

**BRAZORIA COUNTY
TOLL ROAD AUTHORITY**

ANNUAL FINANCIAL REPORT

For The Year Ended
September 30, 2023



8 WEST WAY COURT
LAKE JACKSON, TX 77566
(979) 297-4075



**BRAZORIA COUNTY
TOLL ROAD AUTHORITY**

*Annual Financial Report
For The Year Ended September 30, 2023*

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FINANCIAL SECTION





Independent Auditor's Report

To the Board of Directors
Brazoria County Toll Road Authority
Brazoria County, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Brazoria County Toll Road Authority (the "Authority") as of and for the year ended September 30, 2023, 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, 2023, and the respective changes in financial position and cash flows thereof for the 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 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 date, including any currently known information that may raise substantial doubt shortly thereafter.

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To the Board of Directors
Brazoria County Toll Road Authority
Brazoria County, Texas

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 generally accepted auditing standards 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 generally accepted auditing standards 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.

To the Board of Directors
Brazoria County Toll Road Authority
Brazoria County, Texas

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the other information section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic 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 basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic 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 February 13, 2024, 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 the Authority's 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 Authority's internal control over financial reporting and compliance.

KM&L, LLC

Lake Jackson, Texas
February 13, 2024



BRAZORIA COUNTY TOLL ROAD AUTHORITY

*Management's Discussion and Analysis
For the Year Ended September 30, 2023*

As management of the Brazoria County Toll Road Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2023.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 33,607,537 (net position). Of this amount, \$ 26,226,974 represents unrestricted net position.
- The Authority's total net position increased by \$ 4,523,027.

Enterprise Fund Financial Statements

The Authority is a local government corporation and a component unit of Brazoria County (the "County"). It is a single-purpose government with one business-type activity. Because the Authority is a single-purpose government, this report only includes the required Management Discussion and Analysis, the Enterprise Fund financial statements and the notes to the financial statements. The Enterprise Fund financial statements consist of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The enterprise fund financial statements, which can be found on pages 15 through 17 of this report, are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to private-sector businesses.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the enterprise fund financial statements. The notes to the financial statements can be found on pages 20 through 29 of this report.

Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 33,607,537 as of September 30, 2023.

The portion of the Authority's net position of \$ 7,327,114 reflects its investments in capital assets (e.g., land, construction in progress, land improvements, furniture, equipment & vehicles, and infrastructure), less any debt used to acquire those assets that is still outstanding. The Authority uses capital assets to provide service to citizens and consequently these assets are not available for future spending. Although the Authority's 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.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Management's Discussion and Analysis
For the Year Ended September 30, 2023

CONDENSED STATEMENTS OF NET POSITION

	<u>2023</u>	<u>2022</u>
Assets:		
Current and other assets	\$ 29,848,375	\$ 29,957,487
Capital assets	<u>113,980,882</u>	<u>118,028,777</u>
Total assets	<u>143,829,257</u>	<u>147,986,264</u>
Liabilities:		
Current and other liabilities	18,209,389	27,467,465
Long-term liabilities	<u>92,012,331</u>	<u>91,434,289</u>
Total liabilities	<u>110,221,720</u>	<u>118,901,754</u>
Net Position:		
Net investment in capital assets	7,327,114	12,048,530
Restricted	53,449	139,044
Unrestricted	<u>26,226,974</u>	<u>16,896,936</u>
Total net position	<u>\$ 33,607,537</u>	<u>\$ 29,084,510</u>

As of September 30, 2023, the Authority had restricted net position of \$ 53,449, which represents funds held by a trustee for debt service. The remaining balance is unrestricted net position of \$ 26,226,974.

STATEMENTS OF CHANGES IN NET POSITION

	<u>2023</u>	<u>2022</u>
Operating Revenues:		
Toll revenue	\$ <u>15,363,422</u>	\$ <u>12,217,945</u>
Total operating income	<u>15,363,422</u>	<u>12,217,945</u>
Operating Expenses:		
Services and fees	1,932,628	1,789,657
Repairs and maintenance	421,710	434,861
Utilities	6,910	5,598
Transportation, travel and other admin	198,219	187,937
Depreciation	<u>5,006,827</u>	<u>5,006,239</u>
Total operating expenses	<u>7,566,294</u>	<u>7,424,292</u>
Operating income	<u>7,797,128</u>	<u>4,793,653</u>

(continued)

BRAZORIA COUNTY TOLL ROAD AUTHORITY

*Management's Discussion and Analysis
For the Year Ended September 30, 2023*

	<u>2023</u>	<u>2022</u>
Non-operating Revenues (Expenses):		
Investment income	\$ 1,124,567	\$ 151,971
Interest and fiscal charges	(4,421,063)	(3,337,512)
Total non-operating revenues (expenses)	(3,296,496)	(3,185,541)
Income before capital contributions	4,500,632	1,608,112
Capital contributions	<u>22,395</u>	<u>33,956</u>
Change in net position	4,523,027	1,642,068
Net position - beginning	<u>29,084,510</u>	<u>27,442,442</u>
Net position - ending	<u>\$ 33,607,537</u>	<u>\$ 29,084,510</u>

As of September 30, 2023 net position increased by \$ 4,523,027. The key elements to the increase in net position were due to the following:

- Toll revenue of \$ 15,363,422 due to steady growth in traffic counts year over year combined with a slight toll rate adjustment in accordance with demand.
- Operating expenses of \$ 7,566,294 was consistent with the prior year.
- Increased interest and fiscal charges of \$ 4,421,063 due to payment on loan from primary government was offset by a corresponding increase in investment income due to favorable rates in the current fiscal year.

Capital Assets - As of September 30, 2023, the Authority had \$ 113,980,882 invested in land, construction in progress, land improvements, furniture, equipment & vehicles, and infrastructure, reflected in the following schedule:

CAPITAL ASSETS		
Net of Accumulated Depreciation		
	<u>2023</u>	<u>2022</u>
Land	\$ 88,425	\$ 88,425
Construction in progress	730,217	13,417
Land improvements	7,695,844	8,715,572
Furniture, equipment & vehicles	3,271,219	3,546,786
Infrastructure	<u>102,195,177</u>	<u>105,664,577</u>
Total	<u>\$ 113,980,882</u>	<u>\$ 118,028,777</u>

The overall decrease in capital assets was primarily the result of depreciation. Additional information on the Authority's capital assets can be found in Note 4 on pages 26 through 27.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

*Management's Discussion and Analysis
For the Year Ended September 30, 2023*

Long-Term Debt - As of September 30, 2023, the Authority had total bonds outstanding of \$ 84,336,289.

LONG-TERM DEBT

	<u>2023</u>	<u>2022</u>
Revenue bonds	\$ 84,336,289	\$ 83,357,734
Premium on bonds	<u>7,676,042</u>	<u>8,076,555</u>
Total	<u>\$ 92,012,331</u>	<u>\$ 91,434,289</u>

Brazoria County, Texas and the Authority received ratings of Aa1, AA+, and AA+ from Moody's, Fitch, and Standard & Poor's ("S&P"), respectively. Additional information on the Authority's long-term debt can be found in Note 5 on page 27 through 28.

Economic Factors

The County continues to enjoy growth. The population of the county is estimated at 387,584 and is projected to grow to 428,106 by 2027.

The most recent data available indicates the number of households has increased to 134,555 and is expected to grow to 149,380 by 2027. Estimated Average (Mean) Household Income is \$108,015 and is expected to grow to \$127,987 by 2027. Income per capita is currently at \$37,821 and is expected to grow to \$44,950.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Brazoria County Auditor, 237 E. Locust, Suite 403, Angleton, TX 77515, or call (979) 864-1275.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Statement of Net Position

September 30, 2023

Assets:

Cash and temporary investments	\$ 28,465,583
Receivables (net of allowance for uncollectibles):	
Due from other government	22,395
Tolls	1,345,717
Prepaid expense	14,680
Capital Assets:	
Land	88,425
Construction in progress	730,217
Land improvements, net	7,695,844
Furniture, equipment & vehicles, net	3,271,219
Infrastructure, net	<u>102,195,177</u>
Total assets	<u>143,829,257</u>

Liabilities:

Accounts payable	1,238,911
Accrued interest payable	430,063
Due to primary government	16,540,415
Noncurrent Liabilities:	
Due within one year	400,513
Due in more than one year	<u>91,611,818</u>
Total liabilities	<u>110,221,720</u>

Net Position:

Net investment in capital assets	7,327,114
Restricted for:	
Debt service	53,449
Unrestricted	<u>26,226,974</u>
Total net position	<u>\$ 33,607,537</u>

The notes to the financial statements are an integral part of this statement.

BRAZORIA COUNTY TOLL ROAD AUTHORITY
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended September 30, 2023

Operating Revenues:	
Toll revenue	\$ <u>15,363,422</u>
Total operating revenues	<u>15,363,422</u>
Operating Expenses:	
Services and fees	1,932,628
Repairs and maintenance	421,710
Utilities	6,910
Transportation, travel and other admin	198,219
Depreciation	<u>5,006,827</u>
Total operating expenses	<u>7,566,294</u>
Operating income	<u>7,797,128</u>
Non-Operating Revenues (Expenses):	
Investment income	1,124,567
Interest and fiscal charges	<u>(4,421,063)</u>
Total non-operating revenues (expenses)	<u>(3,296,496)</u>
Net income before contributions	4,500,632
Capital contributions	<u>22,395</u>
Change in net position	4,523,027
Net position - beginning	<u>29,084,510</u>
Net position - ending	<u>\$ 33,607,537</u>

The notes to the financial statements are an integral part of this statement.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Statement of Cash Flows

For the Year Ended September 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tolls and other	\$ 15,221,904
Payment of toll operation expenses	(2,566,071)
Net cash provided by operating activities	<u>12,655,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned on investments	<u>1,124,567</u>
Net cash provided by investing activities	<u>1,124,567</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(859,083)
Loans from primary government	3,760
Payments on loan from primary government	(9,556,652)
Interest and fiscal charges	(3,645,320)
Net cash used by capital and related financing activities	(14,057,295)
Net decrease in cash and temporary investments	(276,895)
Cash and temporary investments - beginning	<u>28,742,478</u>
Cash and temporary investments - ending	<u>\$ 28,465,583</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Activities:	
Operating income	\$ 7,797,128
Adjustments to Operations:	
Depreciation	5,006,827
Changes in Assets and Liabilities:	
Increase In:	
Tolls receivable	(141,518)
Prepaid expense	(3,737)
Accounts payable	(2,867)
Net cash provided for operating activities	<u>\$ 12,655,833</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond accretion	\$(978,555)
Bond premium amortization	400,513
Capital contributions	<u>22,395</u>
	<u>\$(555,647)</u>

The accompanying notes are an integral part of these financial statements.



BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

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BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Brazoria County Toll Road Authority (the "Authority") was created by order of Brazoria County, Texas on December 16, 2003, to aid, assist and act on behalf of Brazoria County, Texas in the development of transportation projects within the County, including the Brazoria County Expressway, which subsequently may be extended and pooled with other projects as part of the Brazoria County Toll Road System. The Authority is a local government corporation established under Chapter 284 and 431 of the Texas Transportation Code.

Based on criteria prescribed by generally accepted accounting principles, the Authority is considered a discretely presented component unit of Brazoria County, Texas (the "County"). The primary criteria for inclusion of the Authority in the County's financial reporting entity is that of financial accountability. The Commissioners Court, the elected governing body of the County, appoints the Authority's governing body. The County has financial accountability because it appoints a voting majority of the Board and the County can impose its will on the Authority. As such, the County is financially accountable for the Authority and the Authority is considered a discretely presented component unit of the County.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of these activities are included in the statement of net position.

Grants are considered earned to the extent of the expenditures are made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the related and authorized expenditures have been made. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Cash and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Authority. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value.

Receivables

Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets, which include land and construction in progress are used in the Authority's operations. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$ 5,000 or more and over two years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Land improvements	10 Years
Furniture, equipment & vehicles	7-15 Years
Infrastructure	15-75 Years

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

Long-Term Debt

Long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses at the time of the transaction.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on the use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. As of September 30, 2023, the Authority reported \$ 53,449 of net position restricted to debt service.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Authority classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures. Cash and temporary investments as reported on the financial statements at September 30, 2023 are as follows:

	<u>Total</u>
Cash and Temporary Investments:	
Financial Institution Deposits:	
Demand deposits	\$ 8,471,199
Local Government Investment Pools:	
Texpool	7,749,375
Texas CLASS	11,966,481
U.S. Bank Government Obligation Fund	<u>278,528</u>
Cash and temporary investments total	<u>\$ 28,465,583</u>

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to them. The Authority requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

At September 30, 2023, the carrying amount, of the Authority's deposits, were \$ 8,471,199, while the financial institution balances totaled \$ 8,796,354. Of the financial institution balances, \$ 250,000 was covered by federal depository insurance coverage, and \$ 8,546,354 was covered by collateral held by the Authority's agent in the Authority's name.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the Authority to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The Authority's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Directors. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the Authority will deposit funds is addressed. The Authority's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The Authority's management believes it complied with the requirements of the PFIA and the Authority's investment policy.

The Authority's Investment Officer submits an investment report each quarter to the Board of Directors. The report details the investment positions of the Authority and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The Authority is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. No-load money market mutual funds: regulated by SEC, with a dollar-weighted average stated maturity of 90 days or less, includes in its investment objectives the maintenance of a stable \$ 1.00 net asset value per each share, and limited in quantity to the requirements, set forth in Chapter 2256, Government Code Section 2256.014;
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
6. Certificates of deposit if issued by a state or national bank domiciled in the State of Texas and is: guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, secured in any manner and amount provided by law for deposits of the Authority;

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

7. Fully collateralized repurchase agreements, if it: has a defined termination date, is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act, requires the securities being purchased by the Authority to be pledged to the Authority, held in the Authority's name, and deposited at the time the investment is made with the Authority or with a third party selected and approved by the Authority, is placed through a primary government securities dealer, approved by the Authority, or a financial institution doing business in the State of Texas;
8. Commercial paper is an authorized investment, if the commercial paper: has a stated maturity of 270 days or fewer from the date of its issuance, and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state;
9. Eligible investment pools if the Board of Directors, by resolution, authorizes investment in the particular pool. An investment pool shall invest funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. The Authority by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

The Authority participates in three Local Government Investment Pools (LGIPs): Texpool, Texas Class and U.S. Bank Government Obligation Fund. The State Comptroller oversees Texpool with Federated Securities Corporation managing the daily operations of the pool under a contract with the State Comptroller. Advisory boards consisting of participants or their designees, maintains oversight responsibility for Texas Class. The U.S. Bank Government Obligation Fund is managed by U.S. Bancorp Asset Management, Inc. for the daily operations. These external investment pools are not registered with the Securities and Exchange Commission, and the Authority's fair value of its position in these pools are not the same as the value of the pool shares. These funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed.

The Authority invests in Texpool, Texas Class and U.S. Bank Government Obligation Fund to provide its liquidity needs. Texpool, Texas Class and U.S. Bank Government Obligation Fund are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool and Texas Class are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool, Texas Class and U.S. Bank Government Obligation Fund are rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At September 30, 2023 Texpool, Texas Class and U.S. Bank Government Obligation Fund had a weighted average maturity of 28 days, 49 days and 24 days, respectively. Although Texpool, Texas Class and U.S. Bank Government Obligation Fund portfolios had a weighted average maturity of 28 days, 49 days and 24 days, respectively, the Authority considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

As of September 30, 2023, the Authority had the following investments:

<u>Investment Type</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Weighted Avg. Maturity (Days)</u>
Local Government Investment Pools:			
Texpool	Varies	\$ 7,749,375	28
Texas Class	Varies	11,966,481	49
U.S. Bank Government Obligation Fund	Varies	<u>278,528</u>	24
		<u>\$ 19,994,384</u>	41

Credit Risk - As of September 30, 2023, the LGIPs (which represent approximately 100.00% of the investment portfolio) are rated AAAm by Standard and Poor's or AAA by Fitch.

Interest rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the County's cash flow requirements.

Fair Value Measures

Government Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Fair Value Measures - Continued

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Authority had no assets or liabilities that were required to be measured at fair value as of September 30, 2023.

NOTE 3 - RECEIVABLES

Receivables as of September 30, 2023 consists of toll revenue due from the Harris County Toll Road Authority.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended September 30, 2023, is as follows:

	<u>Balance</u> <u>10-01-22</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09-30-23</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 88,425	\$ -	\$ -	\$ 88,425
Construction in progress	<u>13,417</u>	<u>716,800</u>	<u>-</u>	<u>730,217</u>
Total capital assets not being depreciated	<u>101,842</u>	<u>716,800</u>	<u>-</u>	<u>818,642</u>
Capital Assets, Being Depreciated:				
Land improvements	10,251,251	5,681	-	10,256,932
Furniture, equipment & vehicles	3,960,137	-	-	3,960,137
Infrastructure	<u>111,220,456</u>	<u>236,451</u>	<u>-</u>	<u>111,456,907</u>
Total capital assets being depreciated	<u>125,431,844</u>	<u>242,132</u>	<u>-</u>	<u>125,673,976</u>
Less Accumulated Depreciation For:				
Land improvements	1,535,679	1,025,409	-	2,561,088
Furniture, equipment & vehicles	413,351	275,567	-	688,918
Infrastructure	<u>5,555,879</u>	<u>3,705,851</u>	<u>-</u>	<u>9,261,730</u>
Total accumulated depreciation	<u>7,504,909</u>	<u>5,006,827</u>	<u>-</u>	<u>12,511,736</u>
Total capital assets being depreciated, net	<u>117,926,935</u>	<u>(4,764,695)</u>	<u>-</u>	<u>113,162,240</u>
Total capital assets	<u>\$ 118,028,777</u>	<u>\$ (4,047,895)</u>	<u>\$ -</u>	<u>\$ 113,980,882</u>

Depreciation expense for the Authority for the year ended September 30, 2023 totaled \$ 5,006,827.

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 4 - CAPITAL ASSETS - Continued

The construction commitments as of September 30, 2023 are as follows:

	<u>Projects Authorized</u>	<u>Expended to Date</u>	<u>Commitment</u>
Brazoria County Expressway	\$ 105,664,851	\$ 97,469,817	\$ 8,195,034
Brazoria County Expressway Extension	<u>644,000</u>	<u>94,084</u>	<u>549,916</u>
	<u>\$ 106,308,851</u>	<u>\$ 97,563,901</u>	<u>\$ 8,744,950</u>

NOTE 5 - LONG-TERM DEBT

The Authority issued limited contract tax and subordinate lien revenue bonds, which were issued in part as current interest bonds and in part as convertible capital appreciation bonds. The convertible capital appreciation bonds have a conversion date of March 1, 2025, where they will convert to current interest bonds. The Authority also issued limited contract tax and subordinate lien revenue bond anticipation notes. These subordinate lien revenue bonds and notes are paid through the Authority's Debt Service Fund from toll fees collected by the Authority.

The following is a summary of the outstanding subordinate lien revenues bonds as of September 30, 2023:

	<u>Interest Rate %</u>	<u>Series Dates</u>			<u>Outstanding 09-30-23</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Revenue Bonds:					
Limited Contract Tax Subordinate Lien 2017A Current Interest Bonds	5.000	2017	2049	2027	\$ 34,150,000
Limited Contract Tax Subordinate Lien 2017A Capital Appreciation Bonds	4.000	2017	2045	2030	25,201,289
Limited Contract Tax Subordinate Lien 2020 Refunding Bonds	5.000	2020	2049	2027	<u>24,985,000</u>
Total Revenue Bonds					<u>\$ 84,336,289</u>

Revenue bond transactions for the year ended September 30, 2023 were as follows:

Bonds outstanding, October 1, 2022	\$ 83,357,734
Accretion	<u>978,555</u>
Bonds outstanding, September 30, 2023	<u>\$ 84,336,289</u>

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 5 - LONG-TERM DEBT - Continued

On January 30, 2020, the Authority sold \$ 24,985,000 of Limited Contract Tax and Subordinate Lien Toll Road Revenue Refunding Bonds, Series 2020. The net proceeds of \$ 29,915,325 were placed in escrow for the defeasement of \$ 29,700,000 in the Limited Contract Tax and Subordinate Lien Toll Road Revenue Bond Anticipation Notes, Series 2017B. These refunding bonds (Series 2020) were issued to provide for long-term financing of the costs of the Brazoria County Expressway by refunding the Limited Contract Tax and Subordinate Lien Toll Road Revenue Bond Anticipation Notes, Series 2017B and to pay for the costs of issuance associated with the Series 2020 bonds. This refunding issue defeased all of the outstanding bond anticipation notes from the original issue of 2017. All future debt service payments on the original bonds were provided for by placing the proceeds of the refunding bonds in an irrevocable trust. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's basic financial statements. This is a conversion of old debt to new debt, therefore, there are no differences between cash flow required to service the old debt to service the new debt and there is no economic gain for the refunding of the old bonds to the new bonds.

On June 1, 2017, the Authority sold \$ 53,838,313 of Limited Contract Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2017A. These bonds were issued to finance the cost of the Brazoria County Expressway and to pay for the costs of the issuance associated with the bonds.

The following is a summary of revenue bond requirements by year as of September 30, 2023:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2024	\$ -	\$ 2,786,750	\$ 2,786,750
2025	-	3,320,750	3,320,750
2026	550,000	3,841,000	4,391,000
2027	580,000	3,812,750	4,392,750
2028	2,160,000	3,744,250	5,904,250
2029-2033	12,575,000	16,941,625	29,516,625
2034-2038	16,475,000	13,408,200	29,883,200
2039-2043	21,230,000	9,264,400	30,494,400
2044-2048	26,295,000	4,196,125	30,491,125
2049	<u>5,970,000</u>	<u>128,125</u>	<u>6,098,125</u>
	<u>\$ 85,835,000</u>	<u>\$ 61,443,975</u>	<u>\$ 147,278,975</u>

The difference between bonds payable and the future principal payments is due to \$ 1,498,711 of accretion, which will occur in future years prior to payment.

A summary of the long-term liability transactions of the Authority for the year ended September 30, 2023 is as follows:

	<u>Balance 10-01-22</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09-30-23</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Revenue bonds	\$ 83,357,734	\$ 978,555	\$ -	\$ 84,336,289	\$ -
Premium on bonds	<u>8,076,555</u>	<u>-</u>	<u>400,513</u>	<u>7,676,042</u>	<u>400,513</u>
Total business-type activities	<u>\$ 91,434,289</u>	<u>\$ 978,555</u>	<u>\$ 400,513</u>	<u>\$ 92,012,331</u>	<u>\$ 400,513</u>

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Notes to the Financial Statements

For the Year Ended September 30, 2023

NOTE 6 - CONTINGENCIES AND COMMITMENTS

The Authority is contingently liable with respect to lawsuits and other claims in the ordinary course of its operations. On January 30, 2024, the Authority was named a defendant in a lawsuit that has arisen from the construction of the Brazoria County Expressway. While substantial damages are alleged, in the opinion of the Authority's attorney, the outcome cannot be predicted with certainty. Litigation where the loss to the Authority is reasonably possible has not been accrued as of September 30, 2023.

NOTE 7 - EVALUATION OF SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through February 13, 2024, the date which the financial statements were available to be issued.



OTHER INFORMATION (UNAUDITED)

BRAZORIA COUNTY TOLL ROAD AUTHORITY*Statement of Revenues, Expenses and Change in Net Position**Last Seven Fiscal Years**(Unaudited)*

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Operating Revenues					
Toll Revenue	\$ -	\$ -	\$ -	\$ -	\$ 7,489,712
Miscellaneous revenue	-	-	-	162,177	37,823
Total operating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,177</u>	<u>7,527,535</u>
Operating Expenses					
Services and fees	3,227	60,637	371,828	195,339	651,778
Repairs and maintenance	-	-	-	-	633,887
Utilities	-	-	-	-	4,974
Transportation, travel and other administrative	-	-	-	-	281,380
Depreciation	-	-	-	-	2,498,670
Total operating expenses	<u>3,227</u>	<u>60,637</u>	<u>371,828</u>	<u>195,339</u>	<u>4,070,689</u>
Operating income/(loss)	(3,227)	(60,637)	(371,828)	(33,162)	3,456,846
Non-Operating Revenues (Expenses)					
Investment income	300,241	1,465,825	1,360,175	352,027	16,441
Interest and fiscal charges	(663,470)	(2,552,156)	(2,589,758)	(3,029,252)	(3,299,768)
Debt issuance costs	<u>(1,435,527)</u>	<u>-</u>	<u>-</u>	<u>(497,761)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(1,798,756)</u>	<u>(1,086,331)</u>	<u>(1,229,583)</u>	<u>(3,174,986)</u>	<u>(3,283,327)</u>
Net income/(loss) before capital contributions	(1,801,983)	(1,146,968)	(1,601,411)	(3,208,148)	173,519
Capital contributions	<u>17,532,672</u>	<u>2,311,462</u>	<u>6,383,529</u>	<u>7,572,481</u>	<u>1,227,289</u>
Change in net position	15,730,689	1,164,494	4,782,118	4,364,333	1,400,808
Net position - beginning	<u>-</u>	<u>15,730,689</u>	<u>16,895,183</u>	<u>21,677,301</u>	<u>26,041,634</u>
Net position - ending	<u>\$ 15,730,689</u>	<u>\$ 16,895,183</u>	<u>\$ 21,677,301</u>	<u>\$ 26,041,634</u>	<u>\$ 27,442,442</u>

Note: The Brazoria County Expressway became operational in November 2020.

Table 1

<u>2022</u>	<u>2023</u>
\$ 12,217,945	\$ 15,363,422
<u>-</u>	<u>-</u>
<u>12,217,945</u>	<u>15,363,422</u>
1,789,657	1,932,628
434,861	421,710
5,598	6,910
187,937	198,219
<u>5,006,239</u>	<u>5,006,827</u>
<u>7,424,292</u>	<u>7,566,294</u>
4,793,653	7,797,128
151,971	1,124,567
(3,337,512)	(4,421,063)
<u>-</u>	<u>-</u>
<u>(3,185,541)</u>	<u>(3,296,496)</u>
1,608,112	4,500,632
<u>33,956</u>	<u>22,395</u>
1,642,068	4,523,027
<u>27,442,442</u>	<u>29,084,510</u>
<u>\$ 29,084,510</u>	<u>\$ 33,607,537</u>

BRAZORIA COUNTY TOLL ROAD AUTHORITY
Revenues by Toll Road Components/Segments
Last Three Fiscal Years
(Unaudited)

Table 2

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Brazoria County Expressway:			
Croix Northbound	\$ 477,334	\$ 1,165,380	\$ 1,613,231
Croix Southbound	536,226	1,221,878	1,610,686
McHard Northbound	3,031,058	4,479,569	5,763,635
McHard Southbound	<u>2,701,979</u>	<u>3,935,457</u>	<u>4,903,041</u>
Total Brazoria County Expressway	6,746,597	10,802,284	13,890,593
Revenues not allocated due to timing differences:			
Toll violations	<u>743,115</u>	<u>1,415,661</u>	<u>1,472,829</u>
Total Revenues	<u>\$ 7,489,712</u>	<u>\$ 12,217,945</u>	<u>\$ 15,363,422</u>

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Table 3

Traffic Count Table
Last Three Fiscal Years
(Unaudited)

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Brazoria County Expressway:			
Croix Northbound	905,103	1,317,710	1,445,013
Croix Southbound	1,014,238	1,378,405	1,448,374
McHard Northbound	2,432,009	3,099,575	3,474,884
McHard Southbound	<u>2,127,240</u>	<u>2,667,991</u>	<u>2,897,318</u>
Total Brazoria County Expressway	<u>6,478,590</u>	<u>8,463,681</u>	<u>9,265,589</u>

BRAZORIA COUNTY TOLL ROAD AUTHORITY
Historical Toll Road Operating Results and Coverages
Last Three Fiscal Years
(Unaudited)

Table 4

<u>Fiscal Year Ending</u>	<u>Project Revenues</u>	<u>Other Earnings</u>	<u>O & M Expenses</u>	<u>Revenues Available for Unlimited Subordinate Lien Tax Bonds</u>	<u>Debt Service Bonds</u>	<u>Coverage Ratio On Unlimited Subordinate Lien Tax Bonds</u>
2021	\$ 7,489,712	\$ 54,264	\$ 1,572,019	\$ 5,971,957	\$ 2,796,083	2.136
2022	12,217,945	151,971	2,418,053	9,951,863	2,797,450	3.557
2023	15,363,422	1,124,567	2,559,467	13,928,522	2,798,317	4.977

BRAZORIA COUNTY TOLL ROAD AUTHORITY

Table 5

*Toll Rate Schedule
(Unaudited)*

Toll Rate Schedule Effective as of January 10, 2022

Two-Axle Vehicles

Croix Toll Plaza	\$	1.00
McHard Toll Plaza	\$	1.65

Three to Six Axle Vehicles

Croix Toll Plaza	\$	2.00 - 5.00
McHard Toll Plaza	\$	3.30 - 8.25

Toll Rate Schedule Effective as of January 1, 2023

Two-Axle Vehicles

Croix Toll Plaza	\$	1.06
McHard Toll Plaza	\$	1.74

Three to Six Axle Vehicles

Croix Toll Plaza	\$	2.12 - 5.30
McHard Toll Plaza	\$	3.48 - 8.70

