

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY

FINANCIAL STATEMENTS

WITH AUDITORS' REPORT THEREON

SEPTEMBER 30, 2016 and 2015

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

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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, 2016 and 2015, 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

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, 2016 and 2015, 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 8 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 January 30, 2017, 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 AND COMPANY, PLLC

Tyler, Texas
January 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016 AND 2015
(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, 2016 and 2015. 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, 2016, the Authority consisted of the following counties: Bowie, Cherokee, Gregg, Harrison, Kaufman, Panola, Rusk, Smith, Titus, Upshur, Wood, and Van Zandt.

FINANCIAL HIGHLIGHTS

- Due from other agencies increased \$1,996,174 and consists of amounts due from other tolling authorities for toll tag and video transactions as well as late fees from the operation of Toll 49.
- Capital assets increased \$17,459,460, net of depreciation expense of \$6,520,063. The increase relates to construction in progress on Segment 4 of Toll 49.
- Long-term liabilities increased \$151,801,406 mainly due to the issuance of Revenue Bonds.
- Toll revenues increased \$3,407,908 and total expenses increased \$1,132,039 as of the fiscal year ended September 30, 2016.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)**

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position and Changes in Net Position

The Authority's total assets increased \$160,464,410 from 2015 to 2016. In addition, current assets increased \$143,004,950 and noncurrent assets increased \$17,459,460.

Total liabilities increased \$163,440,119. The Authority's net position decreased \$2,975,709.

Net Position

	<u>2016</u>	<u>2015</u>
Current assets	\$ 154,981,351	\$ 11,976,401
Noncurrent assets	<u>253,482,110</u>	<u>236,022,650</u>
Total assets	<u>\$ 408,463,461</u>	<u>\$ 247,999,051</u>
Total liabilities	<u>\$ 223,570,946</u>	<u>\$ 60,130,827</u>
Net position	<u>\$ 184,892,515</u>	<u>\$ 187,868,224</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)**

FINANCIAL ANALYSIS OF THE AUTHORITY – continued

	<u>2016</u>	<u>2015</u>
Revenues:		
Toll revenues – electronic, net	\$ 8,144,374	\$ 6,550,674
Toll revenues – video, net	6,051,274	4,237,066
Contributions – member counties	35,300	36,000
Grants and related revenue	<u>587,624</u>	<u>56,623</u>
Total revenues	<u>14,818,572</u>	<u>10,880,363</u>
Expenses:		
General expenses	913,367	570,595
Toll operating expenses	<u>9,471,553</u>	<u>8,682,286</u>
Total expenses	<u>10,384,920</u>	<u>9,252,881</u>
Nonoperating revenues (expenses)	<u>(7,409,361)</u>	<u>(2,542,562)</u>
Change in net position	(2,975,709)	(915,080)
Net position, beginning of year	<u>187,868,224</u>	<u>188,783,304</u>
Net position, end of year	<u>\$ 184,892,515</u>	<u>\$ 187,868,224</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)**

Capital Assets and Long-Term Debt

The Authority's capital assets, net of accumulated depreciation, increased by \$17,459,460 primarily due to construction in progress.

	<u>2016</u>	<u>2015</u>
Property, toll roads, and equipment, net	\$ 243,042,627	\$ 243,080,030
Construction in progress	27,380,364	3,615,829
Accumulated depreciation	<u>(16,940,880)</u>	<u>(10,673,209)</u>
 Total capital assets, net	 <u>\$ 253,482,110</u>	 <u>\$ 236,022,650</u>

Long-Term Debt

Financial Assistance Agreement (FAA)

On March 7, 2006, the Authority entered into an agreement with the Texas Department of Transportation (TxDOT) for the purpose of providing financial assistance up to \$12,250,000 in connection with the study and development of four segments (#1, 2, 3A and 5) of Toll 49 in Smith County. An interim loan was obtained to pay the debt in full on April 30, 2016.

Interlocal Agreement

On May 20, 2009, the Authority entered into an agreement with Rusk County for the purpose of expediting the development of the extension of Loop 571. As of September 30, 2016, the Authority had received the total interlocal agreement amount of \$411,600. No costs were incurred by the Authority for the years ended September 30, 2016 and 2015, respectively.

State Infrastructure Bank Loan (SIB)

The SIB loan provided financial assistance in connection with the construction and further development of Segment 3B of Toll 49. An interim loan from Bank of America was obtained to pay the SIB loan in full on April 30, 2016.

Interim Loan

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

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016 AND 2015
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Long-Term Debt – continued

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 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, 2016 was \$1,819,052.
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 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, 2016 was \$825,635.
4. The initial principal payment is due January 1, 2020.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)**

Long-Term Debt – continued

As of September 30, 2016 and 2015, the Authority had the following long-term debt:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Long-term liabilities:		
FAA payable	\$ -	\$ 12,250,000
SIB loan payable	-	45,854,604
Revenue bonds payable	<u>209,906,010</u>	<u>-</u>
Total long-term liabilities	<u>\$ 209,906,010</u>	<u>\$ 58,104,604</u>

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, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 186,550	\$ 161,365
Due from other agencies	5,623,901	3,627,727
Other assets	3,205	9,075
Restricted assets:		
Cash and cash equivalents	149,167,695	8,178,234
Total current assets	<u>154,981,351</u>	<u>11,976,401</u>
Noncurrent assets:		
Capital assets:		
Property, toll roads, and equipment	243,042,627	243,080,030
Construction in progress	27,380,364	3,615,829
Accumulated depreciation	<u>(16,940,880)</u>	<u>(10,673,209)</u>
Total noncurrent assets	<u>253,482,110</u>	<u>236,022,650</u>
TOTAL ASSETS	<u>\$ 408,463,461</u>	<u>\$ 247,999,051</u>
 LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 10,780,880	\$ 1,467,400
Accrued interest payable	2,644,687	319,454
Unearned revenue	<u>239,369</u>	<u>239,369</u>
Total current liabilities	<u>13,664,936</u>	<u>2,026,223</u>
Long-term liabilities:		
Financial assistance agreement payable	-	12,250,000
Loans payable	-	45,854,604
Bonds payable	<u>209,906,010</u>	<u>-</u>
Total long-term liabilities	<u>209,906,010</u>	<u>58,104,604</u>
Total liabilities	<u>223,570,946</u>	<u>60,130,827</u>
 NET POSITION		
Invested in capital assets, net of related debt	172,416,875	177,598,592
Restricted	12,286,085	9,788,813
Unrestricted	<u>189,555</u>	<u>480,819</u>
Total net position	<u>184,892,515</u>	<u>187,868,224</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 408,463,461</u>	<u>\$ 247,999,051</u>

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Toll revenues - electronic, net	\$ 8,144,374	\$ 6,550,674
Toll revenues - video, net	6,051,274	4,237,066
Contributions - member counties	35,300	36,000
Grant and other revenue	587,624	56,623
Total operating revenues	14,818,572	10,880,363
GENERAL EXPENSES		
Administrative	106,119	89,757
Salaries and Payroll taxes	231,308	158,890
Grant and related expenses	312,250	56,623
Legal and professional	263,690	265,325
Total general expenses	913,367	570,595
TOLL OPERATING EXPENSES		
Depreciation expense	6,520,063	6,086,701
General engineering consultants	514,361	378,898
Project director	246,176	229,906
Roadway maintenance	1,040,930	1,475,609
Toll equipment maintenance	520,812	168,542
Transmission line charges	95,113	64,654
Legal fees	345,469	172,046
Toll operating system support	66,738	53,275
Utilities	17,857	17,455
Insurance	27,886	27,562
Other operating expenses	76,148	7,638
Total toll operating expenses	9,471,553	8,682,286
Total expenses	10,384,920	9,252,881
Operating income	4,433,652	1,627,482
NONOPERATING REVENUES (EXPENSES)		
East Texas Hour Glass Study	-	(28,988)
Financing expenses	(3,556,187)	-
Traffic and revenue study	(264,058)	(636,751)
Interest income	26,807	663
Interest expense	(3,615,923)	(1,877,486)
Total nonoperating revenues (expenses)	(7,409,361)	(2,542,562)
Change in net position	(2,975,709)	(915,080)
NET POSITION, beginning of year	187,868,224	188,783,304
NET POSITION, end of year	\$ 184,892,515	\$ 187,868,224

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from toll revenues	\$ 12,199,474	\$ 9,929,433
Receipts from member counties	35,300	36,000
Receipts from grants and other revenues	593,494	52,905
Payments to employees	(228,564)	(157,617)
Payments to vendors	(3,048,436)	(3,435,094)
	9,551,268	6,425,627
Net cash flows provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(15,553,142)	(4,363,787)
Proceeds from revenue bonds	276,299,984	-
Payments on loans and debt	(124,062,965)	-
Payments on interest	(1,691,119)	(1,877,486)
Financing expenses	(3,556,187)	(319,454)
	131,436,571	(6,560,727)
Net cash provided by (used in) capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	26,807	663
	26,807	663
Net cash flows from investing activities		
Net increase (decrease) in cash and cash equivalents	141,014,646	(134,437)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,339,599	8,474,036
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 149,354,245	\$ 8,339,599
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,433,652	\$ 1,627,482
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,520,063	6,086,701
Traffic and revenue study	(264,058)	(636,751)
East Texas Hour Glass Study	-	(28,988)
Change in assets and liabilities:		
Decrease (Increase) in grants receivable	5,870	(3,718)
Increase in due from other agencies	(1,732,116)	(858,307)
Increase in accounts payable	587,857	239,208
	9,551,268	6,425,627
Net cash flows provided by operating activities	\$ 9,551,268	\$ 6,425,627

NOTES TO THE FINANCIAL STATEMENTS

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

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 2016, the member counties included: Bowie, Cherokee, Gregg, Harrison, Kaufman, Panola, Rusk, Smith, Titus, Upshur, Wood and Van Zandt.

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

Basis of Presentation

The operations of the Authority are accounted for within a single proprietary fund. Proprietary Fund Financial Statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits as of September 30, 2016 and 2015. 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

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.

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.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Toll Revenues and Related Costs

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

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation.

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, 2016 and 2015.

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, 2016 and 2015.

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Cash:		
Rusk County Interlocal agreement	\$ 239,369	\$ 239,369
SIB and TEL bank accounts	-	456,705
Bond debt service accounts	16,227,194	-
Construction fund	103,790,679	-
Revenue fund	214,943	988,349
Operating and maintenance fund	1,108,807	41,467
Renewal and replacement fund	625,101	-
General fund	16,520,940	6,452,344
Capitalized interest project fund	10,440,662	-
Total restricted cash	<u>149,167,695</u>	<u>8,178,234</u>
Other restrictions:		
Restricted receivables	5,624,101	3,636,802
Amounts payable out of restricted funds	<u>(142,505,711)</u>	<u>(2,026,223)</u>
Total other restrictions	<u>(136,881,610)</u>	<u>1,610,579</u>
Restricted net position	<u>\$ 12,286,085</u>	<u>\$ 9,788,813</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

3. RESTRICTED ASSETS – continued

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

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

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

4. DUE FROM OTHER AGENCIES

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

	September 30, 2016	September 30, 2015
Tolls receivable	\$ 2,914,550	\$ 1,907,280
Fees receivable	2,709,351	1,720,447
Due From Other Agencies	\$ 5,623,901	\$ 3,627,727

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

5. CAPITAL ASSETS

Capital assets of the Authority consisted of the following as of September 30, 2016 and 2015:

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

	September 30, 2014	Additions	Transfers/ Retirements	September 30, 2015
Property, Toll Roads, and Equipment:				
Toll 49 Right of Way	\$ 39,808,067	\$ -	\$ -	\$ 39,808,067
Toll 49 Bridges	64,191,695	-	-	64,191,695
Toll 49 Highway	126,943,754	-	-	126,943,754
Toll 49 Gantries and toll equip.	8,529,518	-	3,545,010	12,074,528
Office equipment and other	40,674	21,312	-	61,986
Construction in progress	2,771,753	4,389,086	(3,545,010)	3,615,829
Total Capital Assets	<u>242,285,461</u>	<u>4,410,398</u>	<u>-</u>	<u>246,695,859</u>
Less Accumulated Depreciation	<u>(4,586,508)</u>	<u>(6,086,701)</u>	<u>-</u>	<u>(10,673,209)</u>
Total Capital Assets, net	<u>\$ 237,698,953</u>	<u>\$ (1,676,303)</u>	<u>\$ -</u>	<u>\$ 236,022,650</u>

Depreciation expense for the years ended September 30, 2016 and 2015 was \$6,520,063 and \$6,086,701, respectively.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

6. ACCOUNTS PAYABLE

Accounts payable consisted of the following at September 30, 2016 and 2015:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Accounts payable – construction	\$ 9,347,037	\$ 621,414
Accounts payable – operations	1,389,510	803,565
Accounts payable – other	<u>44,333</u>	<u>42,421</u>
Total	<u>\$ 10,780,880</u>	<u>\$ 1,467,400</u>

7. LONG-TERM LIABILITIES

The following summarizes long-term debt activity of the Authority for the years ended September 30, 2016 and 2015:

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

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

7. LONG-TERM LIABILITIES - continued

	<u>September 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2015</u>
Long-term liabilities:				
FAA payable	\$ 12,250,000	\$ -	\$ -	\$ 12,250,000
SIB loan payable	43,996,339	1,858,265	-	45,854,604
Total long-term liabilities	<u>\$ 56,246,339</u>	<u>\$ 1,858,265</u>	<u>\$ -</u>	<u>\$ 58,104,604</u>
 Current year interest payable:				
SIB accrued interest payable	300,233	1,877,486	(1,858,265)	319,454

Financial Assistance Agreement

On March 7, 2006, the Authority entered into an agreement with TxDOT for the purpose of obtaining financial assistance up to \$12,250,000 in connection with the study and development of four segments (1, 2, 3A, and 5) of Toll 49. The loan was paid in full on April 30, 2016 utilizing funds obtained from an interim loan.

Rusk County Interlocal Agreement

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

The terms of the interlocal agreement are as follows:

1. The Authority shall perform, or supervise the performance of, services related to the development of the Project, including completing of property acquisition; preparation of environmental studies, reports, and permits; and related legal and project director services.
2. Rusk County shall provide funds to the Authority in the amount of \$411,600 to be used for the development of the project.

For the years ended September 30, 2016 and 2015, the Authority incurred no expenses in connection with the extension of Loop 571.

In connection with the interlocal agreement, the Authority defers revenue related to funds received in advance for the development of the extension of Loop 571. These amounts are reported as revenues when expended in order to present a proper matching of revenues and expenses. As of September 30, 2016 and 2015, the amount of unearned revenue totaled \$239,369.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

7. LONG-TERM LIABILITIES - continued

State Infrastructure Bank Loan

On March 1, 2011, the Authority entered into agreements with TxDOT totaling approximately \$39 million for the purpose of providing financial assistance in connection with the design, development, financing, right-of-way acquisition, and construction of Segment 3B of the Toll 49. The loan was paid in full on April 30, 2016 utilizing funds obtained from an interim loan.

Interim Loan

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

Senior and Subordinate Lien Revenue Bonds:

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

Senior Lien Revenue Bonds:

The terms of the Senior Lien Bonds are as follows:

1. The Authority issued bonds to fund the construction of Segment 4 and paying the remaining balance of the interim loan.
2. The Senior Lien Bond was issued June 16, 2016 in the amount of \$124,735,000, and has a stated maturity date of January 1, 2046.
3. Interest on the aggregate disbursed principal amount of the bond shall accrued at an interest rate of 5.00 percent per annum, with such interest being payable on each January 1 and July 1, commencing July 1, 2017. Accrued interest payable on the Senior Lien Bond at September 30, 2016 was \$1,819,052.
4. The initial principal payment is due January 1, 2022.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

7. LONG-TERM LIABILITIES - 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 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, 2016 was \$825,635.
4. The initial principal payment is due January 1, 2020.

Future payments of principal and interest on the Authority's Revenue Bonds are as follows at September 30, 2016:

Fiscal Year Ended September 30	Principal	Interest	Total Amount
2017	\$ -	\$ 9,445,313	\$ 9,445,313
2018	-	9,067,500	9,067,500
2019	-	9,067,500	9,067,500
2020	1,400,000	9,032,500	10,432,500
2021	500,000	8,985,000	9,485,000
2022-2026	11,185,000	43,705,625	54,890,625
2027-2031	22,330,000	39,478,250	61,808,250
2032-2036	35,425,000	32,376,375	67,801,375
2037-2041	48,545,000	21,796,125	70,341,125
2042-2046	61,965,000	8,048,375	70,013,375
Total obligations	<u>\$ 181,350,000</u>	<u>\$ 191,002,563</u>	<u>\$ 372,352,563</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

8. TOLL REVENUES AND RELATED COSTS

Electronic and video revenues and related costs are detailed below for the years ended September 30, 2016 and 2015:

	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Toll revenue – electronic	\$ 8,731,329	\$ 7,016,986
Less: electronic processing costs	(586,955)	(466,312)
Toll revenue – electronic, net	<u>\$ 8,144,374</u>	<u>\$ 6,550,674</u>
Toll revenue – video	\$ 4,251,018	\$ 3,387,169
Video violation fees	2,094,696	1,292,280
Less: video processing costs	(294,440)	(442,383)
Toll revenue – video, net	<u>\$ 6,051,274</u>	<u>\$ 4,237,066</u>

9. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2016 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.

10. SUBSEQUENT EVENTS

On October 18, 2016, the Authority created an investment portfolio. The investment portfolio is within the construction fund account encompassing the proceeds from the bonds issued in June of 2016. The initial deposit was \$90,000,000 and was designed to have securities mature on a monthly basis. The funds on the matured securities would be used to fund the construction of Segment 4 of Toll 49.

The Authority has evaluated subsequent events through January 30, 2017, 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, 2016, 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 30, 2017.

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

In connection with our engagement to audit the financial statements of the Authority, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Purpose of this Report

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



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
January 30, 2017