

**COMPREHENSIVE**  
**ANNUAL FINANCIAL REPORT**

**for the years ended September 30, 2009 and 2008**

## **INTRODUCTORY SECTION**

**RED RIVER AUTHORITY OF TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**for the years ended September 30, 2009 and 2008**

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## **APPENDIX N-1**



## ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS     §

COUNTY OF WICHITA     §

I, Cliff A. Skiles, Jr., D.V.M., President  
(Name of Duly Authorized District Representative)

of the Red River Authority of Texas  
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the 20<sup>th</sup> day of January, 20 10 its annual audit report for the fiscal period ended September 30, 2009 and that copies of the annual audit report have been filed in the District's office, located at 3000 Hammon Road, Wichita Falls, Texas 76310.

This filing affidavit and the attached copy of the annual audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: January 20, 20 10

\_\_\_\_\_  
(Signature of District Representative)

Cliff A. Skiles, Jr., D.V.M., President  
(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this 20<sup>th</sup> day of January, 20 10.

(Seal)

\_\_\_\_\_  
(Signature of Notary)

My Commission Expires on: 08-29-2011  
Notary Public in and for the State of Texas.



# Red River Authority of Texas

CLIFF A. SKILES, JR. DVM, President, Hereford  
GEORGE WILSON SCALING, II, Vice President, Henrietta  
LISA C. BRENT, Secretary, Amarillo  
JERRY BOB DANIEL, Asst. Secretary, Truscott  
NATHAN J. (JIM) BELL, IV, Paris  
C. COLE CAMP, Amarillo  
PENNY C. CARPENTER, Silverton  
MAYFIELD MCCRAW, Telephone  
CLYDE M. SIEBMAN, Pottsboro

CURTIS W. CAMPBELL, General Manager  
DANNA K. PRICHARD, Administrative Assistant  
GREGG MILLER, Controller  
HENRY C. WIED, Director of Operations

January 6, 2010

**The Honorable President and Members  
of the Board of Directors  
Red River Authority of Texas**

Board Members:

The Comprehensive Annual Financial Report of the Red River Authority of Texas for the fiscal year ended September 30, 2009 is submitted herewith. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority.

We believe the data contained herein are accurate in all material respects; that it clearly discloses the financial position and results of operations of the Authority as measured by the financial activity of its various divisions; and that all information necessary to enable the reader to gain the maximum benefit and understanding of the Authority's fiscal year activities and related costs are presented on a fund basis in the enclosed financial statements.

The Comprehensive Annual Financial Report is presented in three major sections to aid the reader in obtaining a clear understanding of the Authority and its activities. These sections are titled Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, an organizational chart, a description of the Authority's operating divisions' highlights of activities for the period ending, the independent auditor's report, and the Management's Discussion and Analysis. The Financial Section includes the basic financial statements, notes to the financial statements, non-major enterprise funds, internal service funds, budget comparison, Texas supplementary information, and supplemental schedules. The Statistical Section includes selected historical financial information, operations summaries, and demographic information associated with the Authority's activities of primary interest.

## **REPORTING ENTITY**

The Red River Authority of Texas was created in 1959 by Acts of the 56<sup>th</sup> Texas Legislature as a political subdivision of the State, a body politic and corporate under Article XVI, Section 59 of the Texas Constitution. The Authority's Enabling Legislation, Article 8280-228, Vernon's Annotated Texas Civil Statutes (VATCS), enumerates the powers and duties granted under the General and Special Laws of the State to fulfill its purpose. Additionally, the Authority functions under certain provisions of the Texas Water Code, Chapter 30. The Authority's mission is the orderly conservation, reclamation, protection, and development of the natural resources within the Red River Basin for the beneficial use of the public.

## **REPORTING ENTITY**, Continued

The Authority's territorial jurisdiction encompasses all of forty-three Texas counties lying within and adjacent to the watershed of the Red River and its tributaries upstream from the northeast corner of Bowie County. In 1981, the Legislature divided the Authority's territorial jurisdiction into three geographical regions based on population with gubernatorial appointment of three directors to serve from each region. Refer to **Figure 1 – Red River Jurisdictional Map**.

The Red River Industrial Development Authority was authorized by the Board of Directors in July 1979 under the terms of the Texas Development Corporation Act of 1979. The Red River Industrial Development Authority is a separate entity of the Red River Authority of Texas and is authorized to act on behalf of the Authority for the specific purpose of promoting economic development of commercial, industrial, and manufacturing enterprises for public welfare within the geographical confines of the Red River Basin in Texas. Financial information concerning the Red River Industrial Development Authority can be found in the Notes to the Financial Statements, **Appendix N-5**, non-major enterprise funds, as an integral part of the financial statements.

## **GOVERNING BODY**

The Authority's governing body is composed of a nine-member Board of Directors, all of whom are appointed by the Governor, confirmed by the Senate, a legal voter, a property taxpayer, and resident in the Authority's jurisdiction. Each Director serves a six-year staggered term. The Directors are organized by electing from their membership a President, Vice-President, Secretary, and Assistant Secretary. One Director is appointed from each of the three geographical regions to serve with the President on the Executive Committee. The Executive Committee functions as a policy, administrative and fiscal oversight committee for all agency related activities. The Board of Directors administers all affairs of the Authority through a Board-adopted Administrative Policy and a Board-appointed chief executive officer in the position of General Manager.

## **ADMINISTRATION**

All fiscal and administrative functions are conducted from the general offices, located at 3000 Hammon Road, Wichita Falls, Texas. The General Manager is assisted by a professional staff of employees and consultants in the accomplishment of his duties, and is solely responsible to the Board of Directors for the proper implementation of all policies and the successful administration of the Authority. The Executive Administration is the upper-level management team that consists of three interactive branches of administration for the orderly conduct of all facets of the Authority's activities. The branches are the General Division Branch, Fiscal Services Branch, and General Operations Branch. Each branch is responsible for providing team leadership, administrative, and technical services to each division or department of the Authority. The Executive Staff administers Board Policy and carries out the Authority's mission under a Board-approved Strategic Management Plan. There were 30 full-time classified employees on the Authority's payroll on September 30, 2009. **Refer to the Organizational Chart** for details.



# Red River Authority of Texas Jurisdictional Map

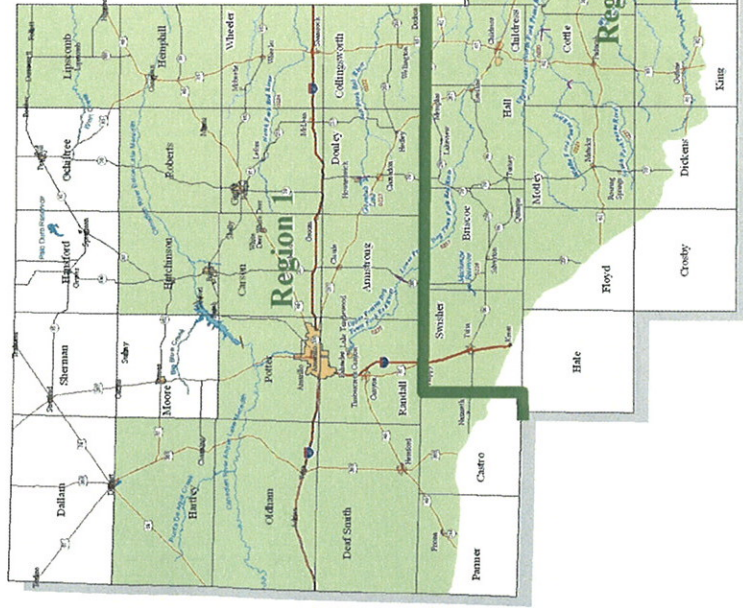
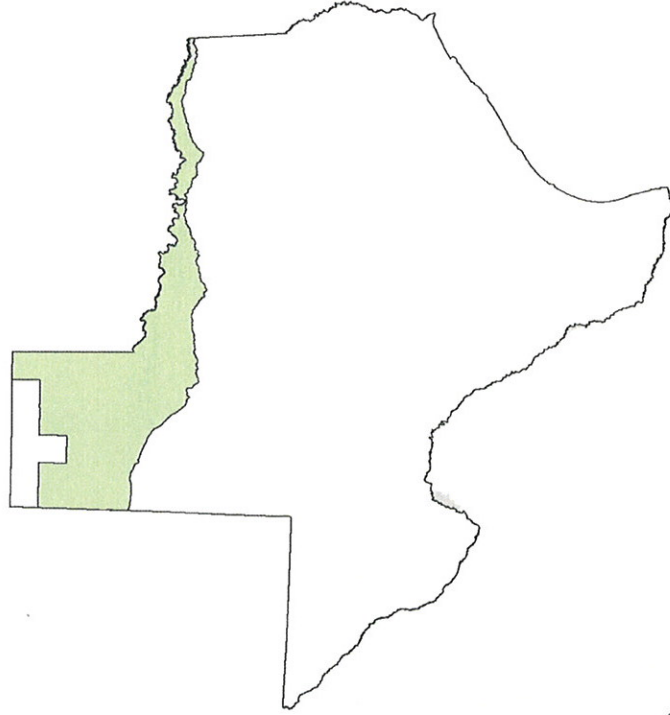


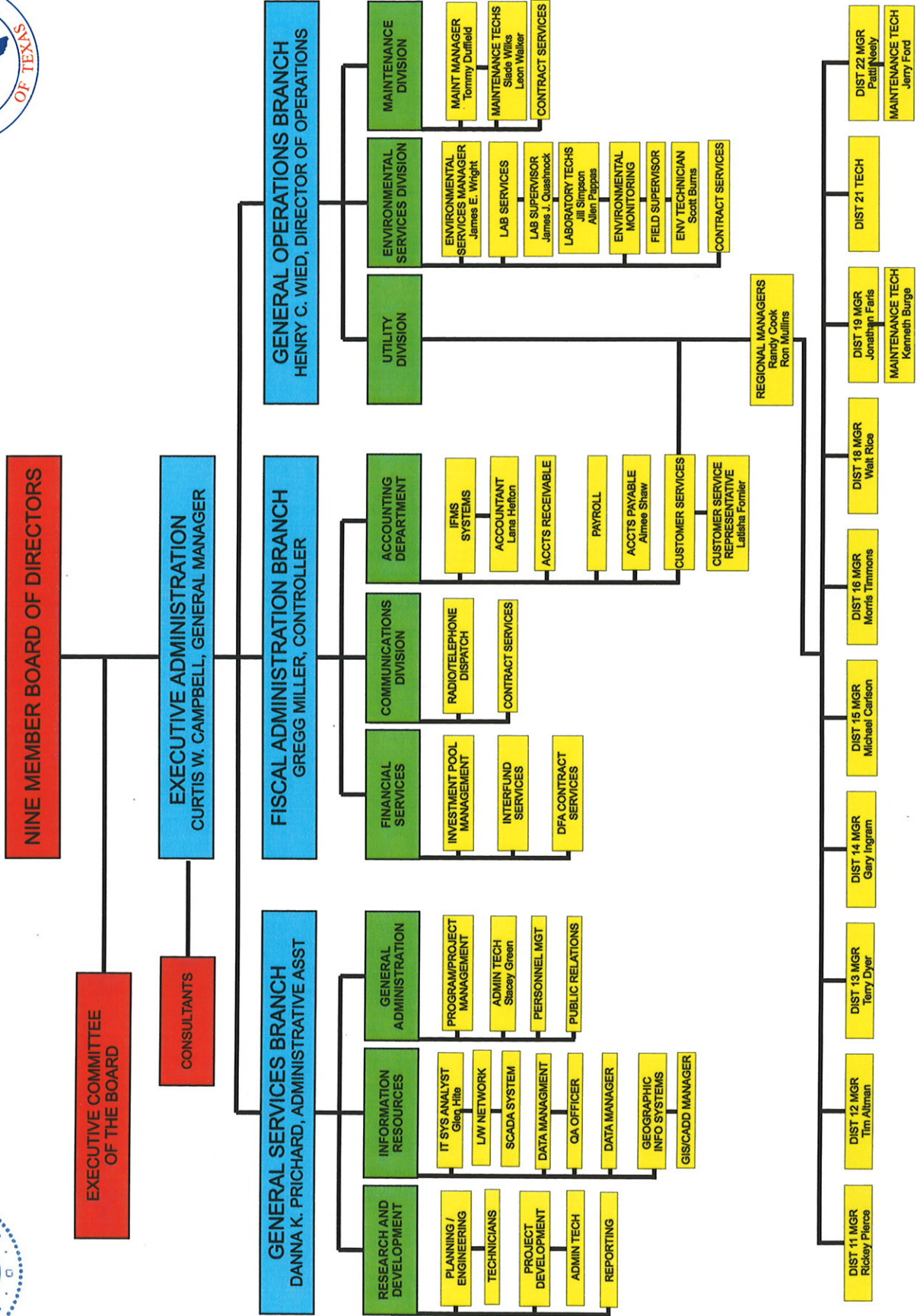
Figure 1





# Red River Authority of Texas Organizational Chart

September 2009



## **INTERNAL CONTROLS**

The Board of Directors and the Executive Administration of the Authority have placed an emphasis on the accuracy of its accounting system through the implementation of stringent internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding the safeguard of assets against loss and unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets, as well as those entrusted with its care. The concept of reasonable assurance recognizes that the cost of control should not exceed the expected benefits to be derived, and the evaluation of cost and benefits requires estimates and judgments on the part of management. All internal control evaluations occur within the described framework. Therefore, management is of the opinion that the Authority's internal controls adequately safeguard the assets and provide reasonable assurance of proper recording of all financial transactions, thereby producing an effective management tool for the conduct of the Authority's business activities.

## **BUDGETARY CONTROLS**

The Authority is not required under its Enabling Legislation to adopt an annual budget. However, as a prudent management tool, an annual budget for each division is prepared on a per fund basis and approved by the Authority's Board of Directors. These budgets do not constitute appropriations, but represent the projected revenues and expenditures as compared to actual of the previous year.

## **DEBT ADMINISTRATION**

The Authority does not have the power of taxation nor does it derive any of its revenues from taxes. Therefore, the Authority has no outstanding general obligation bonds. Outstanding revenue bonds at September 30, 2009 totaled \$3,635,000, and the obligations of the interest and sinking fund, bond reserve accounts, and repair and replacement fund were met.

## **CASH MANAGEMENT**

Cash, which was temporarily idle during the year including debt retirement funds and operating funds, was invested in money market checking and savings accounts and certificates of deposit with the Authority's depositories in accordance with a Board adopted Investment Policy and the Public Funds Investment Act, as amended. Interest earned during the fiscal year ended September 30, 2009 totaled \$142,667 on invested funds. The dollar weighted average maturity of the portfolio for the period ending September 30, 2009 was 140 days.

## OPERATIONS SUMMARY

The Authority is divided into nine proprietary funds in accordance with the guidelines set by the Governmental Accounting Standards Board (GASB) to properly govern and manage each segment of its various activities. The proprietary funds are subdivided into two major enterprise funds, two minor enterprise funds, and five internal service funds. The Enterprise Funds account for activities financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be recovered primarily through user fees and charges exclusive of a profit margin. The two major enterprise funds are the Utility Division Fund and the Environmental Services Division Fund. The two minor enterprise funds are the Direct Financing Arrangements Fund and Red River Industrial Development Authority Fund.

Revenues generated by the Authority's four Enterprise Funds totaled \$4,268,751 for the fiscal year ended September 30, 2009, a decrease of 2.8% over the previous fiscal year. Expenditures for the same period totaled \$4,445,858, an increase of 4.4% over the previous fiscal year. Refer to **Exhibit A-2** in **Appendix N-4** for details.

**Utility Division** – The Utility Division is an enterprise fund which provides water and sewer services to approximately 10,000 people residing in a 15-county area of the Red River Basin. Refer to the **Utility Division Service Area Map, Figure 2** in the Utility Division section. The Authority owns and operates 37 independent community water systems consisting of more than 2,150 miles of transmission and distribution lines and 65 pumping facilities.

Water Revenue Bonds were issued to develop the Utility Division as a regional water supply service to rural communities within the basin. The bond ordinances require that fees and charges for services provided be set by the Board of Directors to pay the costs of operating and debt services. Because of the static growth of most of the systems, user rates are based on a five-year cash model designed to recover the actual cost of operating and debt services. Each system rate structure is evaluated annually to ensure financial stability and monitor trend relationships in water usage, operating expenses, repairs and maintenance, and projected capital improvement needs.

Total revenues received in the Utility Division for the fiscal year ended September 30, 2009 were \$3,451,381, a decrease of 6.0% over the previous fiscal year. Expenditures incurred during the same period totaled \$3,683,402, an increase of 4.3% over the previous fiscal year.

The Utility Division produced a total of 594.8 million gallons (MG) of water and used 458.7 million gallons (MG) for the fiscal year ended September 30, 2009. Unaccounted for water losses decreased by 14.2% as compared to the previous year. Refer to **Schedule 9, Figures 1 and 2** in the Statistical Section for monthly and annual historical water use trends.

## OPERATIONS SUMMARY, Continued

The Utility Division's Drought Contingency Plan recorded no Alert Critical Conditions resulting in mandatory water use restrictions during fiscal year 2008-2009. Major and minor capital improvements within the Utility Division to which the Authority provided financing for the fiscal year ending included the following:

Two projects authorized by the Board of Directors in 2008 were completed in FY 08-09. The Gilliland Pump Station Upgrade was completed in February 2009 at a cost of \$106,808 and the Preston Shores Filtration Unit Renovation Project was completed in March 2009 at a cost of \$128,462. Interfund Loans were made to the systems for the total cost of each project.

In January 2009, the Board of Directors accepted bids and authorized construction of a new Pneumatic Pump Station in Guthrie, Texas contingent upon the Guthrie Common School District providing \$300,000 for the project. The project was completed in September 2009 at a total cost of \$423,862 and an Interfund Loan was made to the Guthrie-Dumont Water System in the amount of \$123,862 for the Authority's share.

Other minor capital improvements consisted of repair and replacement of 2.0 miles of distribution line, installation and upgrade of pump station telemetry control units, continuance of the meter replacement program, repairing 396 main and service line leaks, and pumping station facilities repairs and maintenance totaling \$327,587 during the fiscal year.

The Utility Division experienced an increase of eighteen service meters at the fiscal year ended September 30, 2009.

**Environmental Services Division** – The Environmental Services Division (ESD) is an enterprise fund with a fundamental purpose to evaluate, monitor, and develop management strategies to improve the natural resources within the Red River Basin. The ESD conducts routine investigations to identify and determine the possible causes of pollution to the streams and tributaries of the Red River in an effort to develop the best management practices or control measures needed to maintain and improve the quality of the available natural resources for the beneficial use of the public.

The ESD also supports a full-service water quality laboratory to provide analytical services for the general public, local, state, and federal entities. The ESD conducts regional assessments of water quality, water quality monitoring and analysis, pollution investigations, and provides local sponsorship for the development of pollution control or reclamation facilities designed to improve the natural resources within the basin.

Total revenues for fiscal year ended September 30, 2009 were \$782,733, an increase of 11.8% over the previous fiscal year. Expenditures for the same period totaled \$761,344 an increase of 5.4% over the previous fiscal year.



## OPERATIONS SUMMARY, Continued

In addition to the ESD providing administrative, technical, and analytical services on an as needed basis to municipalities within the basin, the Board of Directors has authorized the ESD to maintain and renew biennial contracts with the Texas Commission on Environmental Quality for services as described:

The 2008 – 2009 Biennial Contract for Regional Assessment of Water Quality under the Texas Clean Rivers Program in the amount of \$658,838 began on September 1, 2007. During FY 2008 – 2009, \$337,191 was expended on the project.

The ESD Laboratory continues expanding its capabilities and offering its services to outside entities, as well as providing vital water quality analysis services to the Utility Division. The laboratory also provides support to the Clean Rivers Program and mandatory analysis in support of the Federal Safe Drinking Water Act and the Federal Clean Water Act requirements placed on all public water and sewer systems. In August 2008, the ESD Laboratory received its NELAP (National Environmental Laboratory Accreditation Program) Accreditation from the Texas Commission of Environmental Quality (TCEQ). This allows the data produced by the laboratory to be utilized by the Environmental Protection Agency (EPA), TCEQ, and other entities for compliance and regulatory purposes.

The ESD continues to respond to complaints from the general public and other state or federal agencies concerning any type of pollution to the environment within the Red River Basin. The Authority conducted one investigation with follow-up to a satisfactory resolve. No litigation was encountered during the year ended September 30, 2009.

**Direct Financing Arrangements (DFA)** – The DFA is an enterprise fund that provides financing of infrastructure for the Authority and contractual financing of projects to outside entities.

In performing direct financing arrangements, the Authority acts as an agent or intermediary for obtaining tax-exempt financing of water, wastewater, or pollution control facilities for third parties. In most cases, the Authority does not operate or maintain these facilities unless contracted to do so under special circumstances.

Revenues are received from the issuance of bonded indebtedness and management fees charged for services provided. Issuance fees are a one-time charge, while management fees recur annually throughout the term of indebtedness. When these fees are received, they are recorded as revenue. The bonds are regarded as debts and responsibilities of the third parties on whose behalf they were issued. Since the debt is the sole obligation of the entity to which the bonds were issued, the transaction is excluded from the Authority's financial statements, except for the contract receivable due the Authority.

Total revenue received in the DFA for the period ended September 30, 2009 was \$33,525, as a result of management fees earned during the fiscal year.

## OPERATIONS SUMMARY, Continued

The Red River Industrial Development Authority had no outside activity this fiscal year. The only revenue generated was \$1,112 earned on investments.

The Internal Service Funds provide goods and services to the Enterprise Funds, as well as each other. There are five Internal Service Funds employed by the Authority. They include the General Division Branch, Interfund Loan Program, Maintenance Division, Communications Division, and Motor Pool.

Revenues are derived through charges to the funds which receive the services provided and from contract services provided to outside entities. These fees are evaluated annually and adjusted as necessary to maintain equity in the charges for each type of service performed.

Revenues received by the Authority's five Internal Service Funds totaled \$1,612,247 for the fiscal year ended September 30, 2009, a decrease of 0.4% from the previous fiscal year. Expenditures incurred during the same period totaled \$1,267,080, an increase of 0.4% from the previous fiscal year. Refer to **Exhibit C-2** in **Appendix N-5** for details.

**General Division (GD)** – The General Division functions through one internal service fund, the general fund. The GD's primary purpose is to provide administrative resources and supervision of all Authority-related activities, both internally to other divisions or departments, and externally with outside agencies or entities within the limits of the Enabling Legislation and Board Policy. The GD provides personnel administration, computerized information resources, risk management, research and development, project management, and external contract administration for all Authority functions.

The GD is also responsible for initiating planning, engineering, and project development for all other divisions and departments of the Authority and conducts its activities in accordance with the guidelines set out in the general policy. Ongoing planning functions include maintenance of a Regional Master Plan for the Red River Basin, regional water resource planning, and general project planning and development. Other services provided through the GD consist of geographical information system development, cartographic mapping, and internet services.

Revenues are derived by charging an administrative fee relative to personnel labor and equipment utilized in the conduct of the Authority's routine business activities. The administrative fee is determined through a uniform Indirect Cost Rate based on historical time and equipment attributed to the administrative services being provided in an amount not to exceed 25% of a fund's non-reimbursed expense or 60% of direct labor costs, whichever is more equitable for the type of service provided. Cost for services provided to outside entities are computed and recovered through contracts for services based on actual labor, equipment, and materials utilized in the performance of the individual contract.

## **OPERATIONS SUMMARY**, Continued

In May 2008, the Board of Directors authorized the GD to enter into a Contract with the Texas Water Development Board (TWDB) to receive funds in the amount of \$173,000 to conduct the Administration and Special Studies of the Area B Regional Water Planning Group for the first two years of the five-year Regional Water Planning Cycle. During FY 2007-08, the Authority expended \$97,277.

Total revenues received in the GD were \$947,177 for the fiscal year ended September 30, 2009, an increase of 3.0% over the previous year. Expenditures totaled \$800,350 for the same period, an increase of 0.4% over the previous fiscal year.

**Interfund Loan Program** – The Interfund Loan Program is an internal service fund designed to provide financial assistance to other divisions or departments for acquisition of assets, major repairs and replacements, and minor capital expenditures in the form of short-term debt with repayment schedules to include principal plus interest by the borrower.

As of fiscal year ending September 30, 2009, the Interfund Loan Program managed an outstanding debt balance of \$1,816,846 and the Board of Directors authorized eight new Interfund notes, which totaled \$473,157. Interest earned for the fiscal year ended was \$97,077, a decrease of 1.5% over the previous fiscal year. Total cost of service for the Interfund was \$12,652 for the fiscal year ended September 30, 2009, a decrease of 27.7% over the previous fiscal year.

**Maintenance Division** – The Maintenance Division is an internal service fund designed to provide utility maintenance and construction primarily for the Utility Division. The division provides capital improvements to facilities, distribution line installations, as well as routine and emergency repairs. All capital improvements and repairs are conducted under uniform design and specifications prepared under guidance of the General Specifications Manual. The division maintains its own equipment and an inventory of materials and supplies necessary to support an ongoing preventive maintenance and minor capital improvement program for the Utility Division. The Maintenance Division continued performing work for the Texas Department of Transportation special projects in-house.

Total revenue received in the Maintenance Division was \$284,564 for the fiscal year ended September 30, 2009, an increase of 5.1% over the previous year. Expenditures totaled \$261,034 for the same period, an increase of 12.7% from the previous fiscal year.

**Communications Division** – The Communications Division is an internal service fund that provides radio communications and dispatch services to all field operations and personnel engaged in business activities of the Authority. Most communication traffic relates to access and maintenance of utility service records maintained by the accounting department and is essential for the remote operations over the large geographical service area.

## **OPERATIONS SUMMARY**, Continued

The Communications Division provides supervised control and data acquisition (SCADA) on behalf of the Utility Division and Environmental Services Division. SCADA is a telemetry system utilized for the purpose of transmitting pertinent data essential to key management operations of the Authority.

User fees are determined based on amortized capital cost and maintenance of equipment needed to provide reliable communications throughout the service area and are recognized as revenue received from the other divisions utilizing the services. The Communications Division also receives revenue from the lease of communication facilities through contracts with seven outside entities.

Total revenue received in the Communications Division was \$65,007 for this fiscal year, a decrease of 1.7% over the previous year. Expenditures totaled \$15,472 for the same period, an increase of 3.9% over the previous fiscal year.

**Motor Pool** – The Motor Pool is an internal service fund that provides for the use of motor vehicles and equipment to other divisions of the Authority. Revenues are received from the divisions utilizing the vehicles based on the amortized capital cost and maintenance in the form of a uniform lease program.

The Motor Pool maintains a rolling stock of 20 vehicles with an average replacement rotation of five per year. One vehicle was taken out of service this year and will be replaced during the 2009-10 fiscal year.

Total revenues received in the Motor Pool were \$179,058 for the fiscal year ended September 30, 2009, a decrease of 12.7% over the previous year. Expenditures totaled \$177,572 for the same period, a decrease of 14.0% over the previous fiscal year. The decrease in expenditures for the motor pool was primarily due to an decrease in fuel costs.

## **AUDIT REQUIREMENTS**

The Enabling Legislation (Article 8280-228, Section 9, VATCS) requires an annual audit of the Authority's records by a certified public accountant as selected by the Board of Directors within 135 days after the fiscal year ending. This requirement has been complied with and the Auditor's opinion is included in this report.

Respectfully submitted,

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**Gregg Miller**  
Controller

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**Henry C. Wied, Jr.**  
Director of Operations

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**Curtis W. Campbell**  
General Manager

## APPENDIX N-2





## EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4501 NORTHWEST FWY. • P.O. Box 750  
WICHITA FALLS, TEXAS 76307-0750  
PH. (940) 766-5550 • FAX (940) 766-5778

MICHAEL D. EDGIN, CPA  
DAVID L. PARKMAN, CPA, CFE  
A. PAUL FLEMING, CPA  
J. MARK FLEMING, CPA

### Independent Auditor's Report

Board of Directors  
Red River Authority of Texas

We have audited the accompanying financial statements of Red River Authority of Texas as of and for the year ended September 30, 2009 as listed in the table of contents. These financial statements are the responsibility of Red River Authority of Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended September 30, 2008 were audited by other auditors whose report dated January 9, 2009 expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Red River Authority of Texas as of September 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2010 on our consideration of Red River Authority of Texas' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis identified as Appendix N-2 in the table of contents is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Red River Authority of Texas taken as a whole. The introductory section, the combining and individual fund financial statements in Appendix N-5, the other supplementary information in Appendix N-6, the Texas supplementary information listed in Appendix N-7, the supplemental schedules in Appendix N-8, and the statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements, the Texas supplementary information, and the supplemental schedules, except that portion marked "unaudited" on which we express no opinion, have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole. The introductory section, other supplementary information, and the statistical information as listed in the table of contents have not been audited by us, and we do not express an opinion on them.

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas  
January 5, 2010

## **APPENDIX N-3**



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Red River Authority of Texas, 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, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on **page vi** of this report.

### **Financial Highlights**

1. The assets of the Red River Authority of Texas exceeded its liabilities at the close of the most recent fiscal year by \$12,523,485 (net assets). Of this amount, \$6,399,444 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to citizens and creditors;
2. The Authority's total net assets increased by \$569,653;
3. The Authority's total debt decreased by \$386,852 (11.1%) during the current fiscal year. This decrease is the total of bond principal maturities net of bond amortization.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Red River Authority of Texas' basic financial statements. The Authority's basic financial statements comprise two components: Government-Wide financial statements and notes to the financial statements. This report also contains other government wide information in addition to the basic financial statements themselves.

**Authority-Wide Statements.** While the Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be put into one category – proprietary funds.

**Proprietary Funds.** The Authority maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the basic financial statements. The Authority uses enterprise funds to account for its two major funds, the Utility Division and the Environmental Services Division. The Internal Service Funds provide goods and services to the Enterprise Funds, as well as each other. There are five Internal Service Funds employed by the Authority. They include the General Division, Interfund Loan Program, Maintenance Division, Communications Division, and Motor Pool.

Revenues are derived through charges to the funds which receive the services provided and from contract services provided to outside entities. For Government-Wide presentation, all Interfund charges are eliminated. These internal fees are evaluated annually and adjusted as necessary to maintain equity in the charges for each type of service performed. The external fees are adjusted every five (5) years based on rate study.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

The proprietary fund financial statements provide separate information for the Utility Division Fund and for the Environmental Services Division Fund, both of which are considered to be major funds of the Authority. The Direct Financing Arrangements Fund and the Industrial Development Fund, because of their size, are considered minor funds and are combined in the basic financial statements. All five internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in **Exhibits C-1 through C-3** in **Appendix N-5** in this report.

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Authority-Wide statements. The notes to the basic financial statements can be found on **pages 14-34** of this report.

### **Authority-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$12,523,485 at the close of the most recent fiscal year.

#### **Condensed Statement of Net Assets**

	2009	2008	2007
<b>Assets:</b>			
Current assets	\$ 6,517,430	\$ 6,053,671	\$ 4,425,575
Restricted assets	803,267	1,237,408	968,996
Capital assets	9,140,418	8,991,561	9,266,686
Noncurrent assets	0	0	1,468,804
Total assets	<u>16,461,115</u>	<u>16,282,640</u>	<u>16,130,061</u>
<b>Liabilities:</b>			
Current liabilities	684,099	672,602	597,724
Noncurrent liabilities	3,253,531	3,656,206	4,046,854
Total liabilities	<u>3,937,630</u>	<u>4,328,808</u>	<u>4,644,578</u>
<b>Net assets:</b>			
Investment in capital assets, net of related debt	5,644,683	5,108,974	3,387,755
Restricted net assets	479,358	479,358	479,358
Unrestricted net assets	6,399,444	6,365,500	7,618,370
Total net assets	<u>\$ 12,523,485</u>	<u>\$ 11,953,832</u>	<u>\$ 11,485,483</u>

45.1% of the Authority's net assets reflect its investment in capital assets (e.g., land building, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services to customers; 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.

An additional portion of the Authority's net assets (3.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

\$6,399,444 (51.1%) may be used to meet the Authority's ongoing obligations to constituents and creditors.

At the end of the current fiscal year, the Authority is able to report positive balances in both categories of net assets.

The Authority's net assets increased by \$569,653 during the current fiscal year. This increase represents an overall increase in revenues.

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2009	2008	2007
<b>Operating revenues:</b>			
Water and sewer sales	\$ 3,331,528	\$ 3,450,727	\$ 2,974,132
Charges for materials and services	579,249	511,173	531,282
Issuance fees	0	0	316,500
Other	461,294	440,179	474,639
Total operating revenues	<u>4,372,071</u>	<u>4,402,079</u>	<u>4,296,553</u>
<b>Operating expenses:</b>			
Water purchases	578,323	558,671	527,619
Personnel services	1,619,796	1,528,327	1,508,093
Administrative costs	69,146	75,888	74,433
Utilities, supplies, and maintenance	815,952	765,600	708,187
Insurance	41,019	42,579	42,490
Automobile and travel	162,474	201,598	156,576
Professional and directors fees	148,592	106,211	80,581
Research expense	17,290	10,190	20,750
Bad debt	10,570	16,187	13,062
Total operating expenses	<u>3,463,162</u>	<u>3,305,251</u>	<u>3,131,791</u>
Operating income before depreciation and amortization	908,909	1,096,828	1,164,762
Depreciation and amortization	(632,776)	(619,250)	(575,454)
Operating income	<u>276,133</u>	<u>477,578</u>	<u>589,308</u>
<b>Nonoperating revenues (expenses):</b>			
Interest income	142,667	236,005	268,889
Gain on disposal of assets	11,360	16,338	16,252
Interest expense	(260,661)	(285,154)	(307,946)
Total nonoperating revenues (expenses)	<u>(106,634)</u>	<u>(32,811)</u>	<u>(22,805)</u>
Income (loss) before operating transfers and other credits	169,499	444,767	566,503
Capital contributions	400,154	8,464	33,360
Extraordinary income - insurance proceeds	0	15,118	79,034
Change in net assets	569,653	468,349	678,897
Net assets, beginning	<u>11,953,832</u>	<u>11,485,483</u>	<u>10,806,586</u>
Net assets, ending	<u>\$ 12,523,485</u>	<u>\$ 11,953,832</u>	<u>\$ 11,485,483</u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**, Continued

Some of the major variances from fiscal year 2008 to fiscal year 2009 include a \$119,199 decrease in water sales due to rainfall during the peak usage months and a weak economy. In fiscal year 2009 the Authority had grant revenue from the Regional Water Planning Group Area B in the amount of \$97,277 with \$90,501 in expenditures in consultant fees. The Authority experienced a \$50,352 increase in utilities, supplies and maintenance due to increased costs of repair materials and rising utility costs. There was also a \$39,124 decrease due to the lower price of fuel. The interest income decreased \$93,338 due to the drop in interest rates and the interest expense decreased \$24,493 with the timely retirement of the bonded debt of the Authority. The Authority received \$400,154 in capital contribution proceeds in fiscal year 2009, \$312,000 of that for improvements to the Guthrie-Dumont Water System. There was also a \$70,589 capital contribution for a line relocation project in the Northfield-Carey and Tell Cee Vee water systems for the Texas Department of Transportation.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Authority's investment in capital assets for its business-type activities and internal service funds as of September 30, 2009, amounts to \$9,140,418 (net of accumulated depreciation). This investment in capital assets includes land, water systems, and water rights. The total increase in the Authority's investment in capital assets for the current fiscal year was 1.62%.

Major capital asset events during the current fiscal year included the following:

- New Guthrie Pump Station in the amount of \$423,862
- Preston Shores Roberts Filter replacement in the amount of \$128,467
- FM 94 line relocation in the amount of \$71,227
- Guthrie School line extension in the amount of \$61,042
- Portable generator in the amount of \$32,067
- New Canon copier in the amount of \$12,455

**MANAGEMENT'S DISCUSSION AND ANALYSIS**, Continued

**CAPITAL ASSETS**

(Net of Depreciation)

Asset	Value September 30, 2008	Additions / Completions	Deletions	Value September 30, 2009	Accumulated Depreciation	Net Value
Land and easements	\$ 310,940	\$ 0	\$ 0	\$ 310,940	\$ 0	\$ 310,940
Construction in progress	238,859	827,919	(935,461)	131,317	0	131,317
Building	946,112	0	0	946,112	(94,611)	851,501
Water storage rights	373,500	0	0	373,500	(197,393)	176,107
Water systems	14,783,909	829,094	0	15,613,003	(8,334,719)	7,278,284
Machinery and equipment	765,322	32,968	0	798,290	(548,259)	250,031
Furniture and fixtures	325,011	18,391	0	343,402	(309,073)	34,328
Motor vehicles	455,359	3,418	(15,187)	443,590	(335,681)	107,909
Totals	<u>\$ 18,199,012</u>	<u>\$ 1,711,790</u>	<u>\$ (950,648)</u>	<u>\$ 18,960,154</u>	<u>\$ (9,819,736)</u>	<u>\$ 9,140,418</u>

Additional information on the Authority's capital assets can be found in **Note 3** on **pages 22-23** of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

**Long-Term Debt.** At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$3,635,000. All of the debt is backed by the full faith and credit of the Authority and is secured solely by specified revenue sources (i.e., revenue bonds).

### LONG-TERM DEBT

Bonds payable and transactions for the year ended at September 30, 2009 are summarized as follows:

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2008	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2009
Water Revenue Bonds –							
Series 1969-A	4.5%	04-01-09	4,000 to 9,000	\$ 104,000	\$ 9,000	\$ (8,000)	\$ 0
Series 1981-A	5.0%	04-01-20	1,000 to 5,000	65,000	32,000	(2,000)	30,000
Series 1991	6.9%	04-01-16	15,000 to 40,000	600,000	125,000	(15,000)	110,000
Series 97 Ref	7.9%	04-01-14	80,000 to 200,000	1,885,000	990,000	(135,000)	855,000
Series 1997	5.6%	04-01-17	165,000 to 400,000	4,850,000	2,890,000	(250,000)	2,640,000
Total Water Revenue Bonds				<u>\$ 7,504,000</u>	<u>\$ 4,046,000</u>	<u>\$ (411,000)</u>	<u>\$ 3,635,000</u>

The Authority's bonded debt decreased by \$411,000 (10.16%) during the current fiscal year. The decrease was due to the scheduled retirement in the bonds for the Authority's Utility Division.

The Authority received an "A-" rating from Standard and Poors in its "Ratings Direct" dated August 14, 2009. The last bond issue was in 1997 and was utilized to make capital improvements to two of the Utility Division's Surface Water Treatment Plants and to refund some high interest loans on behalf of the Utility Division. No new issues have been made by the Authority since 1997.

Additional information on the Authority's long-term debt can be found in **Note 4** on **pages 24-26** of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

### **Economic Factors and Next Year's Budgets and Rates**

- Capital expenditures in the Utility Division system
- Increased effort to reduce water purchases
- Three year review of water rates versus expenses
- Inflationary trends in the region compare favorably to national indices
- Motor Pool vehicle rotation purchases

All of these factors were considered in preparing the Authority's budget for the 2010 fiscal year.

The Authority has projected an increase of \$224,546 in net assets for the 2010 fiscal year budget.

### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in 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 Red River Authority of Texas, P. O. Box 240, Wichita Falls, Texas, 76307-0240.

## APPENDIX N-4



**RED RIVER AUTHORITY OF TEXAS**  
**STATEMENT OF NET ASSETS**  
September 30, 2009 and 2008

	2009	2008
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and short-term investments	\$ 2,381,596	\$ 2,027,740
Investments	3,274,779	3,153,675
Receivables:		
Trade and contracts	790,041	798,943
Interest receivable	0	6,085
Prepaid expenses	27,420	23,264
Inventory	43,594	43,964
Total current assets	<u>6,517,430</u>	<u>6,053,671</u>
<b>Restricted assets:</b>		
Cash and short-term investments	701,855	434,610
Investments	101,412	802,798
Total restricted assets	<u>803,267</u>	<u>1,237,408</u>
<b>Capital assets:</b>		
Capital assets not being depreciated:		
Land and easements	310,940	310,940
Construction in progress	131,317	238,859
Total capital assets not being depreciated	<u>442,257</u>	<u>549,799</u>
Capital assets being depreciated and amortized:		
Water storage rights	373,500	373,500
Water and sewer systems	15,613,003	14,783,909
Machinery and equipment	798,290	765,322
Building	946,112	946,112
Furniture and fixtures	343,402	325,011
Motor vehicles	443,590	455,359
Total capital assets being depreciated and amortized	<u>18,517,897</u>	<u>17,649,213</u>
Less accumulated depreciation and amortization	<u>(9,819,736)</u>	<u>(9,207,451)</u>
Total capital assets being depreciated and amortized, net	<u>8,698,161</u>	<u>8,441,762</u>
Total capital assets, net	<u>9,140,418</u>	<u>8,991,561</u>
Total assets	<u>16,461,115</u>	<u>16,282,640</u>
<b>LIABILITIES</b>		
<b>Current liabilities (payable from current assets):</b>		
Accounts payable - trade	197,030	216,232
Accrued payroll and related taxes	21,192	19,972
Deferred revenue	38,877	25,396
	<u>257,099</u>	<u>261,600</u>
<b>Current liabilities (payable from restricted assets):</b>		
Bonds payable, current (Note 4)	427,000	411,002
	<u>427,000</u>	<u>411,002</u>
Total current liabilities	<u>684,099</u>	<u>672,602</u>
<b>Noncurrent liabilities:</b>		
Bonds payable, less current maturities (Note 4)	3,068,735	3,471,585
Deposits	184,796	184,621
Total noncurrent liabilities	<u>3,253,531</u>	<u>3,656,206</u>
Total liabilities	<u>3,937,630</u>	<u>4,328,808</u>
<b>Net assets:</b>		
Investment in capital assets, net of related debt	5,644,683	5,108,974
Restricted:		
Debt service, repair and replacement, and construction	479,358	479,358
Unrestricted	6,399,444	6,365,500
Total net assets	<u>\$ 12,523,485</u>	<u>\$ 11,953,832</u>

The accompanying notes are an integral part of this statement.

**RED RIVER AUTHORITY OF TEXAS**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
for the years ended September 30, 2009 and 2008

	2009	2008
<b>Operating revenues:</b>		
Water and sewer sales	\$ 3,331,528	\$ 3,450,727
Charges for materials and services	579,249	511,173
Other	461,294	440,179
Total operating revenues	<u>4,372,071</u>	<u>4,402,079</u>
<b>Operating expenses:</b>		
Water purchases	578,323	558,671
Personnel services	1,619,796	1,528,327
Administrative costs	69,146	75,888
Utilities, supplies, and maintenance	815,952	765,600
Insurance	41,019	42,579
Automobile and travel	162,474	201,598
Professional and directors fees	148,592	106,211
Research expense	17,290	10,190
Bad debts	10,570	16,187
Total operating expenses	<u>3,463,162</u>	<u>3,305,251</u>
Operating income before depreciation and amortization	908,909	1,096,828
Depreciation and amortization	<u>(632,776)</u>	<u>(619,250)</u>
Operating income	<u>276,133</u>	<u>477,578</u>
<b>Nonoperating revenues (expenses):</b>		
Interest income	142,667	236,005
Gain on disposal of assets	11,360	16,338
Interest expense	<u>(260,661)</u>	<u>(285,154)</u>
Total nonoperating revenues (expenses)	<u>(106,634)</u>	<u>(32,811)</u>
Income (loss) before other credits	169,499	444,767
Capital contributions	400,154	8,464
Extraordinary income - insurance proceeds	<u>0</u>	<u>15,118</u>
Change in net assets	569,653	468,349
Net assets, beginning	<u>11,953,832</u>	<u>11,485,483</u>
Net assets, ending	<u>\$ 12,523,485</u>	<u>\$ 11,953,832</u>

The accompanying notes are an integral part of this statement.

**RED RIVER AUTHORITY OF TEXAS**  
**STATEMENTS OF CASH FLOWS**  
for the years ended September 30, 2009 and 2008

Page 1 of 2

	2009	2008
<b>Increase (decrease) in cash and cash equivalents:</b>		
<b>Cash flows from operating activities:</b>		
Cash received from customers and users	\$ 4,383,884	\$ 4,404,907
Cash payments to suppliers for goods and services	(1,855,784)	(1,687,626)
Cash payments to employees for services	(1,618,576)	(1,528,133)
Customer deposits received	175	(3,800)
Net cash provided by operating activities	<u>909,699</u>	<u>1,185,348</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on revenue bonds and notes	(411,000)	(385,000)
Interest paid on revenue bonds and notes	(236,512)	(261,002)
Acquisition of capital assets	(783,531)	(344,213)
Proceeds from sale of equipment	13,257	16,920
Proceeds from insurance	0	15,118
Capital contribution	400,154	8,464
Net cash used in capital and related financing activities	<u>(1,017,632)</u>	<u>(949,713)</u>
<b>Cash flows from investing activities:</b>		
(Purchases) Maturities of investments	580,282	(1,829,212)
Interest received on investments	148,752	229,920
Net cash provided by (used in) investing activities	<u>729,034</u>	<u>(1,599,292)</u>
 Net increase (decrease) in cash and cash equivalents	 621,101	 (1,363,657)
 Cash and cash equivalents, beginning	 <u>2,462,350</u>	 <u>3,826,007</u>
 Cash and cash equivalents, ending	 <u><u>\$ 3,083,451</u></u>	 <u><u>\$ 2,462,350</u></u>

	2009	2008
<b>Displayed as:</b>		
<b>Current Assets:</b>		
Cash and short-term investments	\$ 2,381,596	\$ 2,027,740
<b>Restricted Assets:</b>		
Cash and short-term investments	<u>701,855</u>	<u>434,610</u>
	<u><u>\$ 3,083,451</u></u>	<u><u>\$ 2,462,350</u></u>

The accompanying notes are an integral part of this statement.

**RED RIVER AUTHORITY OF TEXAS**  
**STATEMENTS OF CASH FLOWS, Continued**  
for the years ended September 30, 2009 and 2008

Page 2 of 2

	2009	2008
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
<b>Operating income</b>	<u>\$ 276,133</u>	<u>\$ 477,578</u>
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation and amortization	632,776	619,250
Change in assets and liabilities:		
(Increase) decrease in trade receivables	8,902	(12,411)
(Increase) decrease in insurance receivables	0	58,829
(Increase) decrease in prepaid expenses	(4,156)	2,595
(Increase) decrease in inventory	370	(5,568)
Increase (decrease) in trade accounts payable	(19,202)	50,954
Increase (decrease) in accrued liabilities	1,220	194
Increase (decrease) in deferred revenues	13,831	(2,273)
Increase (decrease) in deposits	(175)	(3,800)
Total adjustments	<u>633,566</u>	<u>707,770</u>
Net cash provided by operating activities	<u><u>\$ 909,699</u></u>	<u><u>\$ 1,185,348</u></u>

The accompanying notes are an integral part of this statement.

## **RED RIVER AUTHORITY OF TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS Years Ended September 30, 2009 and 2008**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following summary of the Red River Authority of Texas' (the Authority) more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

##### **A. Reporting Entity**

The Red River Authority of Texas was created in 1959 by Acts of the 56<sup>th</sup> Texas Legislature as a political subdivision of the State, a body politic and corporate under Article XVI, Section 59 of the Texas Constitution. The Authority's Enabling Legislation, Article 8280-228 of Vernon's Annotated Texas Civil Statutes (VATCS), enumerates the primary powers granted under the General and Special Laws of the State to fulfill its purpose as a water conservation and reclamation district. Additionally, the Authority functions under the applicable provisions of the Texas Water Code, Chapter 30. The Authority is governed by a Board of Directors who are appointed by the Governor of the State of Texas to serve a six-year staggered term.

The Authority is charged by state legislative mandate with three functions which include maintenance of a Master Plan for basin wide development, serving as local sponsor for federal water projects, and providing services authorized by the Texas Legislature within the defined territory of the Authority, which encompasses all or part of forty-three Texas counties. The Authority also serves as a conduit for tax-exempt financing for municipal water and wastewater facilities and industrial pollution control facilities.

The Authority has two main and distinct business lines. The Utility Division provides water and sewer services to approximately 10,000 people in a 15 county area of the Red River Basin. The Environmental Services Division evaluates, monitors, and develops management strategies to improve the natural resources within the Red River Basin. The division also supports a full service NELAP accredited water quality laboratory to provide analytical services.

The Red River Industrial Development Authority was authorized by the Board of Directors in July 1979, under terms of the Texas Development Corporation Act of 1979. The Red River Industrial Development Authority is a separate entity from the Red River Authority of Texas. It is authorized to act on behalf of the Authority for the specific purpose of promotion and development of commercial, industrial, and manufacturing enterprises to encourage employment and public welfare within the geographical confines of the Red River Basin in Texas.

The Red River Industrial Development Authority was evaluated by management for inclusion in the reporting entity's basic financial statements using the following criteria:

## RED RIVER AUTHORITY OF TEXAS

### NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued
  1. Exercise of oversight responsibility over this agency by the Authority's appointed officials:
    - a. Financial interdependency,
    - b. Selection of governing authority,
    - c. Designation of management,
    - d. Ability to significantly influence operations and accountability for fiscal matters.
  2. Scope of public service:
    - a. Whether the activity is for the benefit of the reporting entity and/or its residents,
    - b. Whether the activity is conducted within the geographic boundaries of the reporting entity and is generally available to the citizens of that entity.

Although the Industrial Development Authority did not meet the most significant criteria, that of financial interdependency (the bonds issued do not constitute indebtedness of the Red River Authority of Texas and are secured solely by revenues received from the commercial organizations on whose behalf the bonds are issued); the governing Board is the same as that for the Red River Authority of Texas and has control over the net assets of the Industrial Development Authority. All other criteria were met and the Industrial Development Authority's financial statements have been included with these financial statements as part of the Red River Authority of Texas' direct financing arrangements.

#### B. Basis of Presentation

The Authority's accounting system consists solely of nine proprietary funds which are further divided into two major enterprise funds, two minor enterprise funds, and five internal service funds. For presentation purposes, all funds are presented as a single entity. Interfund activity is eliminated.

The Statement of Revenues and Changes in Net Assets distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues or expenses. These include operating subsidies, investment earnings, interest expense, and transactions that result from non-exchange transactions or ancillary services.



# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

#### C. Basis of Accounting

The Authority follows GASB statements and interpretations issued on or before November 30, 1989, Accounting Principle Board Opinions, and Accounting Research Bulletins unless those pronouncements conflict with GASB pronouncements.

The accompanying financial statements have been prepared on the full accrual basis of accounting as prescribed by the Governmental Accounting Standards Board in accordance with the National Council on Governmental Accounting's Statement One. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Unbilled services receivable are recognized as revenue at year end.

The Authority occasionally receives grants from the federal government and other sources in connection with the construction of facilities. These grants are recorded as contributed capital when they are earned and measurable. Depreciation is provided on the total cost of the facilities. The portion of depreciation related to contributed fixed assets is charged against contributed capital, thus amortizing contributed capital over periods equal to the lives of the contributed fixed assets on a straight-line basis.

#### D. Budgetary Accounting

The Authority maintains control over operating expenses by the establishment of an annual operating budget. The Authority is not required under its enabling act to adopt a budget; therefore, statements of expenses compared to budget are not included within the basic financial statements.

#### E. Cash and Short-Term Investments

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) which are readily convertible to cash, to be cash equivalents. Investments are stated at cost, which approximates market, and comprise short-term investments backed by agencies of the State of Texas or the United States Government.

#### F. Accounts Receivable

The Authority considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operating expenses when that determination is made.

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

#### G. Inventory

Inventory of the Maintenance Division consists of supplies and various materials used for the maintenance of fixed assets. The "consumption" method is used to account for this inventory. Under this method, inventory acquisitions are recorded in inventory accounts initially and charged to expense when used. Inventories are stated at the lower of cost or market, using the first-in, first-out method.

#### H. Fixed Assets and Depreciation

Property, plant, and equipment are recorded at their historical cost except for contributed assets which are recorded at their fair market value at the time donated. Interest is capitalized on construction projects until substantially completed.

Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life greater than one year.

Depreciation of purchased fixed assets is charged as an expense against operations. Depreciation of contributed fixed assets is charged against contributed capital accounts. Depreciation is recorded on the straight-line basis over the estimated useful life of the fixed assets. The estimated useful lives are as follows:

Water and sewer systems	5-50 years
Machinery and equipment	4-20 years
Motor vehicles	4 years

Water rights, purchased from the United States Army Corps of Engineers, are amortized on a straight-line basis over the 50-year life of the contract between the Authority and the Corps of Engineers.

#### I. Direct Financing Arrangements

The Authority occasionally acts as an agent or intermediary for obtaining tax-exempt financing of water, sewage, or pollution control facilities for third parties. The Authority does not operate or maintain these facilities. The Authority receives issuance fees at the time of issuance and management fees on an annual basis for their assistance in handling the arrangements, which are reported as revenue. Arrangements of this type are accounted for in an enterprise fund as direct financing arrangements. The bonds are payable solely from and secured by a pledge of the revenues derived from the installment sale of the projects to the various entities that operate and maintain the facilities. The bonds are regarded as debts and responsibilities of the third parties on whose behalf they were issued, and the bonded debt, offsetting contract receivable, interest expense, and

## RED RIVER AUTHORITY OF TEXAS

### NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

offsetting contract revenue are not included in the Authority's financial statements. Additional information concerning these conduit bonds is disclosed in **Note 5**.

##### J. Vacation and Sick Leave

The Authority does not recognize an accrual for non vesting sick leave pursuant to GASB Statement 16, since the obligation for payment is contingent on an employee's future service.

An employee earns eight hours of vacation leave on the last day of each month and is entitled to use 96 hours (12 days) of vacation leave each calendar year. Any unused vacation leave up to a maximum of 96 hours is accrued as a liability of the Authority since payment will be made upon termination of the employee.

##### K. Restricted Assets

Contractually restricted cash, investments, and receivables are reported in a separate assets section of the statement of net assets. Such amounts are physically segregated from other assets pursuant to certain restrictions of bond indentures and Board requirements.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and the unrestricted resources as they are needed.

##### L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### 2. DEPOSITS AND INVESTMENTS

The Authority's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Authority's agent bank approved pledged securities sufficient to protect Authority funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

## RED RIVER AUTHORITY OF TEXAS

### NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

#### 2. DEPOSITS AND INVESTMENTS, Continued

##### A. Cash Deposits

The Authority shall utilize as depositories only federal and state chartered banking institutions within the territorial jurisdiction of the Authority. At September 30, 2009 and 2008, the carrying amount of the Authority's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,819,010 and \$3,450,160, respectively and the bank balance was \$3,635,491 and \$3,468,013, respectively. The Authority's cash deposits at September 30, 2009 and 2008 were adequately covered by FDIC insurance or by pledged collateral held by the Authority's agent bank in the Authority's name in accordance with Chapter 2257, Texas Government Code (Collateral for Public Funds Act).

##### B. Investments

The Authority is required by Government Code Chapter 2256, the Public Funds Investment Act (Act) to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity or portfolio investments, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the Authority adhered to the requirements of the Act. Additionally, investment practices of the Authority were in accordance with local policies.

The Act determines the types of investments which are allowable for the Authority. These include with certain restrictions: (1) United States Treasuries and securities guaranteed by the United States Government, (2) obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, (3) fully insured or collateralized certificates of deposits, (4) repurchase agreements and reverse repurchase agreements, (5) no-load SEC regulated money market funds, and (6) Texas local governmental investment liquidity pools. Items 1 through 4 are limited to 50% of the Authority's average monthly cash balance. Items 5 and 6 are limited to 80% of the Authority's average monthly cash balance with a dollar weighted average portfolio maturity of 90 days or less. With limited exception, investment purchases shall have remaining maturities at time of purchase less than or equal to three years.

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 2. DEPOSITS AND INVESTMENTS, Continued

The Authority's investments at September 30, 2009 and 2008 are shown below:

Investment or Investment Type	2009		2008	
	Weighted Maturity (Months)	Fair Value	Weighted Maturity (Months)	Fair Value
TexPool	1.5	\$ 2,822,986	1.4	\$ 2,968,460
Certificates of Deposit	7.8	3,375,914	14.4	3,257,439
		\$ 6,198,900		\$ 6,225,899

#### C. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination of whether the Authority was exposed to the following specific deposit and investment risks and, if so, the reporting of certain related disclosures:

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the Authority was not significantly exposed to credit risk.

Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name.

At year end, the Authority was not exposed to custodial credit risk.

Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the Authority was not exposed to significant concentration of credit risk.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the Authority was not exposed to interest rate risk.

## RED RIVER AUTHORITY OF TEXAS

### NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

#### 2. DEPOSITS AND INVESTMENTS, Continued

Foreign Currency Risk – This is the risk that exchange rates will adversely affect the fair value of an instrument. At year end, the Authority was not exposed to foreign currency risk.

#### D. Investment Accounting Policy

The Authority's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists, which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Non-negotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

#### E. Public Funds Investment Pools

Public Funds Investment Pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The State Comptroller of Public Accounts (State Comptroller) exercises oversight responsibility over TexPool, the Authority approved Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review investment policy and management fee structure. Finally, TexPool is rated AAA-m by Standard and Poors.

TexPool operates in a manner consistent with Securities and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather



# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 2. DEPOSITS AND INVESTMENTS, Continued

than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

### 3. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2009 and 2008 was as follows:

At September 30, 2009

Asset	Value September 30, 2008	Additions / Completions	Deletions	Value September 30, 2009	Accumulated Depreciation	Net Value
Land and easements	\$ 310,940	\$ 0	\$ 0	\$ 310,940	\$ 0	\$ 310,940
Construction in progress	238,859	827,919	(935,461)	131,317	0	131,317
Building	946,112	0	0	946,112	(94,611)	851,501
Water storage rights	373,500	0	0	373,500	(197,393)	176,107
Water systems	14,783,909	829,094	0	15,613,003	(8,334,719)	7,278,284
Machinery and equipment	765,322	32,968	0	798,290	(548,259)	250,031
Furniture and fixtures	325,011	18,391	0	343,402	(309,074)	34,328
Motor vehicles	455,359	3,418	(15,187)	443,590	(335,681)	107,909
Totals	<u>\$ 18,199,012</u>	<u>\$ 1,711,790</u>	<u>\$ (950,648)</u>	<u>\$ 18,960,154</u>	<u>\$ (9,819,736)</u>	<u>\$ 9,140,417</u>

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 3. CAPITAL ASSETS, continued

At September 30, 2008

Asset	Value September 30, 2007	Additions / Completions	Deletions	Value September 30, 2008	Accumulated Depreciation	Net Value
Land and easements	\$ 310,940	\$ 0	\$ 0	\$ 310,940	\$ 0	\$ 310,940
Construction in progress	273,193	182,458	(216,792)	238,859	0	238,859
Building	946,112	0	0	946,112	(63,074)	883,038
Water storage rights	373,500	0	0	373,500	(189,922)	183,578
Water systems	14,571,095	214,594	(1,780)	14,783,909	(7,900,434)	6,883,475
Machinery and equipment	776,335	39,880	(50,893)	765,322	(496,642)	268,680
Furniture and fixtures	454,771	8,713	(138,473)	325,011	(288,402)	36,609
Motor vehicles	424,699	116,258	(85,598)	455,359	(268,976)	186,383
Totals	<u>\$ 18,130,645</u>	<u>\$ 561,903</u>	<u>\$ (493,536)</u>	<u>\$ 18,199,012</u>	<u>\$ (9,207,450)</u>	<u>\$ 8,991,562</u>

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 4. LONG-TERM DEBT

Bonds payable and transactions for the years ended September 30, 2009 and 2008 are summarized as follows:

#### At September 30, 2009

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2008	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2009	Current Portion September 30, 2009
Water Revenue Bonds –								
Series 1969-A	4.50%	04-01-09	4,000 to 9,000	\$ 104,000	\$ 9,000	\$ (9,000)	\$ 0	\$ 0
Series 1981-A	5.00%	04-01-20	1,000 to 5,000	65,000	32,000	(2,000)	30,000	2,000
Series 1991	6.90%	04-01-16	15,000 to 40,000	600,000	125,000	(15,000)	110,000	15,000
Series 97 Ref	7.90%	04-01-14	80,000 to 200,000	1,885,000	990,000	(135,000)	855,000	145,000
Series 1997	5.60%	04-01-17	165,000 to 400,000	4,850,000	2,890,000	(250,000)	2,640,000	265,000
Total Water Revenue Bonds				<u>\$ 7,504,000</u>	<u>\$ 4,046,000</u>	<u>\$ (411,000)</u>	<u>\$ 3,635,000</u>	<u>\$ 427,000</u>

#### At September 30, 2008

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2007	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2008	Current Portion September 30, 2008
Water Revenue Bonds –								
Series 1969-A	4.50%	04-01-09	4,000 to 9,000	\$ 104,000	\$ 17,000	\$ (8,000)	\$ 9,000	\$ 9,000
Series 1981-A	5.00%	04-01-20	1,000 to 5,000	65,000	34,000	(2,000)	32,000	2,000
Series 1991	6.90%	04-01-16	15,000 to 40,000	600,000	140,000	(15,000)	125,000	15,000
Series 97 Ref	7.90%	04-01-14	80,000 to 200,000	1,885,000	1,115,000	(125,000)	990,000	135,000
Series 1997	5.60%	04-01-17	165,000 to 400,000	4,850,000	3,125,000	(235,000)	2,890,000	250,000
Total Water Revenue Bonds				<u>\$ 7,504,000</u>	<u>\$ 4,431,000</u>	<u>\$ (385,000)</u>	<u>\$ 4,046,000</u>	<u>\$ 411,000</u>

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 4. LONG-TERM DEBT, Continued

On April 1, 1997, the Authority issued \$4,850,000 of Water System Revenue Bonds, Series 1997, with \$5,000 par value and interest rates varying between 4.2% and 5.7%. These bonds mature from April 1, 1998 through April 1, 2017 and are callable on and after April 1, 2008 in whole or in part in principal amounts of \$5,000 or any multiple thereof. The proceeds of the bonds were used to construct two water treatment plants, a wastewater treatment plant addition, and associated storage and piping.

The deferred amount on refunding and the deferred issuance costs associated with the refunding of \$1,885,000 of Water Revenue Refunding Bonds and the new issuance of \$4,850,000 of Water System Revenue Bonds are being amortized over the life of the new issues using the straight-line method and are reported as a deduction from bonds payable on the face of the financial statements. Deferred costs and amortization for the year ended September 30, 2009 are as follows:

	Amount	Amortization	Net
Series 1997 Refunding Bonds			
Deferred amount on refunding	\$ (135,595)	\$ 99,702	\$ (35,893)
Deferred issuance costs	(101,715)	74,790	(26,924)
Series 1997 Bonds			
Deferred issuance costs	(203,854)	127,409	(76,445)
Total	<u>\$ (441,164)</u>	<u>\$ 301,901</u>	(139,262)
Bonds payable			<u>3,635,000</u>
Bonds payable, net			<u>\$ 3,495,738</u>

The annual requirements to pay principal and interest on the obligations outstanding as of September 30, 2009 are as follows:

Year Ending September 30	Current Portion	Annual Interest	Annual Obligation
2010	\$ 427,000	\$ 223,801	\$ 650,801
2011	462,000	196,938	658,938
2012	487,000	167,671	654,671
2013	517,000	136,648	653,648
2014	552,000	103,576	655,576
2015 – 2019	1,185,000	139,073	1,324,073
2020	5,000	250	5,250
	<u>\$ 3,635,000</u>	<u>\$ 967,957</u>	<u>\$ 4,602,957</u>

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 4. LONG-TERM DEBT, Continued

The net revenue of the Authority is pledged as collateral for the revenue bonds outstanding. \$256,978 is available in the interest and sinking fund at September 30, 2009 to service the bonds.

Bond reserve provisions as specified in the various bond ordinances require bond reserve deposits of \$455,458 and repair and replacement funds of \$23,900 at September 30, 2009. The Authority is in compliance with all significant provisions contained in the bond ordinances.

### 5. DIRECT FINANCING ARRANGEMENT DEBT

The bonds issued under direct financing arrangements represent, in substance, obligations of those entities on whose behalf they were issued and are not reflected on the Authority's financial statements. The following is a summary of changes in the direct financing arrangement obligations for the year ended September 30, 2009:

	Debt Outstanding October 1, 2008	New Obligations Issued	Obligations Retired or Refunded	Debt Outstanding September 30, 2009
Bonds issued under direct financing arrangements	<u>\$ 219,025,000</u>	<u>\$ 0</u>	<u>\$ 50,000,000</u>	<u>\$ 169,025,000</u>

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 5. DIRECT FINANCING ARRANGEMENT DEBT, Continued

Direct financing bonds payable at September 30, 2009, comprise the following individual issuances:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Debt Outstanding September 30, 2009
<u>Pollution Control Revenue Bonds –</u>					
Southwestern Public Service Company –					
Adjustable Rate Tender Securities					
Series 1991	Variable	07-01-11	\$ 44,500,000*	\$ 44,500,000	\$ 44,500,000
Southwestern Public Service Company –					
Adjustable Rate Tender Securities					
Series 1996	Variable	07-01-16	25,000,000*	25,000,000	25,000,000
Excel Corporation –					
Series 2002	6.10%	02-01-22	3,775,000*	3,775,000	3,775,000
Celanese Corporation –					
Series 2002A	6.45%	11-01-30	4,990,000*	4,990,000	4,990,000
Celanese Corporation –					
Series 2002B	6.70%	11-01-30	27,460,000*	27,460,000	27,460,000
AEP Texas North Company, Public Service Company of Oklahoma and AEP Texas Central Company-Series 2007					
	4.45%	06-01-20	63,300,000*	63,300,000	63,300,000
Total direct financing bonds				<u>\$169,025,000</u>	<u>\$ 169,025,000</u>

\* Term payment at maturity



## RED RIVER AUTHORITY OF TEXAS

### NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

#### 6. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Authority is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimability of the claims. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued.

Six of the Authority's water systems have been issued Noncompliance Notices by the Texas Commission on Environmental Quality (TCEQ) for being in violation of the United States Environmental Protection Agency's (EPA) Safe Drinking Water Act (SDWA) regulations, for exceeding the maximum contaminate level for nitrates. High nitrate levels are a common problem with water systems utilizing ground water not only in Texas, but across the nation. However, the Authority is satisfying all noncompliance requirements of notifying the customers by letter on a quarterly basis, furnishing affected customers with bottled water reimbursement, and keeping the TCEQ informed of its efforts in attempting to develop a cost effective solution to the high nitrate problem. Current estimates to resolve the nitrate problems range from \$350,000 to \$750,000 per system.

In 2004, the Authority was notified that two water systems were in violation of the SDWA's maximum contaminant level for total trihalomethanes (TTHMs). In 2006, the Authority was notified that one water system was also in violation of the SDWA's maximum contaminant level for Halocetic Acids (HAA5s). These violations were brought about by the EPA lowering the maximum contaminant level effective January 1, 2004 and are not associated with operational treatment techniques.

In compliance with an agreed enforcement order between the TCEQ and the Authority, the Authority continues to send Notice of Violation letters to each customer on these systems quarterly and will continue to do so until released by the TCEQ. In addition, the Authority has placed new treatment equipment in operation to reduce the TTHMs and is currently operating under new treatment procedures and testing advanced equipment to alleviate the violations.

The EPA is constantly changing the requirements for chemical constituent levels and water treatment methods, which are then implemented by the TCEQ. A possible requirement is the lowering of the arsenic maximum contaminant level. Arsenic is a naturally occurring chemical found in surface waters, such as Lake Arrowhead. The EPA reduced the maximum contaminant level for arsenic from 5ppb to 1ppb. Although Lake Arrowhead levels are just below the new maximum contaminant level, it has indicated a slow increase over the years.

## RED RIVER AUTHORITY OF TEXAS

### NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

#### 6. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

Should the level continue to increase, the Lake Arrowhead Water System may be required to implement reverse osmosis treatment to remove the arsenic as it is currently the only approved treatment. Cost for a project sized to meet Lake Arrowhead's needs would be approximately \$1,000,000.

The Lockett Water System has experienced a total failure with its water supply wells requiring the Authority to depend on its secondary supply, the City of Vernon. As it appears that the wells will not return and to meet the TCEQ requirements, the Authority has negotiated a new contract with the City of Vernon which will now become the primary water source for the Lockett System. This requires a larger transmission line and pump station from Vernon to the Lockett Pump Station which is estimated to cost approximately \$1,400,000 in debt service. An application for a grant and/or low interest loan has been filed with the United States Department of Agriculture's Rural Development Division to finance the proposed upgrades to the water system. If approved, any amount of grant funds would reduce the overall debt service to the system.

The Authority was notified by the Texas Department of Transportation (TXDOT) that it has plans to widen FM 120 in Grayson County. This will require the Authority to relocate approximately three miles of six inch water lines within the water system at an estimated cost of \$1,000,000. Although the project has been put on hold by TXDOT, work on the project is expected to be required within the next 5 years.

#### 7. OPERATING LEASES

The Authority currently has no leases.

#### 8. EMPLOYEE RETIREMENT PLAN

**Plan Description.** Red River Authority of Texas provides retirement, disability, and death benefits for all full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 535 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the Authority within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service

## RED RIVER AUTHORITY OF TEXAS

### NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

#### 8. EMPLOYEE RETIREMENT PLAN, Continued

regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service, but must leave their accumulated contributions in the plan to receive any Authority-financed benefits. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the Authority. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and Authority-financed monetary credits. The level of these monetary credits is adopted by the governing body of the Authority within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the Authority's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the Authority-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy.** The Authority has chosen a fixed rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Authority based on the covered payroll of employee members. Under the TCDRS Act, the regular 7.0% contribution rate of the Authority is a fixed percent equal to the 7.0% contribution rate payable by the employee members as adopted by the governing body of the Authority. This regular contribution rate of the Authority is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the Authority at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the Authority to contribute the same amount as the employees. The employee contribution rate and the Authority contribution rate may be changed by the governing body of the Authority within the options available in the TCDRS Act.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the Authority to contribute a fixed supplemental contribution rate determined by the system's actuary above the regular rate for 25 years or to reduce benefits earned in the future. No supplemental contribution is required at this time.

**Annual Pension Cost.** For the Authority's accounting years ending September 30, 2009 and 2008, the annual pension cost for the TCDRS plan for its employees was \$4,660 and 6,473 respectively, and actual contributions were \$84,446 and \$76,484 respectfully.

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 8. EMPLOYEE RETIREMENT PLAN, Continued

While the actual contributions were not actuarially determined, but were a fixed percent of the covered payroll of the participating employees, the annual required contributions were in compliance with the GASB Statement 27 parameters based on the actuarial valuations as of December 31, 2006, December 31, 2007, and December 31, 2008, the basis for assessing the adequacy of the financing arrangement beginning with the contribution rates for calendar years 2007-2008. The December 31, 2008 actuarial valuation is the most recent valuation.

#### Actuarial Valuation Information

Actuarial Valuation Date	December 31, 2006	December 31, 2007	December 31, 2008
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	30 years	30 years	30 years
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return <sup>1</sup>	8.00%	8.00%	8.00%
Projected salary increases <sup>1</sup>	5.30%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

#### Trend Information

##### for the Retirement Plan for the Employees of Red River Authority of Texas

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2006	\$ 17,372	599.64%	(\$ 272,489)
September 30, 2007	11,639	657.37%	(337,363)
September 30, 2008	6,473	1189.23%	(407,874)
September 30, 2009	4,660	1812.41%	(488,680)

<sup>1</sup> Includes inflation at the stated rate

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 8. EMPLOYEE RETIREMENT PLAN, Continued

**Transition Disclosure.** It was determined in accordance with GASB Statement Number 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year, because all actuarially required contributions for the accounting years beginning 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and the previously reported pension liability is zero.

#### Schedule of Funding Progress for the Retirement Plan for the Employees of Red River Authority of Texas

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll <sup>1</sup> (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12-31-04	2,428,828	1,963,102	(465,726)	123.72%	857,213	(54.33)%
12-31-05	2,687,112	2,175,931	(511,181)	123.49%	880,512	(58.06)%
12-31-06	2,973,607	2,299,788	(673,819)	129.30%	1,021,516	(65.96)%
12-31-07	3,326,929	2,594,851	(732,078)	128.21%	1,093,004	(66.98)%
12-31-08	3,169,009	2,681,774	(487,235)	118.17%	1,110,014	(43.89)%

### 9. PUBLIC ENTITY RISK POOL

The Authority is exposed to various risks of loss related to injuries to employees, theft of, damage to, and destruction of assets, natural disasters, and errors and omissions. The Authority participates in the Texas Municipal League (TML) Intergovernmental Risk Pool, a risk pool for political subdivisions in Texas. The Authority pays annual premiums to the Risk Pool for worker's compensation, property, and liability coverage. The Risk Pool provides that they will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$5 million for workers' compensation, \$7 million for property, and ranging from \$1 million to \$5 million for liability, based on limits purchased by the member. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years. The Authority continues to carry commercial insurance for employee health coverage.

A publicly available financial report from Texas Municipal League that includes financial statements and required supplementary financial information can be obtained from Texas Municipal League, Intergovernmental Risk Pool, P.O. Box 149194, Austin, Texas 78714-9194.

<sup>1</sup> The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 10. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Significant financial data for identifiable activities included as part of the government-wide presentation are as follows at September 30, 2009:

	Utility Division	Environmental Services Division	Other Enterprise Funds
<b>Condensed Statement of Net Assets</b>			
Assets:			
Current assets	\$ 3,482,239	\$ 185,793	\$ 17,256
Restricted assets	764,517	0	38,750
Capital assets	7,709,006	162,232	0
Noncurrent assets	0	0	0
Total assets	11,955,762	348,025	56,006
Liabilities:			
Current liabilities	3,794,716	49,356	17,256
Noncurrent liabilities	3,734,245	35,083	0
Total liabilities	7,528,961	84,439	17,256
Net assets:			
Investment in capital assets, net of related debt	3,631,877	84,008	0
Restricted net assets	479,358	0	0
Unrestricted net assets	315,566	179,578	38,750
Total net assets	\$ 4,426,801	\$ 263,586	\$ 38,750
<b>Condensed Statement of Revenue, Expenses, and Changes in Net Assets</b>			
Operating revenues	\$ 3,394,607	\$ 781,936	\$ 33,525
Operating expense	3,390,964	753,339	1,112
Operating income (loss)	3,643	28,597	32,413
Nonoperating revenues (expenses)	(235,664)	(7,208)	1,112
Operating transfers and other credits	400,154	0	(33,525)
Change in net assets	168,133	21,389	0
Beginning net assets	4,258,668	242,197	38,750
Ending net assets	\$ 4,426,801	\$ 263,586	\$ 38,750



# RED RIVER AUTHORITY OF TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2009 and 2008

### 10. SEGMENT INFORMATION FOR ENTERPRISE FUNDS, Continued

	Utility Division	Environmental Services Division	Other Enterprise Funds
<b>Condensed Statement of Cash Flows</b>			
Net cash provided by (used) in:			
Operating activities	\$ 501,502	\$ 63,007	\$ 42,913
Noncapital financing activities	0	0	(33,525)
Capital and related financing activities	(718,267)	(50,356)	0
Investing activities	(704,631)	(4,731)	3,207
Net increase (decrease)	487,866	17,036	12,595
Beginning cash and cash equivalents	(1148,576)	17,036	(4,755)
Ending cash and cash equivalents	\$ (660,710)	\$ 24,956	\$ 7,840