

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**

**FINANCIAL STATEMENTS**

**WITH AUDITORS' REPORT THEREON**

**SEPTEMBER 30, 2009 and 2008**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
North East Texas Regional Mobility Authority

We have audited the accompanying statements of financial position of the North East Texas Regional Mobility Authority (the Authority), as of September 30, 2009 and 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the State of Texas Single Audit Circular, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Prothro, Wilhel. & Company, PLLC*

Certified Public Accountants

Tyler, Texas  
January 13, 2010

## **MANAGEMENT DISCUSSION AND ANALYSIS**



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2009 AND 2008  
(UNAUDITED)**

Management's discussion and analysis of the North East Texas Regional Mobility Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the years ended September 30, 2009 and 2008. Please read it in conjunction with the Authority's financial statements which follow this section.

The Authority was created by the State of Texas in 2004 and held its inaugural meeting of the Board of Directors in April 2005. At September 30, 2009, the Authority consists of the following counties: Smith, Gregg, Cherokee, Harrison, Rusk, Upshur, Bowie, Cass, Panola, Titus, Van Zandt, and Wood.

**FINANCIAL HIGHLIGHTS**

- Program implementation, engineering, and design costs related to the Toll 49 Project totaled \$7,865,111 at September 30, 2009 and \$4,152,094 at September 30, 2008.
- Accounts payable related to the financial assistance agreement totaled \$1,775,531 at September 30, 2009 and \$613,096 at September 30, 2008. Accounts payable – other of \$71,562 and \$48,435 at September 30, 2009, and 2008, respectively, related to costs of the Authority not covered by the financial assistance agreement; these amounts will be paid from funds received by the member counties.
- Revenues of the Authority consisted of contributions from member counties of \$23,500 and \$23,000 for the years ended September 30, 2009 and 2008, respectively.
- Toll revenues on the first and second segments of Toll 49 have not been assigned by TxDOT to the Authority. As a result, Toll 49 toll revenues have not been received or accrued by the Authority at September 30, 2009 and 2008.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2009 AND 2008**

**OVERVIEW OF FINANCIAL STATEMENTS**

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

The Authority is a special-purpose government that is engaged in business-type activities and accounted for as an enterprise fund under Governmental Accounting Standards Board (GASB). As a result, the operations of the Authority are accounted for on the accrual method of accounting. Under this method, revenues are recognized in the period in which they are earned and expenses are recognized in the period they are incurred.

**FINANCIAL ANALYSIS OF THE AUTHORITY**

**Net Assets and Changes in Net Assets**

The Authority's net assets were a deficit of (\$471,925) for the year ended September 30, 2008 and (\$541,414) for the year ended September 30, 2009. The deficits are the result of limited revenue of the Authority outside the financial assistance agreement.

Net Assets		
	<u>2009</u>	<u>2008</u>
Current assets	\$ 1,927,042	\$ 632,250
Capital assets	<u>7,865,111</u>	<u>4,159,594</u>
Total assets	<u>\$ 9,792,153</u>	<u>\$ 4,791,844</u>
 Total liabilities	 <u>10,333,567</u>	 <u>5,263,769</u>
 Net assets:		
Investment in capital assets	-	-
Deficit	<u>(541,414)</u>	<u>(471,925)</u>
	<u>\$ (541,414)</u>	<u>\$ (471,925)</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2009 AND 2008**

**FINANCIAL ANALYSIS OF THE AUTHORITY - continued**

Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues:		
Contributions – public	\$ 23,600	\$ 23,000
Loop 571 – interlocal agreement	<u>120,234</u>	<u>-</u>
Total revenues	<u>143,834</u>	<u>23,000</u>
Expenses:		
Professional services	202,450	95,541
Administrative	<u>10,873</u>	<u>13,039</u>
Total expenses	<u>213,323</u>	<u>108,580</u>
Change in net assets	(69,489)	(85,580)
Net Assets, beginning of year	<u>(471,925)</u>	<u>(386,345)</u>
Net Assets, end of year	<u>\$ (541,414)</u>	<u>\$ (471,925)</u>

**Capital Assets**

The Authority's capital assets as of September 30, 2009 and 2008 totaled \$7,865,111 and \$4,159,594, respectively. Capital assets represent construction work in progress that include implementation costs, engineering, and design fees related to the development of the Toll 49 Project in Smith County.

Capital Assets

	<u>2009</u>	<u>2008</u>
Property and equipment	\$ 30,000	\$ 30,000
Accumulated depreciation	(30,000)	(22,500)
Construction work in progress	<u>7,865,111</u>	<u>4,152,094</u>
Total capital assets	<u>\$ 7,865,111</u>	<u>\$ 4,159,594</u>



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2009 AND 2008**

**Financial Assistance Payable**

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

As of September 30, 2009 and 2008, the Authority had requested \$8,486,474 and \$4,602,238, respectively in financial assistance related to program implementation, engineering, and design costs and attorney fees in connection with the Toll 49 Project.

**Interlocal Agreement**

On May 20, 2009, the Authority entered into an agreement with Rusk County for the purpose of expediting the development of the extension for Loop 571.

As of September 30, 2009, the Authority had received \$120,234, respectively in funding for performance, or supervising the performance of completing property acquisition; preparation of environmental studies, reports, and permits; and related legal and project director services in connection with the Loop 571 Project.

**OTHER EVENTS**

During the year, the Authority selected Andrews Kurth, LLP as its bond counsel. The Authority is working towards a goal of completing segment Section 3B through the sale of bonds as a means of financing the project. Separately, work has begun on Segment 3A from Stimulus money received through the federal ARRA program.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide taxpayers, patrons, and other interested parties with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North East Texas Regional Mobility Authority, 305 S. Broadway, Suite 100, Tyler, Texas 75702.

# **FINANCIAL STATEMENTS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**SEPTEMBER 30, 2009 AND 2008**

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
Current assets:		
Cash and cash equivalents	\$ 698,011	\$ 19,154
Financial assistance agreement receivable	1,229,031	613,096
Total current assets	<u>1,927,042</u>	<u>632,250</u>
Capital assets:		
Property and equipment, net	-	7,500
Construction work in progress	7,865,111	4,152,094
Total capital assets	<u>7,865,111</u>	<u>4,159,594</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,792,153</u></b>	<b><u>\$ 4,791,844</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable - financial assistance agreement	\$ 1,775,531	\$ 613,096
Accounts payable - other	71,562	48,435
Total current liabilities	<u>1,847,093</u>	<u>661,531</u>
Financial assistance agreement payable	<u>8,486,474</u>	<u>4,602,238</u>
Total liabilities	<u>10,333,567</u>	<u>5,263,769</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	-	-
Deficit	<u>(541,414)</u>	<u>(471,925)</u>
Total net assets	<u>(541,414)</u>	<u>(471,925)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 9,792,153</u></b>	<b><u>\$ 4,791,844</u></b>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Contributions - public	\$ 23,600	\$ 23,000
Loop 571 - interlocal agreement	120,234	-
Total operating revenues	<u>143,834</u>	<u>23,000</u>
<b>OPERATING EXPENSES</b>		
Legal and professional	185,681	86,579
Marketing	7,532	8,962
General and administrative	3,373	3,039
Depreciation expense	7,500	10,000
Loop 571 - interlocal agreement	9,237	-
Total operating expenses	<u>213,323</u>	<u>108,580</u>
Change in net assets	(69,489)	(85,580)
<b>NET ASSETS, beginning of year</b>	<u>(471,925)</u>	<u>(386,345)</u>
<b>NET ASSETS, end of year</b>	<u><u>\$ (541,414)</u></u>	<u><u>\$ (471,925)</u></u>



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from public contributions	\$ 23,600	\$ 23,000
Receipts from Loop 571 - interlocal agreement	120,234	-
Increase (decrease) in non financial assistance agreement accounts payable	23,127	(9,583)
Increase in financial assistance agreement accounts payable	546,500	-
Payments to vendors	<u>(205,823)</u>	<u>(98,580)</u>
Net cash flows provided by (used in) operating activities	<u>507,638</u>	<u>(85,163)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from financial assistance agreement	3,884,236	1,421,198
Construction in progress	(3,713,017)	(1,326,047)
Increase in property and equipment	<u>-</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>171,219</u>	<u>95,151</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	678,857	9,988
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>19,154</u>	<u>9,166</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 698,011</u></u>	<u><u>\$ 19,154</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (69,489)	\$ (85,580)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,500	10,000
Change in assets and liabilities:		
Increase in financial assistance receivable	(615,935)	(236,746)
Increase (decrease) in financial assistance payable	-	-
Increase in accounts payable - financial assistance agreement	1,162,435	236,746
Increase (decrease) in accounts payable - other	<u>23,127</u>	<u>(9,583)</u>
Net cash flows provided by (used in) operating activities	<u><u>\$ 507,638</u></u>	<u><u>\$ (85,163)</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009 AND 2008**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**General Statement**

The financial statements of the North East Texas Regional Mobility Authority ("Authority") have been prepared in conformity with accounting practices generally accepted in the United States of America as applied to government units. Generally accepted accounting principles for government units include those principles prescribed by the Governmental Accounting Standards Board (GASB). The Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently. The more significant Authority's accounting policies are described below:

**Reporting Entity**

The North East Texas Regional Mobility Authority (the "Authority") was created by the State of Texas in 2004 and the Authority held its inaugural meeting of the Board of Directors in April 2005. However, the financial activities of the Authority did not begin until July 1, 2005. The Authority was formed through the joint efforts of Smith and Gregg counties. In June 2006, the Texas Transportation Commission approved the addition of four counties; Cherokee, Harrison, Rusk, and Upshur. On July 26, 2007, the Texas Transportation Commission approved the addition of six additional counties; Bowie, Cass, Panola, Titus, Van Zandt, and Wood, bringing the total members of the Authority to twelve.

Under the power given by the State Legislature, the Authority has the ability to finance, acquire, design, construct, operate, maintain, expand or extend local transportation projects. The primary purpose of the Authority is to accelerate the development of transportation projects that will enhance the quality of life and economic environment in North East Texas.

**Basis of Presentation**

The operations of the Authority are accounted for on the accrual method of accounting. Under this method, revenues are recognized in the period in which they are earned and expenses are recognized in the period they are incurred.

**Cash and Cash Equivalents**

Cash and cash equivalents include demand deposits at September 30, 2009 and 2008.

**Capital Assets**

Capital assets are reported at cost and typically include property, equipment, and infrastructure assets. Capital assets at September 30, 2009 and 2008 consisted of software costs depreciated over three years and construction in progress which included program implementation and engineering costs. Construction in progress costs are not depreciated until construction is complete and the assets are placed in service.



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**1. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**2. DEPOSITS**

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The Authority's deposits were fully insured as required by state statutes at September 30, 2009 and 2008.

**3. CAPITAL ASSETS**

Capital asset activity for the years ending September 30, 2009 and 2008 were as follows:

	<u>September 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2009</u>
Property and equipment	\$ 30,000	\$ -	\$ -	\$ 30,000
Accumulated depreciation	(22,500)	(7,500)	-	(30,000)
Net property and equipment	<u>\$ 7,500</u>	<u>\$ (7,500)</u>	<u>\$ -</u>	<u>\$ -</u>

  

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

Depreciation expense for the years ending September 30, 2009 and 2008 was \$7,500 and \$10,000 respectively.



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**3. CAPITAL ASSETS - continued**

As described in Note 5, the Authority entered into a financial assistance agreement with the Texas Department of Transportation for design and engineering services related to four segments of the Toll 49 Project in Smith County. Construction costs associated with this agreement for the period ended September 30, 2009 by Toll 49 segment and work authorization:

**SEGMENT**

	September 30, 2008	Additions	Retirements	September 30, 2009
Construction in Progress:				
Toll 49 Program implementation	\$ 325,947	\$ -	\$ -	\$ 325,947
Toll 49 Segment 5 - Engineering	1,537,448	400,012	-	1,937,460
Toll 49 Segment 3a Design	1,257,872	1,385,005	-	2,642,877
Toll 49 Segment 3b Design	-	896,908	-	896,908
Toll 49 GEC activities	973,275	892,577	-	1,865,852
Toll 49 Project manager	57,552	83,091	-	140,643
Toll 49 Procurement	-	55,424	-	55,424
Total construction in progress	<u>\$ 4,152,094</u>	<u>\$ 3,713,017</u>	<u>\$ -</u>	<u>\$ 7,865,111</u>

**WORK AUTHORIZATION**

	September 30, 2008	Additions	Retirements	September 30, 2009
Construction in Progress:				
Work Authorization #1	\$ 288,041	\$ -	\$ -	\$ 288,041
Work Authorization #2	1,544,982	400,013	-	1,944,995
Work Authorization #3	1,294,344	1,335,539	-	2,629,883
Work Authorization #4	693,673	-	-	693,673
Work Authorization #6	321,624	93,689	-	415,313
Work Authorization #7	-	489,643	-	489,643
Work Authorization #8	-	1,262,700	-	1,262,700
Work Authorization #9	-	55,424	-	55,424
Toll 49 Project manager	57,552	83,091	-	140,643
Total	<u>\$ 4,200,216</u>	<u>\$ 3,720,099</u>	<u>\$ -</u>	<u>7,920,315</u>

Less: Non-capital expenses	(55,204)
Total construction in progress	<u>\$ 7,865,111</u>

Non-capital expenses noted above are marketing expenses properly not capitalized in current and prior years.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**4. CONCENTRATIONS**

The Authority relies primarily on the financial assistance agreement and contributions to fund its operations. Operating contributions are derived from membership dues of Counties from the East Texas area under the reporting entity, of which are subject to change due to the number of members.

The Authority maintains cash and cash equivalents at one financial institution that is insured by the Federal Deposit Insurance Corporation (FDIC insured). During 2008 the standard insurance amount changed from \$100,000 to \$250,000 per depositor, effective through December 31, 2013. In addition, the Transaction Account Guarantee Program provides full guarantee of non-interest-bearing transaction deposit accounts above \$250,000, regardless of dollar amount, effective through June 30, 2010. As of September 30, 2009 and 2008, all deposits are fully covered by federal deposit insurance.

**5. 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 for 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.

As of September 30, 2009, \$9,237 had been accrued in connection with the Loop 571 interlocal agreement.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009 AND 2008**

**6. ACCOUNTS PAYABLE**

Accounts payable – financial assistance agreement are direct costs associated with Toll 49 and indirect costs (as defined by the Financial Assistance Agreement, Note 5) payable at September 30, 2009 and 2008 and consisted of the following:

	<u>2009</u>	<u>2008</u>
Attorney fees – Toll 49	\$ 52,635	\$ 19,318
Attorney fees – the Authority	15,645	4,381
Attorney fees – Legislative	24,909	-
Engineering fees	1,680,992	582,837
Marketing – Toll 49/the Authority	1,350	4,269
Other professional fees	-	2,291
Total	<u>\$ 1,775,531</u>	<u>\$ 613,096</u>

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

	<u>2009</u>	<u>2008</u>
Attorney fees – the Authority	\$ 49,278	\$ 48,435
Attorney fees – Legislative	16,105	-
Attorney fees – Loop 571	3,060	-
Engineering fees	3,119	-
Total	<u>\$ 71,562</u>	<u>\$ 48,435</u>

**7. FINANCIAL ASSISTANCE AGREEMENT**

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

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



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009 AND 2008**

**7. FINANCIAL ASSISTANCE AGREEMENT - continued**

The terms of the financial assistance agreement are as follows:

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

The total amount of indirect costs paid under the terms of the financial assistance agreement for the years ended September 30, 2009 and 2008 was \$7,648 and \$17,863 respectively, and related to indirect expenses.

At September 30, 2009 and 2008, the Authority submitted a request for payment from TxDOT related to engineering and attorney fees related to the Toll 49 project totaling \$1,229,031 and \$613,096, respectively. These amounts are reflected on the Statement of Net Assets as a Financial Assistance Receivable and Financial Assistance Payable.

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



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009 AND 2008**

**7. FINANCIAL ASSISTANCE AGREEMENT - continued**

As of September 30, 2009 and 2008, the Authority elected option (b) for repayment of the financial assistance agreement. The first segment of the Toll 49 Project was opened as a toll road on November 27, 2006. On December 11, 2007, the second segment of Toll 49 Project opened. However, as of September 30, 2009, TxDOT has not assigned the toll revenues to the Authority. As a result, Toll 49 toll revenues have not been received or accrued by the Authority at September 30, 2009 and 2008.

During the year ended September 30, 2009 and 2008 TxDOT clarified its position on the Authority's right to receive Toll 49 toll revenues by stating that:

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

**8. COMMITMENTS AND CONTINGENCIES**

In connection with the Financial Assistance Agreement, the Authority has entered into engineering contracts for the development of certain segments of the Toll 49 Project. Commitments related to work authorizations are as follows at September 30, 2009:

Work Authorization #1	\$ 349,956
Work Authorization #2	1,945,000
Work Authorization #3	3,672,000
Work Authorization #4	693,673
Work Authorization #6	590,000
Work Authorization #7	561,200
Work Authorization #8	1,986,777
Work Authorization #9	1,837,205
Work Authorization #10	311,600
Work Authorization #11	<u>561,200</u>
	\$ 12,508,611
Amounts expended at September 30, 2009	<u>(7,796,139)</u>
Total Commitments	<u>\$ 4,712,472</u>



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

Board of Directors  
North East Texas Regional Mobility Authority

We have audited the financial statements of the North East Texas Regional Mobility Authority (the Authority) as of September 30, 2009 and 2008 and have issued our report dated January 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

\*\*\*\*\*

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

A handwritten signature in cursive script that reads "Prothro, Wilhel & Company, PLLC".

Certified Public Accountants

Tyler, Texas  
January 13, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133 AND STATE OF TEXAS SINGLE AUDIT CIRCULAR**

The Board of Directors  
North East Texas Regional Mobility Authority

**Compliance**

We have audited the compliance of the North East Texas Regional Mobility Authority (the Authority) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, and State of Texas Single Audit Circular that are applicable to its major state program for the year ended September 30, 2009. The Authority's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Those standards; OMB Circular A-133 and State of Texas Single Audit Circular, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its state program for the year ended September 30, 2009.



### Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Authority's internal control.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

\*\*\*\*\*

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

  
Certified Public Accountants

Tyler, Texas  
January 13, 2010

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
SEPTEMBER 30, 2009**

<b>STATE GRANTOR</b>	<b>STATE NUMBER</b>	<b>STATE EXPENDITURES</b>
<b><u>TEXAS DEPARTMENT OF TRANSPORTATION</u></b>		
Financial Assistance Agreement	-	\$ 3,912,039
Total State Grants		<u>\$ 3,912,039</u>

**NORTH EAST TEXAS REGIONAL MOBILITY  
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE PERIOD ENDING SEPTEMBER 30, 2009**

**NOTE – BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of state awards includes the state grant activity of the North East Texas Regional Mobility Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the State of Texas Uniform Grant Management Standards Chapter IV "Texas State Single Audit Circular". Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2009**

**Section I. – Summary of Auditor’s Results**

**Financial Statements**

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

**State Awards**

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 ?	No

Identification of major programs:

**STATE**

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

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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The North East Texas Regional Mobility was classified as a low-risk auditee in accordance with OMB Circular A-133 and State of Texas Single Audit Circular.



**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2009**

**Section II – Financial Statement Findings**

None.

**Section III – State Award Findings and Questioned Costs**

None.