

MONTGOMERY COUNTY TOLL ROAD AUTHORITY



ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2022

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Toll Road Authority
Conroe, Texas

Report on the Financial Statements

Opinions

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, 2022, 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.

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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement due date, including any currently known information that may raise substantial doubt shortly thereafter.

OFFICE LOCATIONS

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the introductory section, and the Schedule of Revenues and Expenses for State Highway 249's Operations, but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2023, 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 solely 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 the effectiveness of 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 28, 2023

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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, 2022. 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 \$6,158,244 (net position).
- Operating revenues exceeded expense by \$8,173,760, and the Authority realized net nonoperating revenues and (expenses) of \$4,176,841.
- The Authority's capital assets (net) decreased to \$67,727,787 during the fiscal year due to \$4,037,706 of depreciation.
- The Authority's noncurrent liabilities decreased to \$93,885,450 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 \$6,158,244 at the close of the most recent fiscal year.

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

	Enterprise Fund					
	2022		2021		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 33,146,977	33	\$ 25,494,661	44	\$ 7,652,316	30
Capital assets	<u>67,727,787</u>	<u>67</u>	<u>71,422,581</u>	<u>56</u>	<u>(3,694,794)</u>	<u>(5)</u>
Total assets	<u>100,874,764</u>	<u>100</u>	<u>96,917,242</u>	<u>100</u>	<u>3,957,522</u>	<u>4</u>
Current liabilities	831,070	1	282,171	27	548,899	195
Noncurrent liabilities	<u>93,885,450</u>	<u>99</u>	<u>94,653,668</u>	<u>73</u>	<u>(768,218)</u>	<u>(1)</u>
Total liabilities	<u>94,716,520</u>	<u>100</u>	<u>94,935,839</u>	<u>100</u>	<u>(219,319)</u>	<u>(0)</u>
Net position:						
Net investment in capital assets	(12,382,813)	(201)	(8,687,077)	121	(3,695,736)	43
Unrestricted	<u>18,541,057</u>	<u>301</u>	<u>10,668,480</u>	<u>(21)</u>	<u>7,872,577</u>	<u>74</u>
Total net position	<u>\$ 6,158,244</u>	<u>301</u>	<u>\$ 1,981,403</u>	<u>(21)</u>	<u>\$ 4,176,841</u>	<u>211</u>

The Authority's total assets of \$100,874,764 are largely comprised of current assets of \$33,146,977 or 33%, which are made up of mostly cash and investments of \$31,708,706. Current assets will be used for operations, maintenance, and future capital enhancements. Capital assets net of accumulated depreciation of \$67,727,787 or 67% 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 \$93,885,450 comprise 99.1% of the Authority's total liabilities of \$94,716,520. 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 (\$12,382,813). 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 increased \$4,176,841 from current operations.

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

	Enterprise Fund					
	2022		2021		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Operating revenues:						
Fees and charges for service	\$ 14,899,513	100	\$ 11,432,092	100	\$ 3,467,421	30
Total operating revenues	<u>14,899,513</u>	<u>100</u>	<u>11,432,092</u>	<u>100</u>	<u>3,467,421</u>	<u>30</u>
Operating expenses:						
Services	2,688,047	40	4,766,021	54	(2,077,974)	(44)
Depreciation and amortization	4,037,706	60	4,027,446	46	10,260	0
Total operating expenses	<u>6,725,753</u>	<u>100</u>	<u>8,793,467</u>	<u>100</u>	<u>(2,067,714)</u>	<u>(43)</u>
Operating income (loss)	8,173,760		2,638,625		5,535,135	210
Nonoperating revenues (expenses):						
Investment earnings	118,863	(3)	436,713	(12)	(317,850)	(73)
Interest and fiscal charges	(4,115,782)	103	(4,115,782)	112	-	-
Total nonoperating revenues (expenses)	<u>(3,996,919)</u>	<u>100</u>	<u>(3,679,069)</u>	<u>100</u>	<u>(317,850)</u>	<u>(73)</u>
Change in net position	<u>4,176,841</u>	<u>100</u>	<u>(1,040,444)</u>	<u>100</u>	<u>5,217,285</u>	<u>(501)</u>
Net position, beginning	<u>1,981,403</u>		<u>3,021,847</u>		(1,040,444)	(34)
Net position, ending	<u>\$ 6,158,244</u>		<u>\$ 1,981,403</u>		<u>\$ 4,176,841</u>	<u>211</u>

The Authority's total revenues of \$15,018,376 were comprised of operating revenues of \$14,899,513, and nonoperating revenues of \$118,863. Operating revenues flow from the Authority's primary business of toll revenues to the Authority's customers. Charges for toll revenue of \$14,899,513 represents 99% of total revenues. The increase in toll revenue was due to the State Highway 249 toll project earning additional toll revenue in 2022. Nonoperating revenues flow from peripheral activities of the Authority and are dominated by investment earnings of \$118,863.

Total operating expenses were \$6,725,753. Services and fees accounted for \$2,688,047, or 40% of that amount, and depreciation expense accounted for \$4,037,706, or 60% of that amount.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2022, the Authority had invested \$79,820,385 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 \$281,352.

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

	Enterprise Fund					
	2022		2021		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Equipment	\$ 96,198	-	\$ 34,638	-	\$ 61,560	178
Infrastructure	79,390,678	117	79,390,678	111	-	-
Construction in progress	<u>333,509</u>	<u>-</u>	<u>52,157</u>	<u>-</u>	<u>281,352</u>	<u>100</u>
Total capital assets	79,820,385		79,477,473		342,912	
Accumulated depreciation	(12,092,598)	(17)	(8,054,892)	(11)	(4,037,706)	50
Total capital assets	<u>\$ 67,727,787</u>	<u>100</u>	<u>\$ 71,422,581</u>	<u>100</u>	<u>\$(3,694,794)</u>	<u>(5)</u>

At year-end, the Authority had \$94,385,450 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
LONG-TERM DEBT**

	Enterprise Fund					
	2022		2021		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Bonds payable	\$ 94,385,450	100	\$ 94,653,668	100	\$ (268,218)	-
Total long-term debt	\$ 94,385,450	100	\$ 94,653,668	100	\$ (268,218)	-

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 2022.

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.

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**BASIC
FINANCIAL STATEMENTS**

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

STATEMENT OF NET POSITION

SEPTEMBER 30, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$ 199,885
Investments, at fair value	31,508,821
Accounts receivable	1,312,537
Due from primary government	<u>125,734</u>
Total current assets	<u>33,146,977</u>

Capital assets, net of accumulated depreciation:

Equipment	68,619
Infrastructure	67,325,659
Construction in progress	<u>333,509</u>
Total noncurrent assets	<u>67,727,787</u>
Total assets	<u>100,874,764</u>

LIABILITIES

Current liabilities:

Accounts payable	148,403
Interest payable	182,667
Bonds payable	<u>500,000</u>
Total current liabilities	<u>831,070</u>

Noncurrent liabilities:

Bonds payable	<u>93,885,450</u>
Total noncurrent liabilities	<u>93,885,450</u>
Total liabilities	<u>94,716,520</u>

NET POSITION

Net investment in capital assets	(12,382,813)
Unrestricted	<u>18,541,057</u>
Total net position	<u>\$ 6,158,244</u>

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2022

OPERATING REVENUES	
Fees and charges for service	\$ 14,899,513
Total operating revenues	<u>14,899,513</u>
OPERATING EXPENSES	
Services	2,688,047
Depreciation and amortization	<u>4,037,706</u>
Total operating expenses	<u>6,725,753</u>
OPERATING INCOME (LOSS)	8,173,760
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	118,863
Interest and fiscal charges	<u>(4,115,782)</u>
Total nonoperating revenues (expenses)	<u>(3,996,919)</u>
CHANGE IN NET POSITION	<u>4,176,841</u>
NET POSITION - BEGINNING	<u>1,981,403</u>
TOTAL NET POSITION - ENDING	\$ <u>6,158,244</u>

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MONTGOMERY COUNTY TOLL ROAD AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tolls	\$ 14,642,320
Payments to vendors	(2,639,148)
Net cash provided (used) by operating activities	<u>12,003,172</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Payments to primary government	(27,188)
Net cash provided (used) in noncapital financing activities	<u>(27,188)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(342,912)
Interest paid on capital debt	(4,384,000)
Net cash provided (used) in capital and related financing activities	<u>(4,726,912)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(7,653,558)
Interest received	118,863
Net cash provided (used) in investing activities	<u>(7,534,695)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(285,623)

CASH AND CASH EQUIVALENTS - BEGINNING

485,508

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 199,885

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

Operating income	\$ 8,173,760
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortizaion	4,037,706
(Increase) decrease in accounts receivable	(257,193)
Increase (decrease) in accounts payable	48,899
Total adjustments	<u>3,829,412</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 12,003,172

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

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	9/30/2022 Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at amortized cost:			
Money Market Funds	\$ <u>31,508,821</u>	<u>1</u>	AAAm
Total value/weighted average maturity	\$ <u>31,508,821</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, 2022, 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, 2022 includes \$1,312,537 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, 2022 was as follows:

	9/30/2021 Balance	Increases	Decreases	9/30/2022 Balance
Capital assets not being depreciated:				
Construction in progress	\$ 52,157	\$ 281,352	\$ -	\$ 333,509
Total capital assets not being depreciated	<u>52,157</u>	<u>281,352</u>	<u>-</u>	<u>333,509</u>
Capital assets being depreciated:				
Infrastructure	79,390,678	-	-	79,390,678
Equipment	<u>34,638</u>	<u>61,560</u>	<u>-</u>	<u>96,198</u>
Total capital assets being depreciated	<u>79,425,316</u>	<u>61,560</u>	<u>-</u>	<u>79,486,876</u>
Less accumulated depreciation for:				
Infrastructure	(8,043,346)	(4,021,673)	-	(12,065,019)
Equipment	<u>(11,546)</u>	<u>(16,033)</u>	<u>-</u>	<u>(27,579)</u>
Total accumulated depreciated	<u>(8,054,892)</u>	<u>(4,037,706)</u>	<u>-</u>	<u>(12,092,598)</u>
Total capital assets, net	<u>\$ 71,422,581</u>	<u>\$ (3,694,794)</u>	<u>\$ -</u>	<u>\$ 67,727,787</u>

Depreciation expense for the fiscal year ended September 30, 2022 was \$4,037,706.

5. NONCURRENT LIABILITIES

Noncurrent liabilities for the fiscal year ended September 30, 2022 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, 2022 are as follows:

	9/30/2021 Balance	Increases	Decreases	9/30/2022 Balance	Due Within One Year
Noncurrent liabilities:					
Revenue bonds payable	\$ 87,680,000	\$ -	\$ -	\$ 87,680,000	\$ 500,000
Deferred amounts:					
Unamortized premium	<u>6,973,668</u>	<u>-</u>	<u>268,218</u>	<u>6,705,450</u>	<u>-</u>
Total	<u>\$ 94,653,668</u>	<u>\$ -</u>	<u>\$ 268,218</u>	<u>\$ 94,385,450</u>	<u>\$ 500,000</u>

The requirements to amortize all debts outstanding as of September 30, 2022 are as follows:

Fiscal Year	Principal	Interest	Total
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	\$ 72,762,500	\$ 160,442,500

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 2022. As of September 30, 2022 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 2022, 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.

OTHER INFORMATION

MONTGOMERY COUNTY TOLL ROAD AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES

STATE HIGHWAY 249 OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

REVENUES

Fees and charges for service	\$ 14,886,357
Total revenues	<u>14,886,357</u>

OPERATING EXPENDITURES

Services	2,683,814
Depreciation and amortization	<u>4,037,706</u>
Total expenditures	<u>6,721,520</u>

Operating income	<u>8,164,837</u>
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NONOPERATING REVENUES (EXPENSES)

Investment earnings	118,863
Interest and fiscal charges	<u>(4,115,782)</u>
Total nonoperating revenues (expenses)	<u>(3,996,919)</u>

Change in net position	\$ <u>4,167,918</u>
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COMPLIANCE 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

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, 2022, 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 28, 2023.

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 28, 2023