

**North East Texas Regional Mobility Authority**

**Management Letter**

**September 30, 2015**

January 7, 2016

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

In planning and performing our audit of the financial statements of the North East Texas Regional Mobility Authority (Authority) for the year ended September 30, 2015, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Authority's internal control in our report dated January 7, 2016. This letter does not affect our report dated January 7, 2016, on the financial statements of the Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with the Authority, and we will be pleased to discuss these comments in further detail, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

**Debt Covenant – Administrative and Operating Account**

Condition:

Monthly toll revenues and fees are deposited into the Revenue Account at Amegy Bank net of toll processing costs. Per the debt agreement, one sixth of the next six months operating expense budget is to be transferred from the Revenue Account to the Administrative and Operating Account at Amegy each month. Currently, the amount being transferred from the Revenue Account to the Administrative and Operating Account includes the toll processing costs that have already been netted out of revenue, but are part of the operating expense budget.

Effect:

As a result of the conditions above, the Authority has been able to build a surplus in the Administrative and Operating Account.

Recommendation:

Consideration should be given to adjusting the operating expense budget to reflect toll revenues and fees net of processing costs.

Response: The issue will be address in the preparation of Budget for fiscal year 2017 and will be clearly addressed in the new Bond Indenture so that the recommendation is implemented. Accommodating the Segment 4 financing will provide an opportunity to institutionalize these changes.

This communication is intended solely for the information and use of management, the board of directors, and others within the Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Prothro, Wilhelmi & Company, PLLC*

PROTHRO, WILHELMI AND COMPANY, PLLC

January 7, 2016

To the Board of Directors  
North East Texas Regional Mobility Authority

We have audited the financial statements of the North East Texas Regional Mobility Authority (Authority) for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133 and State of Texas Single Audit Circular, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 14, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We identified no misstatements during the course of our audit that required communication to management.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated January 7, 2016.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the North East Texas Regional Mobility Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas  
January 7, 2016

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**

**FINANCIAL STATEMENTS**

**WITH AUDITORS' REPORT THEREON**

**SEPTEMBER 30, 2015 and 2014**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
North East Texas Regional Mobility Authority

### 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of September 30, 2015 and 2014, 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.

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

## **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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of state awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2016, 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 7, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2015 AND 2014  
(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, 2015 and 2014. 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, 2015, 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 \$858,307 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 decreased \$1,676,303, net of depreciation expense of \$6,086,701. The decrease relates to depreciation expense offset by construction in progress of Toll 49 Segment 4.
- Long-term liabilities increased \$1,877,486. The increase relates to the accretion of interest on the SIB loan from the Texas Department of Transportation.
- While toll revenue increased \$2,665,792, grants and related revenues decreased \$3,533,941. Total expenses increased \$1,631,162.

**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, 2015 AND 2014  
(UNAUDITED)**

**FINANCIAL ANALYSIS OF THE AUTHORITY**

**Net Position and Changes in Net Position**

The Authority's total assets decreased \$948,715 from 2014 to 2015. In addition, current assets increased \$727,588 and noncurrent assets decreased \$1,676,303.

Total liabilities decreased \$33,635. The Authority's net position decreased \$915,080.

**Net Position**

	<u>2015</u>	<u>2014</u>
Current assets	\$ 11,976,401	\$ 11,248,813
Noncurrent assets	<u>236,022,650</u>	<u>237,698,953</u>
Total assets	<u>\$ 247,999,051</u>	<u>\$ 248,947,766</u>
Total liabilities	<u>\$ 60,130,827</u>	<u>\$ 60,164,462</u>
Net position	<u>\$ 187,868,224</u>	<u>\$ 188,783,304</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2015 AND 2014  
(UNAUDITED)**

**FINANCIAL ANALYSIS OF THE AUTHORITY – continued**

**Changes in Net Position**

	<u>2015</u>	<u>2014</u>
Revenues:		
Toll revenues – electronic, net	\$ 6,550,674	\$ 4,493,211
Toll revenues – video, net	4,237,066	3,628,737
Contributions – member counties	36,000	36,000
Grants and related revenue	<u>56,623</u>	<u>3,590,564</u>
Total revenues	<u>10,880,363</u>	<u>11,748,512</u>
Expenses:		
General expenses	578,233	263,960
Toll operating expenses	<u>8,674,648</u>	<u>7,357,759</u>
Total expenses	<u>9,252,881</u>	<u>7,621,719</u>
Nonoperating revenues (expenses)	<u>(2,542,562)</u>	<u>187,521,438</u>
Change in net position	(915,080)	191,648,231
Net position, beginning of year	<u>188,783,304</u>	<u>(2,864,927)</u>
Net position, end of year	<u><u>\$ 187,868,224</u></u>	<u><u>\$ 188,783,304</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2015 AND 2014  
(UNAUDITED)**

**Capital Assets and Long-Term Debt**

The Authority's capital assets, net of accumulated depreciation, decreased by \$1,676,303 primarily due to depreciation expense.

	<u>2015</u>	<u>2014</u>
Property, toll roads, and equipment, net	\$ 243,080,030	\$ 239,513,708
Construction in progress	3,615,829	2,771,753
Accumulated depreciation	<u>(10,673,209)</u>	<u>(4,586,508)</u>
 Total capital assets, net	 <u><u>\$ 236,022,650</u></u>	 <u><u>\$ 237,698,953</u></u>

**Long-Term Debt**

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 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. Costs related to the financial assistance agreement included design, engineering, and traffic and revenue studies. All funding related to the agreement was received during fiscal year end 2012 and all four segments were in operation at September 30, 2013. In addition, the Authority began receiving toll revenues from these segments on April 1, 2013.

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, 2015, the Authority had received the total interlocal agreement amount of \$411,600. This amount will be used for performing or supervising the completion of property acquisitions, environmental studies, reports, permits, and related legal and project director services in connection with the Loop 571 project. No costs were incurred by the Authority for the years ended September 30, 2015 and 2014, respectively.

State Infrastructure Bank and Toll Equity Loan Agreements

On March 1, 2011, the Authority entered into two agreements with TxDOT. The State Infrastructure Bank and Toll Equity Loans provided financial assistance in connection with the construction and further development of Segment 3B of Toll 49. Effective September 29, 2014, TxDOT and the Authority entered into an agreement whereas the TEL loan was considered to be paid in full including all principal and interest due. The amount of debt forgiven was recorded as grant revenue during the year ended September 30, 2014.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2015 AND 2014  
(UNAUDITED)**

**Long-Term Debt - continued**

As of September 30, 2015 and 2014, the Authority had the following long-term debt:

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Long-term liabilities:		
FAA payable	\$ 12,250,000	\$ 12,250,000
SIB loan payable	45,854,604	43,996,339
Subtotal	<u>58,104,604</u>	<u>56,246,339</u>
Current year interest payable:		
SIB accrued interest payable	<u>319,454</u>	<u>300,233</u>
Total long-term liabilities	<u>\$ 58,424,058</u>	<u>\$ 56,546,572</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, 909 ESE Loop 323, Suite 520, Tyler, Texas 75701.

## **FINANCIAL STATEMENTS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2015 AND 2014**

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Current assets:		
Cash and cash equivalents	\$ 161,365	\$ 134,067
Due from other agencies	3,627,727	2,769,420
Grant receivable and other	9,075	5,357
Restricted assets:		
Cash and cash equivalents	8,178,234	8,339,969
Total current assets	<u>11,976,401</u>	<u>11,248,813</u>
Noncurrent assets:		
Capital assets:		
Property, toll roads, and equipment	243,080,030	239,513,708
Construction in progress	3,615,829	2,771,753
Accumulated depreciation	<u>(10,673,209)</u>	<u>(4,586,508)</u>
Total noncurrent assets	<u>236,022,650</u>	<u>237,698,953</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 247,999,051</u></u>	<u><u>\$ 248,947,766</u></u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable	\$ 1,467,400	\$ 3,378,521
Unearned revenue	<u>239,369</u>	<u>239,369</u>
Total current liabilities	<u>1,706,769</u>	<u>3,617,890</u>
Long-term liabilities:		
Financial assistance agreement payable	12,250,000	12,250,000
Loans payable	45,854,604	43,996,339
Accrued interest payable	<u>319,454</u>	<u>300,233</u>
Total long-term liabilities	<u>58,424,058</u>	<u>56,546,572</u>
Total liabilities	<u>60,130,827</u>	<u>60,164,462</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	177,598,592	181,152,381
Restricted	10,130,109	7,797,165
Unrestricted	<u>139,523</u>	<u>(166,242)</u>
Total net position	<u>187,868,224</u>	<u>188,783,304</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 247,999,051</u></u>	<u><u>\$ 248,947,766</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Toll revenues - electronic, net	\$ 6,550,674	\$ 4,493,211
Toll revenues - video, net	4,237,066	3,628,737
Contributions - member counties	36,000	36,000
Grants and related revenue	<u>56,623</u>	<u>3,590,564</u>
Total operating revenues	<u>10,880,363</u>	<u>11,748,512</u>
<b>GENERAL EXPENSES</b>		
Administrative	89,757	9,487
Salaries and Payroll taxes	158,890	11,145
Grant and related expenses	56,623	45,547
Legal and professional	265,325	188,951
Trustee and surety bonds	4,265	5,391
Travel expenses	<u>3,373</u>	<u>3,439</u>
Total general expenses	<u>578,233</u>	<u>263,960</u>
<b>TOLL OPERATING EXPENSES</b>		
Depreciation expense	6,086,701	4,103,214
General engineering consultants	378,898	654,550
Project director	229,906	239,202
Roadway maintenance	1,475,609	790,638
Toll equipment maintenance	168,542	513,684
Transmission line charges	64,654	64,834
Project support	-	368,404
Legal fees	172,046	405,733
Toll operating system support	53,275	153,707
Utilities	17,455	17,925
Insurance	27,562	26,781
Other expense	<u>-</u>	<u>19,087</u>
Total toll operating expenses	<u>8,674,648</u>	<u>7,357,759</u>
Total expenses	<u>9,252,881</u>	<u>7,621,719</u>
Operating income	<u>1,627,482</u>	<u>4,126,793</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Contribution from TxDOT - Roadway	-	136,389,584
TxDOT grant for debt extinguishment	-	56,537,568
East Texas Hour Glass Study	(28,988)	(1,333,475)
Traffic and revenue study	(636,751)	-
Interest income	663	375
Interest expense	<u>(1,877,486)</u>	<u>(4,072,614)</u>
Total nonoperating revenues (expenses)	<u>(2,542,562)</u>	<u>187,521,438</u>
Change in net position	(915,080)	191,648,231
<b>NET POSITION, beginning of year</b>	<u>188,783,304</u>	<u>(2,864,927)</u>
<b>NET POSITION, end of year</b>	<u>\$ 187,868,224</u>	<u>\$ 188,783,304</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from toll revenues	\$ 9,929,433	\$ 6,516,288
Receipts from member counties	36,000	36,000
Receipts from grants	52,905	3,587,159
Payments to employees	(157,617)	(11,145)
Payments to vendors	(3,435,094)	(5,162,157)
	<u>6,425,627</u>	<u>4,966,145</u>
Net cash flows provided by operating activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of property and equipment	(6,560,727)	(2,196,979)
	<u>(6,560,727)</u>	<u>(2,196,979)</u>
Net cash used in capital and related financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earned	663	375
	<u>(134,437)</u>	<u>2,769,541</u>
Net increase (decrease) in cash and cash equivalents		
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>8,474,036</u>	<u>5,704,495</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 8,339,599</u></u>	<u><u>\$ 8,474,036</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 1,627,482	\$ 4,126,793
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,086,701	4,103,214
Traffic and revenue study	(636,751)	-
East Texas Hour Glass Study	(28,988)	(1,333,475)
Change in assets and liabilities:		
Increase in grants receivable	(3,718)	(3,405)
Increase in due from other agencies	(858,307)	(1,605,661)
Increase (decrease) in accounts payable	239,208	(309,935)
Decrease in deferred revenue	-	(11,386)
	<u>6,425,627</u>	<u>4,966,145</u>
Net cash flows provided by operating activities	<u><u>\$ 6,425,627</u></u>	<u><u>\$ 4,966,145</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**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 through the joint efforts of Smith and Gregg counties and approved by the State of Texas in 2004. At September 30 2015, 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.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**1. SIGNIFICANT ACCOUNTING POLICIES – continued**

**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.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and demand deposits as of September 30, 2015 and 2014. These deposits are fully collateralized or covered by federal deposit insurance.

**Restricted Assets**

Certain proceeds from the State Infrastructure Bank Loan Agreement (SIB) and Toll Equity Loan (TEL) are classified as restricted assets because their use is restricted by applicable contract covenants. In addition, the loan agreements specify that toll revenues collected be held in bank accounts for the purposes of maintenance and operations and other functions 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.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**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.

**Reclassification**

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 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, 2015 and 2014.

**3. RESTRICTED ASSETS**

Restricted assets of the Authority consist primarily of cash and cash equivalents, toll receivables and payables from restricted accounts at September 30, 2015 and 2014. The majority of the restrictions relate to the SIB loan covenant.

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Cash:		
Rusk County Interlocal agreement	\$ 239,369	\$ 239,369
SIB and TEL bank accounts	456,705	486,076
Toll revenue account	988,349	145,266
Administrative and operating account	41,467	6,311,269
Restricted general account	6,452,344	1,157,989
Total restricted cash	<u>8,178,234</u>	<u>8,339,969</u>
Other restrictions:		
Restricted receivables	3,636,802	2,774,777
Amounts payable out of restricted funds	<u>(1,684,927)</u>	<u>(3,317,581)</u>
Total other restrictions	1,951,875	(542,804)
Restricted net position	<u><u>\$ 10,130,109</u></u>	<u><u>\$ 7,797,165</u></u>

**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.

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Tolls receivable	\$ 1,907,280	\$ 1,473,858
Fees receivable	<u>1,720,447</u>	<u>1,295,562</u>
Due From Other Agencies	<u><u>\$ 3,627,727</u></u>	<u><u>\$ 2,769,420</u></u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**5. CAPITAL ASSETS**

Capital assets of the Authority consisted of the following as of September 30, 2015 and 2014:

	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 equipment	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	242,285,461	4,410,398	-	246,695,859
Less Accumulated Depreciation	(4,586,508)	(6,086,701)	-	(10,673,209)
Total Capital Assets, net	\$ 237,698,953	\$ (1,676,303)	\$ -	\$ 236,022,650
	September 30, 2013	Additions	Transfers/ Retirements	September 30, 2014
Property, Toll Roads, and Equipment:				
Toll 49 Right of Way	\$ 3,043,976	\$ 36,764,091	\$ -	\$ 39,808,067
Toll 49 Bridges	18,836,635	45,355,060	-	64,191,695
Toll 49 Highway	70,837,561	56,106,193	-	126,943,754
Toll 49 Gantries and toll equip.	3,119,000	5,410,518	-	8,529,518
Office equipment and other	30,000	10,674	-	40,674
Construction in progress	7,831,725	-	(5,059,972)	2,771,753
Total Capital Assets	103,698,897	143,646,536	(5,059,972)	242,285,461
Less Accumulated Depreciation	(483,294)	(4,103,214)	-	(4,586,508)
	\$ 103,215,603	\$ 139,543,322	\$ (5,059,972)	\$ 237,698,953

On February 28, 2013, the Texas Transportation Commission approved the transfer of Toll 49 Segments 1, 2, 3A, and 5 upon the substantial completion of Segment 3B which occurred on March 28, 2013. However, the transfer of deed and title of these segments did not occur until fiscal year 2014. The depreciated value of these segments totaled \$136,389,584 and the contribution of this amount is reflected on the Statements of Revenues, Expenses, and Changes in Net Position as non-operating revenue for the year ended September 30, 2014.

Depreciation expense for the years ended September 30, 2015 and 2014 was \$6,086,701 and \$4,103,214 respectively.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**6. ACCOUNTS PAYABLE**

Accounts payable consisted of the following at September 30, 2015 and 2014:

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Accounts payable – construction	\$ 621,414	\$ 2,774,243
Accounts payable – operations	803,565	533,567
Accounts payable – other	42,421	70,711
Total	<u>\$ 1,467,400</u>	<u>\$ 3,378,521</u>

**7. LONG-TERM LIABILITIES**

The following summarizes long-term debt activity of the Authority for the years ended September 30, 2015 and 2014:

	<b>September 30, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>September 30, 2015</b>
<b>Long-term liabilities:</b>				
FAA payable	\$ 12,250,000	\$ -	\$ -	\$ 12,250,000
SIB loan payable	43,996,339	1,858,265	-	45,854,604
Subtotal	56,246,339	1,858,265	-	58,104,604
Current year interest payable:				
SIB accrued interest payable	300,233	1,877,486	(1,858,265)	319,454
Total long-term liabilities	<u>\$ 56,546,572</u>	<u>\$ 3,735,751</u>	<u>\$ (1,858,265)</u>	<u>\$ 58,424,058</u>
	<b>September 30, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>September 30, 2014</b>
<b>Long-term liabilities:</b>				
FAA payable	\$ 12,250,000	\$ -	\$ -	\$ 12,250,000
SIB loan payable	39,200,000	4,796,339	-	43,996,339
TEL payable	50,032,600	6,121,770	(56,154,370)	-
Subtotal	101,482,600	10,918,109	(56,154,370)	56,246,339
SIB accreted interest	3,013,381	-	(3,013,381)	-
TEL accreted interest	3,846,105	-	(3,846,105)	-
Current year interest payable:				
SIB accrued interest payable	294,085	1,789,106	(1,782,958)	300,233
TEL accrued interest payable	375,355	2,283,509	(2,658,864)	-
Total long-term liabilities	<u>\$109,011,526</u>	<u>\$ 14,990,724</u>	<u>\$ (67,455,678)</u>	<u>\$ 56,546,572</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**7. LONG-TERM LIABILITIES – continued**

**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. Costs related to the financial assistance agreement included design, engineering, and traffic and revenue studies. All funding related to the agreement was received during fiscal year end 2012 and all four segments were in operation at September 30, 2013.

Under the terms of the agreement, 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 provided by TxDOT under the agreement is repaid.

Though the project is opened for continuous operation, as of September 30, 2015 and 2014, no amounts had been paid on the financial assistance agreement. Within the next year, the Authority has plans to issue bonds that would in part be used to repay this balance. Management believes that this will satisfy condition (a) above and that TxDOT has verbally approved of this plan. Under the proposed issuance the above debt would be paid off as follows:

<u>Year</u>	
2018	\$ 820,000
2019	820,000
2020	820,000
2021	820,000
2022	820,000
2023	815,000
2024	815,000
2025	815,000
2026	815,000
2027	815,000
2028	815,000
2029	815,000
2030	815,000
2031	815,000
2032	815,000
	<u>\$ 12,250,000</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**7. LONG-TERM LIABILITIES – continued**

Failure to pay the amount due under this loan could cause the Authority to be in default on both this loan and SIB loan with TxDOT, unless such payment obligation has been waived or deferred by TxDOT prior to the due date.

**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, 2015 and 2014, the Authority incurred no expenses and \$2,534, respectively, 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, 2015 and 2014, the amount of unearned revenue totaled \$239,369.

**TEL and SIB Loans**

On March 1, 2011, the Authority entered into two agreements with TxDOT totaling approximately \$89 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.

**TEL Loan Agreement:**

Effective September 29, 2014, TxDOT and the Authority entered into an agreement whereas the TEL loan was considered to be paid in full including all principal and interest due. In addition, all provisions of the loan will be interpreted and applied as if the loan was paid in full. The amount of principal and interest considered paid in full totaled \$56,537,568 at September 30, 2014. This amount is reflected on the Statements of Revenues, Expenses, and Changes in Net Position as non-operating grant revenue.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 AND 2014**

**7. LONG-TERM LIABILITIES – continued**

**SIB Loan Agreement:**

The terms of the SIB agreement are as follows:

1. TxDOT will lend the Authority thirty-nine million two hundred thousand dollars (\$39,200,000) for the purpose of paying a portion of Segment 3B Project Costs incurred by or on behalf of the Authority.
2. The SIB Loan is dated March 15, 2011, and has a stated maturity date of February 1, 2039. Interest on the aggregate disbursed principal amount of the SIB Loan shall accrete at an interest rate of 4.18 percent per annum from the closing date to February 1, 2016, with such interest being compounded on each February 1 and August 1, commencing August 1, 2011, and ending on the final accretion date. Semi-annual interest payments begin on August 1, 2016, and the initial principal payment is due February 1, 2020. Accrued interest payable on the SIB loan at September 30, 2015 was \$319,454.

On February 1, 2019, TxDOT shall adjust the interest rate on the loan. All subsequent interest payments will be determined based upon the adjusted interest rate.

Additional terms of the SIB Agreement include the following:

1. Interest will be calculated on a 360-day year composed of twelve 30-day months.
2. The Authority is responsible for contracting for and funding all project costs with respect to Segment 3B, in compliance with all applicable federal, TxDOT, and local laws, regulations, policies, and ordinances. TxDOT has certain review and approval rights and responsibilities related to Segment 3B as prescribed in the Agreement, including ensuring that the completion of the Project is performed in compliance with all applicable laws, regulations, and policies and in accordance with the time frames and other requirements of construction contracts.
3. The Authority shall ensure that, on or prior to the date of substantial completion of Segment 3B, all electronic tolling system hardware necessary to operate Segment 3B in compliance with the requirements set forth by TxDOT will be installed and operational.
4. In accordance with Section IV of the agreement between TxDOT and the Authority and upon completion of Segment 3B, it is anticipated that all toll revenues will be the property of the Authority in order to secure financing necessary to repay the SIB loan and that the Authority will pledge such revenues in connection with that financing.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**7. LONG-TERM LIABILITIES – continued**

Future Payments on SIB loan, including future accrued interest, are as follows based upon the current interest rate of 4.18% and an estimated adjusted interest rate of 8.18% per the SIB loan agreement:

<b>Fiscal Year Ended September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Amount</b>
2016	\$ -	\$ 978,391	\$ 978,391
2017	-	1,956,782	1,956,782
2018	-	1,956,782	1,956,782
2019	-	2,893,041	2,893,041
2020	41,757	3,827,592	3,869,349
2021-2025	3,036,131	18,682,235	21,718,366
2026-2030	7,280,106	16,563,932	23,844,038
2031-2035	14,642,895	12,247,620	26,890,515
2036-2039	21,812,076	3,878,454	25,690,530
Total obligations	<u>\$ 46,812,965</u>	<u>\$ 62,984,829</u>	<u>\$ 109,797,794</u>

**8. TOLL REVENUES AND RELATED COSTS**

Electronic and video revenues and related costs are detailed below for the years ended September 30, 2015 and 2014:

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Toll revenue – electronic	\$ 7,016,986	\$ 4,808,640
Less: electronic processing costs	(466,312)	(315,429)
Toll revenue – electronic, net	<u>\$ 6,550,674</u>	<u>\$ 4,493,211</u>
 Toll revenue – video	 \$ 3,387,169	 \$ 2,456,998
Video billing fees	-	1,465,871
Video violation fees	1,292,280	2,209,986
Less: video processing costs	(442,383)	(1,013,684)
Less: video violation costs	-	(1,490,434)
Toll revenue – video, net	<u>\$ 4,237,066</u>	<u>\$ 3,628,737</u>

**9. SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through January 7, 2016, 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, 2015, 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 7, 2016.

**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 an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as finding 2015-01. 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.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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, WILHELM AND COMPANY, PLLC

Tyler, Texas  
January 7, 2016



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

The Board of Directors  
North East Texas Regional Mobility Authority

### **Report On Compliance for Each Major State Program**

We have audited North East Texas Regional Mobility Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the State of Texas Single Audit Circular that could have a direct and material effect on each of the Authority's major state programs for the year ended September 30, 2015. The Authority's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major state programs based on our audit of the types of compliance requirements referred to above. 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 Auditing Standards*, issued by the Comptroller General of the United States; and 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 the 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 on compliance for each major state program. However, our audit does not provide a legal determination of the Authority's compliance.

### **Opinion on Each Major State Program**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2015.

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

  
PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas  
January 7, 2016

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

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

**State Awards**

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

Identification of major programs:

**STATE**

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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
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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  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Section II – Financial Statement Findings**

**2015-01 Approval of Segment 4 Spending – Compliance Finding**

Criteria: The debt document provides for funds to be spent on Segment 4 of the toll project after the final accretion date, with prior written approval from TxDOT.

Condition: The Authority received permission to spend \$3 million out of their additional funds and could issue five million dollars in additional debt with a third party. As of September 30, 2015, the Authority had spent \$3,593,615 and had not issued the additional \$5 million in debt.

Effect: The additional \$593,615 is not in compliance with the original grant agreement nor the waiver received for additional spending.

Cause: Delays in issuing the additional five million dollars of debt resulted in spending amounts related to construction and development contracts to exceed the three million dollar appropriation by TxDOT.

Auditor's Recommendation: The Authority should obtain written approval for the additional amounts spent, or issue the additional approved debt as agreed upon in the waiver from TxDOT.

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

None

**Section IV – Summary Schedule of Prior Audit Findings**

None

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Findings – Financial Statement Findings**

**2015-01 Approval of Segment 4 Spending – Compliance Finding**

Auditor's Recommendation: The Authority should obtain written approval for the additional amounts spent, or obtain the additional approved debt as agreed upon in the waiver from TxDOT.

Action Taken: Based on written confirmation from TxDOT that they would waive specific terms of the existing SIB Loan Agreement necessary to implement the Interim Loan, the Authority reasonably expected that TxDOT, the Lender and the Authority would be able to agree on relatively simple actions to facilitate the Interim Loan in a timely manner and that the proceeds from the Interim Loan would be available prior to exceeding the \$3,000,000. Unfortunately, review of the required actions was delayed, which has extended the time it has taken to reach agreement on the Loan Documents. If the Interim Loan does not close within a reasonable time the Authority will engage TxDOT in discussions about an alternate approach to resolving the compliance issue so that the project expenditures can continue pursuant to written approval as recommended.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

STATE GRANTOR	STATE NUMBER	STATE EXPENDITURES
<b>TEXAS DEPARTMENT OF TRANSPORTATION</b>		
State Infrastructure Bank Loan Agreement (SIB) and Toll Equity Loan Agreement (TEL)	-	\$ 29,411
Financial Assistant Agreement - Toll Equipment Expenditures	-	974,876
		\$ 1,004,287
Total State Expenditures		\$ 1,004,287

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**NOTE – BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of state awards includes state grant and loan 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 OMB Circular A-133 and 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.