composite Index	18.00%	4.10%

11. PENSION PLAN – continued

(1) Target asset allocation adopted at the April 2019 and 2018 TCDRS Board meetings.

(2) Geometric real rates of return in addition to assumed inflation of 1.7% and 1.95%, respectively, per investment consultant's 2019 and 2018 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount rate: The discount rate used to measure the total pension liability was 8.10% for both December 31, 2018 and 2017. In order to determine the discount rate to be used by the employer, the TCDRS used an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

(1) TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability shall be amortized as a level percent of pay over 20-year closed layered periods.
(2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.

(3) The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
(4) Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Changes in net pension liability (asset): Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the Authority is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB Statement No. 68 purposes. Therefore, the system has used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.1% to be gross of administrative expenses.

11. PENSION PLAN – continued

Changes in Net Pension Liability (Asset) 2018

	Total Pension Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2017	$ 134,796	$ 141,610	$ (6,813)
Changes for the year:			
Service cost	78,796	-	78,796
Interest on total pension liability (1)	17,301	-	17,301
Effect of plan changes (2)	-	-	-
Effect of economic/demographic (gains) or losses	(18,531)	-	(18,531)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	(181)	181
Member contributions	-	33,327	(33,327)
Net investment income	-	(1,715)	1,715
Employer contributions	-	49,291	(49,291)
Other (3)	-	2,476	(2,476)
Balances as of December 31, 2018	$ 212,363	$ 224,807	$ (12,445)

Changes in Net Pension Liability (Asset) 2017

	Total Pension Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2016	$ 55,024	$ 55,720	$ (696)
Changes for the year:			
Service cost	51,054	-	51,054
Interest on total pension liability (1)	8,592	-	8,592
Effect of plan changes (2)	-	-	-
Effect of economic/demographic (gains) or losses	19,377	-	19,377
Effect of assumptions changes or inputs	749	-	749
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	(94)	94
Member contributions	-	29,060	(29,060)
Net investment income	-	9,350	(9,350)
Employer contributions	-	46,562	(46,562)
Other (3)	-	1,013	(1,013)
Balances as of December 31, 2017	$ 134,796	$ 141,610	$ (6,813)

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) No plan changes valued.

(3) Relates to allocation of system-wide items.

11. PENSION PLAN – continued

Sensitivity analysis: The following presents the net pension asset/liability of the Authority, calculated using the discount rate of 8.10%, as well as what the net pension asset/liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	2018		
	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	$ 245,494	$ 212,363	$ 184,568
Fiduciary net position	224,807	224,807	224,807
Net pension liability/(asset)	$ 20,687	$ (12,445)	$ (40,239)

	2017		
	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	$ 157,306	$ 134,796	$ 115,931
Fiduciary net position	141,610	141,610	141,610
Net pension liability/(asset)	$ 15,696	$ (6,813)	$ (25,679)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separate issued TCDRS financial report.

Pension expense and deferred inflows of resources and deferred outflows of resources related to pensions: For the year ended September 30, 2019 and 2018, the Authority recognized pension expense of $49,609 and $24,204, respectively. At September 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	September 30, 2019		September 30, 2018	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 17,106	$ 26,308	$ -	$ 28,200
Changes of assumptions	-	970	-	1,048
Net difference between projected and actual earnings	1,078	14,041	1,437	1,274
Contributions made subsequent to measurement date	-	46,754	-	35,453
	$ 18,184	$ 88,073	$ 1,437	$ 65,975

11. PENSION PLAN – continued

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended December 31		
2019	$	3,977
2020		3,814
2021		3,497
2022		3,855
2023		545
Thereafter		7,447
	$	23,135

12. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2019, 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. In addition, the Authority is involved in a lawsuit with a former employee. The case is ongoing, and a reasonable determination of the outcome cannot be made. A settlement, if any, is not expected to be material to the financial statements.

13. PRIOR PERIOD ADJUSTMENT

The Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as Statement No. 71 *Pension Transition for Contributions made subsequent to the measurement date*. These standards significantly change the Authority's accounting for pension amounts. As a result of this change in accounting principle, the Authority was required to record a prior period adjustment and the financial information presented for fiscal year ended September 30, 2018 was restated to reflect these adjustments. The prior period adjustment resulted in an increase to the Authority's beginning net position for 2018 of $71,351; an increase to the beginning deferred outflows for 2018 of $65,975; an increase to the beginning deferred inflows for 2018 of $1,437, and an increase to the beginning net pension asset for 2018 of $6,813.

A prior period adjustment was also recorded to reflect the recording of the Authority's compensated absences liability as of September 30, 2018. This prior period adjustment resulted in a decrease to beginning net position for 2018 of $28,431 and an increase to beginning compensated absences payable for 2018 of $28,431.

14. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 3, 2020, which is the date the financial statements were made available to management.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Measurement Year 2018	Measurement Year 2017	Measurement Year 2016	Measurement Year 2015
Total Pension Liability				
Service cost	$ 78,796	$ 51,054	$ 24,580	$ 16,561
Interest on total pension liability	17,301	8,592	2,372	635
Effect of plan changes	-	-	-	(1,002)
Effect of assumption changes or inputs	-	749	-	440
Effect of economic/demographic (gains) or losses	(18,531)	19,377	10,839	600
Benefits payments /refunds of contributions	-	-	-	-
Net change in total pension liability	77,566	79,772	37,791	17,233
Total pension liability, beginning	134,796	55,024	17,233	-
Total pension liability, ending (a)	$ 212,363	$ 134,796	$ 55,024	$ 17,233
Fiduciary Net Position				
Employer contributions	$ 49,291	$ 46,562	$ 22,661	$ 10,275
Member contributions	33,327	29,060	14,123	6,489
Investment income net of investment expenses	(1,715)	9,350	1,268	(142)
Benefit payments/refunds of contributions	-	-	-	-
Administrative expenses	(181)	(94)	(14)	(6)
Other	2,476	1,013	1,068	(1)
Net change in fiduciary net position	83,198	85,890	39,106	16,615
Fiduciary net position, beginning	141,610	55,720	16,615	-
Fiduciary net position, ending (b)	$ 224,807	$ 141,610	$ 55,720	$ 16,615
Net pension liability/(asset), ending = (a) - (b)	$ (12,445)	$ (6,813)	$ (696)	$ 619
Fiduciary net position as a % of total pension liability	105.86%	105.05%	101.26%	96.41%
Pensionable covered payroll	$ 555,454	$ 484,326	$ 235,380	$ 144,206
Net pension liability as a % of covered payroll	-2.24%	-1.41%	-0.30%	0.43%

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

See accompanying notes to the financial statements

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	$ 10,275	$ 10,275	$ -	$ 108,154	9.50%
2016	22,361	22,661	(300)	235,380	9.60%
2017	46,562	46,562	-	484,326	9.60%
2018	49,291	49,291	-	555,454	8.90%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	18.6 years (based on contribution rate calculated in 12/31/2018 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%, net of administrative and investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumted to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule.

See accompanying notes to the financial statements

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the North East Texas Regional Mobility Authority (Authority), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 3, 2020.

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, WILHELMI AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

6855 OAK HILL BLVD • TYLER, TEXAS 75703 • TEL 903 534 8811 • FAX 903 534 8891 • WWW.PW-TX.COM

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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.

Prothro, Wilhelmi & Company, PLLC
PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
March 3, 2020