

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

for the years ended September 30, 2011 and 2010

INTRODUCTORY SECTION

RED RIVER AUTHORITY OF TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the years ended September 30, 2011 and 2010

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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 18th day of January, 20 12 its annual audit report for the fiscal period ended September 30, 2011 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 18, 20 12

[Signature]
(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 18th day of January, 20 12.

[Signature]
(Signature of Notary)

(Seal)



My Commission Expires on: 08-29-2015
Notary Public in and for the State of Texas.

January 6, 2011

**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, 2011 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 56th 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 Authority of Texas 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.

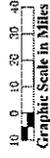
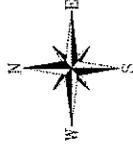
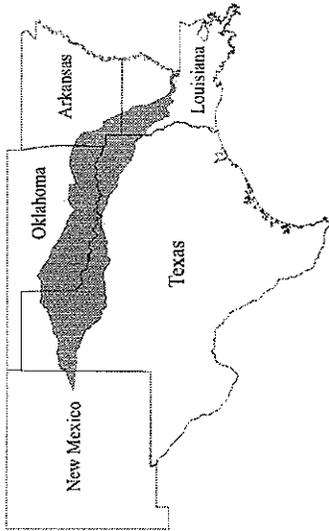
GOVERNING BODY

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 31 full-time classified employees on the Authority's payroll on September 30, 2011. **Refer to the Organizational Chart** for details.

RED RIVER WATERSHED Vicinity Map



1, 2, 3
Regional Boundaries
Red River Basin Boundary

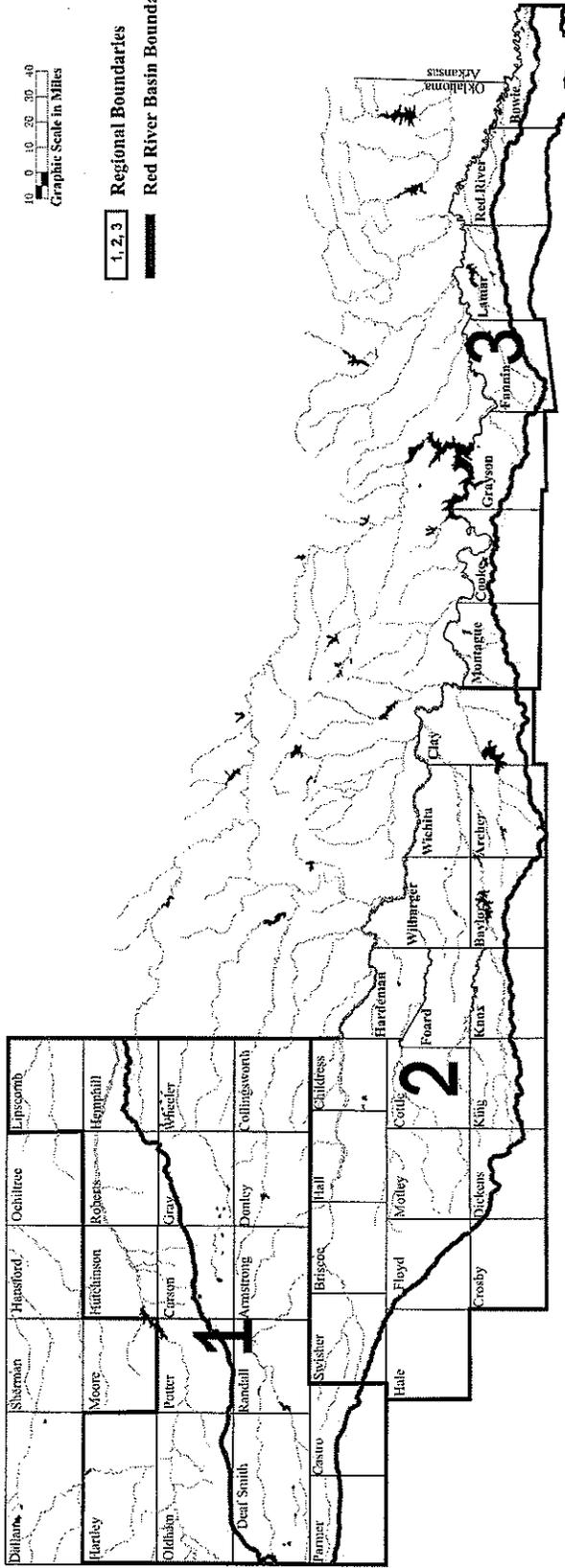


Figure 1



Red River Authority of Texas Organizational Chart

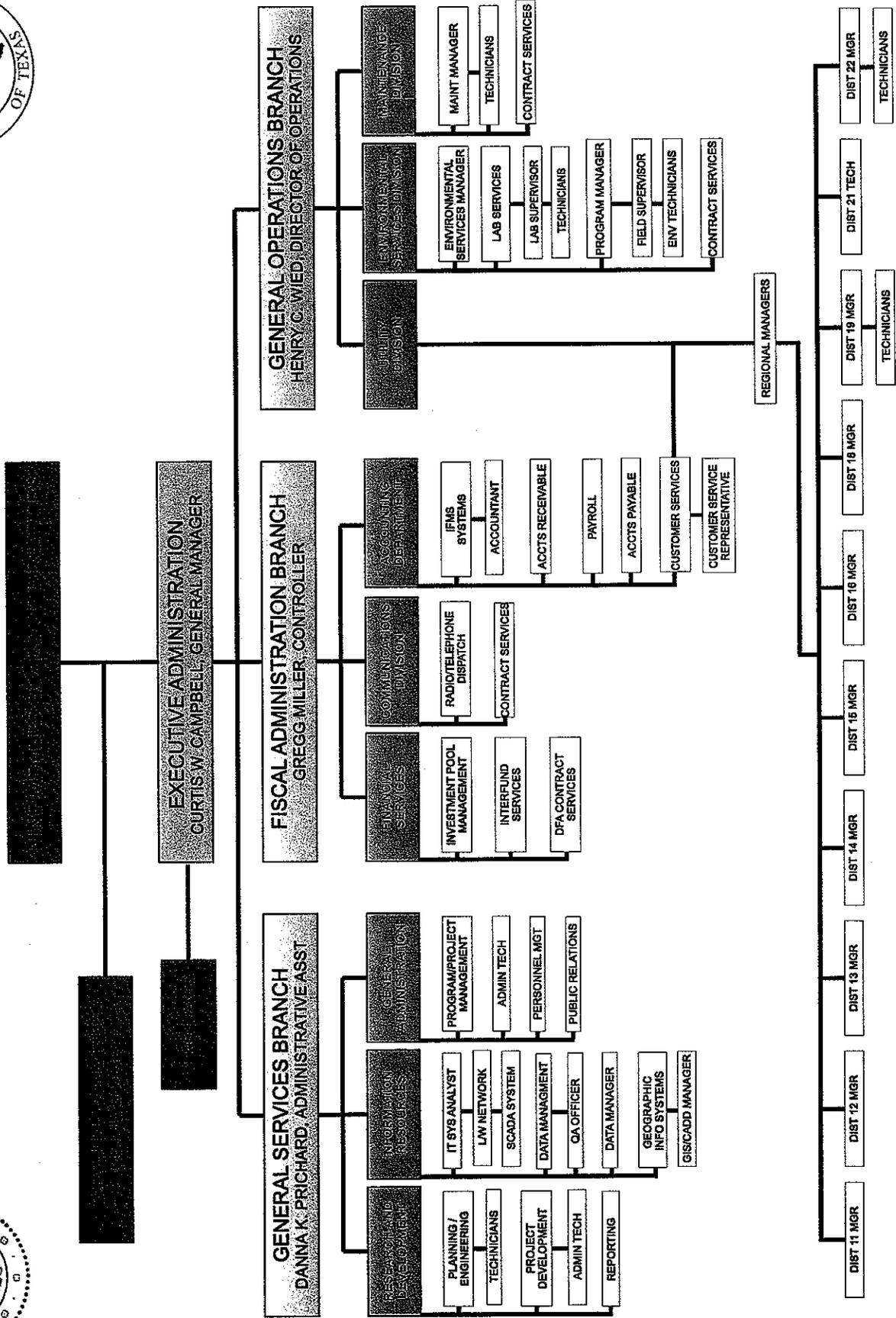


Chart 1

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, 2011 totaled \$3,584,600, 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, 2011 totaled \$38,190 on invested funds. The dollar weighted average maturity of the portfolio for the period ending September 30, 2011 was 114 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 \$5,181,389 for the fiscal year ended September 30, 2011, an increase of 27.3% over the previous fiscal year. Expenditures for the same period totaled \$4,624,723, an increase of 3.7% 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, 2011 were \$4,265,653, an increase of 26.5% over the previous fiscal year. Expenditures incurred during the same period totaled \$3,893,681, an increase of 1.0% over the previous fiscal year.

The Utility Division produced a total of 717.65 million gallons (MG) of water and used 565.02 million gallons (MG) for the fiscal year ended September 30, 2011. Unaccounted for water losses decreased by 2.0% as compared to the previous year. Refer to **Schedule 9, Figures 1 and 2** in the Statistical Section for monthly and annual historical water sale trends.

OPERATIONS SUMMARY, Continued

The Utility Division's Drought Contingency Plan recorded 28 Alert Critical Conditions due to the extreme drought in the service area, resulting in mandatory water use restrictions during fiscal year 2010-2011. Major and minor capital improvements within the Utility Division to which the Authority provided financing for the fiscal year ending included the following:

The Board of Directors authorized the rehabilitation of the Smith Pump Station in September 2010 which included a new pneumatic pressure tank, pump replacement, new electrical controls and the addition of two pressure regulators in the distribution system. An Inter Fund loan in the amount of \$84,248 was made to the Foard County Water System.

In September 2010, the Board of Directors authorized the Maintenance Division to upgrade the pumps, piping and electrical controls at the Clark Pump Stations. An Inter Fund Loan in the amount of \$31,034 was made to the Samnorwood Water System.

The Maintenance Division made an emergency repair to the Foard City Pump Station in August 2011 which included the upgrade of one pump, piping, electrical controls and the repair of the ground storage tank after a leak put the Pump Station out of service. The project is near completion at which time an interfund loan will be made to the system for the total cost of the project.

Other minor capital improvements consisted of repair and replacement of 2,000 feet of distribution line, installation and upgrade of one pump station telemetry control unit, continuance of the meter replacement program, repairing 515 main and service line leaks, and pumping station facilities repairs and maintenance totaling \$355,727 during the fiscal year.

The Utility Division experienced an increase of twenty two service meters at the fiscal year ended September 30, 2011.

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.

OPERATIONS SUMMARY, Continued

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, 2011 were \$925,444, an increase of 39.0% over the previous fiscal year. Expenditures for the same period totaled \$730,699 an increase of 0.4% over the previous fiscal year.

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 2009 – 2011 Biennial Contract for Regional Assessment of Water Quality under the Texas Clean Rivers Program in the amount of \$658,838 began on September 1, 2009. During FY 2010 – 2011, \$431,661 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 analyses 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 2011, the ESD Laboratory received its NELAP (National Environmental Laboratory Accreditation Program) Accreditation renewal 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 no investigations and no litigation was encountered during the year ended September 30, 2011.

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

OPERATIONS SUMMARY, Continued

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, 2011 was \$28,256, as a result of management fees earned during the fiscal year.

The Red River Industrial Development Authority had no outside activity this fiscal year. The only revenue generated was \$343 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 \$1,577,559 for the fiscal year ended September 30, 2011, a decrease of 6.2% from the previous fiscal year. Expenditures incurred during the same period totaled \$1,325,261, a decrease of 3.9% 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. Costs for services provided to outside entities are

OPERATIONS SUMMARY, Continued

computed and recovered through contracts for services based on actual labor, equipment, and materials utilized in the performance of the individual contract.

In July 2011, 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 \$71,787 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 2010-11, the Authority expended \$7,606.

Total revenues received in the GD were \$861,316 for the fiscal year ended September 30, 2011, a decrease of 8.6% over the previous year. Expenditures totaled \$804,597 for the same period, a decrease of 4.6% 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, 2011, the Interfund Loan Program managed an outstanding debt balance of \$1,656,734 and the Board of Directors authorized eight new Interfund notes, which totaled \$294,559. Interest earned for the fiscal year ended was \$113,653, an increase of 3.8% over the previous fiscal year. Total cost of service for the Interfund was \$11,365 for the fiscal year ended September 30, 2011, a decrease of 9.7% 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.

Total revenue received in the Maintenance Division was \$288,204 for the fiscal year ended September 30, 2011, a decrease of 13.4% over the previous year. Expenditures totaled \$256,552 for the same period, a decrease of 15.3% 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 \$57,784 for this fiscal year, a decrease of 2.3% over the previous year. Expenditures totaled \$15,894 for the same period, a decrease of 5.4% 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.

Total revenues received in the Motor Pool were \$256,602 for the fiscal year ended September 30, 2011, an increase of 22.6% over the previous year. Expenditures totaled \$236,853 for the same period, an increase of 14.1% over the previous fiscal year. The increase in expenditures for the motor pool was primarily due to an increase 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,

Gregg Miller
Controller

Henry C. Wied, Jr.
Director of Operations

Curtis W. Campbell
General Manager

APPENDIX N-2



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2010 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.

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, 2010, 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, 2011 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

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
January 5, 2011

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, 2011. 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 \$13,056,094 (net assets). Of this amount, \$6,663,942 (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 \$780,710;
3. The Authority's total debt decreased by \$473,833 (12.0%) during the current fiscal year. This decrease is the net of additional bonds and loans less 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. 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. One is Enterprise funds, which 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 other proprietary funds are the Internal Service Funds, which 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 one (1) to five (5) years, based on the results of various types of rate analyses conducted.

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 14-36 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 \$13,056,094 at the close of the most recent fiscal year.

Condensed Statement of Net Assets

	2011	2010	2009
Assets:			
Current assets	\$6,742,094	\$6,303,518	\$6,517,430
Restricted assets	782,377	798,053	803,267
Capital assets	9,409,572	9,591,928	9,140,418
Noncurrent assets	0	0	0
Total assets	<u>16,934,043</u>	<u>16,693,499</u>	<u>16,461,115</u>
Liabilities:			
Current liabilities	721,578	760,866	684,099
Noncurrent liabilities	3,156,371	3,657,249	3,253,531
Total liabilities	<u>3,877,949</u>	<u>4,418,115</u>	<u>3,937,630</u>
Net assets:			
Investment in capital assets, net of related debt	5,919,946	5,628,469	5,644,683
Restricted net assets	472,206	472,206	479,358
Unrestricted net assets	6,663,942	6,174,709	6,399,444
Total net assets	<u>\$13,056,094</u>	<u>\$12,275,384</u>	<u>\$12,523,485</u>

45.3% of the Authority's net assets reflect its investment in capital assets (e.g., land building, machinery, equipment, and water rights), 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

An additional portion of the Authority's net assets (3.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$6,663,942 (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 \$780,708 during the current fiscal year. This increase represents an increase in revenues due to weather conditions.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2011	2010	2009
Operating revenues:			
Water and sewer sales	\$4,154,785	\$3,269,881	\$3,331,528
Charges for materials and services	588,909	459,009	579,249
Issuance fees	0	0	0
Other	297,949	459,299	461,294
Total operating revenues	<u>5,041,643</u>	<u>4,188,189</u>	<u>4,372,071</u>
Operating expenses:			
Water purchases	609,118	554,987	578,323
Personnel services	1,674,131	1,697,525	1,619,796
Administrative costs	83,105	91,394	69,146
Utilities, supplies, and maintenance	860,766	769,199	815,952
Insurance	50,359	51,666	41,019
Automobile and travel	222,062	187,155	162,474
Professional and directors fees	74,239	130,056	148,592
Research expense	19,745	19,590	17,290
Bad debt	16,927	7,108	10,570
Total operating expenses	<u>3,610,452</u>	<u>3,508,680</u>	<u>3,463,162</u>
Operating income before depreciation and amortization	1,431,191	679,509	908,909
Depreciation and amortization	<u>(691,989)</u>	<u>(666,589)</u>	<u>(632,776)</u>
Operating income	<u>739,202</u>	<u>12,920</u>	<u>276,133</u>
Nonoperating revenues (expenses):			
Interest income	38,190	86,887	142,667
Gain on disposal of assets	36,787	11,345	11,360
Interest expense	<u>(220,313)</u>	<u>(235,810)</u>	<u>(260,661)</u>
Total nonoperating revenues (expenses)	<u>(145,336)</u>	<u>(137,578)</u>	<u>(106,634)</u>
Income (loss) before operating transfers and other credits	593,866	(124,658)	169,499
Capital contributions	0	0	400,154
Grant revenues for asset purchases	186,844	0	0
Extraordinary loss – asset abandonment	0	<u>(123,443)</u>	0
Change in net assets	780,710	(248,101)	569,653
Net assets, beginning	<u>12,275,384</u>	<u>12,523,485</u>	<u>11,953,832</u>
Net assets, ending	<u>\$13,056,092</u>	<u>\$12,275,384</u>	<u>\$12,523,485</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Some of the major variances from fiscal year 2010 to fiscal year 2011 include a \$884,904 increase in water sales due to drought conditions. The Environmental Services Division received approval to expend \$186,844 in grant revenues from the Clean Rivers Program this fiscal year for capital asset purchases. In fiscal year 2011, the Authority had grant revenue from the Regional Water Planning Group-Area B in the amount of \$7,606 with no expenditures in consultant fees. The Authority experienced a \$91,567 increase in utilities, supplies and maintenance due to increases in electricity usage, equipment maintenance, and chemical usage associated with higher water production costs. There was also an increase in automobile and travel due to higher fuel costs on fleet vehicles. The interest income decreased \$48,697 due to the drop in interest rates and the interest expense decreased \$15,497 with the timely retirement of the bonded debt of the Authority.

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, 2011, amounts to \$9,409,572 (net of accumulated depreciation). This investment in capital assets includes land, water systems, and water rights. The total decrease in the Authority's investment in capital assets for the current fiscal year was 1.90%.

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

- Smith pump station upgrade in the amount of \$84,248
- Clark pump station upgrade in the amount of \$31,034
- Dodson well upgrades in the amount of \$24,426
- Pease River bridge crossing in the amount of \$16,099
- Five new service pickup trucks in the amount of \$109,566
- New AA analyzer for ESD laboratory in the amount of \$48,769
- New boat for lake water sampling in the amount of \$38,045
- New handheld meter readers in the amount of \$12,535

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

CAPITAL ASSETS
(Net of Depreciation)

<u>Asset</u>	<u>Value September 30, 2010</u>	<u>Additions / Completions</u>	<u>Deletions</u>	<u>Value September 30, 2011</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>
Land and easements	\$ 310,940	\$ 0	\$ 0	\$ 310,940	\$ 0	\$ 310,940
Construction in progress	17,027	288,994	(239,172)	66,849	0	66,849
Building	946,112	0	0	946,112	(157,685)	788,427
Water storage rights	1,222,700	0	0	1,222,700	(212,334)	1,010,366
Water systems	15,793,193	186,068	0	15,979,261	(9,291,778)	6,687,483
Machinery and equipment	831,951	166,315	(91,739)	906,527	(580,507)	326,020
Furniture and fixtures	281,942	5,687	0	287,629	(255,443)	32,186
Motor vehicles	478,127	109,566	(89,202)	498,491	(311,190)	187,301
Totals	<u>\$ 19,881,992</u>	<u>\$ 756,630</u>	<u>\$ (420,113)</u>	<u>\$ 20,218,509</u>	<u>\$ (10,808,937)</u>	<u>\$ 9,409,572</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 \$3,584,600. The Authority also maintains a four (4) year loan with John Deere Credit at zero percent interest for the purchase of a backhoe. 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).

Bonds payable and transactions for the year ended at September 30, 2011 are summarized as follows:

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2010	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2011
Water Revenue Bonds							
Series 1981-A	5.00%	04/01/2020	1,000 to 5,000	\$ 65,000	\$ 28,000	\$ (2,000)	\$ 26,000
Series 1991	6.90%	04/01/2016	15,000 to 40,000	600,000	95,000	(15,000)	80,000
Series 1997	7.90%	04/01/2014	80,000 to 200,000	1,885,000	710,000	(160,000)	550,000
Series 1997	5.60%	04/01/2017	165,000 to 400,000	4,850,000	2,375,000	(285,000)	2,090,000
Series 2010	1.90%	08/15/2030	26,600 to 53,600	849,200	846,983	(27,900)	819,083
Total Water Revenue Bonds				<u>\$ 8,249,200</u>	<u>\$ 4,054,983</u>	<u>\$ (489,900)</u>	<u>\$ 3,565,083</u>

The Authority's bonded debt decreased by \$489,900 (12.1%) during the current fiscal year. This decrease is the scheduled bond principal maturities net of bond amortization. In fiscal year 2010 the Authority entered into a contract with the Greater Texoma Utility Authority (GTUA) to be a part of a bond issue to acquire an additional 2,000 acre-feet of water storage in Lake Texoma. Red River Authority will pay \$849,200 plus interest and maintenance fees to GTUA over the next 20 years for the 2,000 acre-feet.

The Authority received an "A3" rating from Moodys Investors Service in a draft dated November 11, 2011. 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.

Additional information on the Authority's long-term debt can be found in **Note 4** on pages **24-27** 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 2012 fiscal year.

The Authority has projected an increase of \$252,028 in net assets for the 2012 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
STATEMENTS OF NET ASSETS
September 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and short-term investments	\$ 2,249,007	\$ 2,033,739
Investments	3,388,513	3,346,860
Receivables:		
Trade and contracts	1,031,396	851,134
Prepaid expenses	25,667	25,345
Inventory	47,511	46,440
Total current assets	6,742,094	6,303,518
Restricted assets:		
Cash and short-term investments	679,182	687,212
Investments	103,195	110,841
Total restricted assets	782,377	798,053
Capital assets:		
Capital assets not being depreciated:		
Land and easements	310,940	310,940
Construction in progress	66,849	17,027
Total capital assets not being depreciated	377,789	327,967
Capital assets being depreciated and amortized:		
Water storage rights	1,222,700	1,222,700
Water and sewer systems	15,979,261	15,793,192
Machinery and equipment	906,527	831,950
Building	946,112	946,112
Furniture and fixtures	287,629	281,942
Motor vehicles	498,491	478,126
Total capital assets being depreciated and amortized	19,840,720	19,554,022
Less accumulated depreciation and amortization	(10,808,937)	(10,290,061)
Total capital assets being depreciated and amortized, net	9,031,783	9,263,961
Total capital assets, net	9,409,572	9,591,928
Total assets	16,934,043	16,693,499
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable - trade	141,100	192,586
Accrued payroll and related taxes	27,212	25,730
Deferred revenue	31,525	50,294
Short term loans payable	6,075	6,074
	205,912	274,684
Current liabilities (payable from restricted assets):		
Bonds payable, current (Note 4)	515,666	486,182
	515,666	486,182
Total current liabilities	721,578	760,866
Noncurrent liabilities:		
Bonds payable, less current maturities (Note 4)	2,956,243	3,453,490
Loans payable	11,642	17,713
Deposits	188,486	186,046
Total noncurrent liabilities	3,156,371	3,657,249
Total liabilities	3,877,949	4,418,115
Net assets:		
Investment in capital assets, net of related debt	5,919,946	5,628,469
Restricted:		
Debt service, repair and replacement, and construction	472,206	472,206
Unrestricted	6,663,942	6,174,709
Total net assets	\$ 13,056,094	\$ 12,275,384

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, 2011 and 2010

	2011	2010
Operating revenues:		
Water and sewer sales	\$ 4,154,785	\$ 3,269,881
Charges for materials and services	509,152	459,009
Other	297,949	459,299
Total operating revenues	4,961,886	4,188,189
Operating expenses:		
Water purchases	609,118	554,987
Personnel services	1,674,131	1,697,525
Administrative costs	83,105	91,394
Utilities, supplies, and maintenance	781,009	769,199
Insurance	50,359	51,666
Automobile and travel	222,062	187,155
Professional and directors fees	74,239	130,056
Research expense	19,745	19,590
Bad debts	16,927	7,108
Total operating expenses	3,530,695	3,508,680
Operating income before depreciation and amortization	1,431,191	679,509
Depreciation and amortization	(691,989)	(666,589)
Operating income	739,202	12,920
Nonoperating revenues (expenses):		
Interest income	38,190	86,887
Gain on disposal of assets	36,787	11,345
Interest expense	(220,313)	(235,810)
Total nonoperating revenues (expenses)	(145,336)	(137,578)
Income (loss) before other credits	593,866	(124,658)
Special items:		
Grant revenues for asset purchases	186,844	0
Loss on asset abandonment	0	(123,443)
Change in net assets	780,710	(248,101)
Net assets, beginning	12,275,384	12,523,485
Net assets, ending	\$ 13,056,094	\$ 12,275,384

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, 2011 and 2010

	2011	2010
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from customers and users	\$ 4,825,685	\$ 4,131,405
Cash payments to suppliers for goods and services	(1,972,273)	(1,809,262)
Cash payments to employees for services	(1,672,649)	(1,692,987)
Customer deposits received	2,440	1,250
Net cash provided by operating activities	1,183,203	630,406
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds and notes	(491,915)	(429,418)
Interest paid on revenue bonds and notes	(196,160)	(211,698)
Principal paid on note payable	(6,072)	(506)
Acquisition of capital assets	(517,455)	(369,657)
Proceeds from sale of equipment	44,610	13,000
Grant funds for asset purchases	186,844	0
Net cash used in capital and related financing activities	(980,148)	(998,279)
Cash flows from investing activities:		
(Purchases) Maturities of investments	(34,007)	(81,514)
Interest received on investments	38,190	86,887
Net cash provided by (used in) investing activities	4,183	5,373
 Net increase (decrease) in cash and cash equivalents	 207,238	 (362,500)
 Cash and cash equivalents, beginning	 2,720,951	 3,083,451
 Cash and cash equivalents, ending	 \$ 2,928,189	 \$ 2,720,951

	2011	2010
Displayed as:		
Current Assets:		
Cash and short-term investments	\$ 2,249,007	\$ 2,033,739
Restricted Assets:		
Cash and short-term investments	679,182	687,212
	\$ 2,928,189	\$ 2,720,951

Supplemental disclosure of cash flow information:

Noncash investing and financing transactions:

Acquisition of property and equipment through issuance of debt:	\$ 0	\$ 24,295
Acquisition of water storage rights through issuance of bonded debt:	\$ 0	\$ 849,200

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, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 739,202</u>	<u>\$ 12,920</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	691,989	666,589
Change in assets and liabilities:		
(Increase) decrease in trade receivables	(180,262)	(61,093)
(Increase) decrease in prepaid expenses	(322)	2,075
(Increase) decrease in inventory	(1,071)	(2,846)
Increase (decrease) in trade accounts payable	(51,486)	(4,444)
Increase (decrease) in accrued liabilities	1,482	4,538
Increase (decrease) in deferred revenues	(18,769)	11,417
Increase (decrease) in deposits	2,440	1,250
Total adjustments	<u>444,001</u>	<u>617,486</u>
Net cash provided by operating activities	<u>\$ 1,183,203</u>	<u>\$ 630,406</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, 2011 and 2010

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 56th 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, 2011 and 2010

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, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Basis of Accounting

The Authority follows FASB 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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010, the carrying amount of the Authority's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,596,776 and \$3,671,695, respectively and the bank balance was \$3,664,516 and \$3,720,894, respectively. The Authority's cash deposits at September 30, 2011 and 2010 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 under 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, (7) investment staff quality and capabilities, and (8) 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, 2011 and 2010

2. DEPOSITS AND INVESTMENTS, Continued

The Authority's investments at September 30, 2011 and 2010 are shown below:

Investment or Investment Type	2011		2010	
	Weighted Maturity (Months)	Fair Value	Weighted Maturity (Months)	Fair Value
TexPool	1.0	\$ 2,812,208	1.0	\$ 2,495,729
Certificates of Deposit	6.6	3,489,633	5.0	3,455,981
		<u>\$ 6,301,841</u>		<u>\$ 5,951,710</u>

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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010 was as follows:

At September 30, 2011

Asset	Value September 30, 2010	Additions / Completions	Deletions	Value September 30, 2011	Accumulated Depreciation	Net Value
Land and easements	\$ 310,940	\$ 0	\$ 0	\$ 310,940	\$ 0	\$ 310,940
Construction in progress	17,027	288,994	(239,172)	66,849	0	66,849
Water storage rights	1,222,700	0	0	1,222,700	(212,334)	1,010,366
Water systems	15,793,193	186,068	0	15,979,261	(9,291,778)	6,687,483
Machinery and equipment	831,951	166,315	(91,739)	906,527	(580,507)	326,020
Building	946,112	0	0	946,112	(157,685)	788,427
Furniture and fixtures	281,942	5,687	0	287,629	(255,443)	32,186
Motor vehicles	478,127	109,566	(89,202)	498,491	(311,190)	187,301
Totals	\$ 19,881,992	\$ 756,630	\$ (420,113)	\$ 20,218,509	\$ (10,808,937)	\$ 9,409,572

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

3. CAPITAL ASSETS, continued

At September 30, 2010

Asset	Value September 30, 2009	Additions / Completions	Deletions	Value September 30, 2010	Accumulated Depreciation	Net Value
Land and easements	\$ 310,940	\$ 0	\$ 0	\$ 310,940	\$ 0	\$ 310,940
Construction in progress	131,317	172,928	(287,218)	17,027	0	17,027
Water storage rights	373,500	849,200	0	1,222,700	(204,864)	1,017,836
Water systems	15,613,003	181,366	(1,176)	15,793,193	(8,806,246)	6,986,947
Machinery and equipment	798,290	40,839	(7,178)	831,951	(600,188)	231,763
Building	946,112	0	0	946,112	(126,148)	819,964
Furniture and fixtures	343,402	19,769	(81,229)	281,942	(243,051)	38,891
Motor vehicles	443,590	145,583	(111,046)	478,127	(309,567)	168,560
Totals	\$ 18,960,154	\$ 1,409,685	\$ (487,847)	\$ 19,881,992	\$ (10,290,061)	\$ 9,591,928

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

4. LONG-TERM DEBT

Bonds payable and transactions for the years ended September 30, 2011 and 2010 are summarized as follows:

At September 30, 2011

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2010	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2011	Current Portion September 30, 2011
Water Revenue Bonds –								
Series 1981-A	5.00%	04-01-20	1,000	\$ 65,000	\$ 28,000	\$ (2,000)	\$ 26,000	\$ 2,000
			to 5,000					
Series 1991	6.90%	04-01-16	15,000	600,000	95,000	(15,000)	80,000	15,000
			to 40,000					
Series 97 Ref	7.90%	04-01-14	80,000	1,885,000	710,000	(160,000)	550,000	170,000
			to 200,000					
Series 1997	5.60%	04-01-17	165,000	4,850,000	2,375,000	(285,000)	2,090,000	300,000
			to 400,000					
Series 2010	1.93%	08-15-30	26,600	849,200	846,983	(30,115)	816,868	28,666
			to 53,600					
Total Water Revenue Bonds				8,249,200	4,054,983	(492,115)	3,562,868	515,666
John Deere Credit	0.00%	08-15-10	6,075	24,295	23,787	(6,074)	17,715	6,075
Total Long Term Debt				\$ 8,273,495	\$ 4,078,770	\$ (498,189)	\$ 3,580,583	\$ 521,741

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

4. LONG-TERM DEBT, Continued

At September 30, 2010

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2009	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2010	Current Portion September 30, 2010
Water Revenue Bonds –								
Series 1981-A	5.00%	04-01-20	1,000 to 5,000	\$ 65,000	\$ 30,000	\$ (2,000)	\$ 28,000	\$ 2,000
Series 1991	6.90%	04-01-16	15,000 to 40,000	600,000	110,000	(15,000)	95,000	15,000
Series 97 Ref	7.90%	04-01-14	80,000 to 200,000	1,885,000	855,000	(145,000)	710,000	160,000
Series 1997	5.60%	04-01-17	165,000 to 400,000	4,850,000	2,640,000	(265,000)	2,375,000	285,000
Series 2010	1.93%	08-15-30	26,600 to 53,600	849,200	0	846,983	846,983	24,182
Total Water Revenue Bonds				<u>\$ 8,249,200</u>	<u>\$ 3,635,000</u>	<u>\$ 419,782</u>	<u>\$ 4,054,983</u>	<u>\$ 486,182</u>
John Deere Credit	0.00%	08-15-10	6,075	0	0	23,787	23,787	6,074
Total Long Term Debt				<u>\$ 8,249,200</u>	<u>\$ 3,565,000</u>	<u>\$ 443,569</u>	<u>\$ 4,078,770</u>	<u>\$ 492,256</u>

On April 1, 1981, the Authority issued \$65,000 of Water System Revenue Bonds, Series 1981-A, with \$1,000 par value and a interest rate of 5.7%. These bonds mature from April 1, 1982 through April 1, 2020 and are callable on and after April 1, 1999 in whole or in part in principal amounts of \$1,000 or any multiple thereof. The proceeds of the bonds were used to move water and sewer lines as part of a TX-DOT road project.

On November 20, 1991, the Authority issued \$600,000 of Water System Revenue Refunding Bonds, Series 1991, with \$5,000 par value and a interest rate of 6.9%. These bonds mature from April 1, 1992 through April 1, 2016 and are callable on and after April 1, 2003 in whole or in part in principal amounts of \$5,000 or any multiple thereof. The proceeds of the bonds were used to retire \$255,000 of outstanding water revenue bonds and \$317,669 of notes payable for water storage rights.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

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, 2011 are as follows:

	Amount	Amortization	Net
Series 1997 Refunding Bonds			
Deferred amount on refunding	\$ (135,595)	\$ 115,654	\$ (19,941)
Deferred issuance costs	(101,715)	86,757	(14,958)
Series 1997 Bonds			
Deferred issuance costs	(203,854)	147,794	(56,060)
Total	\$ (441,164)	\$ 350,205	(90,959)
Bonds payable			3,562,868
Bonds payable, net			\$ 3,471,909

In August 2010, the Red River Authority entered into a contract with Greater Texoma Utility Authority (GTUA) to purchase an additional two thousand (2,000) acre-feet of water in Lake Texoma. This was part of a total of 50,000 acre-feet of water storage purchased by GTUA which was financed by issuing \$22,000,000 in contract revenue bonds to the Texas Water Development Board. The Authority's portion of the bonds was \$849,200 with the annual principal payments due August 15 of each year for a term of 20 years. The interest rate varies from a rate of 0.075% to 2.480% over the life of the bonds. GTUA bills the Authority monthly for 1/12th of the annual principal and interest payments.

The Authority was reviewed by Moody's Investor Services in November 2011. As of this date a final report has not been issued. In a draft report the Authority was downgraded from an "A2" to an "A3".

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

4. LONG-TERM DEBT, Continued

The Authority had been leasing a John Deere backhoe for several months to increase the productivity of the Maintenance Division. In August 2010, the Authority purchased the backhoe and financed it through John Deere Credit in the amount of \$24,295. This is a four (4) year loan at zero percent interest. The Authority makes monthly payments on this loan which are a third of the monthly lease fee. The balance of this note is \$17,715 and \$23,787 as of September 30, 2011 and 2010 respectively.

The net revenue of the Authority is pledged as collateral for the revenue bonds outstanding. \$289,367 is available in the interest and sinking fund at September 30, 2011 to service the bonds.

Bond reserve provisions, as specified in the various bond ordinances, require bond reserve deposits of \$365,880 and repair and replacement funds of \$23,900 at September 30, 2011. The Authority is in compliance with all significant provisions contained in the bond ordinances.

The annual requirements to pay principal and interest on long-term obligations outstanding as of September 30, 2011 are as follows:

<u>Year Ending September 30</u>	<u>Current Portion</u>	<u>Annual Interest</u>	<u>Annual Obligation</u>
2012	\$ 524,958	\$ 180,256	\$ 707,731
2013	558,275	149,233	707,508
2014	593,565	117,161	710,726
2015	410,000	80,468	490,468
2016	441,000	59,197	500,197
2017 - 2021	617,200	82,385	699,585
2022 - 2026	231,200	40,423	271,623
2027 - 2030	206,600	12,874	216,957
	<u>\$ 3,582,798</u>	<u>\$ 721,997</u>	<u>\$ 4,304,795</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

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, 2011:

	Debt Outstanding October 1, 2010	New Obligations Issued	Obligations Retired or Refunded	Debt Outstanding September 30, 2011
Bonds issued under direct financing arrangements	\$ 144,025,000	\$ 0	\$ 44,500,000	\$ 99,525,000

Direct financing bonds payable at September 30, 2011, comprise the following individual issuances:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Debt Outstanding September 30, 2011
<u>Pollution Control Revenue Bonds –</u>					
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				\$ 99,525,000	\$ 99,525,000

* Term payment at maturity

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2011 and 2010

5. DIRECT FINANCING ARRANGEMENT DEBT, Continued

In January 2010, the Authority was notified by the Internal Revenue Service (IRS) that it had selected the \$50,000,000 Red River Authority of Texas Solid Waste Disposal Revenue Bonds (Panda Hereford Ethanol, L.P. Project) Series 2006 for a routine examination to determine compliance with federal tax requirements. The responsibility for submitting the information requested by the IRS would normally fall on the entity for which the bonds were issued. However, since Panda Hereford declared bankruptcy in April 2009, the IRS determined that the responsibility for providing the requested information and completing the arbitrage calculation lay with the Authority. The Authority employed its bond council and financial consultant to prepare the arbitrage rebate report and respond to the IRS. The arbitrage rebate report reflected that there was no liability to the IRS related to this bond issue, therefore, since no liability exists, under the reporting rules there was no requirement to file documents with the IRS. As of September 30, 2011, the IRS has not responded to any of the information submitted.

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 Safe Drinking Water Act's (SDWA) 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).

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2011 and 2010

6. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

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.

In October 2009, the Authority was notified of pending enforcement action by the TCEQ for violations of the Texas Water Code and/or Commission rules at its Estelline Wastewater Treatment Plant. The violation committed consisted of the Wastewater Treatment Plant effluent exceeding the Final Effluent Levels for Ammonia Nitrogen. The Authority entered into an Agreed Order with the TCEQ on February 10, 2010 and has implemented operational changes to alleviate the exceedances. In addition, the Authority is attempting to purchase property for the construction of a new evaporation pond, which would negate the need for a discharge permit.

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. 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 Water 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. The Authority is currently researching financing options for the project, since previous efforts to gain a United States Department of Agriculture's Rural Development Division Grant has been futile to date.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2011 and 2010

6. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

To date, the Authority has been able to maintain adequate service to the Lockett System through operational changes.

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. The Authority 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 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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2011 and 2010

8. EMPLOYEE RETIREMENT PLAN, Continued

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, 2011 and 2010, the annual pension cost for the TCDRS plan for its employees was \$24,252 and \$19,918 respectively, and actual contributions were \$87,538 and \$87,454 respectively.

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, 2008, December 31, 2009, and December 31, 2010, the basis for assessing the adequacy of the financing arrangement beginning with the contribution rates for calendar years 2009-2010. The December 31, 2010 actuarial valuation is the most recent valuation.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

8. EMPLOYEE RETIREMENT PLAN, Continued

Actuarial Valuation Information

Actuarial Valuation Date	December 31, 2008	December 31, 2009	December 31, 2010
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:	8.00%	8.00%	8.00%
Investment return ¹	5.30%	5.40%	5.40%
Projected salary increases ¹	3.50%	3.50%	3.50%
Inflation	0.00%	0.00%	0.00%
Cost-of-living adjustments			

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, 2008	6,473	1189.23%	(407,874)
September 30, 2009	4,660	1812.41%	(488,680)
September 30, 2010	19,918	439.08%	(556,216)
September 30, 2011	24,252	362.26%	(619,819)

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.

¹ Includes inflation at the stated rate

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

8. EMPLOYEE RETIREMENT PLAN, Continued

**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 ¹ (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
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)%
12-31-09	3,651,973	3,083,220	(568,753)	118.45%	1,221,798	(46.55)%
12-31-10	3,987,979	3,444,473	(543,506)	115.78%	1,245,691	(43.63)%

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 Intergovernmental Risk Pool (TMLIRP), 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 insurance for employee health coverage through the Texas Municipal League Intergovernmental Employee Benefits Pool.

A publicly available financial report from TMLIRP 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.

¹ 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, 2011 and 2010

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, 2011:

	Utility Division	Environmental Services Division	Other Enterprise Funds
Condensed Statement of Net Assets			
Assets:			
Current assets	\$ 3,522,993	\$ 243,019	\$ 16,354
Restricted assets	743,627	0	38,750
Capital assets	7,845,082	271,744	0
Noncurrent assets	0	0	0
Total assets	<u>12,111,702</u>	<u>514,763</u>	<u>55,104</u>
Liabilities:			
Current liabilities	4,264,939	156,638	16,354
Noncurrent liabilities	3,532,019	0	0
Total liabilities	<u>7,796,958</u>	<u>156,638</u>	<u>16,354</u>
Net assets:			
Investment in capital assets, net of related debt	3,887,699	269,575	0
Restricted net assets	472,206	0	0
Unrestricted net assets	(45,161)	88,550	38,750
Total net assets	<u>\$ 4,314,744</u>	<u>\$ 358,125</u>	<u>\$ 38,750</u>
Condensed Statement of Revenue, Expenses, and Changes in Net Assets			
Operating revenues	\$ 4,252,304	\$ 695,711	\$ 28,256
Operating expense	3,631,779	729,445	343
Operating income (loss)	620,525	(33,734)	27,913
Nonoperating revenues (expenses)	(248,553)	3,328	343
Operating transfers and other credits	0	186,844	(28,256)
Change in net assets	371,972	156,438	0
Beginning net assets	3,942,771	201,686	38,750
Ending net assets	<u>\$ 4,314,743</u>	<u>\$ 358,124</u>	<u>\$ 38,750</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2011 and 2010

10. SEGMENT INFORMATION FOR ENTERPRISE FUNDS, Continued

	Utility Division	Environmental Services Division	Other Enterprise Funds
Condensed Statement of Cash Flows			
Net cash provided by (used) in:			
Operating activities	\$ 981,301	\$ (106,007)	\$ 13,994
Noncapital financing activities	0	0	(28,256)
Capital and related financing activities	(917,906)	(22,058)	0
Investing activities	4,814	5	8,553
Net increase (decrease)	68,209	(128,060)	(5,709)
Beginning cash and cash equivalents	(1,245,158)	(15,901)	13,004
Ending cash and cash equivalents	<u>\$ (1,176,949)</u>	<u>\$ (143,961)</u>	<u>\$ 7,295</u>