

**MONTGOMERY COUNTY
TOLL ROAD AUTHORITY**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2021

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

TABLE OF CONTENTS

Page Number

FINANCIAL SECTION

Independent Auditor's Report..... 1 – 2

Management's Discussion and Analysis 3 – 6

Basic Financial Statements:

Statement of Net Position 7

Statement of Revenues, Expenses, and Changes in Net Position 8

Statement of Cash Flows 9

Notes to Financial Statements 10 – 14

Other Information (Unaudited):

Schedule of Revenues, Expenses
State Highway 249 Operations..... 15

FEDERAL AND STATE AWARDS

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 16 – 17

THIS PAGE LEFT BLANK INTENTIONALLY

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Toll Road Authority
Conroe, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Montgomery County Toll Road Authority (the Authority), as of September 30, 2021, 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 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 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 opinions.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Opinions

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, 2021, 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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 29, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2021. 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 \$1,981,403 (net position).
- Operating revenues exceeded expense by \$2,638,625, and the Authority realized net nonoperating revenues and (expenses) of \$1,040,444.
- The Authority's capital assets (net) decreased to \$71,422,581 during the fiscal year due to \$4,027,446 of depreciation.
- The Authority's noncurrent liabilities decreased to \$94,653,668 during the fiscal year due to amortization of bond premium.

OVERVIEW OF THE 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 \$1,981,403 at the close of the most recent fiscal year.

**MONTGOMERY COUNTY TOLL ROAD AUTHORITY'S
NET POSITION**

	Enterprise Fund					
	2021		2020		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 25,494,661	26	\$ 58,121,895	44	\$ (32,627,234)	(56)
Capital assets	<u>71,422,581</u>	<u>74</u>	<u>75,397,870</u>	<u>56</u>	<u>(3,975,289)</u>	<u>(5)</u>
Total assets	<u>96,917,242</u>	<u>100</u>	<u>133,519,765</u>	<u>100</u>	<u>(36,602,523)</u>	<u>(27)</u>
Current liabilities	282,171	-	35,576,032	27	(35,293,861)	(99)
Long-term liabilities	<u>94,653,668</u>	<u>100</u>	<u>94,921,886</u>	<u>73</u>	<u>(268,218)</u>	<u>-</u>
Total liabilities	<u>94,935,839</u>	<u>100</u>	<u>130,497,918</u>	<u>100</u>	<u>(35,562,079)</u>	<u>(27)</u>
Net position:						
Net investment in capital assets	(8,687,077)	(438)	3,651,930	121	(12,339,007)	(338)
Unrestricted	<u>10,668,480</u>	<u>538</u>	<u>(630,083)</u>	<u>(21)</u>	<u>11,298,563</u>	<u>(1,793)</u>
Total net position	<u>\$ 1,981,403</u>	<u>538</u>	<u>\$ 3,021,847</u>	<u>(21)</u>	<u>\$ (1,040,444)</u>	<u>(34)</u>

The Authority's total assets of \$96,917,242 are largely comprised of current assets of \$25,494,661 or 26%, which are made up of mostly cash and investments of \$24,340,771. Current assets will be used for operations, maintenance, and future capital enhancements. Capital assets net of accumulated depreciation of \$71,422,581 or 74% 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 \$94,653,668 comprise 99.7% of the Authority's total liabilities of \$94,935,839. Noncurrent liabilities are comprised of bonds payable.

A 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 (\$8,687,077), or -438% 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 \$1,040,444 from current operations.

**MONTGOMERY COUNTY TOLL ROAD AUTHORITY'S
CHANGES IN NET POSITION**

	Enterprise Fund					
	2021		2020		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Operating revenues:						
Fees and charges for service	\$ 11,432,092	100	\$ 5,097,422	100	\$ 6,334,670	124
Total operating revenues	<u>11,432,092</u>	<u>100</u>	<u>5,097,422</u>	<u>100</u>	<u>6,334,670</u>	<u>124</u>
Operating expenses:						
Services	4,766,021	54	808,473	17	3,957,548	490
Depreciation and amortization	<u>4,027,446</u>	<u>46</u>	<u>4,027,446</u>	<u>83</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>8,793,467</u>	<u>100</u>	<u>4,835,919</u>	<u>100</u>	<u>3,957,548</u>	<u>490</u>
Operating income (loss)	2,638,625		261,503		2,377,122	909
Nonoperating revenues (expenses):						
Investment earnings	436,713	(12)	305,192	(1)	131,521	43
Miscellaneous	-	-	24,500	-	(24,500)	(100)
Interest and fiscal charges	(4,115,782)	112	(4,115,781)	9	(1)	-
Loss of disposal of capital assets	<u>-</u>	<u>-</u>	<u>(43,053,979)</u>	<u>92</u>	<u>43,053,979</u>	<u>(100)</u>
Total nonoperating revenues (expenses)	<u>(3,679,069)</u>	<u>100</u>	<u>(46,840,068)</u>	<u>100</u>	<u>43,160,999</u>	<u>(157)</u>
Income (loss) before transfers	(1,040,444)	100	(46,578,565)	120	45,538,121	(98)
Transfer in	<u>-</u>	<u>-</u>	<u>7,784,462</u>	<u>(20)</u>	<u>(7,784,462)</u>	<u>(100)</u>
Change in net position	<u>(1,040,444)</u>	<u>100</u>	<u>(38,794,103)</u>	<u>100</u>	<u>37,753,659</u>	<u>(97)</u>
Net position, beginning	<u>3,021,847</u>		<u>41,815,950</u>		<u>(38,794,103)</u>	<u>(93)</u>
Net position, ending	\$ <u>1,981,403</u>		\$ <u>3,021,847</u>		\$ <u>(1,040,444)</u>	<u>(34)</u>

The Authority's total revenues and transfers in of \$11,868,805 were comprised of operating revenues of \$11,432,092, and nonoperating revenues of \$436,713. Operating revenues flow from the Authority's primary business of toll revenues to the Authority's customers. Charges for toll revenue of \$11,432,092 represents 96% of total revenues. The increase in toll revenue was due to the State Highway 249 toll project earning additional toll revenue in 2021. Nonoperating revenues flow from peripheral activities of the Authority and are dominated by investment earnings of \$436,713.

Total operating expenses were \$8,793,467. Services and fees accounted for \$4,766,021, or 54% of that amount, and depreciation expense accounted for \$4,027,446, or 46% of that amount. Of these expenses, \$2,900,000 pertained to a disbursement to the primary government.

Major nonoperating expenses included interest and fiscal charges of \$4,115,782.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2021, the Authority had invested \$79,477,473 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:

- Construction in progress for the State Highway 249 Tollway project which totaled \$52,157.

**MONTGOMERY COUNTY TOLL ROAD AUTHORITY'S
CAPITAL ASSETS**

	Enterprise Fund					
	2021		2020		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Equipment	\$ 34,638	-	\$ 34,638	-	\$ -	-
Infrastructure	79,390,678	111	79,390,678	105	-	-
Construction in progress	52,157	-	-	-	52,157	100
Total capital assets	79,477,473		79,425,316		52,157	
Accumulated depreciation	(8,054,892)	(11)	(4,027,446)	(5)	(4,027,446)	100
Total capital assets	\$ 71,422,581	100	\$ 75,397,870	100	\$ (3,975,289)	(5)

At year-end, the Authority had \$94,653,668 in bonds payable outstanding. More detailed information about the Authority's debt is presented in the notes to the financial statements.

**MONTGOMERY COUNTY TOLL ROAD AUTHORITY'S
NONCURRENT LIABILITIES**

	Enterprise Fund					
	2021		2020		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Bonds payable	\$ 94,653,668	100	\$ 94,924,886	100	\$ (271,218)	-
Total noncurrent liabilities	\$ 94,653,668	100	\$ 94,924,886	100	\$ (271,218)	-

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority continues to improve and expand the toll road system to meet growing demand. Since 2020, the State Highway 249 Tollway construction was underway and continued through fiscal year 2021.

REQUESTS FOR INFORMATION

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**

THIS PAGE LEFT BLANK INTENTIONALLY

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

STATEMENT OF NET POSITION

SEPTEMBER 30, 2021

ASSETS

Current assets:

Cash and cash equivalents	\$ 485,508
Investments, at fair value	23,855,263
Accounts receivable	1,055,344
Due from primary government	98,546
Total current assets	<u>25,494,661</u>

Capital assets, net of accumulated depreciation:

Equipment	23,092
Infrastructure	71,347,332
Construction in progress	52,157
Total noncurrent assets	<u>71,422,581</u>
Total assets	<u>96,917,242</u>

LIABILITIES

Current liabilities:

Accounts payable	99,504
Interest payable	182,667
Total current liabilities	<u>282,171</u>

Noncurrent liabilities:

Bonds payable	<u>94,653,668</u>
Total noncurrent liabilities	<u>94,653,668</u>
Total liabilities	<u>94,935,839</u>

NET POSITION

Net investment in capital assets	(8,687,077)
Unrestricted	<u>10,668,480</u>
Total net position	<u>\$ 1,981,403</u>

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

FOR THE YEAR ENDED SEPTEMBER 30, 2021

OPERATING REVENUES

Fees and charges for service	\$ 11,432,092
Total operating revenues	<u>11,432,092</u>

OPERATING EXPENSES

Services	4,766,021
Depreciation and amortization	<u>4,027,446</u>
Total operating expenses	<u>8,793,467</u>

OPERATING INCOME (LOSS)

2,638,625

NONOPERATING REVENUES (EXPENSES)

Investment earnings	436,713
Interest and fiscal charges	<u>(4,115,782)</u>
Total nonoperating revenues (expenses)	<u>(3,679,069)</u>

CHANGE IN NET POSITION

(1,040,444)

NET POSITION - BEGINNING

3,021,847

TOTAL NET POSITION - ENDING

\$ 1,981,403

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tolls	\$ 11,180,635
Payments to vendors	(4,880,139)
Net cash provided (used) by operating activities	<u>6,300,496</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Payments to primary government	(35,278,289)
Net cash provided (used) in noncapital financing activities	<u>(35,278,289)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(52,157)
Interest paid on capital debt	(4,384,000)
Net cash provided (used) in capital and related financing activities	<u>(4,436,157)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(2,155,385)
Interest received	<u>436,713</u>
Net cash provided (used) in investing activities	<u>(1,718,672)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (35,132,622)

CASH AND CASH EQUIVALENTS - BEGINNING 35,618,130

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 485,508

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

Operating income	\$ 2,638,625
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	4,027,446
(Increase) decrease in accounts receivable	(251,457)
Increase (decrease) in accounts payable	<u>(114,118)</u>
Total adjustments	<u>3,661,871</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 6,300,496

THIS PAGE LEFT BLANK INTENTIONALLY

Montgomery County Toll Road Authority

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

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 nonoperating 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

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.

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.

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:

Assets	Years
Equipment	5-15
Infrastructure	20-50

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.

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.

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

Investment Type	9/30/2021 Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at amortized cost:			
Money Market Funds	\$ <u>23,855,263</u>	<u>1</u>	AAAm
Total value/weighted average maturity	\$ <u>23,855,263</u>	<u>1</u>	

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. The Authority's investments were measured at Level 1.

- 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 with 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.

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, 2021, 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.

3. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2021 includes \$1,055,344 earned from toll revenue during the period. The Authority has assessed its accounts receivable for collectability and determined no allowance is required.

4. CAPITAL ASSETS

Capital assets activity for the fiscal year ended September 30, 2021 was as follows:

	9/30/2020 Balance	Increases	Decreases	9/30/2021 Balance
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 52,157	\$ -	\$ 52,157
Total capital assets not being depreciated	-	52,157	-	52,157
Capital assets being depreciated:				
Infrastructure	79,390,678	-	-	79,390,678
Equipment	34,638	-	-	34,638
Total capital assets being depreciated	79,425,316	-	-	79,425,316
Less accumulated depreciation for:				
Infrastructure	(4,021,673)	(4,021,673)	-	(8,043,346)
Equipment	(5,773)	(5,773)	-	(11,546)
Total accumulated depreciated	(4,027,446)	(4,027,446)	-	(8,054,892)
Total capital assets, net	\$ 75,397,870	\$ (3,975,289)	\$ -	\$ 71,422,581

Depreciation expense for the fiscal year ended September 30, 2021 was \$4,027,446.

5. NONCURRENT LIABILITIES

Noncurrent liabilities for the fiscal year ended September 30, 2021 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, 2021 are as follows:

	9/30/2020 Balance	Increases	Decreases	9/30/2021 Balance
Noncurrent liabilities:				
Revenue bonds payable	\$ 87,680,000	\$ -	\$ -	\$ 87,680,000
Deferred amounts:				
Unamortized premium, revenue bonds	7,241,886	-	268,218	6,973,668
Total	\$ 94,921,886	\$ -	\$ 268,218	\$ 94,653,668

The requirements to amortize all debts outstanding as of September 30, 2021 are as follows:

Fiscal Year	Principal	Interest	Total
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
Total	\$ 87,680,000	\$ 77,146,500	\$ 164,826,500

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 2021. As of September 30, 2021 there were no estimated liabilities for arbitrage rebate due.

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 2021, 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.

THIS PAGE LEFT BLANK INTENTIONALLY

OTHER INFORMATION

THIS PAGE LEFT BLANK INTENTIONALLY

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES

STATE HIGHWAY 249 OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

REVENUES

Fees and charges for service	\$ 11,419,344
Total revenues	<u>11,419,344</u>

OPERATING EXPENDITURES

Services	1,861,243
Depreciation and amortization	<u>4,027,446</u>
Total expenditures	<u>5,888,689</u>

Operating income	<u>5,530,655</u>
------------------	------------------

NONOPERATING REVENUES (EXPENSES)

Investment earnings	436,713
Interest and fiscal charges	(<u>4,115,782</u>)
Total nonoperating revenues (expenses)	(<u>3,679,069</u>)

Change in net position	\$ <u>1,851,586</u>
------------------------	---------------------

THIS PAGE LEFT BLANK INTENTIONALLY

COMPLIANCE SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



**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**

Board of Directors
Montgomery County Toll Road Authority
Conroe, Texas

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 year ended September 30, 2021, 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 29, 2022.

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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

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 financial statements. 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 on 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 29, 2022