

Montgomery County Toll Road Authority
An Enterprise Fund of Montgomery County, Texas
Financial Statements
For the Fiscal Year Ended September 30, 2020

Montgomery County Toll Road Authority
 Financial Statements
 For the Fiscal Year Ended September 30, 2020
 Table of Contents

Page Exhibit

Financial Section

| | | |
|---|---|--|
| Independent Auditor’s Report..... | 3 | |
| Management’s Discussion and Analysis (Unaudited)..... | 6 | |

Basic Financial Statements

| | | |
|--|----|---|
| Statement of Net Position..... | 12 | A |
| Statement of Revenues, Expenses, and Changes in Net Position | 13 | B |
| Statement of Cash Flows..... | 14 | C |
| Notes to the Financial Statements..... | 15 | |

Other Information (Unaudited)

| | | |
|--|----|--|
| Statement of Net Position – State Highway 249 Operations..... | 24 | |
| Statement of Revenues, Expenses, and Changes in Net Position State Highway 249 Operations | 25 | |

Overall Compliance and Internal Control Section

| | | |
|---|----|--|
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 29 | |
| Schedule of Findings and Responses | 31 | |
| Corrective Action Plan..... | 32 | |

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Financial Section

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Independent Auditor's Report

To the Board of Directors
Montgomery County Toll Road Authority
P.O. Box 539
Conroe, Texas 77305-0539

Report on the Financial Statements

We have audited the accompanying financial statement of net position of the Montgomery County Toll Road Authority (the Authority), as of September 30, 2020, and the related statement of revenues, expenses, and change in net position and cash flows for the fiscal year then ended, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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, 2020, and the changes in financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the Authority restated beginning net position to correct a misstatement in its fiscal year 2019 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, 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 Other Information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Board of Directors
Montgomery County Toll Road Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2021 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
March 26, 2021

Management's Discussion and Analysis

This section of Montgomery County Toll Road Authority's (the Authority) financial statements presents our discussion and analysis of the Authority's financial performance during the fiscal year ended September 30, 2020. It is intended to serve as an introduction to the basic financial statements which follow this section. Please read it in conjunction with those statements.

Financial Highlights

- The total assets of the Authority exceeded its total liabilities at the close of the most recent fiscal year by \$3,021,847 (net position). See Note 8 for information regarding the prior period restatement.
- Operating revenues exceeded expense by \$261,503, and the Authority realized net nonoperating revenues and (expenses) of (\$46,840,068), this amount includes a loss on the disposal of infrastructure assets due to transferring State Highway 242 direct connector ramps to the Texas Department of Transportation.
- The Authority's capital assets (net) decreased to \$75,397,870 during the fiscal year due to the transfer of the State Highway 242 direct connector ramps.
- The Authority's noncurrent liabilities decreased to \$94,921,886 during the fiscal year due to amortization of bond premium.

Required Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) The Statement of Net Position which includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities); 2) The Statement of Revenues, Expenses and Changes in Net Position shows the enterprise fund activities of the Authority and provides information regarding income and expenses, both operating and nonoperating, that affect the net position; and 3) The Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the period using the direct method of reporting cash flows from operating, investing, and capital and noncapital financing activities.

Notes to the Financial Statements

Integral to the financial statements are the notes to the basic statements. These notes provide additional information that is essential to a full understanding of the financial data provided in the basic financial statements. The Authority has prepared notes sufficient to provide the readers of these financial statements a clear picture of the Authority's financial position and insight into the results of its operations. These notes are in conformity with generally accepted accounting principles (GAAP).

Financial Analysis of the Authority

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$3,021,847 at the close of the most recent fiscal year.

Table A-1
Montgomery County Toll Road Authority's Net Position

| | 2020 | | Enterprise Fund | | Increase (Decrease) | |
|----------------------------------|---------------------|------------|----------------------|------------|------------------------|------|
| | Amount | % | 2019 | | Amount | % |
| | | | Amount | % | | |
| Current assets | \$ 58,121,895 | 44 | \$ 82,663,090 | 47 | \$ (24,541,195) | (30) |
| Noncurrent assets: | | | | | | |
| Capital assets | 75,397,870 | 56 | 93,323,207 | 53 | (17,925,337) | (19) |
| Total assets | 133,519,765 | 100 | 175,986,297 | 100 | (42,466,532) | |
| Current liabilities | 35,576,032 | 27 | 42,192,162 | 31 | (6,616,130) | (16) |
| Noncurrent liabilities | 94,921,886 | 73 | 95,190,104 | 69 | (268,218) | - |
| Total liabilities | 130,497,918 | 100 | 137,382,266 | 100 | (6,884,348) | |
| Net position: | | | | | | |
| Net investment in capital assets | 3,651,930 | 121 | 39,385,042 | 102 | (35,733,112) | (91) |
| Unrestricted | (630,083) | (21) | (781,011) | (2) | 150,928 | (19) |
| Total net position | \$ 3,021,847 | 100 | \$ 38,604,031 | 100 | \$ (35,582,184) | |

The Authority's total assets of \$133,519,765 are largely comprised of current assets of \$58,121,895 or 44%, which are made up of mostly cash and investments of \$57,318,008. These assets will be used to pay for infrastructure for the State Highway 249 Tollway. Capital assets net of accumulated depreciation of \$75,397,870 or 56% make up the remaining amount of total assets. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

Noncurrent liabilities of \$94,921,886 comprise 73% of the Authority's total liabilities of \$130,497,918. Noncurrent liabilities are comprised of bonds payable.

The largest portion of the Authority's net position is net investment in capital assets. Net investment in capital assets (e.g., infrastructure), less any related debt used to acquire those assets that are still outstanding is \$3,651,930, or 121% of total net position. Although the Authority's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Authority's net position decreased \$38,794,103 from current operations. The Authority's beginning net position was increased by \$3,211,919 as a result of a prior period restatement, see Note 8 for more information.

Table A-2
Montgomery County Toll Road Authority's Changes in Net Position

| | Enterprise Fund | | | | | |
|--|---------------------|------|----------------------|------|------------------------|-------|
| | 2020 | | 2019 | | Increase (Decrease) | |
| | Amount | % | Amount | % | Amount | % |
| Operating revenues: | | | | | | |
| Toll revenue | \$ 5,097,422 | 100 | \$ 1,055,106 | 100 | \$ 4,042,316 | 383 |
| Total operating revenues | 5,097,422 | 100 | 1,055,106 | 100 | 4,042,316 | |
| Operating expenses: | | | | | | |
| Services and fees | 808,473 | 17 | 2,898,954 | 78 | (2,090,481) | (72) |
| Depreciation and amortization | 4,027,446 | 83 | 830,235 | 22 | 3,197,211 | 385 |
| Total operating expenses | 4,835,919 | 100 | 3,729,189 | 100 | 1,106,730 | |
| Operating income (loss) | 261,503 | | (2,674,083) | | 2,935,586 | |
| Nonoperating revenues (expenses): | | | | | | |
| Investment earnings | 305,192 | - | 1,728,673 | (12) | (1,423,481) | (82) |
| Miscellaneous | 24,500 | - | - | - | 24,500 | 100 |
| Interest and fiscal charges | (4,115,781) | 9 | (4,383,999) | 30 | 268,218 | (6) |
| Loss of disposal of capital assets | (43,053,979) | 92 | (12,205,224) | 82 | (30,848,755) | 253 |
| Total nonoperating revenues (expenses) | (46,840,068) | 101 | (14,860,550) | 100 | (31,979,518) | |
| Income (loss) before contributions and transfers | (46,578,565) | 120 | (17,534,633) | 188 | (29,043,932) | 166 |
| Capital contributions | - | - | 8,200,000 | (88) | (8,200,000) | (100) |
| Transfer in | 7,784,462 | (20) | - | - | 7,784,462 | 100 |
| Change in net position | (38,794,103) | 100 | (9,334,633) | 100 | (29,459,470) | |
| Beginning net position | 38,604,031 | | 47,938,664 | | (9,334,633) | |
| Prior period adjustment | 3,211,919 | | - | | 3,211,919 | |
| Net position - beginning, as restated | 41,815,950 | | 47,938,664 | | (6,122,714) | |
| Ending net position | \$ 3,021,847 | | \$ 38,604,031 | | \$ (35,582,184) | |

The Authority's total revenues and transfers in of \$13,211,576 were comprised of operating revenues of \$5,097,422, nonoperating revenues of \$329,692, and transfers in of \$7,784,462. Operating revenues flow from the Authority's primary business of toll revenues to the Authority's customers. Charges for toll revenue of \$5,097,422 represents 39% of total revenues. The increase in toll revenue was due to the State Highway 249 toll project earning additional toll revenue in 2020. Nonoperating revenues flow from peripheral activities of the Authority and are dominated by investment earnings. Transfers in are from Montgomery County, Texas (the primary government), that are intended to assist with expansion and upgrade of the Authority's infrastructure. Transfers in represented 59% of total revenue in 2020.

Total operating expenses were \$4,835,919. Services and fees accounted for \$808,473, or 17% of that amount, and depreciation and amortization expense accounted for \$4,027,446, or 83% of that amount. Major nonoperating expenses included interest and fiscal charges of \$4,383,999 and a loss on the disposal of infrastructure assets. The Authority transferred the State Highway 242 connector ramps to the Texas Department of Transportation in 2020 due to the Authority no longer collecting tolls on the connector ramps. The total loss on the disposal was \$43,053,979.

Capital Assets and Debt Administration

At the end of 2020, the Authority had invested \$79,425,316 in capital assets. More detailed information about the Authority's capital assets is presented in the notes to the financial statements.

The Authority's major capital asset activity during the year included the following:

- Infrastructure for the State Highway 249 Tollway project which totaled \$29,156,088.
- Disposal of State Highway 242 connector ramps to the Texas Department of Transportation.

Table A-3
Montgomery County Toll Road Authority's Capital Assets

| | Enterprise Fund | | | | | |
|----------------------------------|----------------------|------------|----------------------|------------|------------------------|------|
| | 2020 | | 2019 | | Increase (Decrease) | |
| | Amount | % | Amount | % | Amount | % |
| Equipment | \$ 34,638 | - | \$ - | - | \$ 34,638 | - |
| Infrastructure | 79,390,678 | 105 | 98,742,576 | 106 | (19,351,898) | (20) |
| Total capital assets | 79,425,316 | | 98,742,576 | | (19,317,260) | |
| Accumulated depreciation | (4,027,446) | (5) | (5,419,369) | (6) | 1,391,923 | (26) |
| Total capital assets, net | \$ 75,397,870 | 100 | \$ 93,323,207 | 100 | \$ (17,925,337) | |

At year-end, the Authority had \$94,921,886 in bonds payable outstanding. More detailed information about the Authority's debt is presented in the notes to the financial statements.

Table A-4
Montgomery County Toll Road Authority's Noncurrent Liabilities

| | Enterprise Fund | | | | | |
|------------------------------|-----------------|-----|---------------|-----|---------------------|-----|
| | 2020 | | 2019 | | Increase (Decrease) | |
| | Amount | % | Amount | % | Amount | % |
| Bonds payable | \$ 94,921,886 | 100 | \$ 95,190,104 | 100 | \$ (268,218) | 100 |
| Total noncurrent liabilities | \$ 94,921,886 | 100 | \$ 95,190,104 | 100 | \$ (268,218) | |

Economic Factors and Next Year's Budgets and Rates

The Authority continues to improve and expand the toll road system to meet growing demand. Since 2019, the State Highway 249 Tollway construction was underway and continued through fiscal year 2020.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Montgomery County Auditor, P.O. Box 539, Conroe, Texas 77305-0539.

Basic Financial Statements

Montgomery County Toll Road Authority

Statement of Net Position

September 30, 2020

Exhibit A**ASSETS**

Current assets:

| | |
|----------------------------|---------------|
| Cash and cash equivalents | \$ 35,618,130 |
| Investments, at fair value | 21,699,878 |
| Accounts receivable | 803,887 |

Total current assets 58,121,895

Noncurrent assets:

Capital assets, net of accumulated depreciation:

| | |
|----------------|------------|
| Equipment | 28,865 |
| Infrastructure | 75,369,005 |

Total noncurrent assets 75,397,870

Total assets 133,519,765

LIABILITIES

Current liabilities:

| | |
|---------------------------|------------|
| Accounts payable | 213,622 |
| Interest Payable | 182,667 |
| Due to primary government | 35,179,743 |

Total current liabilities 35,576,032

Noncurrent liabilities:

| | |
|---------------|------------|
| Bonds payable | 94,921,886 |
|---------------|------------|

Total noncurrent liabilities 94,921,886

Total liabilities 130,497,918

NET POSITION

| | |
|----------------------------------|-----------|
| Net investment in capital assets | 3,651,930 |
| Unrestricted | (630,083) |

TOTAL NET POSITION \$ 3,021,847

Montgomery County Toll Road Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2020

Exhibit B

OPERATING REVENUES

| | |
|-------------------------------|--------------|
| Fees and charges for services | \$ 5,097,422 |
| | <hr/> |
| Total operating revenues | 5,097,422 |

OPERATING EXPENSES

| | |
|-------------------------------|-----------|
| Services | 808,473 |
| Depreciation and amortization | 4,027,446 |
| | <hr/> |
| Total operating expenses | 4,835,919 |
| | <hr/> |
| Operating income | 261,503 |

NONOPERATING REVENUES (EXPENSES)

| | |
|------------------------------------|--------------|
| Investment earnings | 305,192 |
| Miscellaneous | 24,500 |
| Interest and fiscal charges | (4,115,781) |
| Loss on disposal of infrastructure | (43,053,979) |
| | <hr/> |

| | |
|--|--------------|
| Total nonoperating revenues (expenses) | (46,840,068) |
| | <hr/> |

| | |
|---|--------------|
| Loss before contributions and transfers | (46,578,565) |
|---|--------------|

| | |
|--------------|-----------|
| Transfers in | 7,784,462 |
| | <hr/> |

| | |
|------------------------|--------------|
| Change in net position | (38,794,103) |
|------------------------|--------------|

| | |
|--------------------------|------------|
| Net position - beginning | 38,604,031 |
|--------------------------|------------|

| | |
|-------------------------|-----------|
| Prior period adjustment | 3,211,919 |
| | <hr/> |

| | |
|---------------------------------------|------------|
| Net position - beginning, as restated | 41,815,950 |
| | <hr/> |

| | |
|------------------------------------|---------------------|
| TOTAL NET POSITION - ENDING | \$ 3,021,847 |
| | <hr/> <hr/> |

Montgomery County Toll Road Authority
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2020

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---------------------------------------|--------------|
| Receipts from tolls | \$ 4,302,957 |
| Payments to vendors | (5,614,962) |
| Miscellaneous receipts | 24,500 |
| | <hr/> |
| Net cash used in operating activities | (1,287,505) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-----------|
| Receipts from primary government | 1,410,508 |
| | <hr/> |
| Net cash provided by noncapital financing activities | 1,410,508 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|--------------|
| Purchase of capital assets | (29,156,088) |
| Interest paid on capital debt | (4,383,999) |
| Transfers from primary government | 7,784,462 |
| | <hr/> |
| Net cash used in capital and related financing activities | (25,755,625) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|------------|
| Purchase of investments | 31,844,576 |
| Interest received | 305,192 |
| | <hr/> |
| Net cash provided by investing activities | 32,149,768 |

| | |
|---|------------|
| Net increase in cash and cash equivalents | 6,517,146 |
| Cash and cash equivalents - beginning of period | 29,100,984 |
| | <hr/> |

| | |
|--|----------------------|
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 35,618,130 |
| | <hr/> <hr/> |

**RECONCILIATION OF OPERATING INCOME
TO NET CASH USED IN OPERATING ACTIVITIES:**

| | |
|--|-------------|
| Operating income | \$ 261,503 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 4,027,446 |
| (Increase) decrease in accounts receivable | (794,465) |
| Increase (decrease) in accounts payable | (4,806,489) |
| Miscellaneous receipts | 24,500 |
| | <hr/> |

| | |
|--|-----------------------|
| NET CASH USED IN OPERATING ACTIVITIES | \$ (1,287,505) |
| | <hr/> <hr/> |

Montgomery County Toll Road Authority

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

The financial statements of the Montgomery County Toll Road Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority was created by the Commissioners' Court of Montgomery County, Texas (the County) in August 2006. The Authority serves all citizens of the County and is governed by the members of Commissioners' Court and is funded by the County, toll revenues, and other contributions. The Authority was incorporated under the provisions of Texas Transportation Code Act, Chapter 431 with the purpose to aid in the planning, design, improvement and financing of transportation projects throughout the County. The Commissioners' Court has full oversight responsibility of the Authority and the Authority is included in County's financial statements as an enterprise fund.

B. Basis of Presentation and Measurement Focus

The accompanying basic financial statements have been prepared on the full accrual basis of accounting as prescribed by the GASB. Full accrual accounting uses a flow of economic resources measurement focus.

The basic financial statements of the Authority consist of Management's Discussion and Analysis (MD&A), Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

Revenues are recognized in the period earned. The Authority's operating revenues are derived from charges to users of the toll roads in the County. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources to the extent they are needed.

Expenses are recognized in the period incurred. The Authority's operating expenses consist primarily of direct charges attributable to the operations of the Authority, including depreciation. Interest expense and other similar charges not directly related to the Authority's operations are reported as non-operating expenses.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Montgomery County Toll Road Authority

Notes to the Financial Statements

2. Investments

Investments for the Authority, except for certain money market accounts and master repurchase agreements, are reported at fair value. The money market accounts and master repurchase agreements are exempt from fair value reporting and are therefore reported at amortized cost and cost, respectively.

3. Capital Assets

Capital assets, which include infrastructure assets (e.g. toll roads), are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and a useful life in excess of five years, except for infrastructure which requires an initial cost of more than \$10,000.

As the Authority constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of an item or increase its estimated useful life. Donated capital assets are reported at their estimated acquisition value at the date of donation.

Capital assets, including infrastructure, are depreciated using the straight-line method over estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|--------------------|-------------------------------|
| Equipment | 5-15 years |
| Infrastructure | 20-50 years |

E. Revenues and Expenses

Operating and nonoperating revenues and expenses

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues are charges to customers for tolls. Operating expenses for the fund includes the cost for services and fees and depreciation on capital assets and amortization expense on premiums on bonds payable. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2. Cash, Cash Equivalents, and Temporary Investments

The Authority is required to follow Chapter 2256 of the Texas Government Code also known as the Public Funds Investment Act. This act authorizes the Authority to invest its funds pursuant to a written investment policy which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

Montgomery County Toll Road Authority

Notes to the Financial Statements

The Authority's investment balances, weighted average maturity, and credit risk of such investments are as follows:

| Investment Type | 9/30/2020 Investments | Fair Value Measurements Using Significant Other Observable Inputs (Level 2) | Percent of Total Investments | Weighted Average Maturity (Days) | Credit Risk |
|--|--------------------------|--|------------------------------------|---|----------------|
| Investments measured at amortized cost: | | | | | |
| Money Market Funds | \$ 13,892,170 | \$ - | 64% | 1 | AAAm* |
| Investments subject to fair value: | | | | | |
| U.S. Treasury Notes | 5,994,812 | 5,994,812 | 28% | 138 | Not rated |
| Investments measured at cost: | | | | | |
| Master Repurchase Agreements | 1,812,896 | - | 8% | 138 | Not rated |
| Total value/weighted average maturity | \$ 21,699,878 | \$ 5,994,812 | 100% | 50 | |

* rated by Standard & Poor's

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Master Repurchase Agreements are measured at cost and are exempt for fair value reporting.

Money Market Funds are measured at amortized cost and are exempt for fair value reporting.

U.S. Treasury Notes are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quotes prices.

Montgomery County Toll Road Authority

Notes to the Financial Statements

Interest Rate Risk. In accordance with its written investment policy, the Authority manages its exposure to declines in fair value by limiting the maturity of its investments to less than two years at the time of purchase, except commercial paper must have a stated maturity of 270 days or fewer from date of issuance.

Credit Risk. In accordance with the Public Funds Investment Act, the Commissioner's Court has enacted policies to ensure compliance with state laws regarding the deposit of Authority funds and maintains a formal depository resolution with their depository bank. The depository resolution provides for collateralization of funds in accordance with state and federal statutes.

While state statutes allow for additional investments, the Authority's formal investment policy authorizes the Authority to only invest in the following: 1) Time Deposits, 2) Certificates of Deposit, 3) Money Market Investment Accounts, 4) Negotiable Order of Withdrawal (NOW) Accounts, 5) United States Treasury Bills, 6) United States Government Securities, as defined in TX Government Code, Section 2256.009, 7) Fully collateralized direct repurchase agreements as defined in TX Government Code, Section 2256.011, 8) Discount Government Agencies, excluding Federal Home Loan Mortgage Corporation (Freddie Mac and Fannie Mae's), 9) Any "Public Funds Pool" authorized by State Statute, 10) Commercial Paper as defined in TX Government Code, Section 2256.013.

Concentration of Credit Risk. The investment policy does not have any provisions regarding the amount that may be invested in any one issuer. However, the Investment Committee regularly reviews that saturation for anything in excess of 25%.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2020, the Authority's bank balances were not exposed to custodial credit risk because it was insured and collateralized with securities held by the Authority's agent in the Authority's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are held by the Authority's agent in the Authority's name for the benefit of the Authority.

Note 3. Accounts Receivable

Accounts receivable at September 30, 2020 includes \$803,887 earned from toll revenue during the period. The Authority has assessed its accounts receivable for collectibility and determined no allowance is required.

Montgomery County Toll Road Authority

Notes to the Financial Statements

Note 4. Capital Assets

Capital assets activity for the fiscal year ended September 30, 2020 was as follows:

| | 9/30/2019 Balance | Increases | Decreases | 9/30/2020 Balance |
|--|----------------------|----------------------|------------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Construction in Progress | \$ 50,269,228 | \$ 29,121,450 | \$ (79,390,678) | \$ - |
| Total capital assets being depreciated | 50,269,228 | 29,121,450 | (79,390,678) | - |
| Capital assets being depreciated: | | | | |
| Infrastructure | 48,473,348 | - | 30,917,330 | 79,390,678 |
| Equipment | - | 34,638 | - | 34,638 |
| Total capital assets being depreciated | 48,473,348 | 34,638 | 30,917,330 | 79,425,316 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (5,419,369) | (4,021,673) | 5,419,369 | (4,021,673) |
| Equipment | - | (5,773) | - | (5,773) |
| Total accumulated depreciated | (5,419,369) | (4,027,446) | 5,419,369 | (4,027,446) |
| Total capital assets, net | \$ 93,323,207 | \$ 25,128,642 | \$ (43,053,979) | \$ 75,397,870 |

Depreciation expense for the fiscal year ended September 30, 2020 was \$4,027,446.

Note 5. Noncurrent Liabilities

Noncurrent liabilities for the fiscal year ended September 30, 2020 consist of revenue bonds. Principal and interest payments are secured by revenues derived from operation and/or ownership of the system. Changes in noncurrent liabilities for the period ended September 30, 2020 are as follows:

| | 9/30/2019 Balance | Increases | Decreases | 9/30/2020 Balance |
|-------------------------------------|----------------------|-------------|---------------------|----------------------|
| Noncurrent liabilities: | | | | |
| Revenue bonds payable | \$ 87,680,000 | \$ - | \$ - | \$ 87,680,000 |
| Deferred amounts: | | | | |
| Unamortized premium, revenue bonds | 7,510,104 | - | (268,218) | 7,241,886 |
| Total noncurrent liabilities | \$ 95,190,104 | \$ - | \$ (268,218) | \$ 94,921,886 |

The Authority issued a revenue bonds to provide funds for the construction and equipment for roads. The revenue bond was issued as 30 current interest bonds at 5% with a final maturing in 2048.

Montgomery County Toll Road Authority

Notes to the Financial Statements

The requirements to amortize all debts outstanding as of September 30, 2020 are as follows:

| Year Ending September 30, | Series 2018 | | |
|------------------------------|----------------------|----------------------|-----------------------|
| | Principal | Interest | Total |
| 2021 | \$ - | \$ 4,384,000 | \$ 4,384,000 |
| 2022 | - | 4,384,000 | 4,384,000 |
| 2023 | 500,000 | 4,384,000 | 4,884,000 |
| 2024 | 1,000,000 | 4,359,000 | 5,359,000 |
| 2025 | 1,500,000 | 4,309,000 | 5,809,000 |
| 2026 | 2,045,000 | 4,234,000 | 6,279,000 |
| 2027 | 2,145,000 | 4,131,750 | 6,276,750 |
| 2028 | 2,255,000 | 4,024,500 | 6,279,500 |
| 2029 | 2,365,000 | 3,911,750 | 6,276,750 |
| 2030 | 2,485,000 | 3,793,500 | 6,278,500 |
| 2031 | 2,610,000 | 3,669,250 | 6,279,250 |
| 2032 | 2,740,000 | 3,538,750 | 6,278,750 |
| 2033 | 2,875,000 | 3,401,750 | 6,276,750 |
| 2034 | 3,020,000 | 3,258,000 | 6,278,000 |
| 2035 | 3,170,000 | 3,107,000 | 6,277,000 |
| 2036 | 3,330,000 | 2,948,500 | 6,278,500 |
| 2037 | 3,495,000 | 2,782,000 | 6,277,000 |
| 2038 | 3,670,000 | 2,607,250 | 6,277,250 |
| 2039 | 3,855,000 | 2,423,750 | 6,278,750 |
| 2040 | 4,045,000 | 2,231,000 | 6,276,000 |
| 2041 | 4,260,000 | 2,028,750 | 6,288,750 |
| 2042 | 4,450,000 | 1,816,250 | 6,266,250 |
| 2043 | 4,685,000 | 1,593,250 | 6,278,250 |
| 2044 | 4,920,000 | 1,359,000 | 6,279,000 |
| 2045 | 5,165,000 | 1,113,000 | 6,278,000 |
| 2046 | 5,420,000 | 854,750 | 6,274,750 |
| 2047 | 5,695,000 | 583,750 | 6,278,750 |
| 2048 | 5,980,000 | 299,000 | 6,279,000 |
| Totals | \$ 87,680,000 | \$ 81,530,500 | \$ 169,210,500 |

Arbitrage Rebate Liability

The Tax Reform Act of 1986 established regulations for the rebate to the federal government of arbitrage earnings on certain local government bonds issued after December 31, 1985, and all local governmental bonds issued after August 31, 1986. Issuing governments must calculate any rebate due and remit the amount due at least every five years. There were no arbitrage rebate payments made during fiscal year 2020. As of September 30, 2020 there were no estimated liabilities for arbitrage rebate due.

Montgomery County Toll Road Authority

Notes to the Financial Statements

Note 6. Risk Management

The Authority is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2020, the Authority carried commercial insurance for property and liability risks of loss. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Note 7. Due to Primary Government

The amounts owed to the primary government are the initial startup costs and administration of the Authority which will be repaid with future toll revenues.

Note 8. Prior Period Adjustment

Net position at September 30, 2019 was restated for the overstatement of expenses of \$3.2 million representing retainage that should have been capitalized. The correction of the error is presented in the following table:

| | |
|--|-----------------------------|
| Net position - beginning, as previously reported | \$ 38,604,031 |
| Correct beginning balance of capital assets | <u>3,211,919</u> |
| Net position - beginning, as restated | <u>\$ 41,815,950</u> |

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Other Information

Montgomery County Toll Road Authority
Statement of Net Position
State Highway 249 Operations
Segment of the Montgomery County Toll Road Authority
September 30, 2020

ASSETS

Current assets:

| | |
|----------------------------|---------------|
| Investments, at fair value | \$ 21,699,878 |
| Accounts receivable | 802,401 |
| | <hr/> |
| Total current assets | 22,502,279 |

Noncurrent assets:

Capital assets, net of accumulated depreciation:

| | |
|-------------------------|------------|
| Equipment | 28,865 |
| Infrastructure | 75,369,005 |
| | <hr/> |
| Total noncurrent assets | 75,397,870 |

| | |
|--------------|------------------------|
| Total assets | <hr/> <hr/> 97,900,149 |
|--------------|------------------------|

LIABILITIES

Current liabilities:

| | |
|---------------------------|---------|
| Accounts payable | 213,618 |
| Interest Payable | 182,667 |
| Due to primary government | 3,000 |
| | <hr/> |
| Total current liabilities | 399,285 |

Noncurrent liabilities:

| | |
|------------------------------|------------|
| Bonds payable | 94,921,886 |
| | <hr/> |
| Total noncurrent liabilities | 94,921,886 |

| | |
|-------------------|------------------------|
| Total liabilities | <hr/> <hr/> 95,321,171 |
|-------------------|------------------------|

NET POSITION

| | |
|----------------------------------|-------------|
| Net investment in capital assets | 3,651,930 |
| Unrestricted | (1,072,952) |
| | <hr/> |

| | |
|---------------------------|--------------------------------|
| TOTAL NET POSITION | <hr/> <hr/> <hr/> \$ 2,578,978 |
|---------------------------|--------------------------------|

Montgomery County Toll Road Authority

Statement of Revenues, Expenses, and Changes in Net Position

State Highway 249 Operations

Segment of the Montgomery County Toll Road Authority

For the Fiscal Year Ended September 30, 2020

OPERATING REVENUES

| | |
|-------------------------------|--------------|
| Fees and charges for services | \$ 5,035,459 |
|-------------------------------|--------------|

| | |
|--------------------------|-----------|
| Total operating revenues | 5,035,459 |
|--------------------------|-----------|

OPERATING EXPENSES

| | |
|----------|---------|
| Services | 716,924 |
|----------|---------|

| | |
|-------------------------------|-----------|
| Depreciation and amortization | 4,027,446 |
|-------------------------------|-----------|

| | |
|--------------------------|-----------|
| Total operating expenses | 4,744,370 |
|--------------------------|-----------|

| | |
|------------------|---------|
| Operating income | 291,089 |
|------------------|---------|

NONOPERATING REVENUES (EXPENSES)

| | |
|---------------------|---------|
| Investment earnings | 277,975 |
|---------------------|---------|

| | |
|---------------|--------|
| Miscellaneous | 24,500 |
|---------------|--------|

| | |
|-----------------------------|-------------|
| Interest and fiscal charges | (4,115,781) |
|-----------------------------|-------------|

| | |
|--|-------------|
| Total nonoperating revenues (expenses) | (3,813,306) |
|--|-------------|

| | |
|------------------------|-------------|
| Change in net position | (3,522,217) |
|------------------------|-------------|

| | |
|--------------------------|-----------|
| Net position - beginning | 2,889,276 |
|--------------------------|-----------|

| | |
|-------------------------|-----------|
| Prior period adjustment | 3,211,919 |
|-------------------------|-----------|

| | |
|---------------------------------------|-----------|
| Net position - beginning, as restated | 6,101,195 |
|---------------------------------------|-----------|

| | |
|------------------------------------|---------------------|
| TOTAL NET POSITION - ENDING | \$ 2,578,978 |
|------------------------------------|---------------------|

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Overall Compliance and Internal Control Section

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Independent Auditor's 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*

To the Board of Directors
Montgomery County Toll Road Authority
P.O. Box 539
Conroe, Texas 77305-0539

We have audited, 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, the financial statements of the Montgomery County Toll Road Authority (the Authority) as of and for the fiscal year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 26, 2021.

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) as a basis for designing 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 an 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 entity'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 over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a material weakness.

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*.

The Board of Directors
Montgomery County Toll Road Authority

The Authority's Response to Findings

The Authority's response to the finding 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 on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
March 26, 2021

Montgomery County Toll Road Authority
Schedule of Findings and Responses
For the Fiscal Year Ended September 30, 2020

Section 1. Summary of Auditor's Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to the financial statements? | No |

Section 2. Findings Related to Financial Statements

Finding 2020-001: Material Weakness in Internal Control over Financial Reporting: Misstatement of Capital Assets

Criteria

Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Condition:

During our audit procedures, we identified a misstatement in the Authority's expenses of approximately \$3.2 million which resulted in a restatement of beginning net position.

Cause:

Approximately \$3.2 million of capital expenditures incurred in a previous period representing the County's retainage liability were not capitalized in the period incurred, because the County's practice was to capitalize retainage when paid rather than when incurred. This resulted in an understatement of prior-period capital assets, and an overstatement of prior-period expenses that was not detected by the County's internal controls over financial statement closing and monitoring procedures.

Effect or Potential Effect:

Misstatements of the Authority's financial statements were not prevented, or detected and corrected, by the Authority's system of internal control. Failure to establish effective monitoring and closing procedures may allow misstatements to exist and be reported without being identified.

Recommendation

We recommend that the Authority implement a policy that requires retainage to be capitalized in the period incurred for all funds that use the economic measurement focus and the accrual basis of accounting.

Findings Related to Compliance with Laws and Regulations

None reported



Montgomery County, Texas
Office of the County Auditor
501 North Thompson, Suite 205, Conroe, Texas 77301
P.O. Box 539, Conroe, Texas 77305

Rakesh Pandey, CPA
County Auditor

Angela H. Blocker
1st Assistant County Auditor

Section 2. Findings Related to Financial Statements

**Finding 2020-001: Material Weakness in Internal Control over Financial Reporting:
Misstatement of Capital Assets**

Management Response and Corrective Action:

In addition to correcting the misstatements identified during the audit by adjusting the financial statements accordingly, Montgomery County has adjusted its closing procedures to properly capitalize retainage in the year incurred.

Person(s) Responsible:

County Auditor
Budget and Financial Reporting Supervisor
MCTRA Financial Analyst

Anticipated Completion Date:

April 1, 2021

Respectfully submitted,

Rakesh Pandey
Montgomery County Auditor

RP/sle