

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY

FINANCIAL STATEMENTS

WITH AUDITORS' REPORT THEREON

SEPTEMBER 30, 2014 and 2013

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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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 of the North East Texas Regional Mobility Authority (Authority), as of and for the years ended September 30, 2014 and 2013, 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 auditor considers 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, 2014 and 2013, and the respective changes in financial position and, where applicable, 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 relate 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 9, 2015, 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 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014 AND 2013
(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, 2014 and 2013. 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, 2014, 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 \$1,603,709 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 by \$134,483,350, net of depreciation expense of \$4,103,214. The increase relates to the contribution of Toll 49 Segments 1, 2, 3A, and 5 by the Texas Department of Transportation.
- Long-term liabilities decreased by \$52,464,954. The decrease relates to the extinguishment of the Toll Equity Loan through a grant from the Texas Department of Transportation.
- The Authority adopted Governmental Accounting Standard Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" during 2013. This statement established guidance for the treatment of debt issuance costs. Under GASB No. 65, debt issuance costs are required to be expensed when incurred. As a result, the Authority's assets and net position were reduced by \$705,592 at September 30, 2013.
- Operating revenues increased by \$9,125,722. Total expenses increased \$5,710,698.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)**

OVERVIEW OF FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position and Changes in Net Position

The Authority's total assets increased \$138,861,957 from 2013 to 2014. In addition, current assets increased \$4,378,607 and noncurrent assets increased by \$134,483,350.

Total liabilities decreased \$52,786,274. The Authority's net position increased \$191,648,231.

	Net Position	
	2014	2013
Current assets	\$ 11,248,813	\$ 6,870,206
Noncurrent assets	<u>237,698,953</u>	<u>103,215,603</u>
Total assets	<u>\$ 248,947,766</u>	<u>\$ 110,085,809</u>
Total liabilities	<u>\$ 60,164,462</u>	<u>\$ 112,950,736</u>
Net position	<u>\$ 188,783,304</u>	<u>\$ (2,864,927)</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)**

FINANCIAL ANALYSIS OF THE AUTHORITY - continued

Changes in Net Position

	2014	2013
Revenues:		
Toll revenues – electronic, net	\$ 4,493,211	\$ 1,675,421
Toll revenues – video, net	3,628,737	840,018
Contributions – member counties	36,000	34,000
Grants and related revenue	3,590,564	41,351
Public donations	-	32,000
Total revenues	<u>11,748,512</u>	<u>2,622,790</u>
Expenses:		
General expenses	263,960	490,638
Toll operating expenses	<u>7,357,759</u>	<u>1,420,383</u>
Total expenses	<u>7,621,719</u>	<u>1,911,021</u>
Nonoperating revenues (expenses)	<u>187,521,438</u>	<u>(668,692)</u>
Change in net position	<u>191,648,231</u>	<u>43,077</u>
Net position, beginning of year	(2,864,927)	(2,202,412)
Prior period adjustment	<u>-</u>	<u>(705,592)</u>
Net position, beginning of year as restated	<u>(2,864,927)</u>	<u>(2,908,004)</u>
Net position, end of year	<u>\$ 188,783,304</u>	<u>\$ (2,864,927)</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)**

Capital Assets and Long-Term Debt

The Authority's capital assets, net of accumulated depreciation, increased by \$134,483,350.

	Capital Assets	
	2014	2013
Property, toll roads, and equipment, net	\$239,513,708	\$ 95,837,172
Construction in progress	2,771,753	7,831,725
Accumulated depreciation	(4,586,508)	(453,294)
Total capital assets, net	<u>\$237,698,953</u>	<u>\$ 103,215,603</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, 2014, 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. Costs of \$2,534 and \$26,747 were incurred by the Authority as of September 30, 2014 and 2013, 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 current fiscal year.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014 AND 2013
(UNAUDITED)**

Long-Term Debt - continued

As of September 30, 2014 and 2013, the Authority had the following long-term debt:

Long-Term Debt

	September 30, 2014	September 30, 2013
Long-term liabilities:		
FAA payable	\$ 12,250,000	\$ 12,250,000
SIB loan payable	43,996,339	39,200,000
TEL payable	-	50,032,600
Subtotal	<u>56,246,339</u>	<u>101,482,600</u>
 SIB accreted interest	 -	 3,013,381
TEL accreted interest	-	3,846,105
 Current year interest payable:		
SIB accrued interest payable	300,233	294,085
TEL accrued interest payable	<u>-</u>	<u>375,355</u>
 Total long-term liabilities	 <u><u>\$ 56,546,572</u></u>	 <u><u>\$ 109,011,526</u></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, 2014 AND 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	\$ 134,067	\$ 97,641
Due from other agencies	2,769,420	1,165,711
Grant receivable and other	5,357	-
Restricted assets:		
Cash and cash equivalents	8,339,969	5,606,854
Total current assets	11,248,813	6,870,206
Noncurrent assets:		
Capital assets:		
Property, toll roads, and equipment	239,513,708	95,837,172
Construction in progress	2,771,753	7,831,725
Accumulated depreciation	(4,586,508)	(453,294)
Total noncurrent assets	237,698,953	103,215,603
TOTAL ASSETS	\$ 248,947,766	\$ 110,085,809
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 3,378,521	\$ 3,688,455
Unearned revenue	239,369	250,755
Total current liabilities	3,617,890	3,939,210
Long-term liabilities:		
Financial assistance agreement payable	12,250,000	12,250,000
Loans payable	43,996,339	96,092,084
Accrued interest payable	300,233	669,442
Total long-term liabilities	56,546,572	109,011,526
Total liabilities	60,164,462	112,950,736
NET POSITION		
Invested in capital assets, net of related debt	181,152,381	-
Restricted	7,797,165	-
Unrestricted, deficit	(166,242)	(2,864,927)
Total net position	188,783,304	(2,864,927)
TOTAL LIABILITIES AND NET POSITION	\$ 248,947,766	\$ 110,085,809

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Toll revenues - electronic, net	\$ 4,493,211	\$ 1,675,421
Toll revenues - video, net	3,628,737	840,018
Contributions - member counties	36,000	34,000
Grants and related revenue	3,590,564	41,351
Public donations	-	32,000
	<hr/>	<hr/>
Total operating revenues	11,748,512	2,622,790
	<hr/>	<hr/>
GENERAL EXPENSES		
Administrative	20,632	157,941
Grant and related expenses	45,547	41,806
Legal and professional	188,951	210,153
Marketing	-	78,831
Trustee and surety bonds	5,391	989
Travel expenses	3,439	918
	<hr/>	<hr/>
Total general expenses	263,960	490,638
	<hr/>	<hr/>
TOLL OPERATING EXPENSES		
Depreciation expense	4,103,214	453,294
General engineering consultants	654,550	221,849
Project director	239,202	39,670
Roadway maintenance	790,638	120,680
Toll equipment maintenance	513,684	221,398
Transmission line charges	64,834	14,253
Project support	368,404	-
Legal fees	405,733	309,678
Toll operating system support	153,707	39,561
Utilities	17,925	-
Insurance	26,781	-
Other expense	19,087	-
	<hr/>	<hr/>
Total toll operating expenses	7,357,759	1,420,383
	<hr/>	<hr/>
Total expenses	7,621,719	1,911,021
	<hr/>	<hr/>
Operating income (loss)	4,126,793	711,769
	<hr/>	<hr/>
NONOPERATING REVENUES (EXPENSES)		
Contribution from TxDOT - Roadway	136,389,584	-
TxDOT grant for debt extinguishment	56,537,568	-
East Texas Hour Glass Study	(1,333,475)	-
Interest income	375	750
Interest expense	(4,072,614)	(669,442)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	187,521,438	(668,692)
	<hr/>	<hr/>
Change in net position	191,648,231	43,077
	<hr/>	<hr/>
NET POSITION, beginning of year	(2,864,927)	(2,202,412)
	<hr/>	<hr/>
Prior period adjustment	-	(705,592)
	<hr/>	<hr/>
NET POSITION, beginning of year as restated	(2,864,927)	(2,908,004)
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NET POSITION, end of year	<u>\$ 188,783,304</u>	<u>\$ (2,864,927)</u>

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from toll revenues	\$ 7,240,174	\$ 3,176,079
Receipts from member counties	36,000	34,000
Receipts from grants	37,873	14,604
Receipts Rusk County - interlocal agreement	2,534	26,747
Receipts from public donations	-	32,000
Payments to vendors	(4,186,284)	(1,057,795)
	<hr/>	<hr/>
Net cash flows provided by (used in) operating activities	3,130,297	2,225,635
	<hr/>	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from SIB and TEL agreements	-	13,050,947
Acquisition of construction costs	(3,371,920)	(17,047,271)
Proceeds from TxDOT Grant for tolling equipment	3,545,000	-
Payment for East Texas Hour Glass Study	(523,538)	-
Acquisition of equipment	(10,673)	-
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(361,131)	(3,996,324)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	375	-
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	2,769,541	(1,770,689)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,704,495	7,475,184
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,474,036	\$ 5,704,495
	<hr/> <hr/>	<hr/> <hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net position	\$ 191,648,231	\$ 43,077
Adjustments to reconcile operating income to net cash provided by operating activities:		
TxDOT grant for tolling equipment	(3,545,000)	-
TxDOT grant for debt extinguishment	(56,537,568)	-
Interest income	(375)	-
Interest expense	4,072,614	-
Contribution from TxDOT - Roadway	(136,389,584)	-
Depreciation	4,103,214	453,294
East Texas Hour Glass Study	1,333,475	-
Change in assets and liabilities:	-	-
(Increase) decrease in grants receivable	(5,357)	27,194
Increase in due from other agencies	(1,603,709)	(1,165,711)
Increase in accounts payable	65,742	2,885,676
Decrease in deferred revenue	(11,386)	(17,895)
	<hr/>	<hr/>
Net cash flows provided by (used in) operating activities	\$ 3,130,297	\$ 2,225,635
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

1. SIGNIFICANT ACCOUNTING POLICIES

General Statement

The financial statements of the North East Texas Regional Mobility Authority (Authority) have been prepared in conformity with accounting practices generally accepted in the United States of America as applied to government units. Generally accepted accounting principles for government units include those principles prescribed by the Governmental Accounting Standards Board (GASB). The Authority applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently apply. 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 2014, 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, 2014 AND 2013

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, 2014 and 2013. 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 two bank accounts: the revenue account, and the administrative and operating account for the purposes of maintenance and operations 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, 2014 AND 2013

1. SIGNIFICANT ACCOUNTING POLICIES – continued

Recent Accounting Pronouncements

During the fiscal year end 2013, the Authority implemented Governmental Accounting Standards Board (GASB) No. 63 “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*,” which changes the Statement of Net Assets to the Statement of Net Position.

During the fiscal year end 2013, the Authority also early implemented GASB No. 65 “*Items Previously Reported as Assets and Liabilities*.” This statement establishes guidance for debt issuance costs and requires these costs to be expensed in the period incurred.

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 2013 financial statements to conform to the 2014 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, 2014 and 2013.

3. RESTRICTED ASSETS

Restricted assets of the Authority consist primarily of cash and cash equivalents at September 30, 2014 and 2013. The majority of the restrictions relate to the SIB loan covenant.

	September 30, 2014	September 30, 2013
Rusk County Interlocal agreement	\$ 239,369	\$ 250,755
SIB and TEL accounts	486,076	4,391,355
Toll revenue account	145,266	489,665
Administrative and operating account	6,311,269	475,079
Restricted general account	1,157,989	-
	<hr/>	<hr/>
Total	\$ 8,339,969	\$ 5,606,854
	<hr/>	<hr/>

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

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, 2014	September 30, 2013
Tolls receivable	\$ 1,473,857	\$ 939,871
Fees receivable	1,295,563	223,888
Other	-	1,952
	<hr/>	<hr/>
Due From Other Agencies	<u>\$ 2,769,420</u>	<u>\$ 1,165,711</u>

5. CAPITAL ASSETS

Capital assets of the Authority consisted of the following as of September 30, 2014 and 2013:

	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 equipment	3,119,000	5,410,519	-	8,529,519
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	<hr/> 103,698,897	<hr/> 143,646,537	<hr/> 5,059,972	<hr/> 242,285,462
Less Accumulated Depreciation	<hr/> (483,294)	<hr/> (4,103,214)	<hr/> -	<hr/> (4,586,508)
Total Capital Assets, net	<u>\$ 103,215,603</u>	<u>\$ 139,543,323</u>	<u>\$ 5,059,972</u>	<u>\$ 237,698,953</u>

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.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

5. CAPITAL ASSETS - continued

	<u>September 30, 2012</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>September 30, 2013</u>
Property, Toll Roads, and Equipment:				
Toll 49 Right of Way	\$ -	\$ 3,043,976	\$ -	\$ 3,043,976
Toll 49 Bridges	-	18,836,635	-	18,836,635
Toll 49 Highway	-	70,837,561	-	70,837,561
Toll 49 Gantries and toll equip.	-	3,119,000	-	3,119,000
Office equipment and other	30,000	-	-	30,000
Construction in progress	-	7,831,725	-	7,831,725
Total Capital Assets	<u>30,000</u>	<u>103,668,897</u>	<u>-</u>	<u>103,698,897</u>
Less Accumulated Depreciation	<u>-</u>	<u>(483,294)</u>	<u>-</u>	<u>(483,294)</u>
Total Capital Assets, net	<u>\$ 30,000</u>	<u>\$103,185,603</u>	<u>\$ -</u>	<u>\$ 103,215,603</u>

Depreciation expense for 2014 and 2013 was \$4,103,214 and \$453,294 respectively.

6. ACCOUNTS PAYABLE

Accounts payable consisted of the following at September 30, 2014 and 2013:

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
Accounts payable – construction	\$ 2,774,243	\$ 3,149,921
Accounts payable – operations	533,567	489,107
Accounts payable – other	<u>70,711</u>	<u>49,427</u>
Total	<u>\$ 3,378,521</u>	<u>\$ 3,688,455</u>

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

7. LONG-TERM LIABILITIES

The following summarizes long-term debt activity of the Authority for the years ended September 30, 2014 and 2013:

	September 30, 2013	Additions	Reductions	September 30, 2014
Long-term liabilities:				
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	<u>101,482,600</u>	<u>10,918,109</u>	<u>56,154,370</u>	<u>56,246,339</u>
 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	<u>375,355</u>	<u>2,283,509</u>	<u>2,658,864</u>	<u>-</u>
 Total long-term liabilities	 <u>\$ 109,011,526</u>	 <u>\$ 14,990,724</u>	 <u>\$ 67,455,678</u>	 <u>\$ 56,546,572</u>

	September 30, 2012	Additions	Reductions	September 30, 2013
Long-term liabilities:				
FAA payable	\$ 12,250,000	\$ -	\$ -	\$ 12,250,000
SIB loan payable	35,183,104	4,016,896	-	39,200,000
TEL payable	44,905,668	5,126,932	-	50,032,600
Subtotal	<u>92,338,772</u>	<u>9,143,828</u>	<u>-</u>	<u>101,482,600</u>
 SIB accreted interest	 1,336,644	 1,676,737	 -	 3,013,381
TEL accreted interest	1,706,016	2,140,089	-	3,846,105
 Current year interest payable:				
SIB accrued interest payable	254,419	1,716,403	1,676,737	294,085
TEL accrued interest payable	<u>324,728</u>	<u>2,190,716</u>	<u>2,140,089</u>	<u>375,355</u>
 Total long-term liabilities	 <u>\$ 95,960,579</u>	 <u>\$ 16,867,773</u>	 <u>\$ 3,816,826</u>	 <u>\$ 109,011,526</u>

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

7. LONG-TERM LIABILITIES - continued

Financial Assistance Agreement

On March 7, 2006, the Authority entered into an agreement with 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. 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 disbursed by TxDOT under the agreement is repaid.

As of September 30, 2014 and 2013, no amounts had been paid on the financial assistance agreement.

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.

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

7. LONG-TERM LIABILITIES - continued

For the years ended September 30, 2014 and 2013, the Authority incurred expenses of \$2,534 and \$26,747 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, 2014 and 2013, the amount of unearned revenue totaled \$239,369 and \$250,755, respectively.

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.

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, 2014 was \$300,233.

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.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

7. LONG-TERM LIABILITIES - continued

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.

Future Payments on SIB loan 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:

Fiscal Year Ended September 30	Principal	Interest	Total Amount
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 and thereafter	46,771,208	51,372,241	98,143,449
Total obligations	\$ 46,812,965	\$ 62,984,829	\$ 109,797,794

NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013

8. TOLL REVENUES AND RELATED COSTS

Electronic and video revenues and related costs are detailed below for the years ended September 30, 2014 and 2013:

	September 30, 2014	September 30, 2013
Toll revenue – electronic	\$ 4,808,640	\$ 1,791,268
Less: electronic processing costs	(315,429)	(115,847)
Toll revenue – electronic, net	<u>\$ 4,493,211</u>	<u>\$ 1,675,421</u>
 Toll revenue – video	 \$2,456,998	 \$788,878
Video billing fees	1,465,871	326,449
Video violation fees	2,209,986	269,484
Less: video processing costs	(1,013,684)	(364,090)
Less: video violation costs	(1,490,434)	(180,703)
Toll revenue – video, net	<u>\$ 3,628,737</u>	<u>\$ 840,018</u>

9. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through January 9, 2015, 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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basis financial statements, and have issued our report thereon dated January 9, 2015.

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.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Compliance and Other Matters

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

Purpose of this Report

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



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
January 9, 2015

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, 2014. 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, 2014.

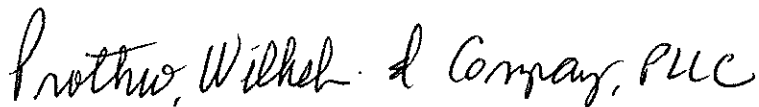
Report on Internal Control Over Compliance

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 9, 2015

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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?	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

State Awards

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Type of 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?	No

Identification of major programs:

STATE

<u>State Number</u>	<u>Name of State Program</u>
-	State Infrastructure Bank Loan Agreement
-	Toll Equity Loan Agreement
-	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, 2014**

Section II – Financial Statement Findings

None

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
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

STATE GRANTOR	STATE NUMBER	STATE EXPENDITURES
TEXAS DEPARTMENT OF TRANSPORTATION		
State Infrastructure Bank Loan Agreement (SIB) and Toll Equity Loan Agreement (TEL)	-	807,811
Financial Assistant Agreement - Toll Equipment Expenditures	-	2,570,134
Total State Expenditures		\$ 3,377,945

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDING SEPTEMBER 30, 2014**

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.