COMPREHENSIVE

ANNUAL FINANCIAL REPORT

for the years ended September 30, 2014 and 2013

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for the years ended September 30, 2014 and 2013

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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 21st day of January, 2015 its annual audit report for the fiscal period ended September 30, 2014 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 21, 2015

(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 21st day of January, 2015.

DANNA K. PRICHARD
Notary Public, State of Texas
My Commission Expires
August 29, 2015

Danna K. Prichard
(Signature of Notary)

(Seal)

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

Form TCEQ-0723 (Revised 10/2003)

RED RIVER AUTHORITY OF TEXAS

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
for the year ended September 30, 2014

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, 2014	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	$5,017	President	Yes
George Wilson Scaling, II 450 Rhat Road Henrietta, Texas 76365	08-11-09 – 08-11-15	988	Vice President	Yes
Jerry Bob Daniel 4911 FM 1756 West Truscott, Texas 79227	08-11-09 – 08-11-15	1,062	Secretary	Yes
Penny C. Carpenter 1899 CR 12 Silverton, Texas 79257	07-28-08 – 08-11-19	1,041	Assistant Secretary	Yes
Nathan J. (Jim) Bell, IV 2221 Lamar Avenue Paris, Texas 75461	10-16-00 – 08-11-17	1,662	Director	Yes
C. Cole Camp 4402 Charlene Avenue Amarillo, Texas 76106	07-28-08 – 08-11-19	1,480	Director	Yes
Mayfield McCraw P. O. Box 9 Telephone, Texas 75488	09-22-09 – 08-11-17	560	Director	Yes
Stephen A. Thornhill 2470 West Crawford Denison, Texas 75020	09-05-14 – 08-11-19	234	Director	Yes
Montford T. Johnson, III P. O. Box 32365 Amarillo, Texas 79120	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, 2014

Names and Addresses	Term of Office Elected and Expired or Date Hired	Fees and Expense Reimbursements September 30, 2014	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		42,949	Consultant
Jim R. Nichols, P.E. Freese and Nichols, Inc. 811 Lamar Street Fort Worth, Texas 76102		0	Consultant
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:			
Todd Davenport Gibson, Davenport and Anderson 3711 Maplewood Avenue Suite 200 Wichita Falls, Texas 76308		7,925	General Counsel

RED RIVER AUTHORITY OF TEXAS

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
for the year ended September 30, 2014

Names and Addresses	Term of Office Elected and Expired or Date Hired	Fees and Expense Reimbursements September 30, 2014	Title at Year End
Legal Consultants, Continued			
Doug Caroom Bickerstaff, Heath, Delgado, Acosta, LLP 3711 S Mo-Pac Expressway Building One, Suite 300 Austin, Texas 78746		$ 16,004	Special Counsel
Rick Porter M°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		$ 15,000	Financial Advisor
Depositories:			
American National Bank P. O. Box 4476 Wichita Falls, Texas 76308			
TexPool – Comptroller of Public Accounts P. O. Box 12608 Austin, Texas 78711			

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Red River Authority of Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO

January 6, 2015

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, 2014 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 water resources throughout the Red River Basin for the benefit 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

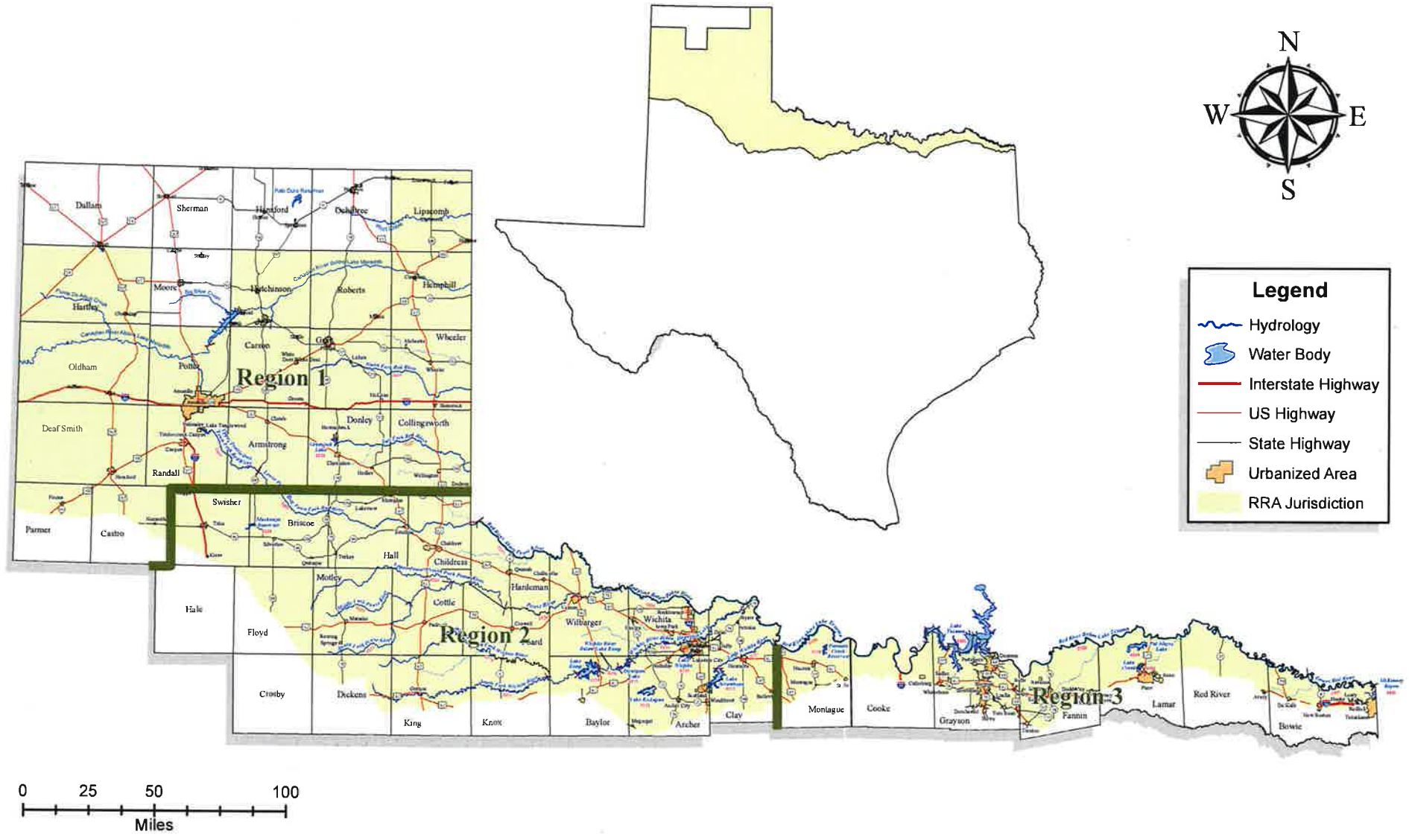
The Authority's governing body is composed of a nine-member Board of Directors, all of whom are appointed by the Governor, confirmed by the Senate, a legal voter, a property taxpayer, and resident in the Authority's jurisdictional area. Each Director serves a six-year staggered term. The Directors are 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

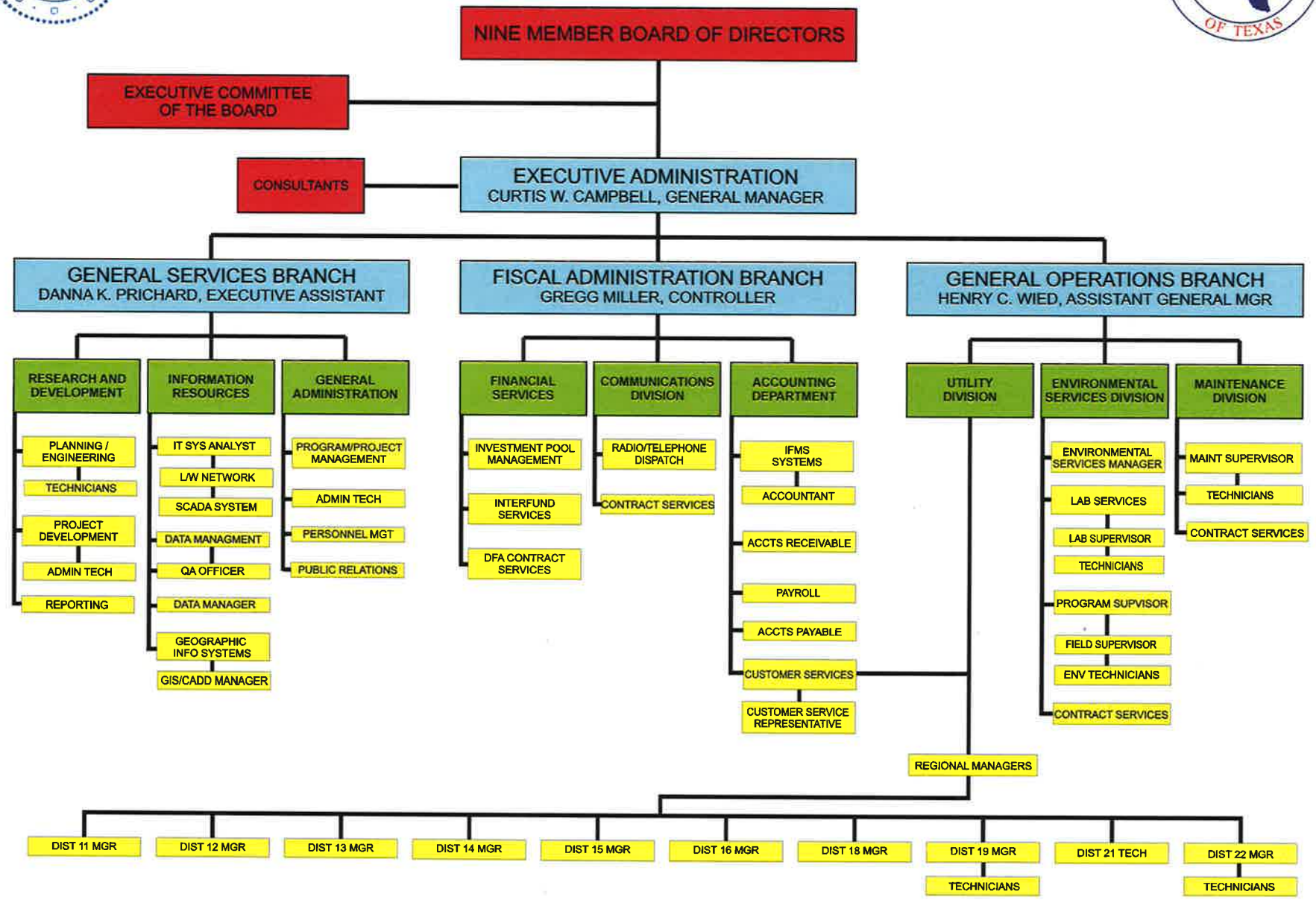
All fiscal and administrative functions are conducted from the general offices, located at 3000 Hammon Road, Wichita Falls, Texas. The General Manager is assisted by a professional staff of employees and consultants in the accomplishment of his duties, and is solely responsible to the Board of Directors 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 29 full-time classified employees on the Authority's payroll on September 30, 2014. **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.

FINANCIAL POLICIES

During the year ended September 30, 2014, the Authority defeased $1,189,000 in revenue bonds. This transaction removed all the revenue bonds from the Authority's financial statements. The remaining bonds are the Authority's share of a $22,000,000 issue by the Greater Texoma Utility Authority for 2,000 acre feet of the 50,000 acre feet purchased by the GTUA.

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.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Red River Authority of Texas for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2013. This was the second consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the second year the Authority has applied for and received a Certificate. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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.

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.

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 on Financial Statements

Board of Directors
Red River Authority of Texas

Members of the Board of Directors:

We have audited the accompanying financial statements of Red River Authority of Texas (Authority) as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Red River Authority of Texas as of September 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 identified as Required Supplementary Information in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority. The introductory section, other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information in Appendixes C-1 through C-42 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated January 6, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Edgin, Parkman, Fleming & Fleming, PC

Edgin, Parkman, Fleming & Fleming, PC

January 6, 2015

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, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on **page vi** of this report.

Financial Highlights

1. The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by $14,521,270 (net position). Of this amount, $6,154,206 (unrestricted net position) may be used to meet the Authority's ongoing obligations to citizens and creditors;
2. The Authority's total net position increased by $619,452;
3. The Authority's total debt decreased by $1,778,167 (71.4%) during the current fiscal year. This decrease is the defeasance of the Authority's Series 1981-A, Series 1991 and the Series 1997 water revenue bonds and the scheduled payments on the Series 2010 contract revenue bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements 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.

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 $14,521,270 at the close of the most recent fiscal year.

CONDENSED STATEMENT OF NET POSITION

		2014	2013	2012
Assets:				
	Current assets	$6,547,707	$6,723,060	$6,652,615
	Restricted assets	127,130	733,659	761,608
	Capital assets	8,178,333	8,619,392	9,048,107
	Noncurrent assets	811,184	750,894	686,140
	Total assets	15,664,354	16,827,005	17,148,470
Liabilities:				
	Current liabilities	277,281	829,051	744,455
	Noncurrent liabilities	865,803	2,096,136	2,690,873
	Total liabilities	1,143,084	2,925,187	3,435,328
Net position:				
	Net investment in capital assets	7,467,500	6,124,825	5,995,140
	Restricted net position	899,564	1,223,100	1,158,346
	Unrestricted net position	6,154,206	6,553,893	6,559,656
Total net position		$14,521,270	$13,901,818	$13,713,142

51.4% of the Authority's net position 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.

An additional portion of the Authority's net position (6.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets $6,154,206 (42.4%) 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 position.

The Authority's net position increased by $619,452 during the current fiscal year. This increase represents a positive increase in the Utility, Communication, Maintenance and General Divisions, off-set by a decrease in the Environmental Service Division funds.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2014	2013	2012
Operating revenues:			
Water and sewer sales	$ 4,072,153	$ 3,710,343	$ 3,677,413
Charges for materials and services	592,542	493,992	536,472
Other	520,952	397,042	445,525
Total operating revenues	5,185,647	4,601,777	4,659,410
Operating expenses:			
Water purchases	601,222	625,545	615,679
Personnel services	1,776,013	1,700,020	1,672,025
Administrative costs	86,298	88,389	94,985
Utilities, supplies, and maintenance	835,578	750,211	868,088
Insurance	52,961	50,471	52,824
Automobile and travel	229,942	238,071	238,380
Professional and directors fees	149,930	102,848	113,799
Research expense	39,690	39,690	36,450
Total operating expenses	3,771,634	3,595,245	3,692,230
Operating income before depreciation and amortization	1,414,013	1,006,532	954,949
Depreciation and amortization	(727,832)	(712,312)	(693,154)
Operating income	686,181	294,220	261,795
Nonoperating revenues (expenses):			
Interest income	7,265	9,197	12,319
Gain on disposal of assets	29,658	17,666	18,451
Interest expense	(103,652)	(132,407)	(164,334)
Total nonoperating revenues (expenses)	(66,729)	(105,544)	(133,564)
Change in net position	619,452	188,676	128,231
Net position, beginning	13,901,818	13,713,142	13,584,911
Net position, ending	$14,521,270	$13,901,818	$13,713,142

Some of the major variances from fiscal year 2013 to fiscal year 2014 include a $361,410 increase in water sales. This increase is the result of the drought related restrictions placed on the Authority, countered by a residential rate increase implemented on the August 2013 billing cycle and a wholesale and commercial rate increase implemented on the September 2013 billing cycle. The Authority also incurred $85,367 more in utilities, supplies and maintenance. This increase was due primarily to large repair costs on the water systems in 2014 that was not incurred in 2013. In fiscal year 2014, the Authority received grant revenue from the Texas Water Development Board in the amount of $63,886. There was also a decrease in automobile and travel due to lower fuel costs. The interest income decreased $1,932 due to the drop in interest rates and the interest expense decreased $28,755 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 funds as of September 30, 2014 amounts to $8,178,333 (net of accumulated depreciation). This investment in capital assets includes land, water systems, water rights, transportation equipment and other equipment, as well as construction in progress. The total decrease in the Authority's investment in capital assets for the current fiscal year was 5.5%.

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

- New service vehicles in the amount of $104,994
- Lockett line extension in the amount of $35,090
- One new submersible pump in the amount of $32,295
- Preston line extension in the amount of $24,900
- Beach pump setup and fencing in the amount of $17,039
- New printer in the amount of $15,075

CAPITAL ASSETS
(Net of Depreciation)

Asset	Value September 30, 2013	Additions / Completions	Deletions	Value September 30, 2014	Accumulated Depreciation	Net Value
Land and easements	$ 361,963	$ -	$ 2,523	$ 359,440	$ -	$ 359,440
Construction in progress	93,099	168,009	159,183	101,925	-	101,925
Building	968,554	-	-	968,554	257,530	711,024
Water storage rights	1,222,700	-	-	1,222,700	234,747	987,953
Water systems	16,160,990	140,889	-	16,301,879	10,794,632	5,507,247
Machinery and equipment	1,083,326	12,652	-	1,095,978	802,036	293,942
Furniture and fixtures	331,875	21,934	-	353,809	304,343	49,466
Motor vehicles	518,653	104,994	97,568	526,079	358,743	167,336
Totals	$ 20,741,160	$ 448,478	$ 259,274	$ 20,930,364	$ 12,752,031	$ 8,178,333

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

Long-Term Debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of $710,833. 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, 2014 are summarized as follows:

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2013	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2014
Water Revenue Bonds							
Series 1981-A	5.00%	04/01/2020	1,000 to 5,000	$ 65,000	$ 22,000	$ (22,000)	$ 0
Series 1991	6.90%	04/01/2016	15,000 to 40,000	600,000	50,000	(50,000)	0
Series 1997	7.90%	04/01/2014	80,000 to 200,000	1,885,000	200,000	(200,000)	0
Series 1997	5.60%	04/01/2017	165,000 to 400,000	4,850,000	1,470,000	(1,470,000)	0
Series 2010	1.90%	08/15/2030	26,600 to 53,600	849,200	747,000	(36,167)	710,833
Total Water Revenue Bonds				$ 8,249,200	$ 2,489,000	$ (1,778,167)	$ 710,833

The Authority's bonded debt decreased by $1,778,167 (71.4%) during the current fiscal year. This decrease is the defeasance of the 1981-A, 1991 and 1997 bond series.

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. This is the only debt remaining after the defeasance.

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 24-25** of this report.

Economic Factors and Next Year's Budgets and Rates

- Capital expenditures in the Utility Division
- 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 2015 fiscal year.

The Authority has projected an increase of $454,796 in net position for the 2015 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 or info@rra.texas.gov.

BASIC FINANCIAL STATEMENTS

RED RIVER AUTHORITY OF TEXAS
STATEMENTS OF NET POSITION
September 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and short-term investments	$ 3,119,748	$ 2,792,019
Investments	2,394,235	2,863,017
Receivables:		
Trade and contracts	963,618	1,006,249
Prepaid expenses	10,509	-
Inventory	59,597	61,775
Restricted assets:		
Cash and short-term investments	59,355	643,297
Investments	67,775	90,362
Total current assets	6,674,837	7,456,719
Long-term assets:		
Net pension obligation	811,184	750,894
Capital assets not being depreciated	461,365	455,063
Capital assets being depreciated (net)	7,716,968	8,164,329
Total long-term assets	8,989,517	9,370,286
Total assets	15,664,354	16,827,005
LIABILITIES		
Current liabilities:		
Accounts payable - trade	181,628	173,222
Accrued payroll and related taxes	28,776	23,540
Unearned revenue	29,711	43,722
Loans payable - current maturities	-	5,567
Bonds payable - current maturities	37,166	583,000
Total current liabilities	277,281	829,051
Long-term liabilities:		
Bonds payable, less current maturities	673,667	1,906,000
Deposits	192,136	190,136
Total noncurrent liabilities	865,803	2,096,136
Total liabilities	1,143,084	2,925,187
Net position:		
Net investment in capital assets	7,467,500	6,124,825
Restricted:		
Debt service, repair and replacement, and construction	88,380	472,206
Net pension obligation	811,184	750,894
Unrestricted	6,154,206	6,553,893
Total net position	$ 14,521,270	$ 13,901,818

The accompanying notes are an integral part of this statement.

RED RIVER AUTHORITY OF TEXAS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
for the years ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water and sewer sales	$ 4,072,153	$ 3,710,743
Charges for materials and services	592,542	493,992
Other	520,952	397,042
Total operating revenues	5,185,647	4,601,777
Operating expenses:		
Water purchases	601,222	625,545
Personnel services	1,776,013	1,700,020
Administrative costs	86,298	88,389
Utilities, supplies, and maintenance	835,578	750,211
Insurance	52,961	50,471
Automobile and travel	229,942	238,071
Professional and directors fees	149,930	102,848
Research expense	39,690	39,690
Total operating expenses	3,771,634	3,595,245
Operating income before depreciation and amortization	1,414,013	1,006,532
Depreciation and amortization	(727,832)	(712,312)
Operating income	686,181	294,220
Nonoperating revenues (expenses):		
Interest income	7,265	9,197
Gain (loss) on disposal of assets	29,658	17,666
Interest expense	(103,652)	(132,407)
Total nonoperating revenues (expenses)	(66,729)	(105,544)
Change in net position	619,452	188,676
Net position, beginning	13,901,818	13,713,142
Net position, ending	$ 14,521,270	$ 13,901,818

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers and users	$ 5,214,269	$ 4,476,007
Cash payments to suppliers for goods and services	(1,995,546)	(1,818,571)
Cash payments to employees for services	(1,831,067)	(1,767,496)
Customer deposits received	2,000	(175)
Net cash provided by operating activities	1,389,656	889,765
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(1,778,167)	(552,330)
Interest paid on revenue bonds	(103,652)	(132,407)
Principal paid on note payable	(5,566)	(6,075)
Acquisition of capital assets	(289,297)	(283,592)
Proceeds from sale of equipment	32,182	17,666
Net cash used in capital and related financing activities	(2,144,500)	(956,738)
Cash flows from investing activities:		
Proceeds from sale of investments	597,425	73,886
Purchases of investments	(106,059)	(49,101)
Interest received on investments	7,265	9,197
Net cash provided by investing activities	498,631	33,982
Net decrease in cash and cash equivalents	(256,213)	(32,991)
Cash and cash equivalents, beginning	3,435,316	3,468,307
Cash and cash equivalents, ending	$ 3,179,103	$ 3,435,316

	2014	2013
Displayed as:		
Current Assets:		
Cash and short-term investments	$ 3,119,748	$ 2,792,019
Restricted Assets:		
Cash and short-term investments	59,355	643,297
	$ 3,179,103	$ 3,435,316

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, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 686,181	$ 294,220
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	727,832	712,312
Change in assets and liabilities:		
(Increase) decrease in trade receivables	42,631	(125,887)
(Increase) decrease in prepaid expenses	(10,509)	26,938
(Increase) decrease in inventory	2,178	(1,323)
(Increase) in net pension obligation	(60,290)	(64,754)
Increase (decrease) in trade accounts payable	8,406	51,039
Increase (decrease) in accrued liabilities	5,236	(2,722)
Increase (decrease) in unearned revenues	(14,011)	117
Increase (decrease) in deposits	2,000	(175)
Total adjustments	703,473	595,545
Net cash provided by operating activities	$ 1,389,654	$ 889,765

The accompanying notes are an integral part of this statement.

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) Statements No. 39 and 61, 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.

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 position 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.

The Statement of Revenues, Expenses, and Changes in Net Position 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 or personal days 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.

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 position. 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, 2014 and 2013, the carrying amount of the Authority's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $2,664,020 and $3,168,479, respectively and the bank balance was $2,681,764 and $3,184,173, respectively. The Authority's cash deposits at September 30, 2014 and 2013 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

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, 2014 and 2013 are shown below:

	2014		2013	
Investment or Investment Type	Weighted Maturity (Months)	Fair Value	Weighted Maturity (Months)	Fair Value
TexPool	1.0	$ 2,981,777	1.0	$ 3,230,416
Certificates of Deposit	4.5	2,462,011	5.8	2,953,379
		$ 5,443,788		$ 6,183,795

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:

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.

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.

3. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2014 and 2013 was as follows:

At September 30, 2014

	Balance October 1, 2013	Increases	Decreases	Balance September 30, 2014
Capital assets not being depreciated:				
Land and easements	$ 361,963	$ -	$ 2,523	$ 359,440
Construction in progress	93,099	168,009	159,183	101,925
Total capital assets not being depreciated	455,062	168,009	161,706	461,365
Capital assets being depreciated:				
Water storage rights	1,222,700	-	-	1,222,700
Water systems	16,160,990	140,889	-	16,301,879
Machinery and equipment	1,083,326	12,652	-	1,095,978
Building	968,554	-	-	968,554
Furniture and fixtures	331,875	21,934	-	353,809
Motor vehicles	518,653	104,994	97,568	526,079
Total capital assets being depreciated	20,286,098	280,469	97,568	20,468,999
Less accumulated depreciation for:				
Water storage rights	227,276	7,472	-	234,748
Water systems	10,287,502	507,132	-	10,794,634
Machinery and equipment	724,510	77,528	-	802,038
Building	223,749	33,781	-	257,530
Furniture and fixtures	285,139	19,204	-	304,343
Motor vehicles	373,593	82,716	97,568	358,741
Total accumulated depreciation	12,121,768	727,833	97,568	12,752,034
Total capital assets being depreciated, net	8,164,330	(447,364)	-	7,716,965
Total capital assets, net	$ 8,619,392	$(279,355)	$ 161,706	$ 8,178,330

3. CAPITAL ASSETS, Continued

At September 30, 2013

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
Capital assets not being depreciated:				
Land and easements	$ 361,963	$ -	$ -	$ 361,963
Construction in progress	35,463	90,756	33,150	93,099
Total capital assets not being depreciated	397,426	90,756	33,150	455,062
Capital assets being depreciated:				
Water storage rights	1,222,700	-	-	1,222,700
Water systems	16,107,449	53,541	-	16,160,990
Machinery and equipment	968,134	115,192	-	1,083,326
Building	962,912	5,642	-	968,554
Furniture and fixtures	314,631	17,244	-	331,875
Motor vehicles	510,578	34,340	26,265	518,653
Total capital assets being depreciated	20,086,404	225,959	26,265	20,286,098
Less accumulated depreciation for:				
Water storage rights	219,804	7,472	-	227,276
Water systems	9,786,765	500,736	-	10,287,502
Machinery and equipment	646,709	77,801	-	724,510
Building	190,202	33,547	-	223,749
Furniture and fixtures	268,176	16,963	-	285,139
Motor vehicles	324,067	75,791	26,265	373,593
Total accumulated depreciation	11,435,723	712,310	26,265	12,121,768
Total capital assets being depreciated, net	8,650,681	(486,351)	-	8,164,330
Total capital assets, net	$ 9,048,107	$(395,595)	$ 33,150	$ 8,619,392

4. LONG-TERM DEBT

Bonds payable and transactions for the years ended September 30, 2014 and 2013 are summarized as follows:

At September 30, 2014

	Balance 10/1/13	Issued	Retired	Balance 9/30/14	Due Within One Year
Water revenue bonds	$2,489,002	$ -	$1,778,169	$710,833	$37,166
Loan	5,567	-	5,567	-	-
Totals	$2,494,569	$ -	$1,783,736	$710,833	$37,166

At September 30, 2013

	Balance 10/1/12	Issued	Retired	Balance 9/30/13	Due Within One Year
Water revenue bonds	$3,047,202	$ -	$552,200	$2,489,002	$583,000
Loan	11,638	-	6,075	5,567	5,567
Totals	$3,058,840	$ -	$558,275	$2,494,569	$588,567

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 9/30/14	Outstanding at 9/30/13
Series 1981-A	5.70%	04-01-20	$1,000 to $5,000	$ 65,000	$ 0	$ 22,000
Series 1991	6.90%	04-01-16	$15,000 to $40,000	600,000	0	50,000
Series 97 Ref	7.90%	04-01-14	$80,000 to $200,000	1,885,000	0	200,000
Series 1997	5.60%	04-01-17	$165,000 to $400,000	4,850,000	0	1,470,000
Series 2010	1.93%	08-15-30	$26,600 to $53,600	849,200	710,833	747,000
Total					$ 710,833	$2,489,000

4. LONG-TERM DEBT, Continued

On September 24, 2014, the Authority used interest and sinking funds and other cash reserves to initiate a cash defeasance of its Series 1981-A, Series 1991, and Series 1997 water revenue bonds. The Authority deposited $1,243,436, including a $15,000 delivery date expense, to initiate the defeasance. The deposit amount paid all interest due on the issues due October 1, 2014, as well as interest and principal on the defeased debt. A payment from the escrow of $1,175,020 was made on October 28, 2014 to pay off $1,170,000 of debt. The remaining $19,475 will be paid from the escrow fund on the call date of remaining debt on April 1, 2015. The result of the defeasance will be a cash flow savings of almost $90,000 had the defeasance not been completed.

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 $1/12^{th}$ of the annual principal and interest payments.

The annual requirements to pay principal and interest on long-term obligations outstanding as of September 30, 2014 are as follows:

Year Ending September 30,	Bonds Principal	Interest
2015	$ 37,166	$ 12,584
2016	31,667	12,558
2017	38,800	12,372
2018	39,800	12,068
2019	40,800	11,672
2020 – 2024	220,000	48,844
2025 – 2029	249,000	24,896
2030	53,600	1,330
Totals	$ 710,833	$ 136,324

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, 2014:

	Debt Outstanding October 1, 2013	New Obligations Issued	Obligations Retired or Refunded	Debt Outstanding September 30, 2014
Bonds issued under direct financing arrangements	$95,750,000	$ -	$ -	$95,750,000

Direct financing bonds payable at September 30, 2014, comprise the following individual issuances:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Debt Outstanding September 30, 2014
Pollution Control Revenue Bonds –					
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 the responsibility for providing the requested information

5. DIRECT FINANCING ARRANGEMENT DEBT, continued

and completing the arbitrage calculation lay with the Authority. The Authority employed its bond counsel 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, 2014, 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.

Five of the Authority's water systems have been issued Administrative Enforcement Orders by the Environmental Protection Agency (EPA) for being in violation of the United States Environmental Protection Agency's (EPA) Safe Drinking Water Act (SDWA) regulations, for exceeding the maximum contaminate level for nitrates. High nitrate levels are a common problem with water systems utilizing ground water not only in Texas, but across the nation. 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 developing compliance plans for each system affected. Currently two (2) of the systems have been brought into current compliance with the SDWA and are awaiting EPA releases. Compliance plans have been developed for the remainder of the systems. Due to the remote locations of the Authority's affected systems and the lack of other available water supplies near the systems, extensive capital outlay and increased operating costs will be required to bring the systems into compliance.

In 2004, the Authority was notified that two water systems were in violation of the SDWA's maximum contaminant level for total trihalomethanes (TTHMs). 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 the affected systems quarterly and will continue to do so until released by the TCEQ. New equipment and treatment techniques placed into service at each plant were not successful

6. COMMITMENTS AND CONTINGENT LIABILITIES, continued

in bringing the TTHM's into compliance levels due to required technique changes being required by the TCEQ. However, the Authority is still working with the TCEQ on developing an effective treatment process. In addition, the ongoing drought conditions being experienced throughout the area is having a detrimental effect on all treatment techniques being attempted.

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 an alternative treatment process to reduce the arsenic, which will require a major capital outlay.

The Lockett Water System has experienced a total failure with its water supply wells requiring the Authority to depend on its secondary supply, the City of Vernon. As it appears that the wells will not return and to meet the TCEQ requirements, the Authority has negotiated a new contract with the City of Vernon, which will now become the primary water source for the Lockett Water System. This requires a larger transmission line and pump station from Vernon to the Lockett Pump Station, which 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 Water 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 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.

7. EMPLOYEE RETIREMENT PLAN, Continued

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 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.

The schedule of funding progress, presented as Required Supplementary Information directly following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Plan assets have increased for each year listed.

7. EMPLOYEE RETIREMENT PLAN, Continued

Annual Pension Cost

For the Authority's accounting years ending September 30, 2014, 2013, and 2012 the annual pension cost for the TCDRS plan for its employees was $36,178, $28,086, and $24,808 respectively, and actual contributions were $96,467, $92,840, and $91,129 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, 2011, December 31, 2012, and December 31, 2013, the basis for assessing the adequacy of the financing arrangement beginning with the contribution rates for calendar years 2012-2013. The December 31, 2013 actuarial valuation is the most recent valuation. Since actual contributions were greater than the annual required contribution amount, the Authority has a negative net pension obligation for each indicated year as noted below.

Actuarial Valuation Information

	2012	2013	2014
GASB 27 Calculation Information			
GASB 27 Compliant Rate	2.72%	3.08%	3.70%
Actuarial assumed investment return rate	9.00%	9.00%	9.00%
Actuarial amortization factor	13.6578	13.6578	13.6578
Rate actually used to make contributions	7.00%	7.00%	7.00%
Actuarial Valuation Date	December 31, 2011	December 31, 2012	December 31, 2013
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]	5.40%	5.40%	4.90%
Inflation	3.50%	3.50%	3.00%
Cost-of-living adjustments	0.00%	0.00%	0.00%

1 Includes inflation at the stated rate

7. EMPLOYEE RETIREMENT PLAN, Continued

Schedule of Funding Information

Actuarial valuation date	12/31/2011	12/31/2012	12/31/2013
Actuarial value of assets	$ 4,237,721	$ 4,534,656	$ 5,032,554
Actuarial accrued liability (AAL)	3,732,086	4,116,101	4,548,551
Unfunded or (overfunded) actuarial accrued liability [UAAL or (OAAL)]	(505,635)	(418,555)	(484,003)
Funded ratio	113.55%	110.17%	110.64%
Annual covered payroll	1,249,980	1,307,056	1,336,446
UAAL or (OAAL) as percentage of covered payroll	-40.45%	-32.02%	-36.22%

Net Pension Obligation information/ARC

	2012	2013	2014
Covered payroll	$ 1,301,839	$ 1,325,855	$ 1,378,105
Annual Required Contributions (ARC)	35,209	39,601	48,779
Previous period NPO (asset)	(619,819)	(686,140)	(750,894)
Interest on NPO	55,784	61,753	67,580
Adjustments to ARC	45,382	50,238	54,979
Annual pension cost	24,808	28,086	36,178
Actual contributions	91,129	92,840	96.467
Change in NPO	(66,321)	(64,754)	(60,290)
NPO end of year	$ (686,140)	$ (750,894)	$ (811,184)
Percentage of annual pension cost contributed	367%	331%	267%

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 MultiState 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.

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, 2014:

	Utility Division	Environmental Services Division	Other Enterprise Funds
Condensed Statement of Net Position			
Assets:			
Current assets	$ 3,554,258	$ 171,707	$ 13,054
Restricted assets	88,380	-	38,750
Capital assets	6,768,922	223,346	-
Noncurrent assets	-	-	-
Total assets	10,411,560	395,053	51,804
Liabilities:			
Current liabilities	4,604,381	124,003	13,054
Noncurrent liabilities	1,248,823	6,007	-
Total liabilities	5,853,204	130,010	13,054
Net position:			
Net investment in capital assets	5,569,903	211,793	-
Restricted net position	88,380	-	-
Unrestricted net position	(1,099,927)	53,250	38,750
Total net position	$ 4,558,356	$ 265,043	$ 38,750
Condensed Statement of Revenue, Expenses, and Changes in Net Position			
Operating revenues	$ 4,216,105	$ 944,978	$ 19,725
Operating expense	3,695,908	970,478	59
Operating income (loss)	520,197	(25,500)	19,784
Nonoperating revenues (expenses)	(129,119)	(1,149)	59
Operating transfers and other credits	-	-	(19,725)
Change in net position	391,078	(26,649)	-
Beginning net position	4,167,278	291,692	38,750
Ending net position	$ 4,558,356	$ 265,043	$ 38,750

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	$ 1,111,499	$ 28,572	$ 19,666
Noncapital financing activities	-	-	(19,725)
Capital and related financing activities	(2,051,970)	7,797	-
Investing activities	111,362	-	6,944
Net increase (decrease)	(829,109)	36,369	6,885
Beginning cash and cash equivalents	(1,364,901)	(143,689)	11,207
Ending cash and cash equivalents	$ (2,194,010)	$ (107,320)	$ 18,092

10. NEW PRONOUNCEMENTS

GASB 71: Pension Transaction for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68

The objective of this statement is to address an issue regarding application of the Transition Provisions of Statement No. 68, which is described below.

GASB 68: Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information as follows:

More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of pension measurements.

Explanations of how and why the net pension liability changed from year to year will improve transparency.

10. NEW PRONOUNCEMENTS, Continued

The summary net pension liability information, including ratios, will offer an indication of the extent to which the total pension liability is covered by resources held by the pension plan.

The contribution schedules will provide measures to evaluate decisions related to the assessment of contribution rates – in comparison to actuarially, statutorily, or contractually determined rates, when such rates are determined.

It will also provide information about whether employers and non-employer contributing entities, if applicable, are keeping pace with those contribution rates.

The consistency and transparency of the information reported by employers and governmental non-employer contributing entities about pension transactions will be improved by requiring:

The use of a discount rate that considers the availability of the pension plan's fiduciary net position associated with the pensions of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long term expected rate of return regardless of whether the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.

A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.

Immediate recognition in pension expense, rather than a choice of recognition periods, of the effects of changes of benefit terms and the effects of projected pension plan investment earnings.

Recognition of pension expense that incorporates deferred outflows of resources and deferred inflows of resources related to pensions over a defined, closed period, rather than a choice between an open or closed period.

The comparability of reported pension information will also be improved by the changes related to the attribution method used to determine service cost and the total pension liability, requirements for immediate recognition in pension expense and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions. This statement is effective for fiscal years beginning after June 15, 2014.