

COMPREHENSIVE
ANNUAL FINANCIAL REPORT



for the years ended September 30, 2017 and 2016

Red River Authority of Texas

Comprehensive Annual Financial Report

**For the Fiscal Years Ended
September 30, 2017 and 2016**

Prepared By:

Fiscal Administration,
Executive Administration
and General Services Branches

Gregg Miller, Controller

RED RIVER AUTHORITY OF TEXAS

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the years ended September 30, 2017 and 2016**

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INTRODUCTORY SECTION

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS §

COUNTY OF WICHITA §

I, Nathan J. (Jim) Bell IV, 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 17th day of January, 2018 its annual audit report for the fiscal period ended September 30, 2017 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 17, 2018

[Signature]
(Signature of District Representative)

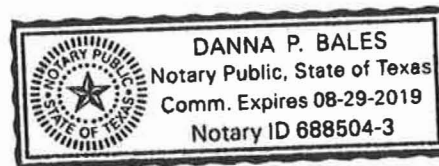
Nathan J. (Jim) Bell IV, President
(Typed Name & Title of above District Representative)

Sworn to and subscribed to before me this 17th day of January, 2018.

(Seal)

[Signature]
(Signature of Notary)

My Commission Expires on: 08-29-2019
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, 2017

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, 2017	Title at Year End	Resident of District
Board Members:				
Nathan J. (Jim) Bell, IV 2221 Lamar Avenue Paris, Texas 75461	10-16-00 – 08-11-17	\$1,338	President	Yes
C. Cole Camp 4402 Charlene Avenue Amarillo, Texas 76106	07-28-08 – 08-11-19	1,234	Vice President	Yes
Penny C. Carpenter 1899 CR 12 Silverton, Texas 79257	07-28-08 – 08-11-19	881	Secretary	Yes
Stephen A. Thornhill 2470 West Crawford Denison, Texas 75020	09-05-14 – 08-11-19	1,025	Assistant Secretary	Yes
George Wilson Scaling, II 450 Rhat Road Henrietta, Texas 76365	08-11-09 – 08-11-21	550	Director	Yes
Jerry Bob Daniel 4911 FM 1756 West Truscott, Texas 79227	08-11-09 – 08-11-21	621	Director	Yes
Mayfield McCraw P. O. Box 9 Telephone, Texas 75488	09-22-09 – 08-11-17	478	Director	Yes
Todd W. Boykin 701 S Taylor, Suite 440 Amarillo, Texas 79101	12-20-16 – 08-11-21	1,406	Director	Yes
Montfort T. Johnson P O Box 32365 Amarillo, Texas 79120	10-01-12 – 08-11-17	0	Director	Yes

RED RIVER AUTHORITY OF TEXAS

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS for the year ended September 30, 2017

Names and Addresses	Term of Office Elected and Expired or Date Hired	Fees and Expense Reimbursements September 30, 2017	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		182,636	Consultant
Simone Kiel, P.E. Freese and Nichols, Inc. 4055 International Plaza, Ste 200 Fort Worth, Texas 76109		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 Sherrill & Gibson, PLLC 3711 Maplewood Avenue Suite 200 Wichita Falls, Texas 76308		17,993	General Counsel

RED RIVER AUTHORITY OF TEXAS

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS for the year ended September 30, 2017

Names and Addresses	Term of Office Elected and Expired or Date Hired	Fees and Expense Reimbursements September 30, 2017	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		\$ 21,536	Special Counsel
Leroy Grawunder McCall, Parkhurst and Horton 717 N Harwood, Suite 900 Dallas, Texas 75201		80,775	Bond Counsel
Financial Consultants:			
David Medanich Hilltop Securities 777 Main Street, Suite 1200 Fort Worth, Texas 76102		67,890	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
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for Excellence
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Presented to

Red River Authority of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Executive Director/CEO



Red River Authority of Texas

NATHAN J. (JIM) BELL, IV, President, Paris
C. COLE CAMP, Vice President, Amarillo
PENNY C. CARPENTER, Secretary, Silverton
STEPHEN A. THORNHILL, Assistant Secretary, Denison
JERRY BOB DANIEL, Truscott
MONTFORD T. (MONTY) JOHNSON, III, Amarillo
MAYFIELD MCCRAW, Telephone
GEORGE WILSON SCALING, II, Henrietta
TODD W. BOYKIN, Amarillo

CURTIS W. CAMPBELL, General Manager
RANDALL W. WHITEMAN, Assistant General Manager
DANNA P. BALES, Executive Assistant
GREGG MILLER, Controller

January 4, 2018

**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, 2017 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 4-10), 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.

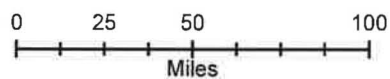
ADMINISTRATION

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 31 full-time classified employees on the Authority's payroll on September 30, 2017. **Refer to the Organizational Chart** for details.



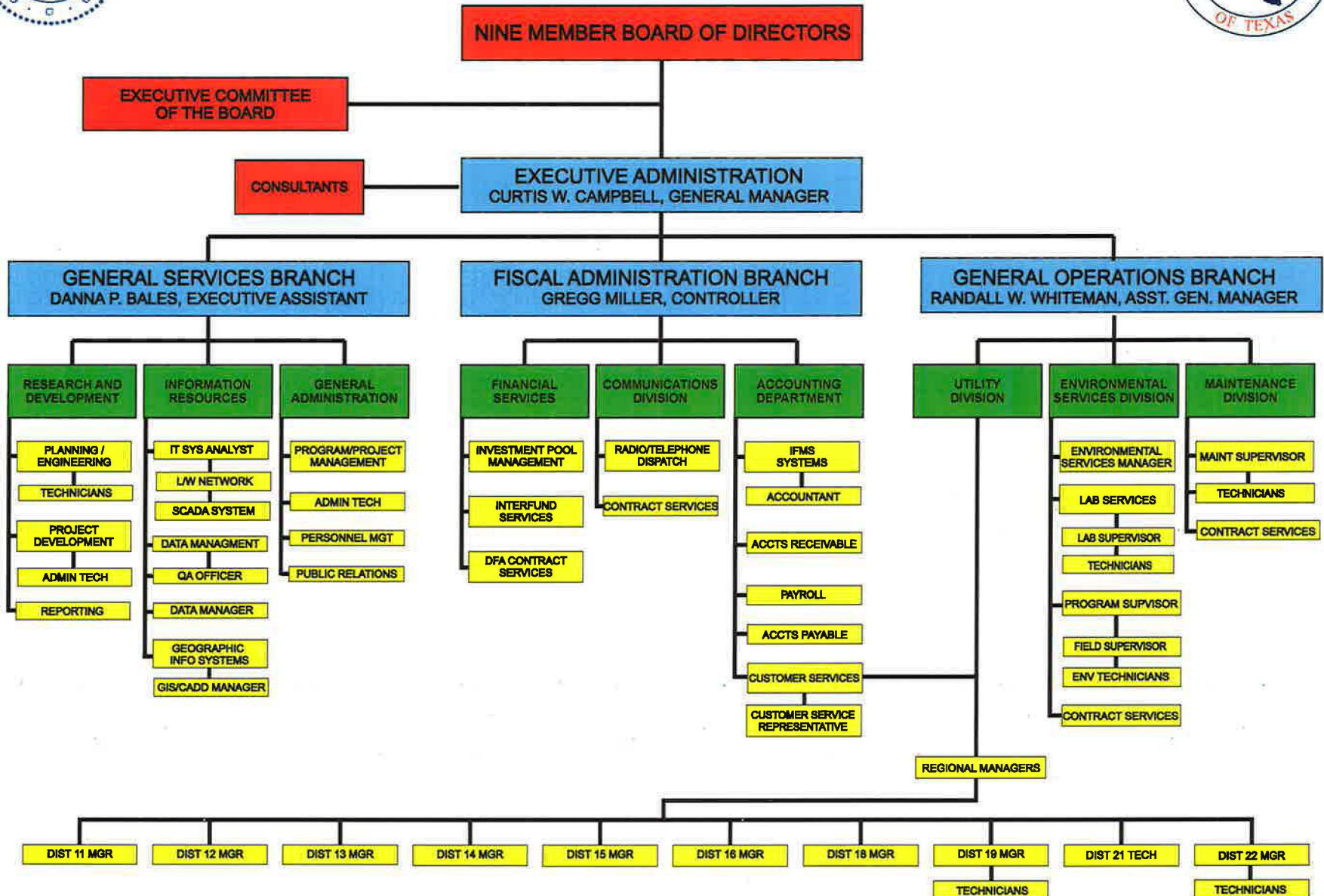
Red River Authority of Texas

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.

AWARDS

Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Red River Authority of Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2016. This was the fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to 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



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
A. PAUL 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, 2017 and 2016, 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, 2017 and 2016, 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 Schedules of Changes in Net Pension Liability and Related Ratios – Texas County and District Retirement System and the Schedule of Employer Contributions – Texas County and District Retirement System identified in the table of contents as required supplementary information 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 Exhibits C-1 through C-21 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 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 4, 2018, 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

January 4, 2018

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, 2017. 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 and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$16,866,948 (net position). Of this amount, \$10,019,706 (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 \$851,549;
3. The Authority's total debt increased by \$15,091,033 (2,374.5%) during the current fiscal year.

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 required supplementary information and 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 15-42** of this report.

Authority-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$16,866,948 at the close of the most recent fiscal year.

CONDENSED STATEMENT OF NET POSITION

	2017	2016	2015
Assets:			
Current assets	\$9,459,426	\$7,807,184	\$7,635,052
Restricted assets	15,183,827	127,130	127,130
Capital assets	7,624,658	8,088,864	7,996,721
Noncurrent assets	406,105	295,062	922,200
Total assets	32,674,016	16,318,240	16,681,103
Deferred outflows of resources	634,098	779,628	188,623
Liabilities:			
Current liabilities	684,730	291,616	384,325
Noncurrent liabilities	15,655,074	790,853	826,669
Total liabilities	16,339,804	1,082,469	1,210,994
Deferred inflows of resources	101,362	-	-
Net position:			
Net investment in capital assets	6,572,305	7,453,330	7,323,054
Restricted net position	274,937	88,380	88,380
Unrestricted net position	10,019,706	8,473,689	8,247,298
Total net position	<u>\$16,866,948</u>	<u>\$16,015,399</u>	<u>\$15,658,732</u>

In fiscal year 2017, 37.9% 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

An additional portion of the Authority's net position (1.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$12,814,108 (75.9%) 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 with an increase in net position of \$851,549. This increase represents a positive increase in the Utility, Environmental Service, Communications, Maintenance and General Divisions, off-set by a decrease in the Motor Vehicle Pool Division funds.

In fiscal year 2016, 46.5% 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 (0.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$8,473,689 (52.9%) 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 with an increase in net position of \$356,667. This increase represents a positive increase in the Utility, Communications, Maintenance and General Divisions, off-set by a decrease in the Environmental Service Division funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2017	2016	2015
Operating revenues:			
Water and sewer sales	\$ 5,188,070	\$ 4,104,905	\$ 4,066,063
Charges for materials and services	634,741	597,030	896,461
Other	351,803	379,887	325,801
Total operating revenues	<u>6,174,614</u>	<u>5,081,822</u>	<u>5,288,325</u>
Operating expenses:			
Water purchases	714,756	661,675	628,527
Personnel services	2,051,454	1,960,880	1,797,435
Administrative costs	157,838	155,203	163,638
Utilities, supplies, and maintenance	957,427	933,240	734,127
Insurance	61,470	53,398	50,822
Automobile and travel	170,987	178,101	189,622
Professional and directors fees	376,864	84,145	321,222
Research expense	78,710	23,710	-
Total operating expenses	<u>4,569,506</u>	<u>4,050,352</u>	<u>3,885,393</u>
Operating income before depreciation and amortization	1,605,108	1,031,470	1,402,932
Depreciation and amortization	<u>(699,233)</u>	<u>(693,032)</u>	<u>(708,830)</u>
Operating income	<u>905,875</u>	<u>338,438</u>	<u>694,102</u>
Nonoperating revenues (expenses):			
Interest income	97,697	25,385	5,712
Gain on disposal of assets	100	5,217	225,268
Interest expense	<u>(152,123)</u>	<u>(12,373)</u>	<u>(12,426)</u>
Total nonoperating revenues (expenses)	<u>(54,326)</u>	<u>18,229</u>	<u>218,554</u>
Change in net position	<u>851,549</u>	<u>356,667</u>	<u>912,656</u>
Net position, beginning, as originally stated	16,015,399	15,658,732	14,521,270
Prior period adjustment (GASB 68)	<u>-</u>	<u>-</u>	<u>224,806</u>
Net position, beginning, as restated	<u>16,015,399</u>	<u>15,658,732</u>	<u>14,746,076</u>
Net position, ending	<u>\$16,866,948</u>	<u>\$16,015,399</u>	<u>\$15,658,732</u>

Some of the major variances from fiscal year 2016 to fiscal year 2017 include a \$1,083,165 increase in water sales. This increase is the result of the price increase implemented by the Authority to pay the debt service on the bond issue. The Authority also incurred \$53,081 more in water purchases. This increase was due primarily to an increase in the cost of water purchased from the various vendors. In fiscal year 2016, the Authority incurred \$90,574 more in payroll services due to a GASB 68 pension expense adjustment of \$135,849 offset by a reduction in overall personnel services due to employee turnover. There was also a decrease in automobile and travel due to lower fuel and repair costs. The interest income increased \$72,312 due to interest earnings on bond proceeds and increasing interest rates over 2016.

Some of the major variances from fiscal year 2015 to fiscal year 2016 include a \$38,842 increase in water sales. This increase is the result of the relief from the drought related restrictions placed on the Authority in 2015. The Authority also incurred \$199,113 more in utilities, supplies and

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

maintenance. This increase was due primarily to an increase in large repair costs on the water systems incurred in 2016 but not in 2015. In fiscal year 2016, the Authority closed out a large project from lightning damaging water pumps on the Preston Shores water system that occurred in fiscal year 2015 amounting to \$667,674 with \$373,714 being reimbursed by insurance, and line replacement income in the utility division amounting to \$22,857. There was also a decrease in automobile and travel due to lower fuel and repair costs. The interest income increased \$19,673 due to moving maturing certificates of deposit to local depository accounts with a much higher interest rate.

Capital Asset and Debt Administration

Capital Assets. The Authority's investment in capital assets funds as of September 30, 2017 amounts to \$7,624,658, (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 6%.

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

- Engineering fees on Truscott-Gilliand water line project \$168,750
- Line extension on Box system \$26,910
- New engine in 2 ½ ton maintenance truck in the amount of \$25,662
- New engine in ½ ton maintenance truck in the amount of \$7,645

CAPITAL ASSETS (Net of Depreciation)

Asset	Value September 30, 2016	Additions / Completions	Deletions	Value September 30, 2017	Accumulated Depreciation	Net Value
Land and easements	\$ 359,440	\$ -	\$ -	\$ 359,440	\$ -	\$ 359,440
Construction in progress	81,603	198,315	26,910	253,008	-	253,008
Building	973,354	-	-	973,354	359,513	613,841
Water storage rights	1,222,700	-	-	1,222,700	257,158	965,542
Water systems	17,285,237	26,910	-	17,312,147	12,181,676	5,130,471
Machinery and equipment	1,025,589	-	-	1,025,589	899,901	125,688
Furniture and fixtures	389,309	3,404	1,270	391,443	365,716	25,727
Motor vehicles	592,869	33,307	-	626,176	475,235	150,941
Totals	<u>\$ 21,930,101</u>	<u>\$ 261,936</u>	<u>\$ 28,180</u>	<u>\$ 22,163,857</u>	<u>\$ 14,539,199</u>	<u>\$ 7,624,658</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Additional information on the Authority's capital assets can be found in **Note 3** on **pages 24-25** of this report.

Long-Term Debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$15,726,566. 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 September 30, 2017 are summarized as follows:

	Average Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Bonds Outstanding September 30, 2016	Additions Issuances (Sales) (Retirements)	Bonds Outstanding September 30, 2017
Water Revenue Bonds							
Series 2010	1.90%	08/15/2030	\$26,600 to \$53,600	<u>\$ 849,200</u>	<u>\$ 635,533</u>	<u>(\$38,967)</u>	<u>\$ 596,566</u>
Series 2017	1.90%	04/01/2047	\$300,000 to \$800,000	<u>\$15,130,000</u>	<u>\$ -</u>	<u>\$15,130,000</u>	<u>\$15,130,000</u>

The Authority's bonded debt increased by \$15,091,033 (2,374.5%) during the current fiscal year.

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.

In fiscal year 2017, the Authority issued \$15,130,000 in new revenue bonds. Approximately eight million dollars of the bond proceeds will fund the remediation of the Environmental Protection Agency's (EPA) Administrative Enforcement Orders by the EPA for being in violation of the United States EPA's Safe Drinking Water Act (SDWA) regulations, for exceeding the maximum contaminate level for nitrates, the remainder of the proceeds will be funding improvements to the Authority's infrastructure. The bond issue was insured by National Public Finance Corporation which at the time of issuance had a AA- rating by Standard & Poors. The purchase of bond insurance alleviated the Authority from having to maintain a bond reserve account.

Additional information on the Authority's long-term debt can be found in **Note 4** on **pages 25-27** of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

Economic Factors and Next Year's Budgets and Rates

- Capital expenditures in the Utility Division
- 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 2018 fiscal year.

The Authority has projected an increase of \$492,888 in net position for the 2018 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, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and short-term investments	\$ 8,309,730	\$ 6,873,070
Receivables:		
Trade and contracts	1,039,627	833,666
Prepaid expenses	51,978	34,482
Inventory	58,091	65,966
Restricted assets:		
Cash and short-term investments	15,183,827	127,130
Total current assets	<u>24,643,253</u>	<u>7,934,314</u>
Long-term assets:		
Net pension assets	406,105	295,062
Capital assets not being depreciated	612,448	441,043
Capital assets being depreciated (net)	7,012,210	7,647,821
Total long-term assets	<u>8,030,763</u>	<u>8,383,926</u>
Total assets	<u>32,674,016</u>	<u>16,318,240</u>
Deferred outflows of resources:		
Pension related	<u>634,098</u>	<u>779,628</u>
LIABILITIES		
Current liabilities:		
Accounts payable - trade	143,265	195,993
Accrued payroll and related taxes	35,621	28,973
Unearned revenue	46,044	27,683
Bonds payable - current maturities	459,800	38,967
Total current liabilities	<u>684,730</u>	<u>291,616</u>
Long-term liabilities:		
Bonds payable, less current maturities	15,266,767	596,567
Unamortized bond premium	195,926	-
Deposits	192,381	194,286
Total long-term liabilities	<u>15,655,074</u>	<u>790,853</u>
Total liabilities	<u>16,339,804</u>	<u>1,082,469</u>
Deferred inflows of resources:		
Pension related	<u>101,362</u>	<u>-</u>
Net position:		
Net investment in capital assets	6,572,305	7,453,330
Restricted:		
Debt service	274,937	88,380
Unrestricted	10,019,706	8,473,689
Total net position	<u>\$ 16,866,948</u>	<u>\$ 16,015,399</u>

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, 2017 and 2016

	2017	2016
Operating revenues:		
Water and sewer sales	\$ 5,188,070	\$ 4,104,905
Charges for materials and services	634,741	597,030
Other	351,803	379,887
Total operating revenues	<u>6,174,614</u>	<u>5,081,822</u>
Operating expenses:		
Water purchases	714,756	661,675
Personnel services	2,051,454	1,960,880
Administrative costs	157,838	155,203
Utilities, supplies, and maintenance	957,427	933,240
Insurance	61,470	53,398
Automobile and travel	170,987	178,101
Professional and directors fees	376,864	84,145
Research expense	78,710	23,710
Total operating expenses	<u>4,569,506</u>	<u>4,050,352</u>
Operating income before depreciation and amortization	1,605,108	1,031,470
Depreciation and amortization	<u>(699,233)</u>	<u>(693,032)</u>
Operating income	<u>905,875</u>	<u>338,438</u>
Nonoperating revenues (expenses):		
Interest income	97,697	25,385
Gain on disposal of assets	100	5,217
Interest expense	<u>(152,123)</u>	<u>(12,373)</u>
Total nonoperating revenues (expenses)	<u>(54,326)</u>	<u>18,229</u>
Change in net position	851,549	356,667
Net position, beginning	<u>16,015,399</u>	<u>15,658,732</u>
Net position, ending	<u>\$ 16,866,948</u>	<u>\$ 16,015,399</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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers and users	\$ 5,985,109	\$ 5,770,010
Cash payments to suppliers for goods and services	(2,580,401)	(2,201,010)
Cash payments to employees for services	(1,908,957)	(1,925,691)
Net cash provided by operating activities	<u>1,495,751</u>	<u>1,643,309</u>
Cash flows from capital and related financing activities:		
Issuance of revenue bonds	15,326,593	-
Principal paid on revenue bonds	(38,967)	(38,134)
Interest paid on revenue bonds	(152,790)	(12,373)
Acquisition of capital assets	(235,027)	(843,423)
Proceeds from sale of capital assets	100	63,464
Net cash provided by (used in) capital and related financing activities	<u>14,899,909</u>	<u>(830,466)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	-	2,471,858
Interest received on investments	97,697	25,385
Net cash provided by investing activities	<u>97,697</u>	<u>2,497,243</u>
Net increase in cash and cash equivalents	16,493,357	3,310,086
Cash and cash equivalents, beginning	<u>7,000,200</u>	<u>3,690,114</u>
Cash and cash equivalents, ending	<u><u>\$ 23,493,557</u></u>	<u><u>\$ 7,000,200</u></u>
Displayed as:		
Current Assets:		
Cash and short-term investments	\$ 8,309,730	\$ 6,873,070
Restricted Assets:		
Cash and short-term investments	<u>15,183,827</u>	<u>127,130</u>
	<u><u>\$ 23,493,557</u></u>	<u><u>\$ 7,000,200</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, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 905,875</u>	<u>\$ 338,438</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	699,233	693,032
Change in assets and liabilities:		
(Increase) decrease in trade receivables	(205,961)	705,928
(Increase) decrease in prepaid expenses	(17,496)	(28,251)
(Increase) decrease in inventory	7,875	(11,579)
(Increase) decrease in net pension assets and related deferred outflows	34,487	36,133
Increase (decrease) in trade accounts payable	(52,728)	(71,708)
Increase (decrease) in accrued liabilities	6,648	(944)
Increase (decrease) in unearned revenues	18,361	(20,890)
Increase (decrease) in deposits	(1,905)	3,150
Increase (decrease) in net pension related deferred inflows	101,362	-
Total adjustments	<u>589,876</u>	<u>1,304,871</u>
Net cash provided by operating activities	<u><u>\$ 1,495,751</u></u>	<u><u>\$ 1,643,309</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, 2017 and 2016

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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued **Years Ended September 30, 2017 and 2016**

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.

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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority reports amounts in this category for certain items related to the Authority's participation in the Texas County and District Retirement System (TCDRS).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of financial resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reports amounts in this category for certain items related to the Authority's participation in the TCDRS.

J. 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**.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued **Years Ended September 30, 2017 and 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. 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.

L. 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.

M. Pensions

The fiduciary net position of the TCDRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCDRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. 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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

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, 2017 and 2016, the carrying amount of the Authority's deposits (cash, money markets, and interest-bearing savings accounts included in temporary investments) was \$4,453,581 and \$3,316,238, respectively and the bank balance was \$4,542,683 and \$3,386,166, respectively. The Authority's cash deposits at September 30, 2017 and 2016 were adequately covered by FDIC insurance or by pledged collateral held by the Authority's agent bank in the Authority's name in accordance with Chapter 2257, Texas Government Code (Collateral for Public Funds Act).

B. Investments

The Authority is required by Government Code Chapter 2256 under the Public Funds Investment Act (Act) to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity or portfolio investments, (7) investment staff quality and capabilities, and (8) bid solicitation preferences for certificates of deposit.

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

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

2. DEPOSITS AND INVESTMENTS, Continued

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, 2017 and 2016 are shown below:

Investment or Investment Type	2017		2016	
	Weighted Maturity (Months)	Fair Value	Weighted Maturity (Months)	Fair Value
TexPool	1.0	\$ 19,039,976	1.0	\$ 3,669,126
Bank Money Markets	1.0	4,280,282	1.0	3,148,139
		<u>\$ 23,320,258</u>		<u>\$ 6,817,265</u>

The Authority categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability. The Authority values its TexPool balances at net asset value per unit/share. Money market accounts are valued using Level 2 inputs.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

2. DEPOSITS AND INVESTMENTS, Continued

C. Analysis of Specific Deposit and Investment Risks

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

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

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

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

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

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

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

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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

D. Investment Accounting Policy

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

E. Public Funds Investment Pools

The TexPool investment Pool (TexPool) is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's. All investments are stated at amortized cost, which usually approximates the fair value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

3. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2017 and 2016 was as follows:

At September 30, 2017

	Balance October 1, 2016	Increases	Decreases	Balance September 30, 2017
Capital assets not being depreciated:				
Land and easements	\$ 359,440	\$ -	\$ -	\$ 359,440
Construction in progress	<u>81,603</u>	<u>198,315</u>	<u>26,910</u>	<u>253,008</u>
Total capital assets not being depreciated	<u>441,043</u>	<u>198,315</u>	<u>26,910</u>	<u>612,448</u>
Capital assets being depreciated:				
Water storage rights	1,222,700	-	-	1,222,700
Water systems	17,285,237	26,910	-	17,312,147
Machinery and equipment	1,025,589	-	-	1,025,589
Building	973,354	-	-	973,354
Furniture and fixtures	389,309	3,404	1,270	391,443
Motor vehicles	<u>592,869</u>	<u>33,307</u>	<u>-</u>	<u>626,176</u>
Total capital assets being depreciated	<u>21,489,058</u>	<u>63,621</u>	<u>1,270</u>	<u>21,551,409</u>
Less accumulated depreciation for:				
Water storage rights	249,688	7,470	-	257,158
Water systems	11,682,007	499,669	-	12,181,676
Machinery and equipment	851,684	48,217	-	899,901
Building	325,252	34,261	-	359,513
Furniture and fixtures	348,189	18,797	1,270	365,716
Motor vehicles	<u>384,417</u>	<u>90,818</u>	<u>-</u>	<u>475,235</u>
Total accumulated depreciation	<u>13,841,237</u>	<u>699,232</u>	<u>1,270</u>	<u>14,539,199</u>
Total capital assets being depreciated, net	<u>7,647,821</u>	<u>(635,611)</u>	<u>-</u>	<u>7,012,210</u>
Total capital assets, net	<u>\$ 8,088,864</u>	<u>\$(437,296)</u>	<u>\$ 26,910</u>	<u>\$ 7,624,658</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

3. CAPITAL ASSETS, Continued

At September 30, 2016

	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets not being depreciated:				
Land and easements	\$ 359,440	\$ -	\$ -	\$ 359,440
Construction in progress	<u>103,591</u>	<u>739,455</u>	<u>761,443</u>	<u>81,603</u>
Total capital assets not being depreciated	<u>463,031</u>	<u>739,455</u>	<u>761,443</u>	<u>441,043</u>
Capital assets being depreciated:				
Water storage rights	1,222,700	-	-	1,222,700
Water systems	16,582,118	703,119	-	17,285,237
Machinery and equipment	1,113,281	3,352	91,044	1,025,589
Building	968,554	4,800	-	973,354
Furniture and fixtures	385,195	4,114	-	389,309
Motor vehicles	<u>551,225</u>	<u>101,261</u>	<u>59,617</u>	<u>592,869</u>
Total capital assets being depreciated	<u>20,823,073</u>	<u>816,646</u>	<u>150,661</u>	<u>21,489,058</u>
Less accumulated depreciation for:				
Water storage rights	242,218	7,470	-	249,688
Water systems	11,189,406	492,601	-	11,682,007
Machinery and equipment	875,279	60,661	84,256	851,684
Building	291,311	33,941	-	325,252
Furniture and fixtures	326,359	21,830	-	348,189
Motor vehicles	<u>364,810</u>	<u>78,511</u>	<u>58,904</u>	<u>384,417</u>
Total accumulated depreciation	<u>13,289,383</u>	<u>695,014</u>	<u>143,160</u>	<u>13,841,237</u>
Total capital assets being depreciated, net	<u>7,533,690</u>	<u>121,632</u>	<u>7,501</u>	<u>7,647,821</u>
Total capital assets, net	<u>\$ 7,996,721</u>	<u>\$861,087</u>	<u>\$768,944</u>	<u>\$ 8,088,864</u>

4. LONG-TERM DEBT

Bonds payable and transactions for the years ended September 30, 2017 and 2016 are summarized as follows:

At September 30, 2017

	Balance 10/1/16	Issued	Retired	Balance 9/30/17	Due Within One Year
Water revenue bonds	\$635,533	\$15,130,000	\$38,967	\$15,726,566	\$459,800
Premium on bonds	<u>-</u>	<u>195,126</u>	<u>-</u>	<u>195,126</u>	<u>-</u>
Totals	<u>\$635,533</u>	<u>\$15,325,126</u>	<u>\$38,967</u>	<u>\$15,921,692</u>	<u>\$459,800</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

4. LONG-TERM DEBT, Continued

At September 30, 2016

	<u>Balance</u> <u>10/1/15</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9/30/16</u>	<u>Due Within</u> <u>One Year</u>
Water revenue bonds	<u>\$673,667</u>	<u>\$ -</u>	<u>\$38,134</u>	<u>\$635,533</u>	<u>\$38,967</u>

Water Revenue Bonds

Water revenue bonds are comprised of the following individual issues as of September 30, 2017:

	<u>Interest</u> <u>Rates</u>	<u>Final</u> <u>Maturity</u> <u>Date</u>	<u>Annual</u> <u>Serial</u> <u>Payments</u>	<u>Bonds</u> <u>Authorized</u>	<u>Outstanding</u> <u>at 9/30/17</u>	<u>Outstanding</u> <u>at 9/30/16</u>
Series 2010	1.93%	08-15-30	\$26,600 to \$53,600	\$849,200	<u>\$ 596,566</u>	<u>\$ 635,533</u>
Series 2017	3.57%	04-01-47	\$300,000 to \$800,000	\$15,130,000	<u>\$15,130,000</u>	<u>\$ -</u>

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.

In June 2017, the Authority issued Utility System Revenue Bonds in the amount of fifteen million one hundred thirty thousand dollars (\$15,130,000). This issue is to be used as a means of financing the required corrections of the EPA violations and needed infrastructure repairs. The bond interest payments are due October 1 with principal and interest payments due April 1 for a term of 30 years. The interest rate varies from a rate of 2.00% to 5.00% over the life of the bonds.

The net premium amount on issuance associated with the new issuance of \$15,130,000 of Water System Revenue Bonds is being amortized over the life of the new issue using the effective interest method and is reported as a separate line item on the face of the financial statements.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

4. LONG-TERM DEBT, Continued

The annual requirements to pay principal and interest on the long-term obligations outstanding as of September 30, 2017 are as follows:

Year Ending September 30,	Bond	
	Principal	Interest
2018	\$ 459,800	\$ 420,024
2019	340,800	539,272
2020	346,800	532,788
2021	358,000	523,034
2022	369,000	512,858
2023 – 2027	2,062,000	2,351,262
2028 – 2032	2,370,166	1,925,903
2033 – 2037	2,610,000	1,532,918
2038 – 2042	3,095,000	1,041,300
2043 – 2047	<u>3,715,000</u>	<u>428,250</u>
Totals	<u>\$15,726,566</u>	<u>\$9,807,609</u>

The net revenue of the Authority is pledged as collateral for the revenue bonds outstanding. \$274,937 is available in the interest and sinking fund at September 30, 2017 to service the bonds.

Bond reserve provisions as specified in the bond ordinances do not require bond reserve deposits due to the bond insurance purchased by the Authority at the time of issue. The Authority is in compliance with all significant provisions contained in the bond ordinances.

5. DIRECT FINANCING ARRANGEMENT DEBT

The bonds issued under direct financing arrangements represent, in substance, obligations of those entities on whose behalf they were issued and are not reflected on the Authority's financial statements. The following is a summary of changes in the direct financing arrangement obligations for the year ended September 30, 2017:

	Debt Outstanding October 1, 2016	New Obligations Issued	Obligations Retired or Refunded	Debt Outstanding September 30, 2017
Bonds issued under direct financing arrangements	<u>\$95,750,000</u>	<u>\$ -</u>	<u>\$32,450,000</u>	<u>\$63,300,000</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

5. DIRECT FINANCING ARRANGEMENT DEBT, continued

Direct financing bonds payable at September 30, 2017, comprise the following individual issuances:

	Range of Interest Rates	Final Maturity Date	Annual Serial Payments	Bonds Authorized	Debt Outstanding September 30, 2017
<u>Pollution Control Revenue Bonds</u> —					
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				\$63,300,000	\$63,300,000

* 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 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, 2017, 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.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

6. COMMITMENTS AND CONTINGENT LIABILITIES, continued

Three 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. Currently, the Authority is complying with the EPA's noncompliance requirements of notifying the customers by letter on a quarterly basis, furnishing affected customers with bottled water reimbursement, and developing economically feasible compliance plans for each system affected. In April of 2016, the Authority was issued Administrative Complaints on these systems by the EPA with fines totaling \$55,000. In response, the Authority has developed major capital improvement plans for each system and has negotiated Consent Agreements for each system with the EPA, reducing the Administrative Fines paid to \$49,000. The Authority issued bonds in 2017 for construction of the capital improvement projects necessary 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). The Authority has also been notified that the same two water systems are 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 sends Notice of Violation letters to each customer on these systems quarterly and will continue to do so until released by the TCEQ. The Authority has developed capital improvement projects to bring the systems into compliance and issued bonds in 2017 for construction of the capital improvement projects. On July 19, 2017 the Board of Directors of the Authority approved a bid to Bowles Construction Company in the amount of two million fifty two thousand five hundred thirty dollars (\$2,052,530) on the first project for remediation of the trihalomethanes on the Truscott-Gilliand system to build a transmission line from Greenbelt Municipal and Industrial Water Authority to the Gilliland pump station to provide treated water for this system. On December 13, 2017 payment for the first draw in the amount of seven hundred ninety two thousand three hundred seventy two dollars (\$792,372) was made.

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority provides retirement, disability, and death benefits for all of its full-time employees through an agent multiple-employer defined benefit pension plan in the statewide TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 738 nontraditional defined benefit pension plans in 2016. TCDRS in the aggregate issues

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, 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 or 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 employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefits Provided

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and the employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer'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 employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Membership Information

<u>Members</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>
Number of inactive employees entitled to but not yet receiving benefits	19	20
Number of active employees:	31	29
Average monthly salary *:	\$3,845	\$3,847
Average age *:	46.55	46.59
Average length of service in years *:	9.95	9.49
Inactive Employees (or their Beneficiaries) Receiving Benefits		
Number of benefit recipients:	11	12
Average monthly benefit:	\$1,617	\$1,725

* Averages reported for all active and inactive employees. Average service includes all proportionate service.

Funding Policy

The employer has elected the annually determined contribution rate (variable rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer's regular contribution rate was 7% for 2014, 2015 and 2016, which was in excess of the Authority's compliant rates of 3.70%, 3.32% and 3.46% for those respective years. The deposit rate payable by the employee members for the years 2014, 2015 and 2016 was the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Contributions to the Plan in 2016 was as follows:

Members (Employees)	\$ 99,671
Employer (Authority)	<u>99,671</u>
Total contributions	<u>\$199,342</u>

Net Pension Liability / (Asset)

<u>Net Pension Liability / (Asset)</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>
Total Pension Liability	\$6,708,505	\$7,043,291
Fiduciary Net Position	7,003,566	7,449,396
Net Pension Liability (Asset)	(295,062)	(406,105)
Fiduciary Net Position as a % of Total Pension Liability	104.40%	105.77%
Pensionable Covered Payroll ⁽¹⁾	1,425,630	1,423,868
Net Pension Liability as a % of Covered Payroll	(20.70%)	(28.52%)

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

Note: Rounding differences may exist above or in other tables within this note.

⁽¹⁾ Payroll is calculated based on contributions as reported to TCDRS.

Discount Rate

Discount rate ⁽²⁾	8.10%	8.10%
Long-term expected rate of return, net of investment expense ⁽²⁾	8.10%	8.10%
Municipal bond rate ⁽³⁾	Does not apply	Does not apply

⁽²⁾ This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68.

⁽³⁾ The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Other Key Actuarial Assumptions

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

Actuarial Methods and Assumptions Used for GASB Calculations:

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal ⁽¹⁾
Remaining Amortization Method	0.0 years (based on contribution rate calculated in 12/31/16 valuation)
Recognition of economic/demographic gains or losses	Straight-line amortization over Expected Working Life
Recognition of assumptions changes or inputs	Straight-line amortization over Expected Working Life
Asset Valuation Method:	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3%
Salary Increases	Same as funding valuation (see below)
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-living adjustments are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Same as funding valuation (see below)
Turnover	Same as funding valuation (see below)
Mortality	Same as funding valuation (see below)

⁽¹⁾ Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Actuarial Methods and Assumptions Used for Funding Valuation:

Following is a description of the assumptions used in the December 31, 2016 actuarial valuation analysis for Red River Authority:

Economic Assumptions

TCDRS system-wide economic assumptions:

Real rate of return	5.0%
Inflation	3.0%
Long-term investment return	8.0%

The assumed long-term investment return of 8% is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 8% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

Employer-specific economic assumptions:

Growth in membership	0.0%
Payroll growth for funding calculations	2.5%

The payroll growth assumption is for the aggregate covered payroll of an employer.

Demographic Assumptions

TCDRS system-wide demographic assumptions:

Replacement of Terminated Members – New employees are assumed to replace any terminated members and have similar entry ages.

Disability – The rates of disability used in this valuation range from 0.0% for 25 year old employee and increases to .0249% at age 59 for work related causes and 0.00% to .337% for all other causes. Members who become disabled are eligible to commence benefit payments regardless of age. Rates of disability are in a custom table based on TCDRS experience.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Mortality -

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Family Composition - For current retirees, beneficiary information is supplied by TCDRS. For purposes of calculating the Survivor Benefit for current depositing and non-depositing members, male members are assumed to have a female beneficiary who is three years younger. Female members are assumed to have a male beneficiary who is three years older.

Service Retirement - Members eligible for service retirement are assumed to retire at escalating rates starting at 4.5% for someone 40 years old to 22% for employees over the age of 67.

Employer-specific demographic assumptions:

Other Terminations of Employment - The rate of assumed future termination from active participation in the plan for reasons other than death, disability or retirement vary by length of service, entry-age group (age at hire) and gender. No termination after eligibility for retirement is assumed.

Withdrawals - Members who terminate may either elect to leave their account with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting schedule. Rates applied to the plan range from 100% with zero years experience to 5% for someone with 28 years of experience. For non-depositing members who are not vested, 100% are assumed to elect a withdrawal.

Long-Term Expected Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. See Milliman's TCDRS Investigation of Experience report for the period January 1, 2009 – December 31, 2012 for more details.

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target Allocation ⁽¹⁾</u>	<u>Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾</u>
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities – Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities – Emerging	MSCI World Ex USA (net)	7.00%	5.70%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Real Estate Index ⁽⁴⁾	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

⁽¹⁾ Target asset allocation adopted at the April 2017 TCDRS Board Meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 2.0%, per Cliffwater's 2017 capital market assumptions

⁽³⁾ Includes vintage years 2006 – present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007 – present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ Includes vintage years 2007 – present of Quarter Pooled Horizon IRRs.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Depletion of Plan Assets / GASB Discount Rate

The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

As additional documentation for auditing purposes, we have shown the projection of the Fiduciary Net Position in the following exhibit ("Projection of Fiduciary Net Position").

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Changes in Net Pension Liability / (Asset)

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability / (Asset)
	(a)	(b)	(a) – (b)
Balances as of December 31, 2015	\$6,708,505	\$7,003,566	(\$295,062)
Changes for the year:			
Service cost	189,043	-	189,043
Interest on total pension liability ⁽¹⁾	540,261	-	540,261
Effect of plan changes ⁽²⁾	0	-	0
Effect of economic/demographic gains or losses	(126,702)	-	(126,702)
Effect of assumption changes or inputs	0	-	0
Refund of contributions	(54,422)	(54,422)	-
Benefit payments	(213,394)	(213,394)	-
Administrative expenses	-	(5,633)	5,633
Member contributions	-	99,671	(99,671)
Net investment income	-	518,631	(518,631)
Employer contributions	-	99,671	(99,671)
Other ⁽³⁾	-	1,306	(1,306)
Balances as of December 31, 2016	<u>\$7,043,291</u>	<u>\$7,449,396</u>	<u>(\$406,105)</u>

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ No plan changes valued.

⁽³⁾ Relates to allocation of system-wide items.

Sensitivity Analysis

The following presents the net pension liability of the Authority, calculated using the discount rate of 8.10%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease <u>7.10%</u>	Current Discount Rate <u>8.10%</u>	1% Increase <u>9.10%</u>
Total pension liability	\$7,914,921	\$7,043,291	\$6,306,990
Fiduciary net position	<u>7,449,396</u>	<u>7,449,396</u>	<u>7,449,396</u>
Net pension (asset) / liability	<u>\$ 465,525</u>	<u>(\$ 406,105)</u>	<u>(\$1,142,406)</u>

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

7. DEFINED BENEFIT PENSION PLAN, continued

Pension Expense / (Income)

	January 1, 2016 to <u>December 31, 2016</u>
Service cost	\$189,043
Interest on total pension liability ⁽¹⁾	540,261
Effect of plan changes	0
Administrative expenses	5,633
Member contributions	(99,671)
Expected investment return net of investment expenses	(564,398)
Recognition of deferred inflows/outflows of resources:	
Recognition of economic/demographic gains or losses	(12,165)
Recognition of assumption changes or inputs	11,733
Recognition of investment gains or losses	166,791
Other ⁽²⁾	<u>(1,306)</u>
 Pension expense	 <u>\$235,920</u>

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Relates to allocation of system-wide items.

Deferred Outflows / Inflows of Resources

As of December 31, 2016, the deferred outflows and inflows of resources are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 30,529	\$ 101,362
Changes of assumptions	35,198	-
Net difference between projected and actual earnings	489,858	-
Contributions made subsequent to measurement date	<u>78,513</u>	<u>-</u>
 Total	 <u>\$634,098</u>	 <u>\$101,362</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	
2017	\$166,359
2018	166,359
2019	137,693
2020	(16,188)

For the year ended December 31, 2016, there were no changes to the Plan relative to assumptions and benefit terms.

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

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, 2017:

	Utility Division	Environmental Services Division	Other Enterprise Funds
Condensed Statement of Net Position			
Assets:			
Current assets	\$ 1,211,602	\$ 154,499	\$ 875
Restricted assets	15,145,077	-	38,750
Capital assets	6,520,817	97,445	-
Total assets	22,877,496	251,944	39,625
Liabilities:			
Current liabilities	676,998	35,894	875
Noncurrent liabilities	16,098,329	-	-
Total liabilities	16,775,327	35,894	875
Net position:			
Net investment in capital assets	5,207,519	97,445	-
Restricted net position	274,937	-	-
Unrestricted net position	619,713	118,605	38,750
Total net position	\$ 6,102,169	\$ 216,050	\$ 38,750

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued Years Ended September 30, 2017 and 2016

9. SEGMENT INFORMATION FOR ENTERPRISE FUNDS, Continued

	Utility Division	Environmental Services Division	Other Enterprise Funds
Condensed Statement of Revenue, Expenses, and Changes in Net Position			
Operating revenues	\$ 5,259,835	\$ 858,442	\$ 7,000
Operating expense	4,475,644	823,122	179
Operating income (loss)	784,191	35,320	6,821
Nonoperating revenues (expenses)	(138,830)	58	179
Operating transfers and other credits	-	-	(7,000)
Change in net position	645,361	35,378	-
Beginning net position	5,456,808	180,672	38,750
Ending net position	\$ 6,102,169	\$ 216,050	\$ 38,750
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	\$ 1,030,630	\$ 55,782	\$ 6,821
Noncapital financing activities	-	-	(7,000)
Capital and related financing activities	14,728,088	-	-
Investing activities	61,132	58	179
Net increase (decrease)	15,819,850	55,840	-
Beginning cash and cash equivalents	(344,771)	(70,298)	38,750
Ending cash and cash equivalents	\$ 15,475,079	\$ (14,458)	\$ 38,750

10. NEW PRONOUNCEMENTS

GASB has various new pronouncements that will become effective during the following two years including:

Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans effective for fiscal years beginning after June 30, 2018

Statement No. 82 – Pension Issues an amendment to certain provisions of GASB Statements 67, 68, and 73 which is effective for fiscal years ending June 30, 2017 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements

RED RIVER AUTHORITY OF TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
Years Ended September 30, 2017 and 2016

10. NEW PRONOUNCEMENTS, continued

for the selection of assumptions will take effect for that employer in the first reporting period in which the measurement date is on or after June 15, 2017.

These pronouncements are not expected to have any significant impact on the Authority when effective.