NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY

FINANCIAL STATEMENTS

WITH AUDITORS' REPORT THEREON

SEPTEMBER 30, 2018 and 2017

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements
We have audited the accompanying statements of financial position and the statements of revenues, expenses, and changes in net position of the North East Texas Regional Mobility Authority (Authority), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

PROTHRO, 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

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, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards,* we have also issued our report dated March 8, 2019, 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
March 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

Management's discussion and analysis of the North East Texas Regional Mobility Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the years ended September 30, 2018 and 2017. Please read it in conjunction with the Authority's financial statements which follow this section.

The Authority was created by the State of Texas in 2004. At September 30, 2018, the Authority consisted of the following counties: Bowie, Cherokee, Gregg, Harrison, Kaufman, Panola, Rusk, Smith, Titus, Upshur, Wood, and Van Zandt.

FINANCIAL HIGHLIGHTS

- Investments decreased $44,689,588 due to many investments maturing in the current year and being used for Segment 4 of Toll 49 construction.
- Capital assets increased $46,203,444, net of depreciation expense of $6,377,681. The increase relates to construction in progress on Segment 4 of Toll 49.
- Construction in Progress increased $40,258,412 due to the construction of Segment 4 of Toll 49.
- Long-term liabilities decreased $1,375,976 due to the amortization of premiums related to the Revenue Bonds.
- Toll revenues (net of expenses) decreased $2,046,543. The majority of the decrease related to a reduction of video toll revenue and toll violation fees.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position

The Authority's total assets decreased $5,843,039 from 2017 to 2018. In addition, current assets decreased $52,046,483 and noncurrent assets increased $46,203,444.

Total liabilities decreased $4,121,366. The Authority's net position decreased $1,721,673.

Net Position

	2018	2017
Current assets	$ 60,269,411	$ 112,315,894
Noncurrent assets	337,244,894	291,041,450
Total assets	$ 397,514,305	$ 403,357,344
Total liabilities	$ 214,741,643	$ 218,863,009
Net position	$ 182,772,662	$ 184,494,335

FINANCIAL ANALYSIS OF THE AUTHORITY – continued

Changes in Net Position

	2018	2017
Revenues:		
Toll revenues – electronic, net	$ 8,471,525	$ 8,952,800
Toll revenues – video, net	3,599,001	5,164,269
Contributions – member counties	46,000	30,000
Total operating revenues	12,116,526	14,147,069
Expenses:		
General expenses	1,298,784	1,190,058
Toll operating expenses	9,530,596	11,738,064
Total expenses	10,829,380	12,928,122
Nonoperating revenues (expenses)	(3,008,819)	(5,657,141)
Change in net position	(1,721,673)	(4,438,194)
Net position, beginning of year	184,494,335	188,932,529
Net position, end of year	$ 182,772,662	$ 184,494,335

Capital Assets and Long-Term Debt
The Authority's capital assets, net of accumulated depreciation, increased by $46,203,444 primarily due to construction in progress.

	2018	2017
Property, toll roads, and equipment, net	$ 254,783,227	$ 242,460,514
Construction in progress	112,154,371	71,895,959
Accumulated depreciation	(29,692,704)	(23,315,023)
Total capital assets, net	$ 337,244,894	$ 291,041,450

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, 2018 was $1,559,187.

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

Long-Term Debt – continued

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, 2018 was $707,688.

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

As of September 30, 2018 and 2017, the Authority had the following long-term debt:

	September 30, 2018	September 30, 2017
Long-term liabilities:		
Revenue bonds payable	$ 207,154,060	$ 208,530,036

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide taxpayers, patrons, and other interested parties with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North East Texas Regional Mobility Authority, 1001 ESE Loop 323, Suite 420, Tyler, Texas 75701.

FINANCIAL STATEMENTS

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

ASSETS		**2018**		**2017**
Current assets:				
Cash and cash equivalents	$	281,580	$	195,127
Due from other agencies		6,505,873		6,962,701
Other assets		-		305,406
Restricted assets:				
Cash and cash equivalents		37,954,905		44,636,019
Investments		15,527,053		60,216,641
Total current assets		60,269,411		112,315,894
Noncurrent assets:				
Capital assets:				
Property, toll roads, and equipment		254,783,227		242,460,514
Construction in progress		112,154,371		71,895,959
Accumulated depreciation		(29,692,704)		(23,315,023)
Total noncurrent assets		337,244,894		291,041,450
TOTAL ASSETS	$	397,514,305	$	403,357,344
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	$	5,320,708	$	8,066,098
Accrued interest payable		2,266,875		2,266,875
Total current liabilities		7,587,583		10,332,973
Long-term liabilities:				
Bonds payable		207,154,060		208,530,036
Total long-term liabilities		207,154,060		208,530,036
Total liabilities		214,741,643		218,863,009
NET POSITION				
Invested in capital assets, net of related debt		176,477,197		179,583,589
Restricted		6,014,152		4,715,621
Unrestricted		281,313		195,125
Total net position		182,772,662		184,494,335
TOTAL LIABILITIES AND NET POSITION	$	397,514,305	$	403,357,344

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Toll revenues - electronic, net	$ 8,471,525	$ 8,952,800
Toll revenues - video, net	3,599,001	5,164,269
Contributions - member counties	46,000	30,000
Total operating revenues	12,116,526	14,147,069
GENERAL EXPENSES		
Administrative	195,531	221,899
Salaries and payroll taxes	648,967	540,568
Legal and professional	454,286	427,591
Total general expenses	1,298,784	1,190,058
TOLL OPERATING EXPENSES		
Depreciation expense	6,377,681	6,448,795
General engineering consultants	277,091	617,026
Project director	102,828	179,549
Roadway maintenance	1,677,492	3,482,922
Toll equipment maintenance	409,405	381,367
Transmission line charges	82,109	103,784
Legal fees	265,256	301,435
Toll operating system support	214,828	68,914
Utilities	20,352	14,960
Insurance	36,150	32,712
Other operating expenses	67,404	106,600
Total toll operating expenses	9,530,596	11,738,064
Total expenses	10,829,380	12,928,122
Operating income	$ 1,287,146	$ 1,218,947
NONOPERATING REVENUES (EXPENSES)		
Traffic and revenue study	(804)	(43,471)
Interest income	440,350	180,701
Income on investments (net of fees)	493,824	359,102
Interest expense (net of capitalized interest)	(3,446,722)	(5,456,733)
Priority projects	(473,253)	-
Loss on impairments/disposals	(22,214)	(696,740)
Total nonoperating revenues (expenses)	(3,008,819)	(5,657,141)
Change in net position	(1,721,673)	(4,438,194)
NET POSITION, beginning of year	184,494,335	188,932,529
NET POSITION, end of year	$ 182,772,662	$ 184,494,335

See accompanying notes to the financial statements.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from toll revenues	$ 12,527,354	$ 12,778,269
Receipts from member counties	46,000	30,000
Payments to employees	(644,003)	(540,568)
Payments to vendors	(6,248,484)	(9,238,583)
Net cash flows provided by operating activities	5,680,867	3,029,118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(48,358,537)	(42,470,081)
Receipts from capital grants	-	4,040,014
Payments on grants	(473,253)	-
Payments on interest	(9,067,500)	(9,445,312)
Net cash provided by (used in) capital and related financing activities	(57,899,290)	(47,875,379)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchase) of investments (net)	44,689,588	(60,216,641)
Income on investments (net of fees)	493,824	359,102
Interest earned	440,350	180,701
Net cash flows provided by (used in) investing activities	45,623,762	(59,676,838)
Net (decrease) in cash and cash equivalents	(6,594,661)	(104,523,099)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	44,831,146	149,354,245
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 38,236,485	$ 44,831,146

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,287,146	$ 1,218,947
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,377,681	6,448,795
Traffic and revenue study	(804)	(43,471)
Change in assets and liabilities:		
Increase (decrease) in due from other agencies	762,234	(1,641,002)
Decrease in accounts payable	(2,745,390)	(2,714,782)
Decrease in unearned revenue	-	(239,369)
Net cash flows provided by operating activities	$ 5,680,867	$ 3,029,118

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 2018, 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, 2018 and 2017. These deposits are fully collateralized or covered by federal deposit insurance.

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes

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

Toll Revenues and Related Costs

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

2. CASH AND INVESTMENTS

The cash and investments are reflected on the statement of net position at September 30, 2018 and 2017 as follows:

	September 30, 2018	September 30, 2017
Cash and cash equivalents	$ 281,580	$ 195,127
Restricted cash and cash equivalents	37,954,905	44,636,019
Investments	15,527,053	60,216,641
Total	$ 53,763,538	$ 105,047,787

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

Level 1

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

Level 2

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

2. CASH AND INVESTMENTS – continued

Level 3

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

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

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

The following tables summarize the inputs used as of September 30, 2018 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

2. CASH AND INVESTMENTS – continued

As of September 30, 2018, 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	$ -

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, 2018, 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, 2018 and 2017.

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.

2. CASH AND INVESTMENTS – continued

Interest Rate Risk

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

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

3. RESTRICTED ASSETS

Restricted assets of the Authority consist primarily of cash and cash equivalents, toll receivables and payables from restricted accounts including unspent bond proceeds and related bond debt at September 30, 2018 and 2017.

	2018	2017
Cash:		
Bond debt service accounts	$ 16,270,002	$ 16,347,821
Construction fund	9,567,726	7,438,318
Revenue fund	922,393	1,125,665
Operating and maintenance fund	1,831,106	1,856,725
Renewal and replacement fund	2,445,677	1,097,901
General fund	3,397,099	9,869,230
Capitalized interest project fund	3,520,902	6,900,359
Total restricted cash	37,954,905	44,636,019
Other restrictions:		
Restricted receivables	6,505,874	6,962,701
Amounts payable out of restricted assets	(38,446,627)	(46,883,099)
Total other restrictions	(31,940,753)	(39,920,398)
Restricted net position	$ 6,014,152	$ 4,715,621

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:

3. RESTRICTED ASSETS – continued

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

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

4. DUE FROM OTHER AGENCIES

Due from other agencies consists of amounts due from other tolling authorities for toll tag transactions and other agencies for video transactions and violation fees from Toll 49. Due to the nature of the estimate and the circumstances surrounding the provider, no increases were made to the violation fees receivable. As a result, video violation fees decreased as reflected in the Statements of Revenues, Expenses, and Changes in Net Position.

	2018	2017
Tolls receivable	$ 3,004,642	$ 3,461,470
Violation fees receivable	3,501,231	3,501,231
Due From Other Agencies	$ 6,505,873	$ 6,962,701

Subsequent to year-end, the Authority terminated the contract with the existing 3rd party provider and entered into an interlocal agreement with CTRMA for processing and collection of video transactions and violation fees. The interlocal agreement with CTRMA is explained in further detail in Note 8 – *CTRMA Interlocal Agreement*.

5. CAPITAL ASSETS

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

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

	September 30, 2016	Additions	Transfers/ Retirements	September 30, 2017
Property, Toll Roads, and Equipment:				
Toll 49 Right of Way	$ 39,798,777	$ -	$ -	$ 39,798,777
Toll 49 Bridges	64,191,695	-	-	64,191,695
Toll 49 Highway	126,943,754	-	(766,711)	126,177,043
Toll 49 Gantries and toll equipment	12,060,180	-	-	12,060,180
Office equipment and other	48,220	136,126	(4,681)	179,665
Trucks and Auto	-	53,154	-	53,154
Construction in progress	27,380,364	44,622,929	(107,334)	71,895,959
Total Capital Assets	270,422,990	44,812,209	(878,726)	314,356,473
Less Accumulated Depreciation	(16,940,880)	(6,448,795)	74,652	(23,315,023)
Total Capital Assets, net	$ 253,482,110	$ 38,363,581	$ (804,241)	$ 291,041,450

Depreciation expense for the years ended September 30, 2018 and 2017 was $6,377,681 and $6,448,795, respectively.

5. CAPITAL ASSETS – continued

Capitalization of Interest

The Authority incurred interest costs totaling $3,446,722 and $5,456,733 during the years ended September 30, 2018 and 2017, respectively. In addition, interest incurred during the construction period relating to the construction of property, plant, and equipment totaling $4,244,802 and $2,234,792 was capitalized during the years ended September 30, 2018 and 2017, respectively.

6. ACCOUNTS PAYABLE

Accounts payable consisted of the following at September 30, 2018 and 2017:

	September 30, 2018	September 30, 2017
Accounts payable – construction	$ 4,828,984	$ 5,819,018
Accounts payable – operations	401,049	2,182,629
Accounts payable – other	90,675	64,451
Total	$ 5,320,708	$ 8,066,098

7. LONG-TERM LIABILITIES

The following summarizes long-term debt activity of the Authority for the years ended September 30, 2018 and 2017.

	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	$ 9,067,500	$ (9,067,500)	$ 2,266,875

7. LONG TERM LIABILITIES – continued

	September 30, 2016	Additions/ Amortization	Reductions	September 30, 2017
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	(400,430)	(1,375,974)	-	(1,776,404)
Subtotal	28,556,010	(1,375,974)	-	27,180,036
Total long-term liabilities	$ 209,906,010	$ (1,375,974)	$ -	$ 208,530,036
Current year interest payable:				
Bond accrued interest	$ 2,644,687	$ 9,067,500	$ (9,445,313)	$ 2,266,875

Additions to long-term liabilities

	September 30, 2018	September 30, 2017
Interest expense	$ 3,446,722	$ 5,456,733
Capitalized interest	4,244,802	2,234,793
Bond premium amortization	1,375,976	1,375,974
Additions to long-term liabilities	$ 9,067,500	$ 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.

7. LONG-TERM LIABILITIES - continued

Senior and Subordinate Lien Revenue Bonds – continued:

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 $1,559,187 as of both years ended September 30, 2018 and 2017.

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, 2018 and 2017.

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, 2018 are as follows:

Fiscal Year Ended September 30	Principal	Interest	Total Amount
2019	$ -	$ 9,067,500	$ 9,067,500
2020	1,400,000	9,032,500	10,432,500
2021	500,000	8,985,000	9,485,000
2022	1,320,000	8,939,500	10,259,500
2023-2027	13,315,000	43,093,125	56,408,125
2028-2032	24,740,000	38,301,500	63,041,500
2033-2037	38,350,000	30,532,000	68,882,000
2038-2042	50,970,000	19,308,250	70,278,250
2043-2046	50,755,000	5,230,375	55,985,375
Total obligations	$ 181,350,000	$ 172,489,750	$ 353,839,750

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 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.

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 a reimbursement basis. As of the year ended September 30, 2018, $473,253 of the grant funds had been expended. No amounts were expended year ended September 30, 2017.

9. TOLL REVENUES AND RELATED COSTS

Electronic and video revenues and related costs are detailed below for the years ended September 30, 2018 and 2017:

	September 30, 2018	September 30, 2017
Toll revenue – electronic	$ 9,110,954	$ 9,626,841
Less: electronic processing costs	(639,429)	(674,041)
Toll revenue – electronic, net	$ 8,471,525	$ 8,952,800
Toll revenue – video	$ 2,933,613	$ 3,664,950
Video violation fees	917,066	1,751,473
Less: video processing costs	(251,678)	(252,154)
Toll revenue – video, net	$ 3,599,001	$ 5,164,269

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, 2018. Future minimum lease payments under a non-cancelable operating lease are as follows:

September 30,	Amount
2019	61,083
2020	61,777
2021	62,009
2022	15,502
Total	$ 200,371

11. PENSION PLAN

The Authority participates in a statewide, agent multiple-employer, public-employee defined benefit pension plan (Plan) administered by Texas County & District Retirement System (TCDRS). TCDRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The Plan is a qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of the Authority must be enrolled in the Plan.

As of September 30, 2018, no assets or liabilities have been recorded related to the Plan. The balances in these accounts were not material to the financial statements.

12. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2018, 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. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through March 8, 2019, which is the date the financial statements were made available to management.

COMPLIANCE AND INTERNAL CONTROL

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

The Board of Directors
North East Texas Regional Mobility Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North East Texas Regional Mobility Authority (Authority), as of and for the year ended September 30, 2018, 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 8, 2019.

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, Wilhel. & Company, PLLC

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
March 8, 2019