

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**



for the years ended September 30, 2012 and 2011

RED RIVER AUTHORITY OF TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the years ended September 30, 2012 and 2011

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INTRODUCTORY SECTION

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 16th day of January, 2013 its annual audit report for the fiscal period ended September 30, 2012 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.

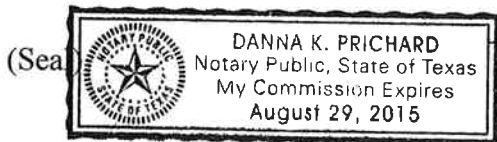
This filing affidavit and the attached copy of the annual audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: January 16, 2013

(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 16th day of January, 2013.



(Signature of Notary)

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

RED RIVER AUTHORITY OF TEXAS

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS for the year ended September 30, 2012

Complete District Mailing Address: P. O. Box 240
Wichita Falls, Texas 76307

Authority Business Telephone Number: (940) 723-8697

Names and Addresses	Term of Office Elected and Expired or Date Hired	Fees and Expense Reimbursements September 30, 2012	Title at Year End	Resident of District
Board Members:				
Cliff A. Skiles, Jr., D.V.M. P. O. Box 1729 Dalhart, Texas 79022	08-11-09 – 08-11-15	\$4,160	President	Yes
George Wilson Scaling, II 450 Rhat Road Henrietta, Texas 76365	08-11-09 – 08-11-15	708	Vice President	Yes
Jerry Bob Daniel 4911 FM 1756 West Truscott, Texas 79227	08-11-09 – 08-11-15	1,055	Secretary	Yes
Penny C. Carpenter 1899 CR 12 Silverton, Texas 79257	07-28-08 – 08-11-13	1,473	Assistant Secretary	Yes
Nathan J. (Jim) Bell, IV P. O. Box 1055 Paris, Texas 75461	10-16-00 – 08-11-17	1,339	Director	Yes
C. Cole Camp 4402 Charlene Avenue Amarillo, Texas 76106	07-28-08 – 08-11-13	1,749	Director	Yes
Mayfield McCraw P. O. Box 9 Telephone, Texas 75488	09-22-09 – 08-11-17	1,110	Director	Yes
Clyde M. Siebman 421 N Crockett Sherman, Texas 75090	06-02-08 – 08-11-13	693	Director	Yes
Montford T. Johnson, III P. O. Box 32365 Amarillo, Texas 79118	10-04-12 - 08-11-17	0	Director	Yes

RED RIVER AUTHORITY OF TEXAS

**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
for the year ended September 30, 2012**

Names and Addresses	Term of Office Elected and Expired or Date Hired	Fees and Expense Reimbursements September 30, 2012	Title at Year End
Key Administrative Personnel:			
Curtis W. Campbell 903 East Wichita Street Henrietta, Texas 76365	08-16-1981	\$ 0	General Manager
Engineering Consultants:			
Kerry D. Maroney, P.E. Biggs and Mathews, Inc. 2500 Brook Avenue Wichita Falls, Texas 76301		33,794	Consultant
Jim R. Nichols, P.E. Freese and Nichols, Inc. 811 Lamar Street Fort Worth, Texas 76102		0	Consultant
Herbert W. Grubb, Ph.D. HDR Engineering, Inc. 4401 W. Gate Blvd, Suite 400 Austin, Texas 78745		0	Consultant
Peggy Glass, Ph.D. Alan Plummer Associates, Inc. 6300 La Calma, Suite 400 Austin, Texas 78752-3825		0	Consultant
Legal Consultants:			
Gibson, Hotchkiss, Roach, and Davenport 807 Eighth Street City National Building, Suite 912 Wichita Falls, Texas 76301		10,979	General Counsel

RED RIVER AUTHORITY OF TEXAS

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS for the year ended September 30, 2012

Names and Addresses	Term of Office Elected and Expired or Date Hired	Fees and Expense Reimbursements September 30, 2012	Title at Year End
Legal Consultants, Continued			
Doug Caroom Bickerstaff, Heath, Pollen and Caroom, L.L.P. 3711 S Mo-Pac Expressway Building One, Suite 300 Austin, Texas 78746		\$ 21,506	Special Counsel
Sara Tangen M ^c Call, Parkhurst and Horton 717 N Harwood, Suite 900 Dallas, Texas 75201		0	Bond Counsel
Financial Consultants:			
David Medanich First Southwest Company 777 Main Street, Suite 1200 Fort Worth, Texas 76102		0	Financial Advisor
Depositories:			
American National Bank P. O. Box 4476 Wichita Falls, Texas 76308			
First National Bank P. O. Box 450 Quanah, Texas 79252			
TexPool – Comptroller of Public Accounts P. O. Box 12608 Austin, Texas 78711			



Red River Authority of Texas

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

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

January 7, 2013

**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, 2012 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, and a description of the Authority's operating divisions' highlights of activities for the year. The Financial Section includes the independent auditor's report, the Management's Discussion and Analysis (which can be found on pages 3-9), the basic financial statements, notes to the financial statements, and supplementary information such as combining schedules, budget comparison schedules and information required by the State of Texas. 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 the **Red River Authority of Texas Jurisdictional Map** for details.

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 and the combining schedules.

GOVERNING BODY

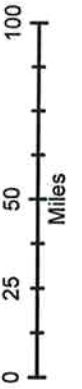
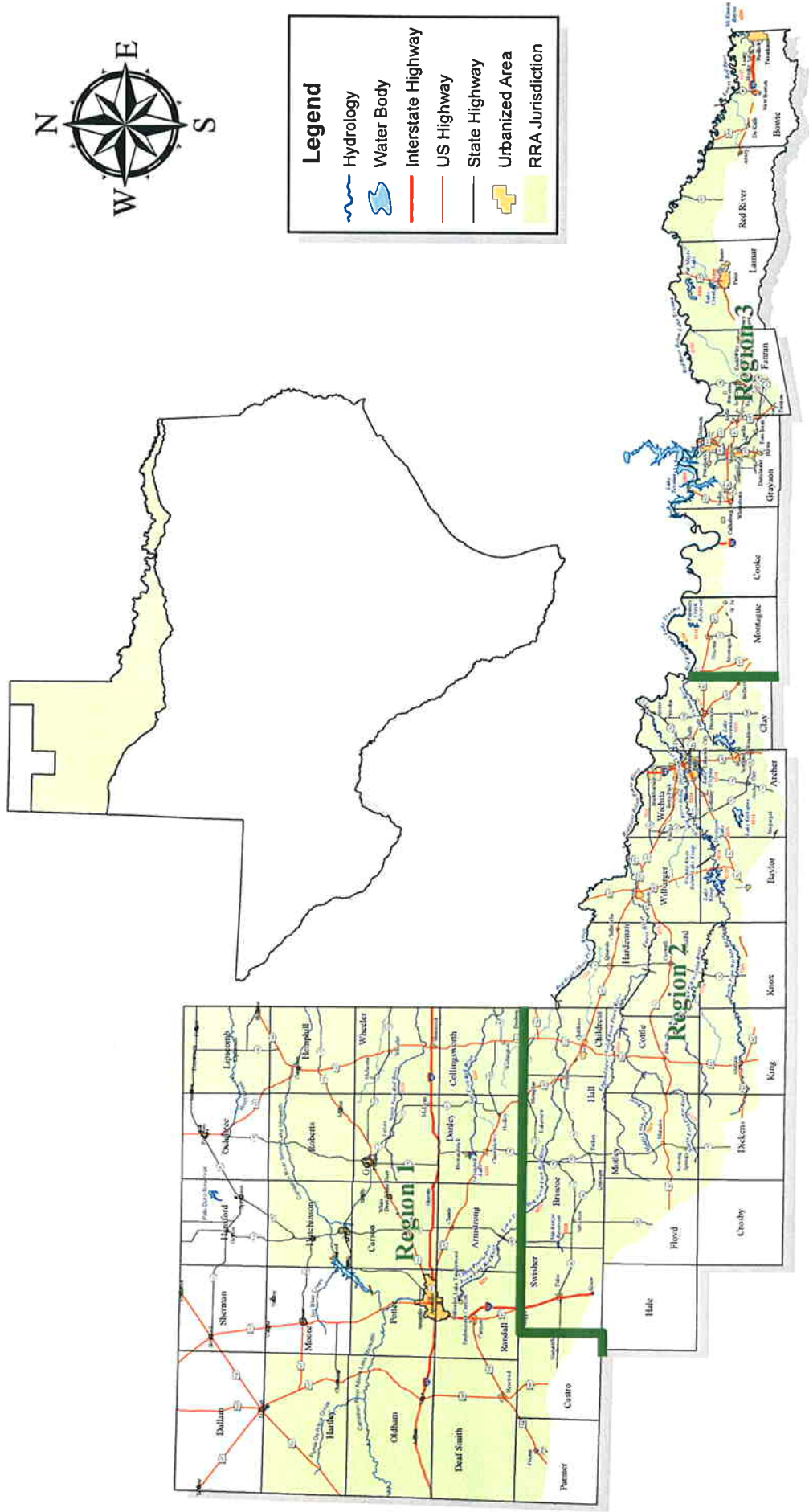
The Authority's governing body is composed of a nine-member Board of Directors, all of whom are appointed by the Governor, confirmed by the Senate, a legal voter, a property taxpayer, and resident in the Authority's jurisdictional area. Each Director serves a six-year staggered term. The Directors are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

ADMINISTRATION

All fiscal and administrative functions are conducted from the general offices, located at 3000 Hammon Road, Wichita Falls, Texas. The General Manager is assisted by a professional staff of employees and consultants in the accomplishment of his duties, and is solely responsible to the Board of Directors for the proper implementation of all policies and the successful administration of the Authority. The Executive Administration is the upper-level management team that consists of three interactive branches of administration for the orderly conduct of all facets of the Authority's activities. The branches are the General Division Branch, Fiscal Services Branch, and General Operations Branch. Each branch is responsible for providing team leadership, administrative, and technical services to each division or department of the Authority. The Executive Staff administers Board Policy and carries out the Authority's mission under a Board-approved Strategic Management Plan. There were 30 full-time classified employees on the Authority's payroll on September 30, 2012. **Refer to the Organizational Chart** for details.

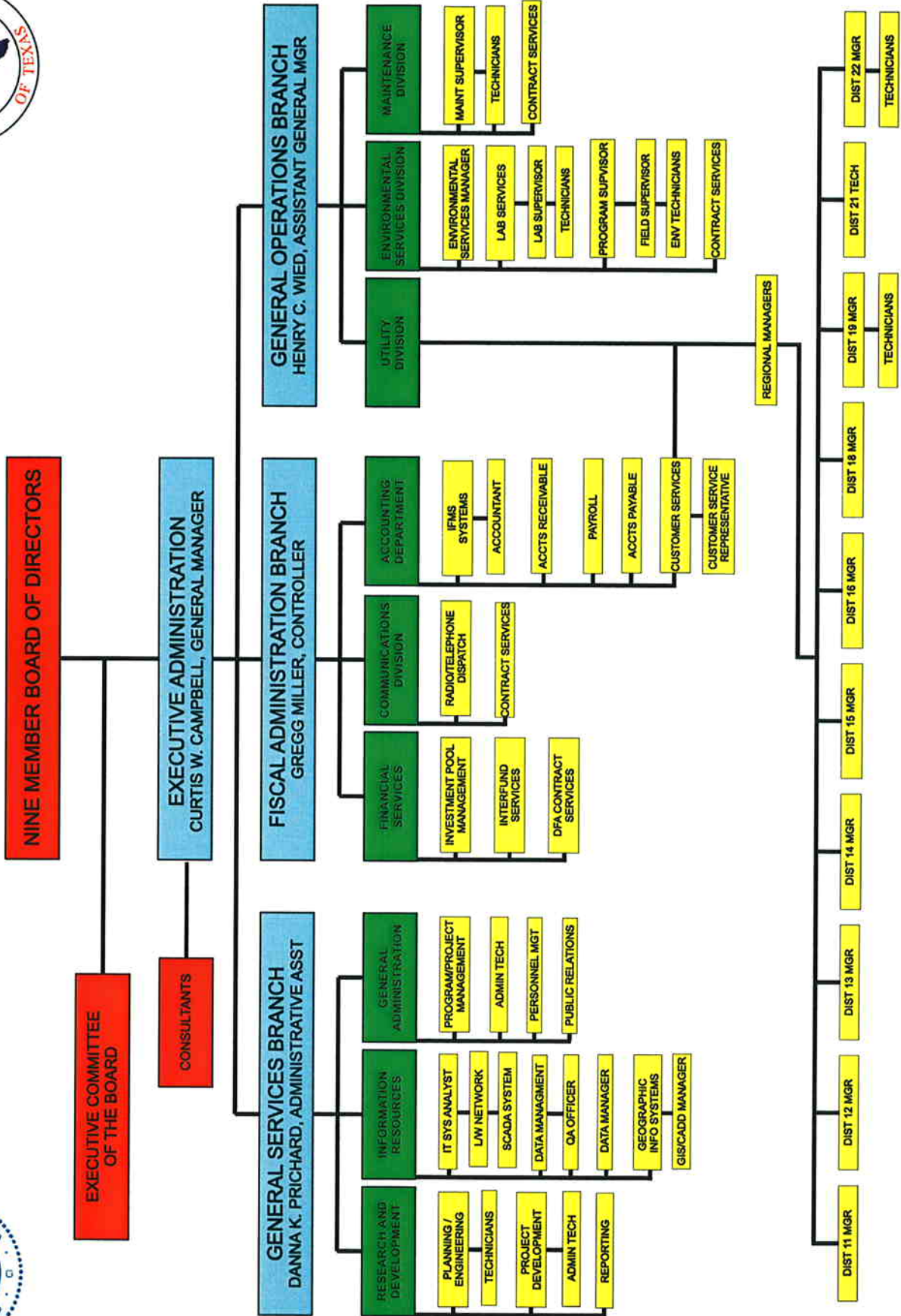


Red River Authority of Texas Jurisdictional Map





Red River Authority of Texas Organizational Chart



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, 2012 totaled \$3,047,200, 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, 2012 totaled \$12,319 on invested funds. The dollar weighted average maturity of the portfolio for the period ending September 30, 2012 was 162 days.

OPERATIONS SUMMARY

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

Revenues generated by the Authority's four Enterprise Funds totaled \$4,589,800 for the fiscal year ended September 30, 2012, a decrease of 11.4% over the previous fiscal year. Expenditures for the same period totaled \$4,711,908, an increase of 1.9% over the previous fiscal year. Refer to **Exhibit C-2** 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, Exhibit C-43**. 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, 2012 were \$3,755,129, a decrease of 12.0% over the previous fiscal year. Expenditures incurred during the same period totaled \$3,880,424, a decrease of 0.3% over the previous fiscal year.

The Utility Division produced a total of 608.68 million gallons (MG) of water and used 448.64 million gallons (MG) for the fiscal year ended September 30, 2012. Unaccounted for water losses increased by 3.0%, as compared to the previous year. Refer to **Exhibit D-13, 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 27 Alert Critical Conditions due to the extreme drought in the service area, resulting in mandatory water use restrictions during fiscal year 2011-2012. 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 purchase of 50 acres surrounding the Estelline Waste Water Treatment Plant at its January 2012 meeting. This purchase would allow the Authority to apply the effluent discharge over land through a 210 permit.

Three pump station upgrades were completed during the year. The Samnorwood Pump Station in the amount of \$31,034, the Foard County Pump Station in the amount of \$17,856 and the Childress Airport Pump Station in the amount of \$12,016.

Emergency repairs included the replacement of a flexible raw water line at the Preston Shores Water System intake structure in the amount of \$24,974. Also, an emergency tie in on the Childress Water System in the amount of \$23,565.

Other minor capital improvements consisted of repair and replacement of 651 feet of distribution line, installation and upgrade of one pump station telemetry control unit, continuance of the meter replacement program, repairing 383 main and service line leaks, and pumping station facilities repairs and maintenance totaling \$386,346 during the fiscal year.

The Utility Division experienced a decrease of one service meter at the fiscal year ended September 30, 2012.

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

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

Total revenues for fiscal year ended September 30, 2012 were \$812,809, a decrease of 12.2% over the previous fiscal year. Expenditures for the same period totaled \$831,390, an increase of 13.8% over the previous fiscal year.

OPERATIONS SUMMARY, Continued

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

The 2011 – 2013 Biennial Contract for Regional Assessment of Water Quality under the Texas Clean Rivers Program in the amount of \$658,838 began on September 1, 2011. During FY 2011 – 2012, \$343,303 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. On September 1, 2012, 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, 2012.

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

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

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

Total revenue received in the DFA for the period ended September 30, 2012 was \$21,768, as a result of management fees earned during the fiscal year.

OPERATIONS SUMMARY, Continued

The Red River Industrial Development Authority had no outside activity this fiscal year. The only revenue generated was \$94 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 \$1,622,427 for the fiscal year ended September 30, 2012, an increase of 2.8% from the previous fiscal year. Expenditures incurred during the same period totaled \$1,408,602, an increase of 6.3% from the previous fiscal year. Refer to **Exhibit C-2** 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 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 2011-12, the Authority expended \$32,258.

OPERATIONS SUMMARY, Continued

Total revenues received in the GD were \$915,660 for the fiscal year ended September 30, 2012, an increase of 6.3% over the previous year. Expenditures totaled \$899,364 for the same period, an increase of 11.8% 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, 2012, the Interfund Loan Program managed an outstanding debt balance of \$1,742,072 and the Board of Directors authorized fifteen new Interfund notes, which totaled \$339,210. Interest earned for the fiscal year ended was \$106,776, a decrease of 6.1% over the previous fiscal year. Total cost of service for the Interfund was \$10,684 for the fiscal year ended September 30, 2012, a decrease of 6.0% 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 \$302,056 for the fiscal year ended September 30, 2012, an increase of 4.8% over the previous year. Expenditures totaled \$299,812 for the same period, an increase of 16.9% 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.

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.

OPERATIONS SUMMARY, Continued

Total revenue received in the Communications Division was \$57,583 for this fiscal year, a decrease of 0.3% over the previous year. Expenditures totaled \$17,660 for the same period, an increase of 11.1% 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 \$240,352 for the fiscal year ended September 30, 2012, a decrease of 6.3% over the previous year. Expenditures totaled \$235,082 for the same period, a decrease of 0.7% over the previous fiscal year. The decrease in expenditures for the motor pool was primarily due to a decrease in operating costs.

ACKNOWLEDGEMENTS

We would like to express our appreciation to the Board for their contributions to the successful operation of the Authority. We would also like to thank the staff members who contributed to the preparation of this report.

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.
Assistant General Manager

Curtis W. Campbell
General Manager

FINANCIAL SECTION



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD, SECOND FLOOR • P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 • FAX (940) 766-5778

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

Independent Auditor's Report

Board of Directors
Red River Authority of Texas

We have audited the accompanying financial statements of Red River Authority of Texas as of and for the years ended September 30, 2012 and 2011, 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 opinions on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinions.

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, 2012 and 2011, and the changes in financial position and its cash flows for the years 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 7, 2013 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Texas County and District Retirement System – Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red River Authority of Texas' financial statements as a whole. The introductory section, the other supplementary information, 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 basic financial statements. The supplementary information in Appendixes C-1 through C-46 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information, except for the items marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and the statistical information listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
January 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. 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 v** 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 \$13,093,811 (net assets). Of this amount, \$6,559,656 (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 \$37,717;
3. The Authority's total debt decreased by \$503,468 (14.4%) 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 financial statement presentation is mandated by Government Accounting Standards Board Statement No. 34. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. However, all of the funds of the Authority can be put into one category – proprietary funds. As such, the Red River Authority of Texas is considered a special purpose government engaged only in business-type activities. No fund level information is presented as part of the Authority's basic financial statements.

Proprietary Funds. For internal reporting and control purposes, the Authority maintains two different types of proprietary funds. One is Enterprise funds, which are used to report the same functions presented in the authority-wide basic financial statements. The Authority uses enterprise funds to account for its distinct and separate business activities, the Utility Division, the Environmental Services Division, Direct Financing Arrangements and the Industrial Development Authority. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

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.

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

Authority-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$13,093,811 at the close of the most recent fiscal year.

CONDENSED STATEMENT OF NET ASSETS

	2012	2011	2010
Assets:			
Current assets	\$6,652,615	\$6,742,094	\$6,303,518
Restricted assets	761,608	782,377	798,053
Capital assets	9,048,107	9,409,572	9,591,928
Noncurrent assets	-	-	-
Total assets	<u>16,462,330</u>	<u>16,934,043</u>	<u>16,693,499</u>
Liabilities:			
Current liabilities	744,455	721,578	760,866
Noncurrent liabilities	2,624,064	3,156,371	3,657,249
Total liabilities	<u>3,368,519</u>	<u>3,877,949</u>	<u>4,418,115</u>
Net assets:			
Investment in capital assets, net of related debt	6,061,949	5,919,946	5,628,469
Restricted net assets	472,206	472,206	472,206
Unrestricted net assets	6,559,656	6,663,942	6,174,709
Total net assets	<u><u>\$13,093,811</u></u>	<u><u>\$13,056,094</u></u>	<u><u>\$12,275,384</u></u>

46.3% 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 \$6,559,656 (50.1%) 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 all categories of net assets.

The Authority's net assets increased by \$37,717 during the current fiscal year. This increase represents a positive increase in the Communication, Maintenance and General Divisions off-set by negative increases in the Utility Division and the Environmental Service Division funds.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2012	2011	2010
Operating revenues:			
Water and sewer sales	\$3,677,413	\$4,154,785	\$3,269,881
Charges for materials and services	536,472	509,152	459,009
Issuance fees	-	-	-
Other	445,525	297,949	459,299
Total operating revenues	<u>4,659,410</u>	<u>5,041,643</u>	<u>4,188,189</u>
Operating expenses:			
Water purchases	615,679	609,118	554,987
Personnel services	1,738,346	1,674,131	1,697,525
Administrative costs	94,985	83,105	91,394
Utilities, supplies, and maintenance	868,088	781,009	769,199
Insurance	52,824	50,359	51,666
Automobile and travel	238,380	222,062	187,155
Professional and directors fees	113,799	74,239	130,056
Research expense	36,450	19,745	19,590
Bad debt	12,231	16,927	7,108
Total operating expenses	<u>3,770,782</u>	<u>3,610,452</u>	<u>3,508,680</u>
Operating income before depreciation and amortization	888,628	1,431,191	679,509
Depreciation and amortization	<u>(693,154)</u>	<u>(691,989)</u>	<u>(666,589)</u>
Operating income	<u>195,474</u>	<u>739,202</u>	<u>12,920</u>
Nonoperating revenues (expenses):			
Interest income	12,319	38,190	86,887
Gain on disposal of assets	18,451	36,787	11,345
Interest expense	<u>(188,527)</u>	<u>(220,313)</u>	<u>(235,810)</u>
Total nonoperating revenues (expenses)	<u>(157,757)</u>	<u>(145,336)</u>	<u>(137,578)</u>
Income (loss) before operating transfers and other credits	37,717	593,866	(124,658)
Grant revenues for asset purchases	-	186,844	-
Extraordinary loss – asset abandonment	<u>-</u>	<u>-</u>	<u>(123,443)</u>
Change in net assets	37,717	780,710	(248,101)
Net assets, beginning	<u>13,056,094</u>	<u>12,275,384</u>	<u>12,523,485</u>
Net assets, ending	<u><u>\$13,093,811</u></u>	<u><u>\$13,056,094</u></u>	<u><u>\$12,275,384</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Some of the major variances from fiscal year 2011 to fiscal year 2012 include a \$477,372 decrease in water sales due to drought related restrictions due to availability. The Authority also had an emergency repair on the flexible raw water line at the Preston Shores Water System in the amount of \$24,974 that was not capitalized. In fiscal year 2012, the Authority had grant revenue from the Regional Water Planning Group-Area B in the amount of \$33,171 with \$27,033 in consultant fees. The Authority entered into a contract with Good Earth Mechanics to reimburse expenses incurred by the Authority in connection with the application to the United States Army Corps of Engineers to construct a Salinity Gradient Solar Pond electrical generation plant at the Truscott Brine Reservoir. To date, \$29,084 has been incurred by the Authority. The Authority experienced a \$87,089 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 fleet maintenance costs on fleet vehicles. The interest income decreased \$25,871 due to the drop in interest rates and the interest expense decreased \$31,786 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, 2012 amounts to \$9,048,107 (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 3.80%.

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

- Land purchase for Estelline WWTP in the amount of \$51,023
- Little Red/Oxbow River bore in the amount of \$23,155
- Airport Pump Station refurbish in the amount of \$12,016
- Childress emergency tie-in in the amount of \$23,565
- Foard County Pump Station upgrade in the amount of \$17,856
- Samnorwood Pump Station upgrade in the amount of \$31,034
- Four new service pickup trucks in the amount of \$75,539
- New computer backup system in the amount of \$13,495
- New metal carport at the main office in the amount of \$16,800

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

CAPITAL ASSETS (Net of Depreciation)

Asset	Value September 30, 2011	Additions / Completions	Deletions	Value September 30, 2012	Accumulated Depreciation	Net Value
Land and easements	\$ 310,940	\$51,023	\$ -	\$ 361,963	\$ -	\$ 361,963
Construction in progress	66,849	156,401	(187,787)	35,463	-	35,463
Building	946,112	16,800	-	962,912	(190,202)	772,710
Water storage rights	1,222,700	-	-	1,222,700	(219,804)	1,002,896
Water systems	15,979,261	128,188	-	16,107,449	(9,786,765)	6,320,684
Machinery and equipment	906,527	64,523	(2,916)	968,134	(646,707)	321,427
Furniture and fixtures	287,629	27,002	-	314,631	(268,176)	46,455
Motor vehicles	498,491	75,538	(63,451)	510,578	(324,069)	186,509
Totals	<u>\$ 20,218,509</u>	<u>\$ 519,475</u>	<u>\$ (254,154)</u>	<u>\$ 20,483,830</u>	<u>\$ (11,435,723)</u>	<u>\$ 9,048,107</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 \$3,047,200. 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, 2012 are summarized as follows:

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2011	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2012
Water Revenue Bonds							
Series 1981-A	5.00%	04/01/2020	1,000 to 5,000	\$ 65,000	\$ 26,000	\$ (2,000)	\$ 24,000
Series 1991	6.90%	04/01/2016	15,000 to 40,000	600,000	80,000	(15,000)	65,000
Series 1997	7.90%	04/01/2014	80,000 to 200,000	1,885,000	550,000	(160,000)	380,000
Series 1997	5.60%	04/01/2017	165,000 to 400,000	4,850,000	2,090,000	(285,000)	1,790,000
Series 2010	1.90%	08/15/2030	26,600 to 53,600	849,200	822,600	(34,400)	788,200
Total Water Revenue Bonds				<u>\$ 8,249,200</u>	<u>\$ 3,568,600</u>	<u>\$ (521,400)</u>	<u>\$ 3,047,200</u>

The Authority's bonded debt decreased by \$521,400 (14.6%) 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. The 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 "A-" rating from Standard and Poors in a Summary Report dated October 2, 2012. 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 24-26** of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Economic Factors and Next Year's Budgets and Rates

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

All of these factors were considered in preparing the Authority's budget for the 2013 fiscal year.

The Authority has projected an increase of \$287,622 in net assets for the 2013 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.

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BASIC FINANCIAL STATEMENTS

RED RIVER AUTHORITY OF TEXAS
STATEMENTS OF NET ASSETS
September 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and short-term investments	\$ 2,793,886	\$ 2,249,007
Investments	2,890,977	3,388,513
Receivables:		
Trade and contracts	880,362	1,031,396
Prepaid expenses	26,938	25,667
Inventory	60,452	47,511
Restricted assets:		
Cash and short-term investments	674,421	679,182
Investments	87,187	103,195
Total current assets	<u>7,414,223</u>	<u>7,524,471</u>
Long-term assets:		
Capital assets not being depreciated	397,426	377,789
Capital assets being depreciated (net)	8,650,681	9,031,783
Total long-term assets	<u>9,048,107</u>	<u>9,409,572</u>
Total assets	<u>16,462,330</u>	<u>16,934,043</u>
LIABILITIES		
Current liabilities:		
Accounts payable - trade	122,183	141,100
Accrued payroll and related taxes	26,262	27,212
Deferred revenue	43,605	31,525
Loans payable - current maturities	6,075	6,075
Bonds payable - current maturities (from restricted assets)	546,330	515,666
Total current liabilities	<u>744,455</u>	<u>721,578</u>
Long-term liabilities:		
Loans payable, less current maturities	5,567	11,642
Bonds payable, less current maturities	2,428,186	2,956,243
Deposits	190,311	188,486
Total noncurrent liabilities	<u>2,624,064</u>	<u>3,156,371</u>
Total liabilities	<u>3,368,519</u>	<u>3,877,949</u>
Net assets:		
Investment in capital assets, net of related debt	6,061,949	5,919,946
Restricted:		
Debt service, repair and replacement, and construction	472,206	472,206
Unrestricted	<u>6,559,656</u>	<u>6,663,942</u>
Total net assets	<u>\$ 13,093,811</u>	<u>\$ 13,056,094</u>

The accompanying notes are an integral part of this statement.

RED RIVER AUTHORITY OF TEXAS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
for the years ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Water and sewer sales	\$ 3,677,413	\$ 4,154,785
Charges for materials and services	536,472	509,152
Other	445,525	297,949
Total operating revenues	<u>4,659,410</u>	<u>4,961,886</u>
Operating expenses:		
Water purchases	615,679	609,118
Personnel services	1,738,346	1,674,131
Administrative costs	94,985	83,105
Utilities, supplies, and maintenance	868,088	781,009
Insurance	52,824	50,359
Automobile and travel	238,380	222,062
Professional and directors fees	113,799	74,239
Research expense	36,450	19,745
Bad debts	12,231	16,927
Total operating expenses	<u>3,770,782</u>	<u>3,530,695</u>
Operating income before depreciation and amortization	888,628	1,431,191
Depreciation and amortization	<u>(693,154)</u>	<u>(691,989)</u>
Operating income	<u>195,474</u>	<u>739,202</u>
Nonoperating revenues (expenses):		
Interest income	12,319	38,190
Gain (loss) on disposal of assets	18,451	36,787
Grant revenues for asset purchases	-	186,844
Interest expense	<u>(188,527)</u>	<u>(220,313)</u>
Total nonoperating revenues (expenses)	<u>(157,757)</u>	<u>41,508</u>
Change in net assets	37,717	780,710
Net assets, beginning	<u>13,056,094</u>	<u>12,275,384</u>
Net assets, ending	<u>\$ 13,093,811</u>	<u>\$ 13,056,094</u>

The accompanying notes are an integral part of this statement.

RED RIVER AUTHORITY OF TEXAS
STATEMENTS OF CASH FLOWS

for the years ended September 30, 2012 and 2011

	2012	2011
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from customers and users	\$ 4,903,181	\$ 4,825,685
Cash payments to suppliers for goods and services	(2,146,222)	(1,972,273)
Cash payments to employees for services	(1,739,296)	(1,672,649)
Customer deposits received	1,825	2,440
Net cash provided by operating activities	<u>1,019,488</u>	<u>1,183,203</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds and notes	(497,393)	(491,915)
Interest paid on revenue bonds and notes	(188,527)	(196,160)
Principal paid on note payable	(6,075)	(6,072)
Acquisition of capital assets	(331,746)	(517,455)
Proceeds from sale of equipment	18,451	44,610
Grant funds for asset purchases	-	186,844
Net cash used in capital and related financing activities	<u>(1,005,290)</u>	<u>(980,148)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	1,078,294	659,085
Purchases of investments	(564,693)	(693,092)
Interest received on investments	12,319	38,190
Net cash provided by (used in) investing activities	<u>525,920</u>	<u>4,183</u>
 Net increase (decrease) in cash and cash equivalents	 540,118	 207,238
 Cash and cash equivalents, beginning	 <u>2,928,189</u>	 <u>2,720,951</u>
 Cash and cash equivalents, ending	 <u><u>\$ 3,468,307</u></u>	 <u><u>\$ 2,928,189</u></u>
	 2012	 2011
Displayed as:		
Current Assets:		
Cash and short-term investments	\$ 2,793,886	\$ 2,249,007
Restricted Assets:		
Cash and short-term investments	<u>674,421</u>	<u>679,182</u>
	<u><u>\$ 3,468,307</u></u>	<u><u>\$ 2,928,189</u></u>

The accompanying notes are an integral part of this statement.

RED RIVER AUTHORITY OF TEXAS
STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 195,474</u>	<u>\$ 739,202</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	693,153	691,989
Change in assets and liabilities:		
(Increase) decrease in trade receivables	152,292	(180,262)
(Increase) decrease in prepaid expenses	(1,271)	(322)
(Increase) decrease in inventory	(12,941)	(1,071)
Increase (decrease) in trade accounts payable	(20,733)	(51,486)
Increase (decrease) in accrued liabilities	(950)	1,482
Increase (decrease) in deferred revenues	12,639	(18,769)
Increase (decrease) in deposits	1,825	2,440
Total adjustments	<u>824,014</u>	<u>444,001</u>
Net cash provided by operating activities	<u><u>\$ 1,019,488</u></u>	<u><u>\$ 1,183,203</u></u>

The accompanying notes are an integral part of this statement.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS Years Ended September 30, 2012 and 2011

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 National Environmental Laboratory Accreditation Program accredited water quality laboratory to provide analytical services.

As required by Governmental Accounting Standards Board (GASB) Statement No. 39, these financial statements present the Authority and its component units, entities for which the Authority is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the Authority's operations and data from these units are combined with data presented by the Authority. The Authority has one blended component unit, the Red River Industrial Development Authority. A discretely presented component unit is reported in a separate column in the financial statements. The Authority has no discretely presented component units.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued **Years Ended September 30, 2012 and 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 GASB criteria. The Red River Industrial Development Authority is governed by the Board of the Red River Authority and the Board has control over the net assets of the Red River Industrial Development Authority. Therefore, the Red River Industrial Development Authority has been included in the financial reporting entity as a blended component unit. The Red River Industrial Development Authority does not issue separate financial statements.

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.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting as prescribed by the GASB.

Private-sector standards of accounting and financial reporting (as issued by the Financial Accounting Standards Board) issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict or contradict guidance of the GASB. The Authority has elected not to apply private-sector guidance issued after November 30, 1989.

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 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

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

reported as non-operating revenues or expenses. These include operating subsidies, investment earnings, intergovernmental grants, interest expense, and transactions that result from non-exchange transactions or ancillary services.

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

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.

G. Inventory

Inventory consists of supplies and various materials used for the maintenance of capital 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. Capital Assets and Depreciation

Capital assets 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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 capital assets is charged as an expense against operations. Depreciation is recorded on the straight-line basis over the estimated useful life of the capital 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 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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

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, 2012 and 2011, the carrying amount of the Authority's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,087,215 and \$3,596,776, respectively and the bank balance was \$3,267,430 and \$3,664,516, respectively. The Authority's cash deposits at September 30, 2012 and 2011 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

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

2. DEPOSITS AND INVESTMENTS, Continued

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.

The Authority's investments at September 30, 2012 and 2011 are shown below:

Investment or Investment Type	2012		2011	
	Weighted Maturity (Months)	Fair Value	Weighted Maturity (Months)	Fair Value
TexPool	1.0	\$ 3,359,256	1.0	\$ 2,812,208
Certificates of Deposit	5.4	2,947,298	6.6	3,489,633
		<u>\$ 6,306,554</u>		<u>\$ 6,301,841</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:

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

2. DEPOSITS AND INVESTMENTS, Continued

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.

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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

2. DEPOSITS AND INVESTMENTS, Continued

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 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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

3. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2012 and 2011 was as follows:

At September 30, 2012

	Balance October 1, 2011	Increases	Decreases	Balance September 30, 2012
Capital assets not being depreciated:				
Land and easements	\$ 310,940	\$ 51,023	\$ -	\$ 361,963
Construction in progress	<u>66,849</u>	<u>156,401</u>	<u>187,787</u>	<u>35,463</u>
Total capital assets not being depreciated	<u>377,789</u>	<u>207,424</u>	<u>187,787</u>	<u>397,426</u>
Capital assets being depreciated:				
Water storage rights	1,222,700	-	-	1,222,700
Water systems	15,979,261	128,188	-	16,107,449
Machinery and equipment	906,527	64,523	2,916	968,134
Building	946,112	16,800	-	962,912
Furniture and fixtures	287,629	27,002	-	314,631
Motor vehicles	<u>498,491</u>	<u>75,538</u>	<u>63,451</u>	<u>510,578</u>
Total capital assets being depreciated	<u>19,840,720</u>	<u>312,051</u>	<u>66,367</u>	<u>20,086,404</u>
Less accumulated depreciation for:				
Water storage rights	212,334	7,470	-	219,804
Water systems	9,291,777	494,988	-	9,786,765
Machinery and equipment	580,508	69,116	2,919	646,709
Building	157,685	32,517	-	190,202
Furniture and fixtures	255,443	12,733	-	268,176
Motor vehicles	<u>311,188</u>	<u>76,330</u>	<u>63,451</u>	<u>324,067</u>
Total accumulated depreciation	<u>10,808,935</u>	<u>693,154</u>	<u>66,367</u>	<u>11,435,723</u>
Total capital assets being depreciated, net	<u>9,031,785</u>	<u>(381,103)</u>	<u>0</u>	<u>8,650,681</u>
Total capital assets, net	<u>\$ 9,409,574</u>	<u>\$ (173,679)</u>	<u>\$ 187,787</u>	<u>\$ 9,048,107</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

3. CAPITAL ASSETS, Continued

At September 30, 2011

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011
Capital assets not being depreciated:				
Land and easements	\$ 310,940	\$ -	\$ -	\$ 310,940
Construction in progress	17,027	288,994	239,172	66,849
Total capital assets not being depreciated	327,967	288,994	239,172	377,789
Capital assets being depreciated:				
Water storage rights	1,222,700	-	-	1,222,700
Water systems	15,793,193	186,068	-	15,979,261
Machinery and equipment	831,951	166,315	91,739	906,527
Building	946,112	-	-	946,112
Furniture and fixtures	281,942	5,687	-	287,629
Motor vehicles	478,127	109,566	89,202	498,491
Total capital assets being depreciated	19,554,025	467,636	180,941	19,840,720
Less accumulated depreciation for:				
Water storage rights	204,864	7,470	-	212,334
Water systems	8,806,246	485,531	-	9,291,777
Machinery and equipment	600,188	64,236	83,916	580,508
Building	126,148	31,537	-	157,685
Furniture and fixtures	243,051	12,392	-	255,443
Motor vehicles	309,567	90,823	89,202	311,188
Total accumulated depreciation	10,290,064	691,989	173,118	10,808,935
Total capital assets being depreciated, net	9,263,961	(224,353)	7,823	9,031,785
Total capital assets, net	\$ 9,591,928	\$ 64,641	\$246,995	\$ 9,409,574

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

4. LONG-TERM DEBT

Bonds payable and transactions for the years ended September 30, 2012 and 2011 are summarized as follows:

At September 30, 2012

	Balance 10/1/11	Issued	Retired	Balance 9/30/12	Due Within One Year
Water revenue bonds	\$3,562,868	\$ -	\$515,666	\$3,047,202	\$546,334
Loan	17,713	-	6,075	11,638	6,075
Totals	3,580,581	-	521,741	3,058,840	552,409
Deferred Costs	(90,955)	-	18,273	(72,682)	
Net long-term debt	<u>\$3,489,626</u>	<u>\$ -</u>	<u>\$503,468</u>	<u>\$2,986,158</u>	

At September 30, 2011

	Balance 10/1/10	Issued	Retired	Balance 9/30/11	Due Within One Year
Water revenue bonds	\$4,054,983	\$ -	\$492,115	\$3,562,868	\$515,666
Loan	23,787	-	6,074	17,713	6,075
Totals	4,078,770	-	498,189	3,580,581	552,409
Deferred Costs	(115,309)	-	24,354	(90,955)	
Net long-term debt	<u>\$3,963,461</u>	<u>\$ -</u>	<u>\$473,835</u>	<u>\$3,489,626</u>	

Water Revenue Bonds

Water revenue bonds are comprised of the following individual issues:

	Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Outstanding at 9/30/12	Outstanding at 9/30/11
Series 1981-A	5.00%	04-01-20	\$1,000 to \$5,000	\$ 65,000	\$ 24,000	\$ 26,000
Series 1991	6.90%	04-01-16	\$15,000 to \$40,000	600,000	65,000	80,000
Series 97 Ref	7.90%	04-01-14	\$80,000 to \$200,000	1,885,000	380,000	550,000
Series 1997	5.60%	04-01-17	\$165,000 to \$400,000	4,850,000	1,790,000	2,090,000
Series 2010	1.93%	08-15-30	\$26,600 to \$53,600	849,200	788,200	816,868
Total					<u>\$3,047,200</u>	<u>\$3,562,868</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

4. LONG-TERM DEBT, Continued

On April 1, 1981, the Authority issued \$65,000 of Water System Revenue Bonds, Series 1981-A, with \$1,000 par value and an 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 Texas Department of Transportation 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 an 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.

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.

In August 2010, the 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 net revenue of the Authority is pledged as collateral for the revenue bonds outstanding. \$302,990 is available in the interest and sinking fund at September 30, 2012 to service the bonds.

Bond Covenants and Compliance

The Water Revenue Bonds issued by the Authority have various rate covenant requirements, one requirement being that net revenue from the water systems equal or exceed 1.1 times the annual debt service requirement. The Authority failed to meet this covenant in fiscal year 2012 due to restrictions put in place as a result of drought conditions limiting the availability of water to sell. To ensure the Authority's ability to

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

4. LONG-TERM DEBT, Continued

meet this requirement in the future, management will perform a comprehensive rate analysis for presentation to the Board at the April 2013 regularly scheduled meeting.

Loan Payable

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 \$11,638 and \$17,713 as of September 30, 2012 and 2011 respectively.

The annual requirements to pay principal and interest on long-term obligations outstanding as of September 30, 2012 are as follows:

Year Ending September 30,	Bonds		Loan		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 552,200	\$132,697	\$ 6,075	\$ -	\$ 558,275	\$132,697
2014	589,000	98,313	5,563	-	594,563	98,313
2015	410,000	69,846	-	-	410,000	69,846
2016	441,000	47,603	-	-	441,000	47,603
2017	441,800	24,347	-	-	441,800	24,347
2018 - 2022	219,400	56,170	-	-	219,400	56,170
2023 - 2027	237,000	35,612	-	-	237,000	35,612
2028 - 2030	<u>156,800</u>	<u>7,828</u>	<u>-</u>	<u>-</u>	<u>156,800</u>	<u>7,828</u>
Totals	<u>\$3,047,200</u>	<u>\$472,416</u>	<u>\$11,638</u>	<u>\$ -</u>	<u>\$3,058,838</u>	<u>\$472,416</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

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, 2012:

	Debt Outstanding October 1, 2011	New Obligations Issued	Obligations Retired or Refunded	Debt Outstanding September 30, 2012
Bonds issued under direct financing arrangements	\$99,525,000	\$ -	\$ 3,775,000	\$95,750,000

Direct financing bonds payable at September 30, 2012, comprise the following individual issuances:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Debt Outstanding September 30, 2012
<u>Pollution Control Revenue Bonds</u> --					
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				\$ 95,750,000	\$ 95,750,000

* Term payment at maturity

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

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

5. DIRECT FINANCING ARRANGEMENT DEBT, continued

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, 2012, 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 contaminant level for nitrates. High nitrate levels are a common problem with water systems utilizing ground water, not only in Texas, but across the nation. 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 maintaining Compliance Agreements with the TCEQ. However, effective January 1, 2012, the EPA is no longer allowing the TCEQ to renew compliance agreements and has begun issuing Enforcement Orders to water systems whose Compliance Agreements have expired. Currently, this affects one of the Authority's water systems, with at least three (3) more systems to be affected within the next year. The EPA Enforcement Orders are requiring that the systems be brought into compliance within a certain time period. Due to the remote locations of the Authority's affected systems and the lack of other available water supplies near the systems, economically and technically feasible options are currently being evaluated.

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

In compliance with an agreed enforcement order between the TCEQ and the Authority, the Authority continues to send Notice of Violation letters to each customer on these

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

6. COMMITMENTS AND CONTINGENT LIABILITIES, continued

systems quarterly and will continue to do so until released by the TCEQ. The new equipment and treatment techniques placed into service at each plant appear to be bringing the TTHM's into compliance levels. However, the Authority is still waiting on final treatment process approval from the TCEQ.

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 has purchased additional property around the wastewater plant and has received a 210 No Discharge Permit from the TCEQ. Once the irrigation piping is constructed and placed into operation, no effluent will leave the Authority's property and compliance issues will be alleviated.

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.

The Lockett Water System has experienced a total failure with its water supply wells requiring the Authority to depend on its secondary supply, the City of Vernon. As it appears that the wells will not return and to meet the TCEQ requirements, the Authority has negotiated a new contract with the City of Vernon, which will now become the primary water source for the Lockett System. This requires a larger transmission line and pump station from Vernon to the Lockett Pump Station, which will require an extensive capital expenditure. The Authority is currently researching economical financing options for the project. To date, the Authority has been able to maintain adequate service to the Lockett System through operational changes.

7. 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

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

7. EMPLOYEE RETIREMENT PLAN, Continued

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.

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. The Authority has no supplemental contribution required at this time.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

7. EMPLOYEE RETIREMENT PLAN, Continued

Annual Pension Cost

For the Authority's accounting years ending September 30, 2012, 2011, and 2010 the annual pension cost for the TCDRS plan for its employees was \$23,414, \$24,252, and \$19,918 respectively, and actual contributions were \$91,129, \$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, 2009, December 31, 2010, and December 31, 2011, the basis for assessing the adequacy of the financing arrangement beginning with the contribution rates for calendar years 2010-2011. The December 31, 2011 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	December 31, 2009	December 31, 2010	December 31, 2011
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	30 years	30 years	30 years
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return ¹	8.00%	8.00%	8.00%
Projected salary increases ¹	5.30%	5.40%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

Trend Information

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

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 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)
September 30, 2012	24,808	367.34%	(686,140)

¹ Includes inflation at the stated rate

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

8. 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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

9. 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, 2012:

	Utility Division	Environmental Services Division	Other Enterprise Funds
Condensed Statement of Net Assets			
Assets:			
Current assets	\$ 3,399,376	\$ 183,628	\$ 15,097
Restricted assets	722,858	-	38,750
Capital assets	7,500,213	275,352	-
Noncurrent assets	-	-	-
Total assets	11,622,447	458,980	53,847
Liabilities:			
Current liabilities	4,359,684	119,436	15,097
Noncurrent liabilities	3,073,314	-	-
Total liabilities	7,432,998	119,436	15,097
Net assets:			
Investment in capital assets, net of related debt	3,983,728	275,352	-
Restricted net assets	472,206	-	-
Unrestricted net assets	(266,485)	64,192	38,750
Total net assets	\$ 4,189,449	\$ 339,544	\$ 38,750
Condensed Statement of Revenue, Expenses, and Changes in Net Assets			
Operating revenues	\$ 3,750,335	\$ 812,008	\$ 21,768
Operating expense	3,650,386	831,369	94
Operating income (loss)	99,949	(19,361)	21,674
Nonoperating revenues (expenses)	(225,244)	780	94
Operating transfers and other credits	-	-	(21,768)
Change in net assets	(125,295)	(18,581)	-
Beginning net assets	4,314,744	358,125	38,750
Ending net assets	\$ 4,189,449	\$ 339,544	\$ 38,750

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2012 and 2011

9. 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	\$ 717,372	\$ 86,679	\$ 21,674
Noncapital financing activities	-	-	(21,768)
Capital and related financing activities	(828,528)	(52,807)	-
Investing activities	184,672	1	4,974
Net increase (decrease)	73,516	38,873	4,880
Beginning cash and cash equivalents	(1,176,949)	(143,961)	7,295
Ending cash and cash equivalents	\$ (1,103,433)	\$ (110,088)	\$ 12,175

10. NEW PRONOUNCEMENTS

In July 2011, the GASB issued GASB Statement No. 63 to provide a new statement of net position to report all assets, deferred outflow of resources, liabilities, deferred inflows of resources and net position (which is the net residual amount of the other elements). The Statement is effective for periods beginning after December 15, 2011 and requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The Statement also amends certain provisions of GASB Statement 34 and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The GASB also issued GASB Statement No. 65 in April 2012 (effective for periods beginning after December 15, 2012) to limit the recognition of deferred outflows and deferred inflows of resources to those instances specifically identified in authoritative GASB pronouncements. Together these statements will affect the Authority's reporting of its financial statements as of and for the year ended September 30, 2013, although the impact of applying the statements is not known at this time.