# NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY

## FINANCIAL STATEMENTS

## WITH AUDITORS' REPORT THEREON

## SEPTEMBER 30, 2020 AND 2019

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**
**FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2020 AND 2019**

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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 (the Authority), as of and for the years ended September 30, 2020 and 2019, 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, 2020 and 2019, 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 31), and Schedule of Employer Contributions (page 32) 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 January 27, 2021, 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.

Prothro, Wilhelmi & Company, PLLC

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
January 27, 2021

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The North East Texas Regional Mobility Authority (the Authority) presents the following discussion and analysis of the Authority's financial activities during the fiscal years that ended September 30, 2020 and 2019. This section is intended to be read in conjunction with the Authority's financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

- Property, toll roads and equipment were $377,299,099 and $374,936,061 as of September 30, 2020 and 2019, respectively. Property, toll roads and equipment increased $2,363,038 from 2019 to 2020 due to the completion of road improvement projects as well as other capital additions in 2020.

- Construction in progress was $3,384,579 and $2,593,233 as of September 30, 2020 and 2019, respectively. Construction in progress increased $791,346 from 2019 to 2020 due to continued work on the Segment 6 project and various erosion control projects as well as work on a Toll 49 widening study.

- Long-term liabilities decreased $1,864,296 from 2019 to 2020 due to 1) the reclass of the current portion of Revenue Bonds due within a year to the current liabilities section; 2) the amortization of premiums related to the Revenue Bonds and 3) the $1,400,000 principal payment on the Subordinate Lien Bonds.

- Toll revenues (net of expenses) increased $1,399,810 from 2019 to 2020. The majority of the increase is due to the continued ramp up of Segment 4; the collection of old toll and fee receivable balances by the debt collection agency and slightly better collections of pay by mail revenue.

- Total operating expenses were $14,840,510 and $17,192,042 in 2020 and 2019, respectively. The majority of the decrease was related to bad debt expense recorded in 2019 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 of 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, 2020 and 2019. 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 of 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 as 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 $170,617,431 and $175,002,045 as of September 30, 2020 and 2019, respectively.

## Net Position

| | 2020 | 2019 |
|---|---|---|
| Current assets | $ 46,689,752 | $ 46,787,971 |
| Noncurrent assets | 330,312,909 | 337,718,760 |
| Total assets | $ 377,002,661 | $ 384,506,731 |
| Deferred outflows of resources | 87,462 | 88,073 |
| Total assets and deferred outflows of resources | $ 377,090,123 | $ 384,594,804 |
| Current liabilities | $ 3,912,064 | $ 5,186,509 |
| Long-term liabilities | 202,523,770 | 204,388,066 |
| Total liabilities | 206,435,834 | 209,574,575 |
| Deferred inflows of resources | 36,858 | 18,184 |
| Total liabilities and deferred inflows of resources | $ 206,472,692 | $ 209,592,759 |
| Net position | | |
| Invested in capital assets | $ 124,382,728 | $ 128,582,164 |
| Restricted | 45,633,334 | 45,625,218 |
| Unrestricted | 601,369 | 794,663 |
| Total net position | $ 170,617,431 | $ 175,002,045 |
| Total liabilities, deferred inflows of resources and net position | $ 377,090,123 | $ 384,594,804 |

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, $45,633,334 represents resources that are subject to external restrictions on how they may be used. The remaining balance of $601,369 is unrestricted and may be used to meet the Authority's ongoing obligations.

**Changes in net position:** The Authority's operating revenues increased $1,362,740 from 2019 to 2020 as a result of the continued ramp up of Segment 4 of Toll 49, the collection of old toll and fee receivable balances by the debt collection agency and slightly improved pay by mail revenue collections. The average monthly tolling transactions decreased from 37,446 in fiscal year 2019 to 35,075 in fiscal year 2020, due to COVID-19 restrictions.

Total operating expenses decreased $2,351,532 from fiscal year 2019 to fiscal year 2020. The decrease is a result of a bad debt expense recorded to adjust the allowance accounts related to uncollected toll and fee revenue in fiscal year 2019.

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

**Changes in Net Position**

| | 2020 | 2019 |
|---|---|---|
| Revenues: | | |
| Toll revenues – electronic, net | $ 11,306,977 | $ 11,374,158 |
| Toll revenues – video, net | 6,391,507 | 4,924,516 |
| Contributions – member counties | 40,000 | 36,000 |
| Other operating revenue | - | 41,070 |
| Total operating revenues | 17,738,484 | 16,375,744 |
| Expenses: | | |
| General expenses | 1,565,635 | 1,387,027 |
| Toll operating expenses | 13,274,875 | 15,805,015 |
| Total expenses | 14,840,510 | 17,192,042 |
| Nonoperating revenues (expenses) | (7,282,588) | (6,997,239) |
| Change in net position | (4,384,614) | (7,813,537) |
| Net position, beginning of year | 175,002,045 | 182,815,582 |
| Net position, end of year | $ 170,617,431 | $ 175,002,045 |

**Capital Assets and Long-Term Debt**
The Authority's capital assets, net of accumulated depreciation, decreased by $7,443,696, which is primarily due to the recording of depreciation expense on the Authority's capital assets, thereby increasing accumulated depreciation.

**Capital Assets**

| | 2020 | 2019 |
|---|---|---|
| Property, toll roads, and equipment, net | $ 377,299,099 | $ 374,936,061 |
| Construction in progress | 3,384,579 | 2,593,233 |
| Accumulated depreciation | (50,421,059) | (39,822,979) |
| Total capital assets, net | $ 330,262,619 | $ 337,706,315 |

**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 January 1, 2017. Accrued interest payable on the Senior Lien Bond at September 30, 2020 and 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 January 1, 2017. Accrued interest payable on the Subordinate Lien Bond at September 30, 2020 and 2019 was $690,187 and $707,688, respectively.

4. The initial principal payment was paid January 1, 2020. The next principal payment is due January 1, 2021.

As of September 30, 2020 and 2019, the Authority had the following long-term debt:

**Long-Term Debt**

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Long-term liabilities: | | |
| Revenue bonds payable | $ 202,510,335 | $ 204,378,085 |
| Compensated absences | 13,435 | 9,981 |
| Total long-term liabilities | $ 202,523,770 | $ 204,388,066 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The COVID-19 pandemic and economic disruption resulting from measures to contain it have resulted in a shortfall in the Authority's fiscal year 2020 actual revenue compared to budgeted revenue. The operating revenue estimate for fiscal year 2021 of $20,953,900 is an approximately 3% decrease over the fiscal year 2020 budget. Operating expenses estimate for fiscal year 2021 of $8,475,063 is an approximately .02% increase over the fiscal year 2020 budget. The ultimate impact of the COVID-19 pandemic on the amount and timing of future collections of the Authority's revenue cannot be determined at this time. No assurance can be provided that the COVID-19 pandemic and resulting economic disruption will not result in revenues to the Authority that are lower than projected.

## 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, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 373,820 | $ 375,485 |
| Due from other agencies, net | 4,331,417 | 3,956,010 |
| Other assets | 165,503 | 372,561 |
| Restricted assets: | | |
| Cash and cash equivalents | 41,819,012 | 42,083,915 |
| Total current assets | 46,689,752 | 46,787,971 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Property, toll roads, and equipment | 377,299,099 | 374,936,061 |
| Construction in progress | 3,384,579 | 2,593,233 |
| Accumulated depreciation | (50,421,059) | (39,822,979) |
| Net capital assets | 330,262,619 | 337,706,315 |
| Pension asset | 50,290 | 12,445 |
| Total noncurrent assets | 330,312,909 | 337,718,760 |
| Total assets | 377,002,661 | 384,506,731 |
| Deferred outflows of resources related to pension | 87,462 | 88,073 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | $ 377,090,123 | $ 384,594,804 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,053,153 | $ 1,341,483 |
| Accrued expenses | 84,123 | 152,415 |
| Accrued interest payable | 2,249,375 | 2,266,875 |
| Compensated absences, current portion | 25,413 | 25,736 |
| Bonds payable, current portion | 500,000 | 1,400,000 |
| Total current liabilities | 3,912,064 | 5,186,509 |
| Long-term liabilities: | | |
| Compensated absences, net of current portion | 13,435 | 9,981 |
| Bonds payable, net of current portion | 202,510,335 | 204,378,085 |
| Total long-term liabilities | 202,523,770 | 204,388,066 |
| Total liabilities | 206,435,834 | 209,574,575 |
| Deferred inflows of resources related to pension | 36,858 | 18,184 |
| **TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** | 206,472,692 | 209,592,759 |
| **NET POSITION** | | |
| Net investment in capital assets | 124,382,728 | 128,582,164 |
| Restricted | 45,633,334 | 45,625,218 |
| Unrestricted | 601,369 | 794,663 |
| Total net position | 170,617,431 | 175,002,045 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION** | $ 377,090,123 | $ 384,594,804 |

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, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Toll revenues - electronic, net | $ 11,306,977 | $ 11,374,158 |
| Toll revenues and fees - video, net | 6,391,507 | 4,924,516 |
| Contributions - member counties | 40,000 | 36,000 |
| Other operating revenue | - | 41,070 |
| Total operating revenues | 17,738,484 | 16,375,744 |
| **GENERAL EXPENSES** | | |
| Administrative | 269,128 | 213,667 |
| Salaries, benefits and payroll taxes | 1,017,991 | 852,096 |
| Legal and professional | 278,516 | 321,264 |
| Total general expenses | 1,565,635 | 1,387,027 |
| **TOLL OPERATING EXPENSES** | | |
| Depreciation expense | 10,605,166 | 10,130,540 |
| General engineering consultants | 164,284 | 271,254 |
| Project director | 105,717 | 81,573 |
| Roadway maintenance | 1,071,893 | 1,154,969 |
| Toll equipment maintenance | 318,000 | 329,062 |
| Transmission line charges | 99,751 | 93,653 |
| Legal fees | 205,210 | 199,924 |
| Toll operating system support | 167,255 | 179,974 |
| Utilities | 25,560 | 31,166 |
| Insurance | 72,486 | 64,411 |
| Marketing and advertising | 310,429 | 173,372 |
| Bad debt expense | - | 2,981,628 |
| Traffic and revenue study | 102,941 | 67,236 |
| Other operating expenses | 26,183 | 46,253 |
| Total toll operating expenses | 13,274,875 | 15,805,015 |
| Total expenses | 14,840,510 | 17,192,042 |
| Operating income | $ 2,897,974 | $ (816,298) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Interest income | 294,583 | 868,340 |
| Income on investments (net of fees) | (7,083) | 110,849 |
| Interest expense (net of capitalized interest) | (7,647,251) | (7,691,525) |
| Priority projects | - | (308,021) |
| Insurance proceeds | 102,172 | - |
| Loss on truck disposal | (28,580) | - |
| Other income (loss) | 3,571 | 23,118 |
| Total nonoperating revenues (expenses) | (7,282,588) | (6,997,239) |
| Change in net position | (4,384,614) | (7,813,537) |
| **NET POSITION,** beginning of year | 175,002,045 | 182,815,582 |
| **NET POSITION,** end of year | $ 170,617,431 | $ 175,002,045 |

See accompanying notes to the financial statements.

# NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Receipts from toll revenues | $ 17,551,364 | $ 16,154,789 |
| Receipts from member counties | 36,000 | 36,000 |
| Receipts from other revenue sources | 67,120 | 99,048 |
| Payments to employees | (969,947) | (794,365) |
| Payments to vendors | (3,633,617) | (4,042,938) |
| Net cash flows provided by (used in) operating activities | 13,050,920 | 11,452,534 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | |
| Purchase of capital assets | (3,627,362) | (14,301,466) |
| Payments on grants | - | (308,021) |
| Payments on principal | (1,400,000) | - |
| Payments on interest | (9,032,500) | (9,067,500) |
| Proceeds from insurance | 385,258 | - |
| Net cash provided by (used in) capital and related financing activities | (13,674,604) | (23,676,987) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Sale (purchase) of investments (net) | - | 15,468,179 |
| Income on investments (net of fees) | - | 110,849 |
| Interest earned | 357,116 | 868,340 |
| Net cash flows provided by (used in) investing activities | 357,116 | 16,447,368 |
| Net increase (decrease) in cash and cash equivalents | (266,568) | 4,222,915 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 42,459,400 | 38,236,485 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 42,192,832 | $ 42,459,400 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | |
| Operating income | $ 2,897,974 | $ (816,298) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 10,605,166 | 10,130,540 |
| Change in assets and liabilities: | | |
| (Increase) decrease in due from other agencies | (375,408) | 2,549,865 |
| (Increase) decrease in other assets | (138,559) | (34,611) |
| (Increase) decrease in net pension asset | (37,845) | (5,632) |
| (Increase) decrease in deferred outflows of resources | 611 | (22,098) |
| Increase (decrease) in accounts payable | 145,467 | (525,679) |
| Increase (decrease) in accrued expenses | (68,291) | 152,414 |
| Increase in compensated absences payable | 3,131 | 7,286 |
| Increase in deferred inflows of resources | 18,674 | 16,747 |
| Net cash flows provided by (used in) operating activities | $ 13,050,920 | $ 11,452,534 |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS:** | | |
| Unrestricted cash and cash equivalents | $ 373,820 | $ 375,485 |
| Restricted cash and cash equivalents | 41,819,012 | 42,083,915 |
| Total | $ 42,192,832 | $ 42,459,400 |

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 (the 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, 2020, the member counties included: Bowie, Cherokee, Gregg, Harrison, Kaufman, Panola, Rusk, Smith, Titus, Upshur, Wood and Van Zandt. During the year ended September 30, 2020, Camp and Cass were added as member counties.

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, 2020 and 2019. 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
Improvements – 30 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 2020 or 2019.

### 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. As a condition of employment and as reflected in the employment agreement, the Executive Director accrues 240 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 $38,848 and $35,717 as of September 30, 2020 and 2019, 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES - continued

**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. The most significant reclassification made was presenting restricted cash as a component of restricted net position rather than net investment in capital assets for the years ending September 30, 2020 and 2019, respectively. See Note 2 for the detail of restricted cash and restricted net position for years ending 2020 and 2019.

**Issued but not yet effective pronouncements**

GASB Statement No. 92, *Omnibus 2020*, is to improve the consistency of authoritative literature and enhance the comparability in the application of accounting and financial reporting requirements. The requirements of the statement are effective for the period beginning after June 15, 2021; however, early implementation is encouraged. Management of the Authority is currently evaluating the requirements of this pronouncement but expects the adoption may have an impact on a few select financial statement note disclosures.

## 2. CASH

Cash is reflected on the statement of net position at September 30, 2020 and 2019 as follows:

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 373,820 | $ 375,485 |
| Restricted cash and cash equivalents | 41,819,012 | 42,083,915 |
| Total | $ 42,192,832 | $ 42,459,400 |

**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, 2020 and 2019.

**2. CASH - continued**

**Interest Rate Risk - Deposits**

Interest rate risk is the risk that earnings on interest bearing deposits will fall due to changes in general interest rates. The Authority holds restricted cash related to loan covenants of the Senior and Subordinate lien revenue bonds in interest bearing accounts with Amegy Bank.

**3. RESTRICTED ASSETS**

Restricted assets of the Authority consist primarily of cash and cash equivalents, toll receivables and payables from restricted accounts at September 30, 2020 and 2019 are as follows:

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Cash: | | |
| Bond debt service accounts | $ 18,899,240 | $ 19,410,736 |
| Construction fund | 6,023,888 | 12,929,993 |
| Revenue fund | 352,627 | 361,600 |
| Operating and maintenance fund | 585,556 | 2,511,055 |
| Renewal and replacement fund | 3,557,875 | 3,791,430 |
| General fund | 12,399,826 | 3,079,101 |
| Total restricted cash | 41,819,012 | 42,083,915 |
| Other restrictions: | | |
| Restricted receivables | 4,331,417 | 3,956,010 |
| Amounts payable out of restricted assets | (517,095) | (414,707) |
| Total other restrictions | 3,814,322 | 3,541,303 |
| Restricted net position | $ 45,633,334 | $ 45,625,218 |

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 toll roads; 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.

**3. RESTRICTED ASSETS – continued**

The Authority has an operating reserve policy that requires twelve-months of budgeted operating and maintenance expenditures be set aside. The reserve funds are held in the Authority's restricted general and operating & maintenance funds. The reserve requirement at September 30, 2020 was 100% of budgeted operating and maintenance expenses and totaled $5,609,214. The restricted general and operating & maintenance funds totaled $12,985,382 leaving a surplus of $7,376,168 at September 30, 2020. The reserve requirement at September 30, 2019 was 50% of budgeted operating and maintenance expenses and totaled $2,804,607. The restricted general and operating & maintenance funds totaled $5,590,156 leaving a surplus of $2,785,549 at September 30, 2019.

**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 violation fees from Toll 49.

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. As a result, bad debt expense of $2,981,628 was reflected in the statement of revenues, expenses and change in net position for the year ended September 30, 2019. At September 30, 2020, the debt collection agency estimated only 2% of the remaining transferred outstanding video tolls and violation fees would be collected in the future leaving a net receivable balance of $79,492 for video tolls and $3,961 for violation fees.

The remaining video tolls and violation fees due from other agencies amounts are all managed by toll collection provider, Cofiroute. The allowance for uncollectible video tolls and fees is estimated based upon historical placement of tolls and subsequent collection rates. Adjustments to accurately reflect video tolls and fees receivable as well as the related allowance accounts resulted in increases to video toll revenue of $146,180 and violation fees of $331,373, respectively.

| | **September 30, 2020** | **September 30, 2019** |
|---|---|---|
| Tolls receivable - electronic | $ 1,026,242 | $ 1,128,388 |
| Tolls receivable - video and fees | 16,962,307 | 11,024,490 |
| Allowance for uncollectible video tolls and fees | (13,657,132) | (8,196,868) |
| | 3,305,175 | 2,827,622 |
| Due From Other Agencies | $ 4,331,417 | $ 3,956,010 |

## 5. CAPITAL ASSETS

Capital assets of the Authority consisted of the following as of September 30, 2020:

| | September 30, 2019 | Additions | Transfers / Retirements | September 30, 2020 |
|---|---|---|---|---|
| Property, Toll Roads, and Equipment: | | | | |
| Toll 49 Right of Way | $ 47,904,404 | $ - | $ - | $ 47,904,404 |
| Toll 49 Bridges | 84,286,695 | - | - | 84,286,695 |
| Toll 49 Highway | 226,007,377 | 1,605,269 | - | 227,612,646 |
| Toll 49 Gantries and toll equipment | 16,320,180 | 81,303 | - | 16,401,483 |
| Toll 49 Improvements | - | 453,539 | | 453,539 |
| Office equipment and other | 327,418 | 175,656 | - | 503,074 |
| Trucks and Auto | 89,985 | 82,937 | 35,666 | 137,256 |
| Construction in progress | 2,593,235 | 2,704,909 | 1,913,563 | 3,384,581 |
| Total Capital Assets | 377,529,294 | 5,103,613 | 1,949,229 | 380,683,678 |
| Less Accumulated Depreciation | (39,822,979) | (10,605,166) | 7,086 | (50,421,059) |
| Total Capital Assets, net | $ 337,706,315 | $ (5,501,553) | $ 1,956,315 | $ 330,262,619 |

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 |

Depreciation expense for the years ended September 30, 2020 and 2019 was $10,605,166 and $10,130,540 respectively.

## 5. CAPITAL ASSETS – continued

**Capitalization of Interest**

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 years ended September 30, 2020 and 2019, respectively.

## 6. ACCOUNTS PAYABLE

Accounts payable consisted of the following at September 30, 2020 and 2019:

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Accounts payable – construction | $ 620,181 | $ 1,079,191 |
| Accounts payable – operations | 286,110 | 124,295 |
| Accounts payable – other | 146,862 | 137,997 |
| Total | $ 1,053,153 | $ 1,341,483 |

## 7. BONDS PAYABLE

The following summarizes long-term debt activity of the Authority for the years ended September 30, 2020 and 2019:

| | September 30, 2019 | Additions/ Amortization | Reductions | September 30, 2020 |
|---|---|---|---|---|
| **Long-term debt:** | | | | |
| Bonds - Senior lien | $ 124,735,000 | $ - | $ - | $ 124,735,000 |
| Bonds - Subordinate lien | 56,615,000 | - | (1,400,000) | 55,215,000 |
| Subtotal | 181,350,000 | - | (1,400,000) | 179,950,000 |
| Bond premium payable: | | | | |
| Bond premiums | 28,956,440 | - | - | 28,956,440 |
| Bond premiums amortization | (4,528,355) | (1,367,750) | - | (5,896,105) |
| Subtotal | 24,428,085 | (1,367,750) | - | 23,060,335 |
| Total long-term debt | 205,778,085 | (1,367,750) | (1,400,000) | 203,010,335 |
| Less: Bonds payable, current portion | (1,400,000) | (500,000) | 1,400,000 | (500,000) |
| Bonds payable, net of current portion | $ 204,378,085 | $ (867,750) | $ - | $ 202,510,335 |
| Current year interest payable: | | | | |
| Bond accrued interest | $ 2,266,875 | $ 9,015,000 | $ (9,032,500) | $ 2,249,375 |

## 7. BONDS PAYABLE – continued

| | September 30, 2018 | Additions/ Amortization | Reductions | September 30, 2019 |
|---|---|---|---|---|
| **Long-term debt:** | | | | |
| 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 debt | 207,154,060 | (1,375,975) | - | 205,778,085 |
| Less: Bonds payable, current portion | - | (1,400,000) | - | (1,400,000) |
| Bonds payable, net of current portion | $ 207,154,060 | $ (2,775,975) | $ - | $ 204,378,085 |
| Current year interest payable: | | | | |
| Bond accrued interest | $ 2,266,875 | $ 9,067,500 | $ (9,067,500) | $ 2,266,875 |

**Additions to long-term liabilities**

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Interest expense | $ 7,647,250 | $ 7,691,525 |
| Bond premium amortization | 1,367,750 | 1,375,975 |
| Additions to long-term liabilities | $ 9,015,000 | $ 9,067,500 |

**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 January 1, 2017. Accrued interest payable on the Senior Lien Bond was $1,559,188 as of both years ended September 30, 2020 and 2019.

4. The initial principal payment is due January 1, 2022.

**7. BONDS PAYABLE – continued**

**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 January 1, 2017. Accrued interest payable on the Subordinate Lien Bond was $690,187 and $707,688 for years ended September 30, 2020 and 2019, respectively.

4. The initial principal payment was paid January 1, 2020. The next principal payment is due January 1, 2021.

Future payments of principal and interest on the Authority's Revenue Bonds as of September 30, 2020 are as follows:

| Fiscal Year Ended September 30 | Principal | Interest | Total Amount |
|---|---|---|---|
| 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 | 2,550,000 | 8,641,250 | 11,191,250 |
| 2026-2030 | 20,455,000 | 40,547,875 | 61,002,875 |
| 2031-2035 | 32,220,000 | 34,067,500 | 66,287,500 |
| 2036-2040 | 46,230,000 | 24,165,500 | 70,395,500 |
| 2041-2045 | 59,010,000 | 11,072,750 | 70,082,750 |
| 2046 | 13,635,000 | 340,875 | 13,975,875 |
| Total obligations | $179,950,000 | $154,389,750 | $334,339,750 |

## 8. INTERLOCAL AGREEMENTS

**CTRMA Interlocal Agreement**
On September 30, 2018, 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 TrafficCom 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.

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

**Cooperative Interlocal Agreement**
On January 14, 2020, the Authority entered into an agreement with the Local Government Purchasing Cooperative (Cooperative). Under the agreement, the Authority staff have identified participation in the Cooperative, also known as "BuyBoard," as a method to enhance efficiencies and costs in eligible procurements. The purpose of the interlocal participation agreement is to facilitate compliance with the state procurement requirements, to identify qualified vendors of commodities, goods, and services, to relieve the burdens of the governmental purchasing function, and to realize the various potential economies, including administrative cost savings, for members of the Cooperative. The agreement automatically renews for successive one-year terms unless terminated.

**Priority Projects**
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. On June 9, 2020, the Authority approved program grant funds in the amount of $635,000 to be made available to selected projects in Gregg, Rusk, and Wood 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. During fiscal year 2020, none of the available grant funds were expended.

## 9. TOLL REVENUES AND RELATED COSTS

Electronic and video revenues and related costs are detailed below for the years ended September 30, 2020 and 2019:

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Toll revenues – electronic | $ 12,124,470 | $ 12,222,330 |
| Less: electronic processing costs | (817,493) | (848,172) |
| Toll revenues – electronic, net | $ 11,306,977 | $ 11,374,158 |
| Toll revenues – video | $ 5,015,135 | $ 4,675,143 |
| Video violation fees | 3,956,348 | 2,870,676 |
| Less: video processing costs | (2,579,976) | (2,621,303) |
| Toll revenues and fees – video, net | $ 6,391,507 | $ 4,924,516 |

For the years ended September 30, 2020 and 2019, video toll revenue and violation fees were recorded internally at their gross amounts 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 $6,391,507 and $4,924,516 presented in the Statement of Revenues, Expenses, and Changes in Net Position for the years ended September 30, 2020 and 2019, respectively, 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.

## 10. LEASES

The Authority entered 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 $61,777 and $61,083 for the years ended September 30, 2020 and 2019. Future minimum lease payments under a non-cancelable operating lease are as follows:

| For the year ended September 30, | Amount |
|---|---|
| 2021 | 62,009 |
| 2022 | 15,502 |
| Total | $ 77,511 |

## 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.

**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:

| | 2019 | 2018 |
|---|---|---|
| Inactive employees entitled to, but not yet receiving benefits | 1 | 1 |
| Active employees | 8 | 7 |
| Total | 9 | 8 |

**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 8.58% for the months of the accounting year 2020 and 9.02% for the months of the accounting year 2019. The Authority's contributions to the plan were $72,756 and $60,592 for the year ended September 30, 2020 and 2019, respectively.

**Net pension asset:** The Authority's net pension asset was measured as of December 31, 2019 and 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

**11. PENSION PLAN - continued**

**Actuarial assumptions:** The actuarial assumptions that determined the total pension liability as of December 31, 2019 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.

The total pension liability in the December 31, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | 2019 | 2018 |
|---|---|---|
| Inflation | 2.75% | 2.75% |
| Salary increases (including inflation plus average merit of 1/6% and productivity of 0.5% for 2019 and 2018) | 4.90% | 4.90% |
| Investment rate of return | 8.00% | 8.00% |

Mortality rates were based on the following:

**Depositing members:** For the December 31, 2019 and 2018 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, 2019 and 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.

**Disabled retirees:** For the December 31, 2019 and 2018 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, 2019 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 | 14.50% | 5.20% |
| Private Equity | Cambridge Associates Global Private Equity and Venture Capital Index (3) | 20.00% | 8.20% |
| Global Equities | MSCI World (net) Index | 2.00% | 5.50% |
| International Equities - Developed | MSCI World Ex USA (net) | 7.00% | 5.20% |
| International Equities - Emerging | MSCI EM Standard (net) index | 7.00% | 5.70% |
| Investment - Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | -0.20% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 12.00% | 3.14% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 11.00% | 7.16% |
| Distressed Debt | Cambridge Associates Distressed Index (4) | 4.00% | 6.90% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index plus 33% FRSE EPRA/NAREIT Global Real Estate Index | 3.00% | 4.50% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 2.00% | 8.40% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index (5) | 6.00% | 5.50% |
| Hedge Funds | Hedge Fund Research, Inc. Fund of Funds Composite Index | 8.00% | 2.30% |

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.

| 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% |

(1) Target asset allocation adopted at the June 2020 and April 2019 TCDRS Board meetings.

(2) Geometric real rates of return in addition to assumed inflation of 1.8% and 1.7%, respectively, per investment consultant's 2020 and 2019 capital market assumptions.

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

**11. PENSION PLAN – continued**

(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, 2019 and 2018. 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) 2019**

| | Total Pension Liability (a) | Increase (Decrease) Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a) - (b) |
|---|---|---|---|
| Balances as of December 31, 2018 | $ 212,363 | $ 224,807 | $ (12,445) |
| Changes for the year: | | | |
| Service cost | 99,708 | - | 99,708 |
| Interest on total pension liability (1) | 24,882 | - | 24,882 |
| Effect of plan changes (2) | - | - | - |
| Effect of economic/demographic (gains) or losses | (9,753) | - | (9,753) |
| Effect of assumptions changes or inputs | - | - | - |
| Refund of contributions | (9,954) | (9,954) | - |
| Benefit payments | - | - | - |
| Administrative expenses | - | (280) | 280 |
| Member contributions | - | 44,979 | (44,979) |
| Net investment income | - | 36,814 | (36,814) |
| Employer contributions | - | 67,605 | (67,605) |
| Other (3) | - | 3,565 | (3,565) |
| Balances as of December 31, 2019 | $ 317,245 | $ 367,536 | $ (50,290) |

**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) |

(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.

| | 2019 | | |
|---|---|---|---|
| | 1% Decrease 7.10% | Current Discount Rate 8.10% | 1% Increase 9.10% |
| Total pension liability | $ 364,430 | $ 317,245 | $ 277,520 |
| Fiduciary net position | 367,536 | 367,536 | 367,536 |
| Net pension liability/(asset) | $ (3,106) | $ (50,290) | $ (90,016) |

| | 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) |

**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, 2020 and 2019, the Authority recognized pension expense of $54,195 and $49,609, respectively. At September 30, 2020 and 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | September 30, 2020 | | September 30, 2019 | |
|---|---|---|---|---|
| | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources |
| Differences between expected and actual experience | $ 24,621 | $ 24,416 | $ 17,106 | $ 26,308 |
| Changes of assumptions | - | 892 | - | 970 |
| Net difference between projected and actual earnings | 12,237 | 10,250 | 1,078 | 14,041 |
| Contributions made subsequent to measurement date | - | 51,904 | - | 46,754 |
| | $ 36,858 | $ 87,462 | $ 18,184 | $ 88,073 |

## 11. PENSION PLAN – continued

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

| Year Ended December 31 | | |
|---|---|---|
| 2020 | $ | 121 |
| 2021 | | (196) |
| 2022 | | 162 |
| 2023 | | (3,146) |
| 2024 | | (268) |
| Thereafter | | 2,027 |
| | $ | (1,300) |

## 12. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2020, 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 because 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. SUBSEQUENT EVENTS

Since the coronavirus outbreak (COVID-19), a "Public Health Emergency of International Concern," the spread of COVID-19 has severely impacted many local economies around the world. Businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of nonessential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

The Authority has determined that these subsequent events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended September 30, 2020, have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of global government and central bank responses, remains unclear currently. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Authority for future periods.

The Authority has evaluated subsequent events through January 27, 2021, 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, 2020**

| | Measurement Year 2019 | Measurement Year 2018 | Measurement Year 2017 | Measurement Year 2016 | Measurement Year 2015 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service cost | $ 99,708 | $ 78,796 | $ 51,054 | $ 24,580 | $ 16,561 |
| Interest on total pension liability | 24,882 | 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 | (9,753) | (18,531) | 19,377 | 10,839 | 600 |
| Benefits payments /refunds of contributions | (9,954) | - | - | - | - |
| Net change in total pension liability | 104,883 | 77,566 | 79,772 | 37,791 | 17,233 |
| Total pension liability, beginning | 212,363 | 134,796 | 55,024 | 17,233 | - |
| Total pension liability, ending (a) | $ 317,245 | $ 212,363 | $ 134,796 | $ 55,024 | $ 17,233 |
| **Fiduciary Net Position** | | | | | |
| Employer contributions | $ 67,605 | $ 49,291 | $ 46,562 | $ 22,661 | $ 10,275 |
| Member contributions | 44,979 | 33,327 | 29,060 | 14,123 | 6,489 |
| Investment income net of investment expenses | 36,814 | (1,715) | 9,350 | 1,268 | (142) |
| Benefit payments/refunds of contributions | (9,954) | - | - | - | - |
| Administrative expenses | (280) | (181) | (94) | (14) | (6) |
| Other | 3,565 | 2,476 | 1,013 | 1,068 | (1) |
| Net change in fiduciary net position | 142,728 | 83,198 | 85,890 | 39,106 | 16,615 |
| Fiduciary net position, beginning | 224,807 | 141,610 | 55,720 | 16,615 | - |
| Fiduciary net position, ending (b) | $ 367,536 | $ 224,807 | $ 141,610 | $ 55,720 | $ 16,615 |
| Net pension liability/(asset), ending = (a) - (b) | $ (50,290) | $ (12,445) | $ (6,813) | $ (696) | $ 619 |
| Fiduciary net position as a % of total pension liability | 115.85% | 105.86% | 105.05% | 101.26% | 96.41% |
| Pensionable covered payroll | $ 749,644 | $ 555,454 | $ 484,326 | $ 235,380 | $ 144,206 |
| Net pension liability as a % of covered payroll | -6.71% | -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, 2020**

| 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% |
| 2019 | 67,605 | 67,605 | - | 749,644 | 9.00% |

**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 | 12.7 years (based on contribution rate calculated in 12/31/2019 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 assumed 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.<br>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.<br>2016: No changes in plan provisions were reflected in the Schedule.<br>2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.<br>2018: No changes in plan provisions were reflected in the Schedule.<br>2019: No changes in plan provisions were reflected in the Schedule. |

# COMPLIANCE AND INTERNAL CONTROL

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**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 North East Texas Regional Mobility Authority (the Authority), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 27, 2021.

**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.

**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
January 27, 2021