

*Brazos  
River  
Authority*



*Comprehensive Annual Financial Report  
For The Fiscal Year Ended August 31, 2012  
Waco, Texas*

# **The Brazos River Authority**

## **An Agency of the State of Texas**



Photo courtesy of the City of Waco/Mark Randolph

The Waco Suspension Bridge was completed in 1870. In 1866 the Waco Bridge Company was granted a 25 year charter to build the toll bridge. The charter guaranteed that no other bridge or ferry could be built within five miles. Construction began in 1868 and after much financial difficulty was finished in 1870. Bridge traffic included wagons, pedestrians and cattle herds. Special rates were given to heavy users from 1875 to 1889. The public agitated for a free bridge, but the company retained its monopoly. Then in 1889, the bridge was sold to McLennan County which gave it to the City of Waco as a free bridge.

## **Comprehensive Annual Financial Report**

### **For the Fiscal Year Ended August 31, 2012**

**Prepared by the Finance and Administration Department**

**BRAZOS RIVER AUTHORITY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

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**BRAZOS RIVER AUTHORITY  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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Photo courtesy of the City of Waco/Mark Randolph

The Washington Avenue Bridge (also known as the Steel Bridge) over the Brazos River in Waco, TX was built in 1901 by John H. Sparks of St. Joseph, MO. Resident Engineer was John W. Maxcy of Houston, TX. It is a single span with a total length of 567 ft. It was completely rehabilitated in 2010 and is open to traffic. The National Register of Historic Places added it to their Registry on February 20, 1998. If looking closely, you will see stars and flowers with leaves cut in the steel supports.

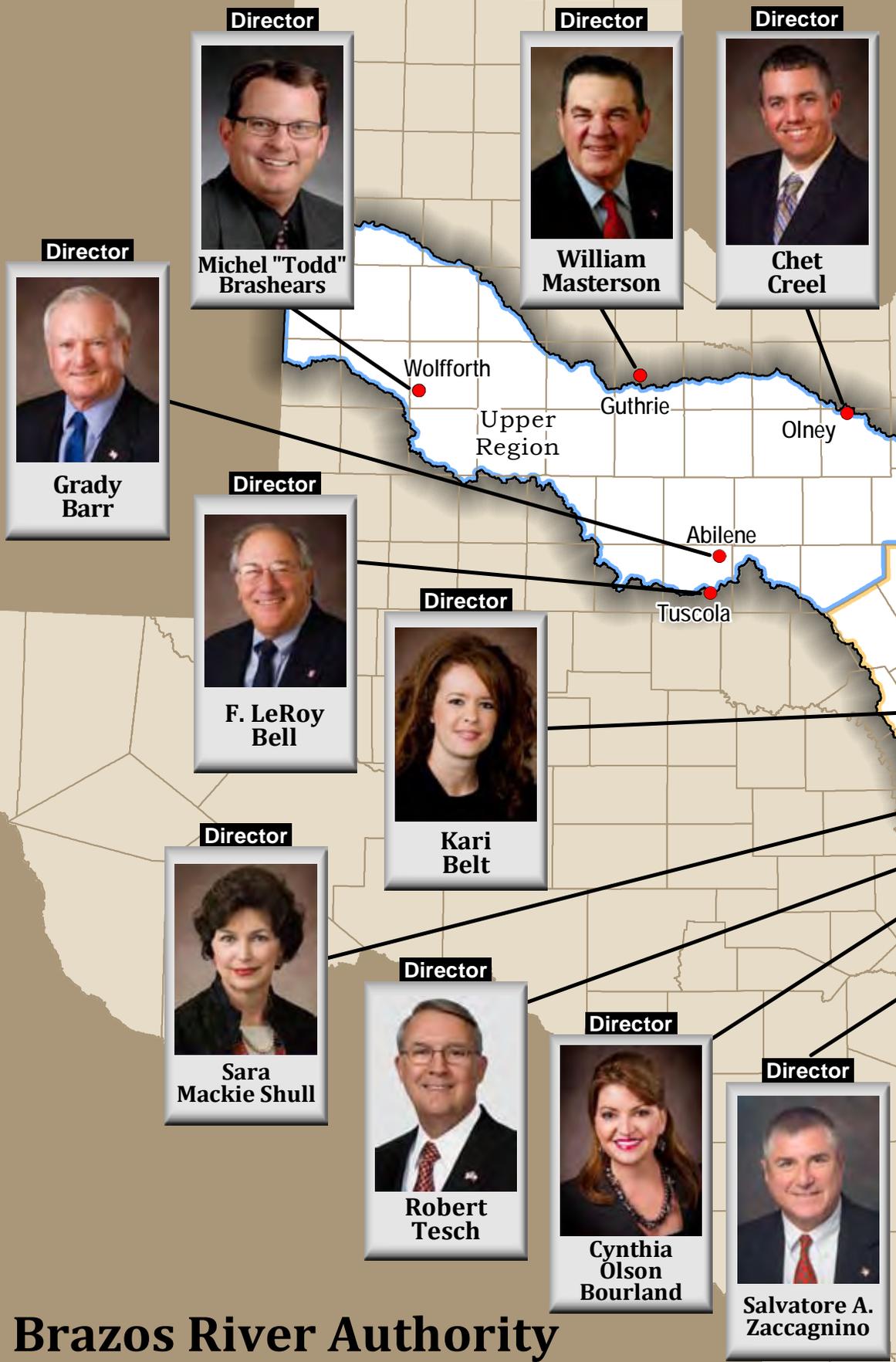


Photo by Mark W. Fisher

Crossing the Brazos River on State Highway 89, near Milsap, TX in Parker County, this through truss bridge was built in 1933-1934. It is a total length of 892.1 feet and open to traffic. It was rehabilitated in 1994 and added to the National Register of Historic Places on October 20, 1996.



*Brazos River Authority*  
*Fiscal Year 2012 Comprehensive Annual Financial Report*



# Brazos River Authority Board of Directors





# *Management Team*



John Hawes, III  
Chief Financial Officer



Phillip J. Ford  
General Manager/CEO



Lauralee Vallon  
General Counsel



Bech Bruun  
Government &  
Customer Relations  
Manager



Jim Forte  
Planning &  
Development  
Manager



Pat Gill  
Information  
Technology  
Manager



John Hofmann  
Central & Lower  
Basin  
Manager



Terry Lopas  
Technical Services  
Manager



Michael McClendon  
Upper Basin  
Manager



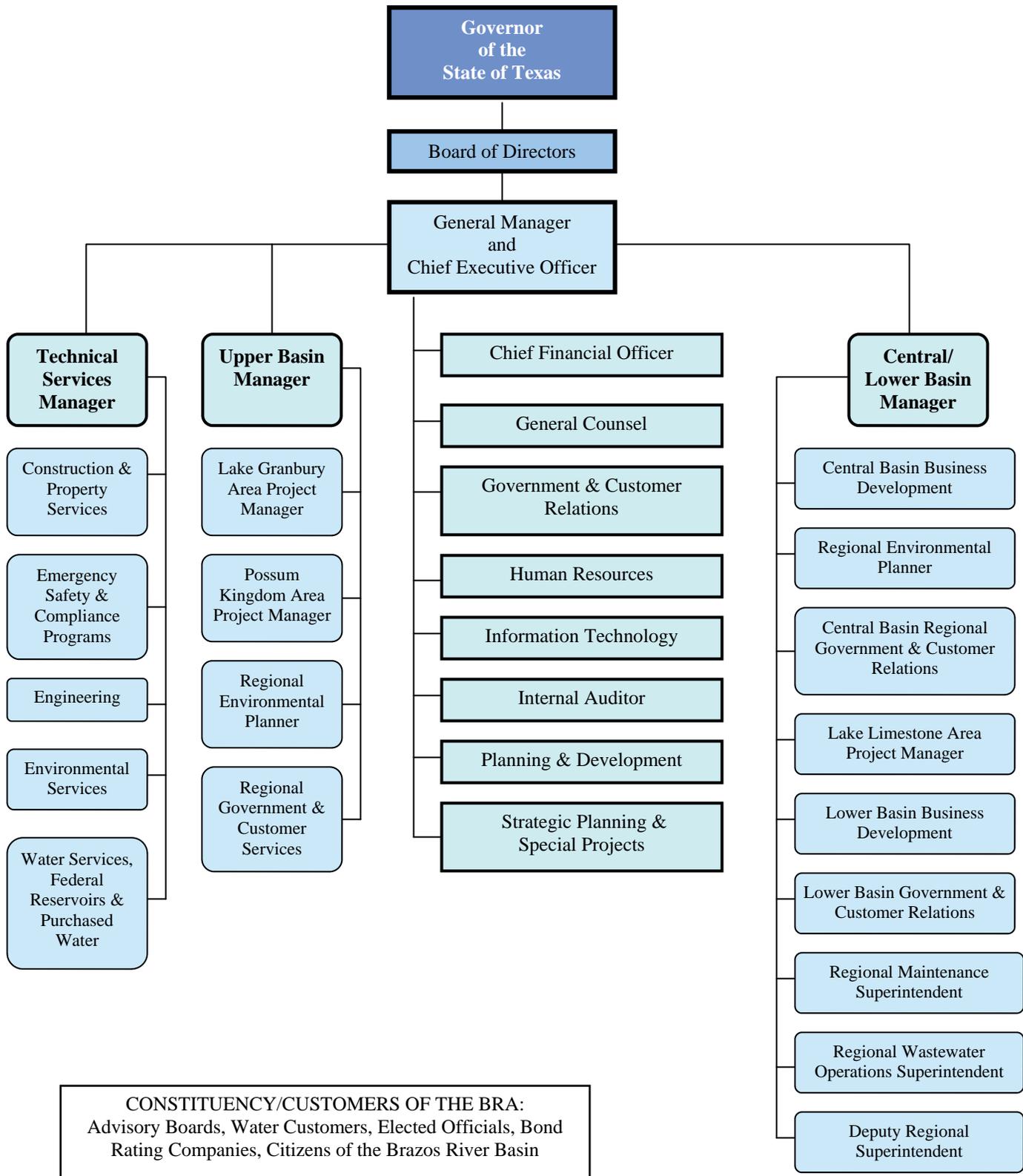
Monica Wheelis  
Human Resources  
Manager



Donna Zemanek  
Internal Auditor



# Brazos River Authority Organizational Chart





Brazos River Authority



January 28, 2013

Mr. Dave Scott, Presiding Officer  
and Members of the Board of Directors  
Brazos River Authority  
4600 Cobbs Drive  
Waco, TX 76710

Ladies and Gentlemen:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Brazos River Authority (BRA) for the fiscal year ended August 31, 2012. The purpose of the report is to provide the Board of Directors, our customers, stakeholders, and other interested parties with reliable financial information about the BRA. The BRA's Finance Department has prepared the CAFR in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the BRA management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the BRA.

The BRA's financial statements for the fiscal years ended August 31, 2012 and 2011 have been audited by Padgett Stratemann & Co. LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the BRA for the fiscal years ended August 31, 2012 and 2011 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion and that the BRA's financial statements for the fiscal years ended August 31, 2012 and 2011 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the Financial Section of this report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The BRA's MD&A can be found immediately following the report of the independent auditors.

## **PROFILE OF THE BRA**

The BRA was created by the Texas Legislature in 1929 as the first State agency in the United States specifically created for the purpose of developing and managing the water resources of an entire river basin. Although the BRA is a political subdivision of the State of Texas, it does not levy or collect taxes. With the exception of a

relatively small number of governmental grants, the BRA is entirely self-supporting. It maintains and operates reservoirs, transmission facilities, and treatment systems through revenues from the customers it serves.

The BRA's Board of Directors consists of 21 members appointed by the Governor and subject to confirmation by the Texas Senate. Directors serve a six-year, staggered term, with one-third being either replaced or reappointed each odd-numbered year.

The BRA functions under the direction of a General Manager/CEO. The more than 42,000 square miles that make up the Brazos River basin are divided into geographic regions – each with distinctive climate, topography and water needs. Each region falls under the direction of a Regional Basin Manager.

### **Water Supply**

The BRA built, owns, and operates three reservoirs for water supply – Possum Kingdom Lake, Lake Granbury, and Lake Limestone. The BRA also contracts with the U.S. Army Corps of Engineers (USACE) for storage space in eight multi-purpose Federal reservoirs – Lakes Whitney, Belton, Proctor, Somerville, Stillhouse Hollow, Granger, Georgetown, and Aquilla. These lakes, owned and operated by the USACE, provide flood control to the Brazos River basin as well as being sources for water supply.

Together, the eleven reservoirs have conservation storage of more than 2.6 million acre-feet of water when full. The BRA contracts to supply water from these reservoirs on a wholesale basis to municipal, industrial, and agricultural water customers from West Texas to the Gulf Coast.

### **Water and Wastewater Treatment**

The BRA operates potable (drinking) water treatment systems for Lee County Fresh Water Supply District #1 and the City of Leander. It also owns and operates a regional water treatment system at Lake Granger.

Wastewater treated and released by the BRA at the eight sewerage systems it operates (Temple-Belton, Sugar Land, Brushy Creek (in Williamson County), Lee County Fresh Water Supply District #1, Clute, Hutto, Liberty Hill, and Georgetown) is returned to the Brazos River cleaner than the water in the river. At the wastewater plants, some of the waste separated from liquids in the treatment process are used for beneficial purposes. Wastes at the Temple-Belton plant are composted with wood chips and sold as fertilizers and soil enhancers to local municipalities.

### **Water Quality**

Water quality is a high priority with the BRA. Staff charged with environmental responsibilities work to monitor the quality of water resources in the Brazos River basin through sampling and analysis. Since 1991, the BRA has contracted with the Texas Commission on Environmental Quality (TCEQ) to conduct the Clean Rivers Program for the Basin. The BRA, working with other agencies and Basin residents, identifies and evaluates water quality and watershed management issues, establishes priorities for corrective actions, and works to implement those solutions. As part of a Basin monitoring program, the staff collects water quality samples at strategic locations throughout the Brazos River basin.

### **Regional Water Planning**

The BRA supports and participates in ongoing regional water planning processes to meet water supply needs in the Basin. The BRA participates in development of regional water plans as established by the Texas Legislature in 1997 with the passage of Senate Bill 1. Significant portions of three of the sixteen planning areas lie within the Basin including Regions O (High Plains) and H (Houston-area), and Brazos G (Central Texas). The BRA serves as the administrative agency for Brazos G (Central Texas).

## **ECONOMIC CONDITION AND OUTLOOK**

For the fiscal year ended August 31, 2012, the economy has experienced a long and rocky path to stability. During the early months of the fiscal year, the economy seemed poised for a more robust recovery with job creation approaching 250,000 per month, the housing markets improving and the consumers opening their wallets. But in early spring, the world became fixated on the situation in the Euro zone, the failures of Congress to make any decisions and the impending presidential election. The markets worried that a recession in Europe would become

a global contagion and also worried that the U.S. economy could sustain another hard hit while in its already weakened condition. Although the U.S. Treasury and the Federal Reserve have taken extreme measures to bolster its markets, it is apparent that each new action has had a reduced impact. Congress has completely disengaged and markets are fearful of how it will handle the “fiscal cliff,” or the termination of the Bush tax cuts and automatic spending cuts that occurs on December 31, 2012. Businesses are reluctant to ramp up hiring and production until there is a better understanding of the tax policies that will be in place following the elections.

The Federal Open Market Committee (FOMC) has continued to be vigilant and active in addressing the fiscal weakness. To date, it has introduced three significant quantitative easing programs to steer the economy away from a severe downturn. The FOMC has recently stated that it will leave the Federal Funds Rate Target, a critical lending program for banking institutions, at a rate between 0% and 0.25% until late-2015.

The housing market has begun to demonstrate more activity, however, much of it has been the result of investors purchasing distressed units. Over time, as the distressed units are taken off the market and rehabilitated, all property values should begin to improve. One of the inhibitors to resurgence in the housing market is the reluctance or unwillingness of banks to lend money. The employment situation has improved, but not at the pace that one would expect during a recovery. During the last quarter of the fiscal year, job creation averaged only about 120,000 each month as compared to the usual 250,000 jobs added each month during a typical recovery.

The Texas economy has fared better than the national economy. During the past year, the unemployment rate in Texas has declined from 8.1% in August 2011 to 7.1% by August 2012, compared to the current national average of 8.1%. Since August 2011, Texas has added over 262,000 jobs representing an increase of 2.5% over this time last year. By comparison, California has experienced an increase of 1.9%, New York has increased 1.4%, Florida has increased 0.9% and Illinois has grown 0.8%. Texas sales tax revenues increased 11.6% this year as compared to 9.7% last year.

Texas appears to be faring well in the housing sectors as home values and construction activity increased. Texas single-family housing permits were up 19.1% from this time last year, but were not as robust as the same period last year that logged a 22.6% increase over 2010. Mortgage foreclosures in Texas declined 18.2% this fiscal year after falling 22.7% during last fiscal year. For 2012, the national averages for mortgage foreclosures have fallen 15.2%.

The outlook for fiscal year 2013 appears to remain sluggish. As mentioned, the questions that center around the impending fiscal cliff and how swiftly and definitively Congress will address the issue will play a significant role in the recovery. Once the business community has a clearer picture of tax and health-care policies, it will be able to structure business plans to adapt to any plan that will come out of Washington D.C. The European situation will likely continue to be a protracted debate among its members and does not offer much optimism that a recession in that sector of the world will be averted. Concerns are rising over the slowdown in the Chinese economy’s growth rate. While still solidly positive, it is well below recent levels. There will likely be some negative impact on the U.S. from these and other international events, but a healthy domestic recovery could lessen the impact.

Interest rates for investments allowed by the BRA’s Investment Policy and State Law have been mixed during the year. Investment Pool rates were 0.07% at the end of August 2011 but rose to 0.14% at the end of August 2012. Rates for Certificates of Deposit (CD) have declined. At the end of August 2011, a one-year CD was approximately 0.50%. Rates for a one-year CD at the end of August 2012 had fallen to 0.45%. CDs and other financial institution deposits still remain significantly more attractive than alternative Treasury and Agency positions.

## **LONG-TERM FINANCIAL PLANNING**

In July 2012, the BRA’s Board of Directors reviewed the Fiscal Year 2013 Long Range Financial Plan. This fifty-year look into the future is both an inventory of projects anticipated to be undertaken by the BRA to satisfy its mission, as well as an analysis of the implications of those projects on the BRA’s System Water Rate. The inventory of projects is a mixture of water development, transportation, and treatment initiatives and range from

those that are anticipated to be fully supported by the System Water Rate to those which will have a specific customer base (such as a regional treatment plant), for which a cost of service-based fee will be calculated.

The rate-making process also includes anticipated future income from conversion of legacy contracts to the System Rate upon their expiration, as well as new income from sales of water from new contracts. Initial indications based on this analysis are that the BRA's System Water Rate over the next several decades will continue to be among the lowest in the State of Texas; while maintaining a level of service sufficient to address the obligations placed upon it by our enabling legislation, our Strategic Plan, and the vision of our Directors and management. Future rate-making will be based upon a combination of both debt-funded initiatives, as well as those in which a cash infusion will be made, through the use of the Board designated series of Reserve Funds to balance and stabilize rates. Additional information on the BRA's Board Designated Reserves can be found in Note 11, of the Notes to the Basic Financial Statements.

## **RELEVANT FINANCIAL POLICIES**

The BRA maintains financial policies with regards to budget, investments and management, financial audit, debt financing, industrial development bonds and pollution control bonds, capital improvement plan, and reserve funds. None of these policies had a significant impact on the current period's financial statements.

## **MAJOR INITIATIVES**

During Fiscal Year 2012, the BRA managed many new and ongoing water quality and water supply projects. Development of new water supply remains the priority for the BRA as we continue work to (1) obtain a major water right, (2) pursue groundwater development, and (3) permit for construction of Allens' Creek Reservoir. The following is a synopsis of select programs and projects managed by the BRA in Fiscal Year 2012:

### **WATER SUPPLY**

#### **Drought Management and Response Initiatives**

Initiatives in Fiscal Year 2012 were highlighted by the peak of a historic drought in Texas, making the careful management of the BRA's water supply system a top priority. As part of these initiatives, the BRA focused on ensuring the continued supply of water to its customers during the drought, increased communication efforts through media and web updates, and accelerated the construction or repair of water delivery systems.

The BRA implemented its Drought Contingency Plans, notifying customers of recommended actions and urging them to implement their individual drought plans and to promote conservation.

To communicate drought status, a special drought section within the established website was developed by the BRA to provide lake level projections and to communicate information to customers and the public. The BRA also provided testimony to the state Senate and House Natural Resources Committees and held regional meetings to update customers.

Finally, the BRA implemented an expedited schedule for construction of a Controlled Outlet Conduit at Possum Kingdom Lake (PK) to provide for the release of water downstream, and completed installation of increased pumping capacity at the Williamson County Regional Raw Water Line, which transfers water from Lake Stillhouse Hollow to Lake Georgetown.

#### **Water Conservation**

Along with drought management efforts, the BRA continued on-going efforts to develop and encourage water conservation practices in FY2012. The BRA also evaluated and reduced the watering requirements for the BRA Central Office facility. A redesign of the facility landscape by incorporating xeriscaping, or the use of native and drought tolerant plants, to further promote water conservation in the community, is underway.

### **System Operation Permit**

In 2003, the BRA initiated the System Operations Permit project with the goal of maximizing use of existing reservoir storage in conjunction with unappropriated sources of water throughout the basin. During FY2012, under the direction of the TCEQ Commissioners, the BRA continued these efforts with expedited development of a Water Management Plan (WMP).

Preparation of the WMP includes multiple environmental studies, documenting and analyzing water management protocols, and developing a comprehensive water accounting plan. To ensure appropriate public awareness and input, the BRA created a section of the BRA website to disseminate information and communicate with the public. The BRA also hosted nine WMP Stakeholder meetings throughout the basin, to allow for stakeholder input into the formation of the plan.

### **Reallocation of Flood Storage – Lake Aquilla Pool Rise Update**

In 2008, the BRA Board of Directors authorized a detailed feasibility study to evaluate the potential for water supply storage reallocation or “pool rise” at Lake Aquilla. In FY2012, the BRA continued to manage Phase II efforts to determine the feasibility and cost of raising the normal pool elevation of Lake Aquilla for additional water supply.

### **Allens Creek Reservoir**

Allens Creek Reservoir is a planned water storage reservoir permitted for construction on Allens Creek, a tributary of the Brazos River. Along with the City of Houston and the Texas Water Development Board (TWDB), the BRA purchased the site and acquired the permit originally held by Houston Lighting and Power.

In an effort to advance this project, in FY2012 the BRA coordinated collaboration between the City of Houston and Fort Bend and Brazoria Counties regarding their interest in the reservoir as a future water supply source.

### **Williamson County Water Supply Plan & Groundwater Acquisition**

The BRA has been actively engaged in groundwater acquisition efforts near Williamson County. In FY2012, the BRA initiated development of a pilot project to evaluate the use of water pumped from the Trinity aquifer to be used conjunctively with Lake Granger surface water. The project’s success will provide an additional source of water for the rapidly growing communities along the Interstate-35 and State Highway-130 corridors in Williamson County.

## **WATER TREATMENT**

### **Expanding and Continuing Treatment Operations**

In keeping with efforts to ensure water quality in the Brazos River basin, facilitate environmental compliance and provide high quality water and wastewater treatment services, in FY2012 the BRA signed agreements to continue operation of the Temple-Belton Regional Sewerage System, the Liberty Hill Regional Wastewater System and the Sandy Creek Water Treatment Plant.

### **East Williamson County Regional Water System**

Formerly owned and operated by the City of Taylor, the 5.5 million gallons per day (mgd) plant was purchased by the BRA in 2004. The facility was expanded in 2008 to 12.8 mgd, and included the refurbishment of the existing plant and replacement of computer and water testing systems to compliment the new facility.

During FY2012, the facility expansion continued with construction of a water intake located in a deeper portion of Lake Granger and installation of water pipelines to the plant from the USACE Wilson H. Fox Park.

### **Lake Granbury Surface Water and Treatment System (SWATS)**

During FY2012, the BRA transferred ownership of this regional potable water treatment plant to the existing customers that formed the Brazos Regional Public Utility Agency.

## **WATER DELIVERY**

### **Williamson County Regional Raw Water Line**

The Williamson County Regional Raw Water Line is a water transportation pipeline operated by the BRA for five municipal customers in Williamson County. The line delivers water from Lake Stillhouse Hollow in Bell County to Lake Georgetown in Williamson County.

During FY2012, the BRA addressed structural issues with the tower intake and header pipe. An expansion project slated for 2013 was accelerated due to drought conditions, allowing a set of large-sized pumps to be brought online to increase pumping capacity to approximately 43,000 acre-feet per year.

## **MAINTENANCE PROJECTS**

### **Dam Rehabilitation Projects**

As part of proactively addressing the safety, preventive maintenance and ongoing operational efficiency of the BRA-owned dams, during FY2012 the BRA began assessment of the concrete service life at all dams, with a focus upon deck panels and corbels. The BRA initiated modifications to the low flow facility at Lake Granbury and proceeded with repair and replacement of the gate hoist and braking systems as well as the tainter gate skins at the Sterling C. Robertson Dam at Lake Limestone. The BRA also instituted a multi-year rip-rap remediation/construction project at Possum Kingdom Lake.

### **Internal Engineering Design and Project Oversight**

In FY2012, the BRA internalized design engineering on small scale projects to reduce expenditures on outside engineering services. Projects brought in-house included the West Central Brazos Pipeline encasement project, bulk storage tanks at SWATS, the Central Office back-up generator system, and replacement of the intake station pumps for the West Central Brazos Water Distribution System (WCBWDS). Development of a computer model for the WCBWDS transmission system was implemented to allow dynamic simulation of new demands, and to assess the impact of future facility improvements on pressure, flow availability and reliability.

### **Possum Kingdom Hydropower Decommissioning**

In November 2010, the BRA notified the Federal Energy Regulatory Commission (FERC) of the intent to decommission the hydroelectric generating facilities at Morris Sheppard Dam. Since that time, BRA staff has worked on a variety of tasks that must be completed before surrender of the license will be approved. In FY2012, the BRA received FERC approval of the application to decommission and began construction of infrastructure improvements including asbestos abatement in the powerhouse and the installation of a head gate and Controlled Outlet Conduit for the Morris Sheppard Dam.

### **Central Office Remediation**

In September 2012, the BRA identified mold contamination at various locations within its Central Office facility in Waco, Texas. The first phase of the resulting remediation project required the temporary relocation of staff for seventeen days during October 2012. The remainder of the remediation and rehabilitation project is ongoing and scheduled to be completed in June 2013. Additional information regarding this project can be found in Note 14, of the Notes to the Basic Financial Statements.

## **PROPERTY MANAGEMENT**

### **Possum Kingdom Lake Property Divestiture**

To ensure compliance with legislative divestiture directives, in FY2012 the BRA initiated the process of evaluating the potential sale of remaining BRA leased land at Possum Kingdom Lake. This process will include coordination with representatives from the State Legislature to draft changes to BRA enabling statutes that will allow the remaining commercial and residential leased tracts to be sold in a manner comparable to the method provided for in House Bill 3031, 79th Texas Legislature, upon final approval of the Surrender Application by FERC. Un-leased lands and undeveloped tracts remaining at Possum Kingdom Lake may be addressed at a later date upon further coordination and direction by the Board.

### **Salt Creek, Graham, Texas Floodplain Project**

The BRA serves as the nonfederal sponsor in partnership with the USACE on a project to minimize the flood risk to homeowners and commercial businesses located within the 10-year floodplain of the City of Graham. In FY2012, the BRA developed and initiated a plan to finalize remediation and transfer acquired lands to the City of Graham. The plan also includes the development of a park to fulfill the USACE recreational component of the project.

## **ENVIRONMENTAL**

### **Texas Clean Rivers Program and Environmental Assessments**

Since the 1990's, the BRA has collected and assessed surface water quality data of 130 stream and reservoir sites as part of the Texas Clean Rivers Program. Continuing efforts to maintain the environmental quality of the Brazos basin, in FY2012 the BRA submitted an extensive five-year data assessment report, the Basin Summary Report, to the TCEQ. The BRA also conducted low-level nutrient sampling for development of surface water quality standards mandated by the Environmental Protection Agency.

### **Lake Granbury Watershed Protection Plan**

The Lake Granbury Watershed Protection Plan (WPP) is a locally developed plan to reduce bacterial impairments in Lake Granbury that do not meet state water quality standards or local stakeholder goals. The BRA, in coordination with other stakeholders, initiated implementation of selected management measures. In FY2012, the program hired a project coordinator to oversee the implementation of the WPP and initiated public outreach through informational meetings on the means and methods to achieve these goals.

### **Data Collection Initiatives in the Brazos River Basin**

In 2009, the BRA contracted with the TCEQ's Surface Water Quality Monitoring Team to perform monitoring and source analysis in seven impaired water bodies in the Brazos River basin. In FY2012, the BRA continued to collect the additional data necessary for the TCEQ to determine what course of action is most appropriate to address the impairments in each water body. Information obtained from this project will provide federal, state, and local decision makers with a variety of mechanisms that can be employed to promote the orderly restoration of the basin aquatic environment and to prevent additional degradation. The project is a collaborative effort between the BRA, TCEQ and the Texas Institute for Applied Environmental Research. Project completion has been delayed by drought conditions, moving the anticipated date of completion to August 2013.

### **Grant Initiatives**

During FY2012, the BRA applied for and acquired grants in excess of \$1.5 million for environmental studies, regional planning efforts, water quality modeling and expenses incurred during the 2012 wildfire at Possum Kingdom Lake. The BRA also entered into agreements with the TWDB and the USACE to secure funding for fifty percent (50%) of costs for hydrographic surveys at Lakes Proctor, Limestone, Granger, Somerville, Aquilla, and Granbury.

## **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the BRA for its CAFR for the fiscal year ended August 31, 2011. This was the twenty-sixth consecutive year that the BRA has received this prestigious award. In order to be awarded a Certificate of Achievement, the BRA published an easily readable and efficiently organized CAFR. The report must satisfy both GAAP and applicable legal requirements.

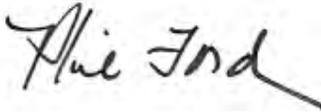
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program requirements and we are submitting the report to the GFOA to determine its eligibility for another certificate.

In addition, the BRA expects to receive its fifth GFOA Distinguished Budget Presentation Award for its annual budget document for fiscal year beginning September 1, 2012. In order to qualify for the Distinguished Budget Presentation Award, the BRA's budget document was judged proficient as a policy document, a financial plan, an operations guide, and a communication device.

The preparation of this CAFR would not have been possible without the efficient and dedicated endeavors of the entire staff of the Finance and Administration Department. We would like to express our sincere appreciation to Matt Wheelis, Melissa Anthony, Judy Wallace, Michele Giroir, Paula Thamez, Lupe Diaz, Van Walker, Cheryl Hoelscher, Kim Goolsby, Janie Crowder, Kim Tosh, Debbie Eckert, Marian Kuntz, Tom Downey and Karen McCleney, and all other employees who contributed to the preparation of this report.

Our appreciation is also extended to the members of the Board of Directors for their support in planning and conducting the financial operations of the BRA in a responsible and professional manner and for providing us the tools and resources to ensure the integrity of the assets of the BRA.

Respectfully submitted,



Phillip J. Ford  
General Manager/CEO



John Hawes, CPA  
Chief Financial Officer



Photo by Patrick Feller

The first bridge built across the Brazos River at Richmond, Texas was a wooden bridge built about 1888. When it collapsed five years later it was replaced with a steel structure. This railroad through truss bridge crosses over the Brazos River at Richmond, Texas.



Photo Courtesy of Barclay Gibson and TexasEscapes.com

This railroad Swing Triple Truss bridge crosses over the Brazos River at Brazoria, Texas. It was completed in 1907.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Brazos River Authority  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

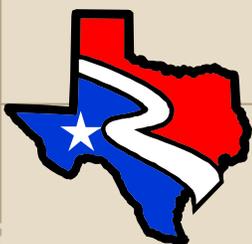
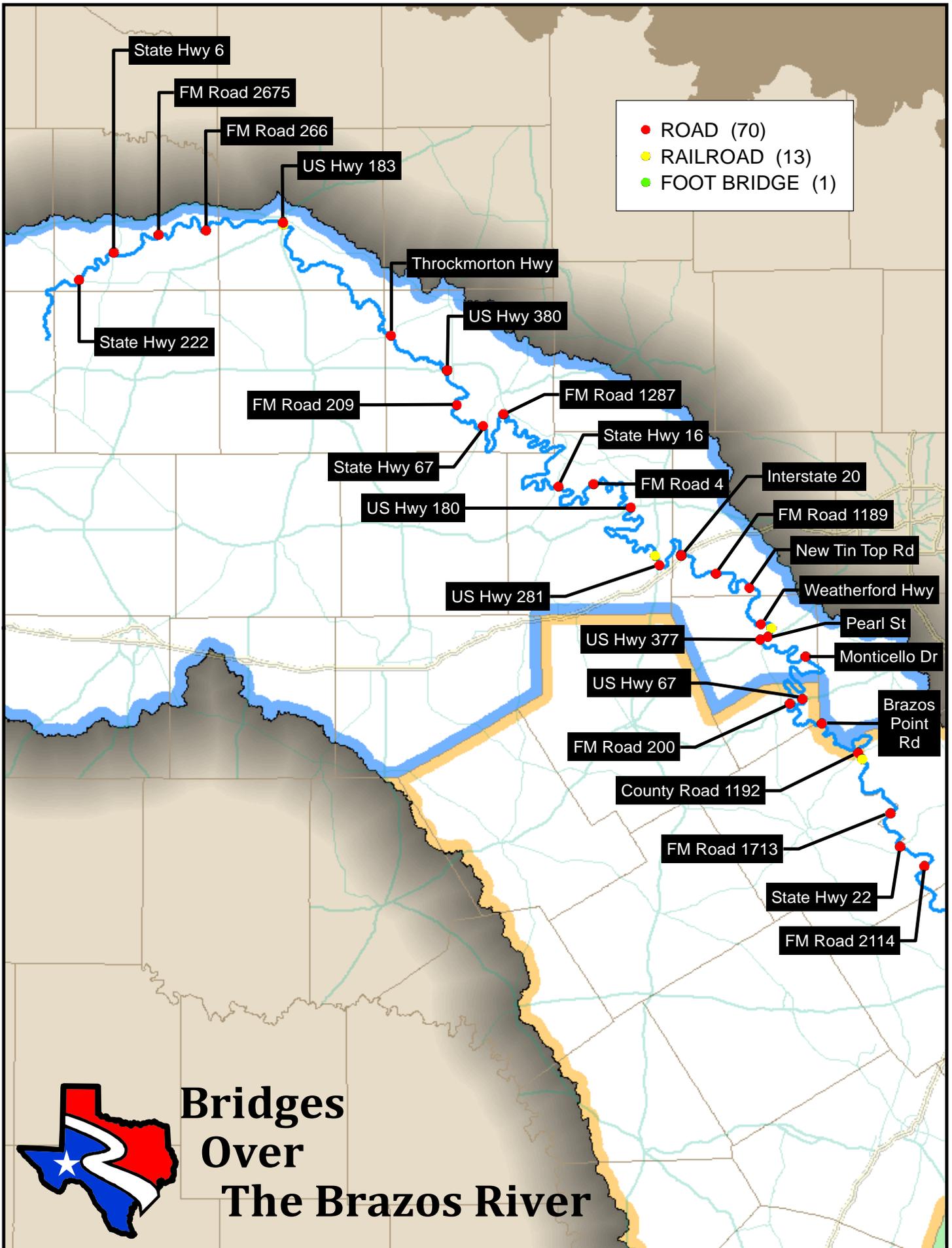


*Christopher P. Morrell*

President

*Jeffrey R. Enen*

Executive Director



# Bridges Over The Brazos River

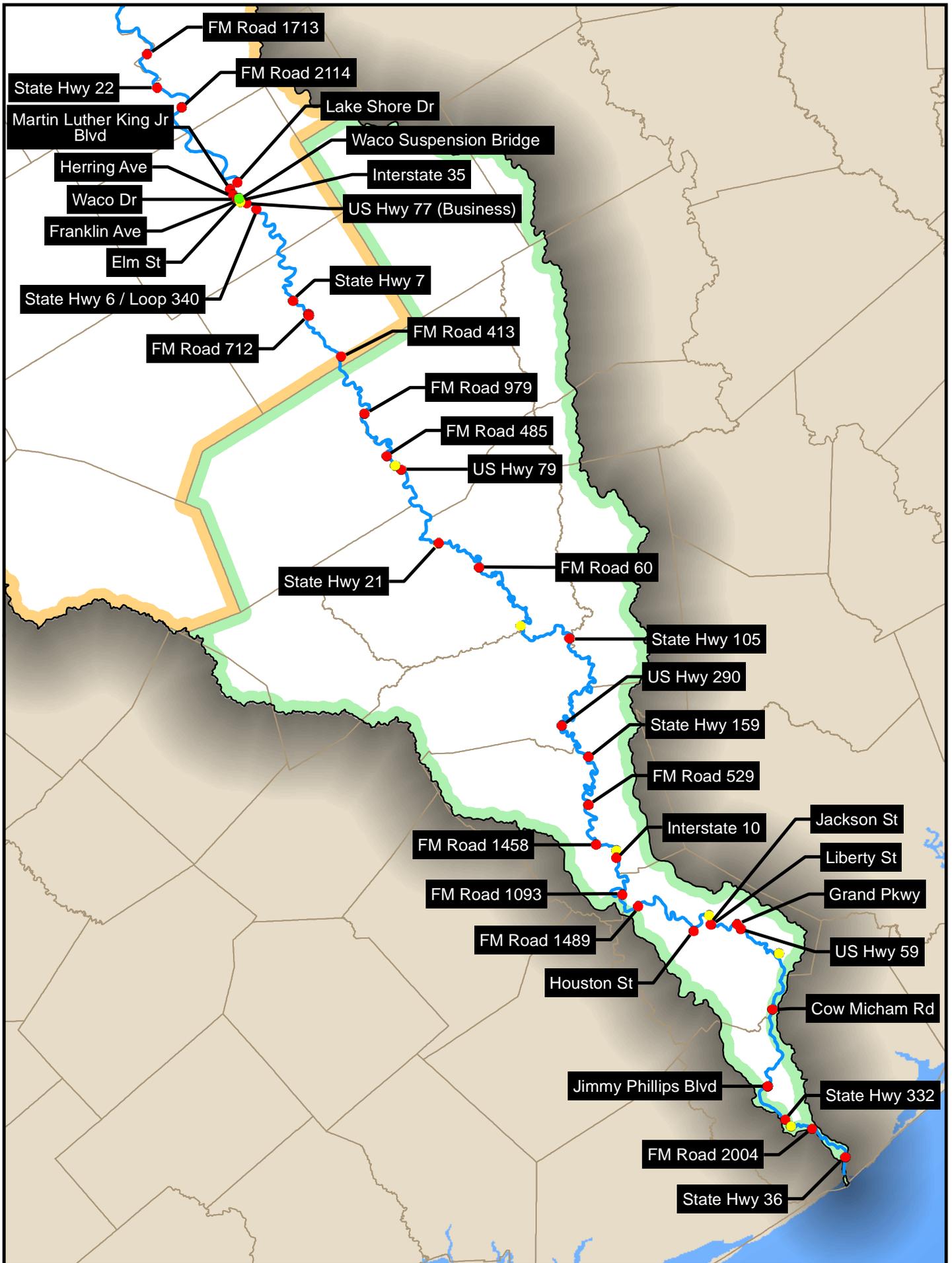




Photo by Gail Hurley

Highway 174 Bridge in Hill County was built in 1950 and is located by Kimball Bend Park at Kimball, Texas. It is a deck truss bridge open to traffic. Historians acknowledge that the Chisholm Trail crossed the Brazos River at Kimball Bend near the Highway 174 bridge south of Rio Vista in the 1860s and 1870s. Kimball's low-water, hard-bottom crossing was often treacherous before the dams were constructed but was inviting to cows and cowboys rather than soft-bottom crossings elsewhere on the river. (Taken from Pete Kendall article in Cleburne Times-Review).



Photo by Brazos River Authority Water Services

The Possum Kingdom Stone Arch Bridge (Highway 16 Bridge) in Palo Pinto County, is the longest and most substantial masonry arch bridge in Texas. It was built in 1942. State highway engineers chose the heavy masonry form to withstand flood waters released from the Morris Sheppard Dam one mile upstream. The bridge features fine craftsmanship and is argued to be one of the best examples of Works Progress Administration (WPA) road work in Texas. Many WPA laborers were unemployed coal miners that acquired their stonecutting skills underground. The bridge includes eighteen spans of locally quarried limestone varying in length from 23 to 30 feet. All piers are founded on bedrock (most are 3 ft. wide; piers seven and thirteen are heavier "bracing piers" tapering to 5 ft. width at the top). The structure's total length is 433 ft. and 4 in. Despite having been overtopped by floods, the bridge remains in virtually unaltered condition.



*Brazos River Authority*  
*Fiscal Year 2012 Comprehensive Annual Financial Report*

## Independent Auditors' Report

The Board of Directors  
Brazos River Authority  
Waco, Texas

We have audited the accompanying Statements of Net Assets of Brazos River Authority (the "BRA") as of August 31, 2012 and 2011, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the years then ended and the Combined Statements of Fiduciary Net Assets as of August 31, 2012 and 2011, which collectively comprise the BRA's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the BRA. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BRA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BRA as of August 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended and the financial position of its fiduciary net assets as of August 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2013 on our consideration of the BRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**SAN ANTONIO**

100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

**AUSTIN**

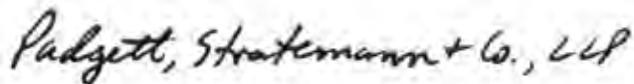
811 BARTON SPRINGS ROAD, SUITE 550  
AUSTIN, TEXAS 78704  
512 476 0717

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BRA's basic financial statements. The accompanying supplemental schedules of Combining Statements of Fiduciary Net Assets, Schedule of Changes in Assets and Liabilities (Agency Funds), and the Comparison of Budgeted Revenues and Expenditures to Actual (Non-GAAP Basis), as listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BRA's basic financial statements. The Introductory and Statistical Sections, as listed in the foregoing table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.



Certified Public Accountants  
January 7, 2013

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*Brazos River Authority*  
*Fiscal Year 2012 Comprehensive Annual Financial Report*

**BRAZOS RIVER AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

As Management of the Brazos River Authority (the “BRA”), we offer readers of the BRA’s financial statements this narrative overview and analysis of the financial activities of the BRA for the fiscal year ended August 31, 2012 in comparison with the two prior year financial results. 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 Pages 6 to 13 of the Introductory Section of this report.

**Financial Highlights**

- Total assets at the end of Fiscal Year 2012, 2011 and 2010 were \$380,211, \$442,219 and \$390,499, respectively. Total assets exceeded liabilities at the end of Fiscal Year 2012, 2011 and 2010 by \$239,092, \$244,791 and \$184,961, respectively.
- Total assets for Fiscal Year 2012 decreased by \$62,008 over prior year, primarily as a net result of continued income from operations, early retirement of the Series 2005A (AMT), Series 2002 (AMT) and the Contract Payable debt for the Aquilla reservoir, and the execution of the transfer agreement with the contracting parties of the Lake Granbury Surface Water and Treatment System (SWATS). The agreement allowed for the transfer of ownership to the contracting parties. As a result of that agreement, the BRA removed all assets related to the SWATS operations from its balance sheet.
- Total assets for Fiscal Year 2011 increased \$51,720 over prior year, primarily as a net result of continued income from operations, early retirement of the Series 2001A and 2001B serial bonds and the infusion of cash from the third-party sale of most residential and selected commercial leases at Possum Kingdom Lake to Patterson PK Land Partnership, Ltd.
- Total assets for Fiscal Year 2010 decreased \$332 over prior year, primarily as a net result of continued income from operations and increased capital improvement cost and increased depreciation expense over prior year.
- The BRA ended Fiscal Year 2012 with a decrease in net assets of \$5,699, an increase in net assets of \$59,830 for Fiscal Year 2011 and an increase in net assets of \$5,962 for Fiscal Year 2010.
- The increases and decreases in capital assets for the past three years and the events causing these changes are noted below:

|  | <b>2012</b>        | <b>2011</b>     | <b>2010</b>       |
|--|--------------------|-----------------|-------------------|
| Net deletions to land storage and water rights                                 | \$ (630)           | \$ (73)         | \$ -              |
| Additions to construction-in-progress  | 23,913             | 10,689          | 4,818             |
| Transfers from construction-in-progress to capital assets<br>being depreciated | (2,860)            | (7,295)         | (1,548)           |
| Additions and transfers to capital assets being depreciated                    | 2,971              | 9,562           | 1,970             |
| Net deletions and transfers  | (26,080)           | (815)           | (38)              |
| Normal annual depreciation and amortization                                    | (8,747)            | (9,144)         | (9,659)           |
| <b>TOTAL</b>   | <b>\$ (11,433)</b> | <b>\$ 2,924</b> | <b>\$ (4,457)</b> |

**BRAZOS RIVER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

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- For Fiscal Year 2012, total outstanding debt decreased by \$57,871. This net decrease is a result of the early retirement of the Series 2002 (AMT) and Series 2005A (AMT) in the amount of \$17,425, the write off of the aforementioned SWATS debt requirements of \$23,630, the early retirement of the Aquilla contracts payable in the amount of \$8,821, and annual principal payments on revenue bonds, contracts payable and accretion on capital appreciation bonds of \$6,855, \$1,221 and \$81, respectively.
- For Fiscal Year 2011, total outstanding debt decreased by \$7,594. This net decrease is a result of \$17,190 in new bonds being issued for the refunding of the Series 2000 bonds in the amount of \$11,295 with the additional amount being used for the Phase II pump expansion for the Williamson County Regional Raw Water Line, the redemption of the Series 2001A and Series 2001B bonds in the amount of \$5,080, and annual principal payments on revenue bonds, contracts payable and accretion on capital appreciation bonds of \$7,350, \$1,185 and \$126, respectively
- For Fiscal Year 2010, total outstanding debt decreased by \$6,981. This net decrease is a result of annual principal payments on revenue bonds, contracts payable and accretion on capital appreciation bonds of \$5,955, \$1,146 and \$120, respectively.

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## **Overview of the Financial Statements**

The Management's Discussion and Analysis is intended to serve as an introduction to the BRA's basic financial statements. The BRA's basic financial statements are composed of Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; Statements of Cash Flows; Combined Statements of Fiduciary Net Assets; Notes to the Basic Financial Statements; and the Schedule of Funding Progress (Required Supplementary Progress). This report also contains other supplementary information and statistical information in addition to the basic financial statements themselves.

**Basic financial statements.** The financial statements are designed to provide readers with an overview of the BRA's finances in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the BRA's assets and liabilities with the difference between the two reported as *net assets*. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the BRA is improving or deteriorating. The Statement of Net Assets can be found on Page 34 of this report.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the BRA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the BRA's current year operations on its financial position. The Statement of Revenues, Expenses and Changes in Net Assets can be found on Page 36 of this report.

**BRAZOS RIVER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

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The *Statement of Cash Flows* summarizes all of the BRA's cash flows into three categories as applicable: 1) cash flows from operating activities, 2) cash flows from capital and related financing activities, and 3) cash flows from investing activities. The Statement of Cash Flows can be found on Page 37 of this report. The Statement of Cash Flows, along with the related notes and information in other financial statements, can be useful in assessing the following:

- The BRA's ability to generate future cash flows;
- The BRA's ability to pay its debt as the debt matures;
- Reasons for the difference between the BRA's operating cash flows and operating income; and
- The effect on the BRA's financial position of cash and non-cash transactions from investing, capital and financing activities

The *Combined Statement of Fiduciary Net Assets* summarizes all of the BRA's agency fund transactions. Generally, an agency fund is created to act as a custodian for other funds, governmental entities, or private entities. Assets are recorded by the agency fund, held for a period of time as determined by a legal contract or circumstance and then returned to their owners. Generally only assets and a liability representing the parties that are entitled to the assets are presented in the Combined Statement of Fiduciary Net Assets. The Combined Statement of Fiduciary Net Assets can be found on Page 38.

The *Notes to the Basic Financial Statement* provides additional information that is essential to a full understanding of the data provided in the basic financial statements. The Notes to the Basic Financial Statements can be found starting on Page 40 of this report.

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## **Financial Analysis**

***Schedule of Net Assets*** - As noted earlier, net assets may serve over time as a useful indicator of the BRA's financial position. In the case of the BRA, assets exceeded liabilities for Fiscal Year 2012, 2011 and 2010 by \$239,092, \$244,791 and \$184,961, respectively.

The largest portion of the BRA's net assets, 73% in Fiscal Year 2012, reflects its investment in capital assets (e.g., land, storage rights, reservoirs, water treatment and sewerage facilities, and buildings and equipment), less any related debt used to acquire those assets that is still outstanding. Although the BRA'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 resources, since the capital assets themselves cannot be used to liquidate these liabilities.

For Fiscal Year 2012, current assets decreased as a result of the early retirement of noncurrent bonds payable and noncurrent contracts payable of \$26,248. In addition to the early retirement of debt, the transfer agreement of the SWATS operation resulted in the decrease in total noncurrent liabilities of \$53,362.

**BRAZOS RIVER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

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For Fiscal Year 2011, current assets increased as a result of operations and the infusion of cash from the third-party sale of most residential and selected commercial leases at Possum Kingdom Lake to Patterson PK Land Partnership, Ltd. In addition, the noncurrent liabilities decreased as a result of the early retirement of the Series 2001A and 2001B serial bonds.

**Condensed Schedule of Net Assets**  
**August 31, 2012, 2011 and 2010**

|  | <b>2012</b>       | <b>2011</b>       | <b>2010</b>       |
|--|-------------------|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |                   |
| Current assets - unrestricted                        | \$ 79,917         | \$ 109,624        | \$ 62,631         |
| Current assets - restricted                          | 13,536            | 13,230            | 10,136            |
| Noncurrent assets-restricted                         | 6,946             | 27,086            | 27,564            |
| Capital assets, net                                  | 275,727           | 287,160           | 284,236           |
| Noncurrent assets                                    | 4,085             | 5,119             | 5,932             |
|  | <u>\$ 380,211</u> | <u>\$ 442,219</u> | <u>\$ 390,499</u> |
| <b>LIABILITIES</b>                                   |                   |                   |                   |
| Current liabilities (payable from current assets)    | \$ 21,470         | \$ 18,590         | \$ 16,745         |
| Current liabilities (payable from restricted assets) | 8,707             | 14,534            | 15,206            |
| Noncurrent liabilities                               | 110,942           | 164,304           | 173,587           |
|  | <u>\$ 141,119</u> | <u>\$ 197,428</u> | <u>\$ 205,538</u> |
| <b>NET ASSETS</b>                                    |                   |                   |                   |
| Invested in capital assets, net of related debt      | \$ 174,397        | \$ 145,039        | \$ 135,931        |
| Restricted   | 6,490             | 9,393             | 5,641             |
| Unrestricted   | 58,205            | 90,359            | 43,389            |
|  | <u>\$ 239,092</u> | <u>\$ 244,791</u> | <u>\$ 184,961</u> |

For Fiscal Year 2012, about 76% (\$180,887) of the BRA's net assets represent resources that are restricted. The remaining balance of *unrestricted net assets* (\$58,205) may be used to meet the BRA's ongoing obligations.

**BRAZOS RIVER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

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**Condensed Schedule of Revenues, Expenses and Changes in Net Assets**  
**Fiscal Years Ended August 31, 2012, 2011 and 2010**

|   | 2012              | 2011              | 2010              |
|---|-------------------|-------------------|-------------------|
| OPERATING REVENUES                          |                   |                   |                   |
| Water supply system                         | \$ 42,028         | \$ 42,606         | \$ 40,467         |
| Cost reimbursable operations                | 18,509            | 19,835            | 18,119            |
| TOTAL OPERATING REVENUES                    | <u>60,537</u>     | <u>62,441</u>     | <u>58,586</u>     |
| OPERATING EXPENSES                          |                   |                   |                   |
| Operating and Maintenance                   | 36,263            | 36,646            | 36,891            |
| Depreciation and amortization               | 8,837             | 9,376             | 9,789             |
| TOTAL OPERATING EXPENSES                    | <u>45,100</u>     | <u>46,022</u>     | <u>46,680</u>     |
| OPERATING INCOME                            | 15,437            | 16,419            | 11,906            |
| Total net non-operating revenues (expenses) | <u>(18,737)</u>   | <u>42,775</u>     | <u>(7,147)</u>    |
| INCOME BEFORE CONTRIBUTIONS & SPECIAL ITEMS | (3,300)           | 59,194            | 4,759             |
| Capital contributions                       | 1                 | 636               | 1,203             |
| Special items                               | <u>(2,400)</u>    | <u>-</u>          | <u>-</u>          |
| CHANGE IN NET ASSETS                        | (5,699)           | 59,830            | 5,962             |
| NET ASSETS, BEGINNING                       | <u>244,791</u>    | <u>184,961</u>    | <u>178,999</u>    |
| NET ASSETS, ENDING                          | <u>\$ 239,092</u> | <u>\$ 244,791</u> | <u>\$ 184,961</u> |

**BRAZOS RIVER AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

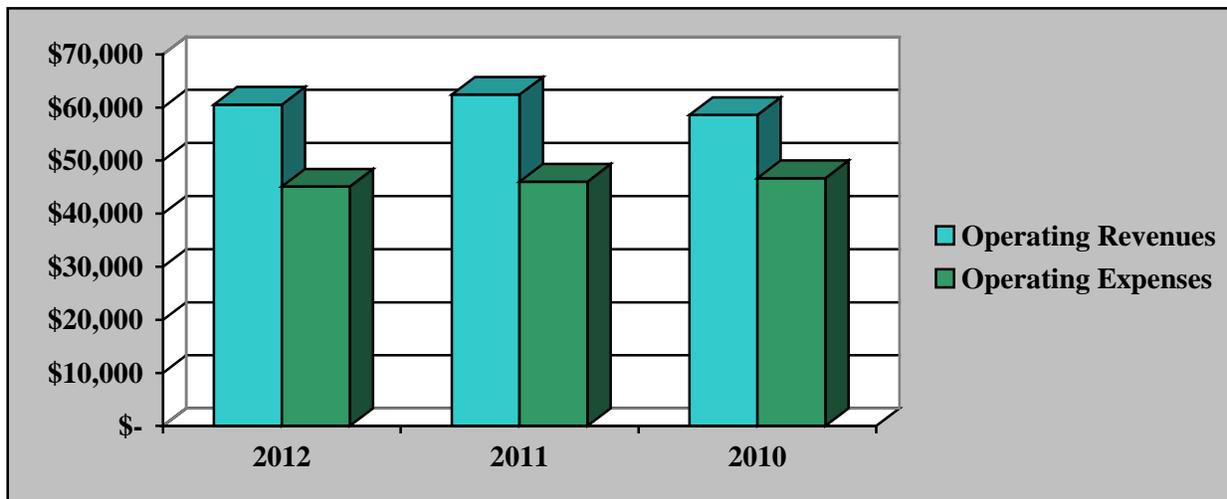
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**Operating Income**

For Fiscal Year 2012, operating income decreased by \$982 or 6% after increasing in the prior year by 38%. This decrease in the current year is a result of a decrease in raw water sales. In the prior year the State of Texas was in the midst of a historic drought that resulted in an increase in short term water sales.

For Fiscal Year 2011, operating income increased by \$4,513 or 38% after decreasing in the prior year by 17%. This increase is a result of an unexpected increase in raw water sales as a result of the drought and the increase in cost reimbursable operation’s contractual needs. The prior year’s decrease in operating income is a result of a decrease in the sale of raw water.

Total operating revenues consist primarily of raw water sales, cost reimbursable operations, and lake operations. Other operating revenues include the sale of treated water, operation of wastewater treatment facilities and grants. Total operating expenses consist primarily of personnel services, materials and supplies, utilities, depreciation and amortization and outside services.



**Total net non-operating revenues (expenses)**

For the past two years the total net non-operating revenues (expenses) have experienced large fluctuations resulting in \$42,775 total net revenue in 2011 to a total net loss in 2012 of \$18,737. The revenue in 2011 was due primarily as a result of the final closing of the Possum Kingdom Lake Property Divestiture project and the infusion of cash related to that sale. The 2012 net expense of \$18,737 was due primarily to the agreement to transfer ownership to the contracting parties of the SWATS plant and the resulting write off of the remaining assets and liabilities of \$11,763.

**BRAZOS RIVER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

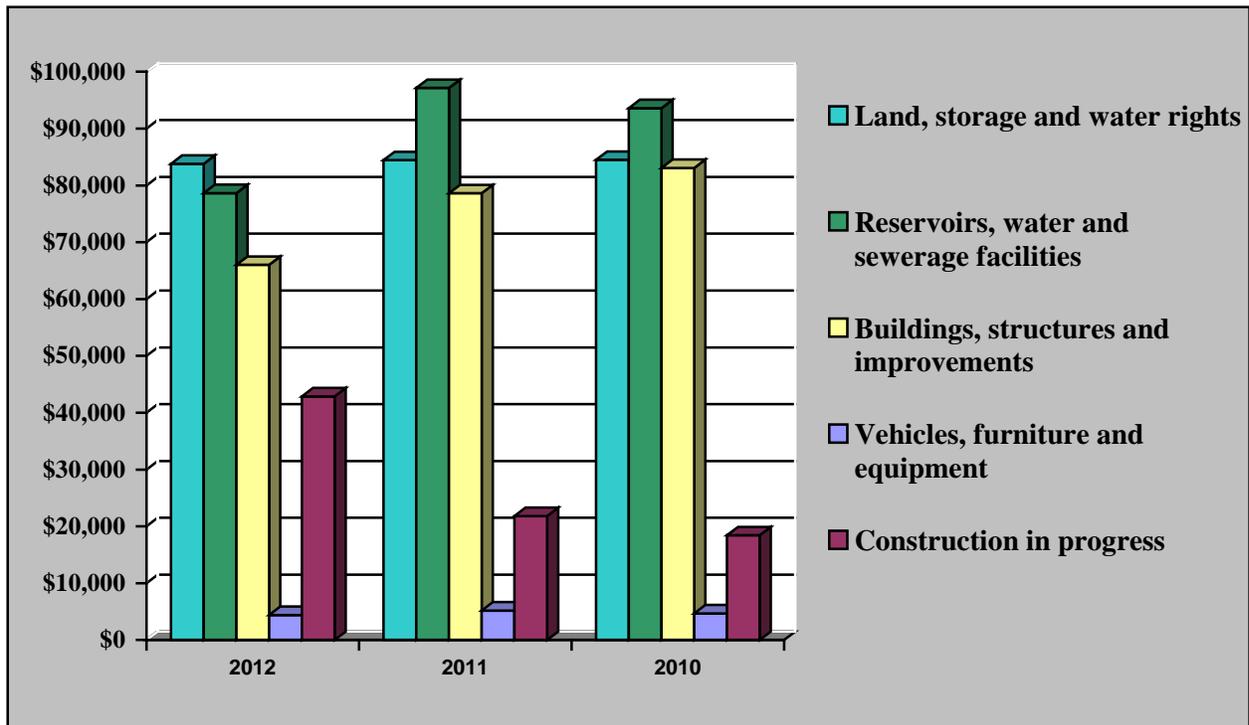
**Capital Assets and Outstanding Debt**

**Capital Assets** - The BRA's capital assets, as of August 31, 2012, 2011 and 2010, amounted to \$275,727, \$287,160 and \$284,236, respectively, (net of accumulated depreciation and amortization). The decrease in capital assets for 2012 is primarily due to the agreement to transfer ownership of the Lake Granbury SWATS to the contracting parties which reflect a write off of \$26,646 in capital assets. The slight increase in capital assets for 2011 is primarily due to the net of the systematic allocation of depreciation and increase capital additions over the prior year. The following table summarizes capital assets, net of depreciation and amortization.

**Capital Assets  
(net of accumulated depreciation and amortization)  
August 31, 2012, 2011 and 2010**

|   | 2012              | 2011              | 2010              |
|---|-------------------|-------------------|-------------------|
| Land, storage and water rights            | \$ 83,797         | \$ 84,427         | \$ 84,500         |
| Reservoirs, water and sewerage facilities | 78,657            | 97,146            | 93,575            |
| Buildings, structures and improvements    | 66,010            | 78,603            | 83,052            |
| Vehicles, furniture and equipment         | 4,394             | 5,168             | 4,687             |
| Construction in progress                  | 42,869            | 21,816            | 18,422            |
| <b>TOTAL</b>                              | <b>\$ 275,727</b> | <b>\$ 287,160</b> | <b>\$ 284,236</b> |

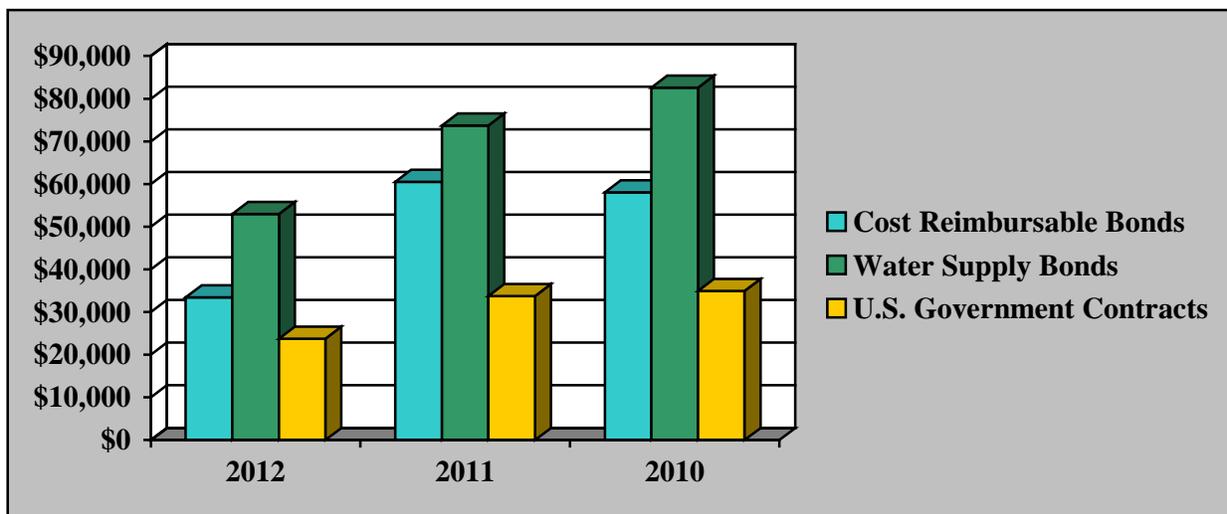
Additional information on the BRA's capital assets can be found in Notes 4 and 9, of this report.



**BRAZOS RIVER AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

**Outstanding Debt** – At the end of Fiscal Year 2012, 2011 and 2010, the BRA had total outstanding debt of \$110,133, \$168,004 and \$175,598, respectively. Of the 2012 amount, 70% and 30% is reflected in Water Supply System and Cost Reimbursable Operations, respectively.

On July 21, 2009 Standard & Poor’s Ratings Services raised its underlying rating (SPUR) on the BRA’s water supply system revenue bonds one notch to ‘AA’ from ‘AA-’. This was based on the BRA’s maintenance of a strong and likely sustainable financial position due to its favorable position as the raw water provider of choice throughout a watershed nearly the size of Tennessee during a time when demand is increasing rapidly from both municipalities and electric power generators.



The changes in the BRA’s debt for Fiscal Year 2012, 2011 and 2010 are shown in the following table:

|  | 2012                      | 2011                     | 2010                     |
|--|---------------------------|--------------------------|--------------------------|
| Accretion of interest on capital appreciation bonds    | \$ 81                     | \$ 126                   | \$ 120                   |
| Early retirement of SWATS debt requirements            | (23,630)                  |                          |                          |
| Early retirement of Aquilla Space 1 & 2                | (8,821)                   |                          |                          |
| Early retirement of Series 2002 and Series 2005A (AMT) | (17,425)                  |                          |                          |
| Early retirement of Series 2001A and Series 2001B      | -                         | (5,080)                  | -                        |
| Refunding Series 2000 for new Series 2011 Bonds        | -                         | (11,295)                 | -                        |
| New bond issue WCRRWL Series 2011                      | -                         | 17,190                   | -                        |
| Principal payments made during each year               | <u>(8,076)</u>            | <u>(8,535)</u>           | <u>(7,101)</u>           |
| <b>DECREASE IN DEBT</b>                                | <u><u>\$ (57,871)</u></u> | <u><u>\$ (7,594)</u></u> | <u><u>\$ (6,981)</u></u> |

Additional information on the BRA’s long-term debt can be found in Note 6, of this report.

**BRAZOS RIVER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2012, 2011 AND 2010 (in thousands)**

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## **Requests for Information**

This financial report is designed to provide a general overview of the BRA's finances and to demonstrate the BRA's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer, 4600 Cobbs Drive, P.O. Box 7555, Waco, TX 76714-7555.



*Brazos River Authority*  
*Fiscal Year 2012 Comprehensive Annual Financial Report*

**BRAZOS RIVER AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

|   | 2012              | 2011              |
|---|-------------------|-------------------|
| <b>ASSETS</b>                                       |                   |                   |
| <b>CURRENT ASSETS:</b>                              |                   |                   |
| <b>UNRESTRICTED:</b>                                |                   |                   |
| Cash and cash equivalents                           | \$ 8,715          | \$ 5,924          |
| Investments   | 66,366            | 100,360           |
| Receivables:  |                   |                   |
| Accounts  | 2,662             | 2,016             |
| Accrued interest                                    | 44                | 48                |
| Current portion of contracts receivables            | 175               | 171               |
| Other current assets                                | 1,955             | 1,105             |
| <b>TOTAL UNRESTRICTED</b>                           | <u>79,917</u>     | <u>109,624</u>    |
| <b>RESTRICTED:</b>                                  |                   |                   |
| Cash and cash equivalents                           | 13,536            | 10,235            |
| Investments   | -                 | 2,994             |
| Interest  | -                 | 1                 |
| <b>TOTAL RESTRICTED</b>                             | <u>13,536</u>     | <u>13,230</u>     |
| <b>TOTAL CURRENT ASSETS</b>                         | <u>93,453</u>     | <u>122,854</u>    |
| <b>NONCURRENT ASSETS:</b>                           |                   |                   |
| <b>RESTRICTED:</b>                                  |                   |                   |
| Cash and cash equivalents                           | 321               | 10,883            |
| Investments   | 6,617             | 16,188            |
| Interest  | 8                 | 15                |
| <b>TOTAL RESTRICTED</b>                             | <u>6,946</u>      | <u>27,086</u>     |
| <b>CAPITAL ASSETS:</b>                              |                   |                   |
| Land, storage and water rights                      | 83,797            | 84,427            |
| Reservoirs, water treatment and sewerage facilities | 125,555           | 175,912           |
| Building, structures and improvements               | 96,681            | 106,176           |
| Vehicles, furniture and equipment                   | 16,551            | 17,427            |
| Construction in progress                            | 42,869            | 21,816            |
| <b>TOTAL CAPITAL ASSETS</b>                         | <u>365,453</u>    | <u>405,758</u>    |
| Less accumulated depreciation                       | (89,726)          | (118,598)         |
| <b>NET CAPITAL ASSETS</b>                           | <u>275,727</u>    | <u>287,160</u>    |
| <b>OTHER NONCURRENT ASSETS:</b>                     |                   |                   |
| Contract receivable, net of current portion         | 363               | 538               |
| Bond related costs                                  | 1,626             | 2,400             |
| Other assets  | 2,096             | 2,181             |
| <b>TOTAL OTHER NONCURRENT ASSETS</b>                | <u>4,085</u>      | <u>5,119</u>      |
| <b>TOTAL NONCURRENT ASSETS</b>                      | <u>286,758</u>    | <u>319,365</u>    |
| <b>TOTAL ASSETS</b>                                 | <u>\$ 380,211</u> | <u>\$ 442,219</u> |

The accompanying notes are an integral part of these statements.

**BRAZOS RIVER AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

|   | <b>2012</b>       | <b>2011</b>       |
|---|-------------------|-------------------|
| <b>LIABILITIES</b>                              |                   |                   |
| <b>CURRENT LIABILITIES:</b>                     |                   |                   |
| <b>PAYABLE FROM CURRENT ASSETS:</b>             |                   |                   |
| Accounts payable                                | \$ 10,238         | \$ 5,195          |
| Contracts payable                               | 1,116             | 1,221             |
| Accrued interest                                | 435               | 628               |
| Net pension obligation                          | -                 | 13                |
| Unearned revenues                               | 9,681             | 11,533            |
| <b>TOTAL PAYABLE FROM CURRENT ASSETS</b>        | <b>21,470</b>     | <b>18,590</b>     |
| <b>PAYABLE FROM RESTRICTED ASSETS:</b>          |                   |                   |
| Accrued interest                                | 1,362             | 2,018             |
| Construction contracts payable                  | 3,669             | 415               |
| Revenue bonds payable                           | 1,930             | 6,855             |
| Unearned revenues                               | 391               | 3,138             |
| Other   | 1,355             | 2,108             |
| <b>TOTAL PAYABLE FROM RESTRICTED ASSETS</b>     | <b>8,707</b>      | <b>14,534</b>     |
| <b>TOTAL CURRENT LIABILITIES</b>                | <b>30,177</b>     | <b>33,124</b>     |
| <b>NONCURRENT LIABILITIES:</b>                  |                   |                   |
| Revenue bonds payable, net of current portion   | 84,479            | 127,383           |
| Discount on revenue bonds payable               | (397)             | (867)             |
| Contracts payable, net of current portion       | 22,608            | 32,545            |
| Unearned revenues                               | 3,421             | 4,498             |
| Other liabilities                               | 831               | 745               |
| <b>TOTAL NONCURRENT LIABILITIES</b>             | <b>110,942</b>    | <b>164,304</b>    |
| <b>TOTAL LIABILITIES</b>                        | <b>\$ 141,119</b> | <b>\$ 197,428</b> |
| <b>NET ASSETS:</b>                              |                   |                   |
| Invested in capital assets, net of related debt | \$ 174,397        | \$ 145,039        |
| Restricted for construction and debt service    | 6,490             | 9,393             |
| Unrestricted                                    | 58,205            | 90,359            |
| <b>TOTAL NET ASSETS</b>                         | <b>\$ 239,092</b> | <b>\$ 244,791</b> |

The accompanying notes are an integral part of these statements.

**BRAZOS RIVER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011 (in thousands)**

|  | <b>2012</b>       | <b>2011</b>       |
|--|-------------------|-------------------|
| <b>OPERATING REVENUES:</b>                                   |                   |                   |
| Water Supply System:   |                   |                   |
| Raw water sales  | \$ 32,795         | \$ 33,672         |
| Treated water  | 2,019             | 1,623             |
| Wastewater treatment   | 3,424             | 3,335             |
| Lake operations  | 1,739             | 2,095             |
| Grants   | 902               | 778               |
| Other  | 1,149             | 1,103             |
| Cost Reimbursable Operations:                                |                   |                   |
| Water conveyance/supply                                      | 3,826             | 3,037             |
| Water treatment  | 7,052             | 8,938             |
| Wastewater treatment   | 7,631             | 7,860             |
| <b>TOTAL OPERATING REVENUES</b>                              | <b>60,537</b>     | <b>62,441</b>     |
| <b>OPERATING EXPENSES:</b>                                   |                   |                   |
| Personnel services   | 16,054            | 15,740            |
| Materials and supplies                                       | 2,598             | 2,990             |
| Utilities  | 4,267             | 4,981             |
| Depreciation and amortization                                | 8,837             | 9,376             |
| Outside services   | 3,426             | 4,372             |
| Other  | 9,918             | 8,563             |
| <b>TOTAL OPERATING EXPENSES</b>                              | <b>45,100</b>     | <b>46,022</b>     |
| <b>OPERATING INCOME</b>                                      | <b>15,437</b>     | <b>16,419</b>     |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>                    |                   |                   |
| Investment income  | 1,074             | 1,223             |
| Interest expense   | (5,801)           | (7,166)           |
| Other expenses   | (2,286)           | (147)             |
| Gain/(loss) on sale of capital assets                        | (11,724)          | 48,865            |
| <b>TOTAL NET NON-OPERATING REVENUES ( EXPENSES)</b>          | <b>(18,737)</b>   | <b>42,775</b>     |
| <b>INCOME/(LOSS) BEFORE CONTRIBUTIONS &amp; SPECIAL ITEM</b> | <b>(3,300)</b>    | <b>59,194</b>     |
| Capital contributions  | 1                 | 636               |
| Special item   | (2,400)           | -                 |
| <b>CHANGE IN NET ASSETS</b>                                  | <b>(5,699)</b>    | <b>59,830</b>     |
| <b>NET ASSETS, BEGINNING</b>                                 | <b>244,791</b>    | <b>184,961</b>    |
| <b>NET ASSETS, ENDING</b>                                    | <b>\$ 239,092</b> | <b>\$ 244,791</b> |

The accompanying notes are an integral part of these statements.

**BRAZOS RIVER AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011 (in thousands)**

|   | <b>2012</b>      | <b>2011</b>      |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                  |                  |
| Cash received from customers  | \$ 59,189        | \$ 66,450        |
| Cash paid to suppliers for goods and services   | (28,161)         | (26,742)         |
| Cash paid to employees for services   | (11,806)         | (12,640)         |
| Net cash provided by operating activities   | <u>19,222</u>    | <u>27,068</u>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                        |                  |                  |
| Bond proceeds   | -                | 5,895            |
| Payment of debt issuance costs  | -                | (190)            |
| Cash paid on SWATS transfer agreement   | (6,000)          |                  |
| Cash paid for capital assets  | (21,630)         | (11,553)         |
| Interest paid   | (6,993)          | (7,625)          |
| Principal payments on long-term debt  | (36,753)         | (13,477)         |
| Proceeds from disposal of capital assets  | 38               | 51,400           |
| Capital contributions   | 1                | 636              |
| Net cash provided by/(used in) capital and related financing activities                 | <u>(71,337)</u>  | <u>25,086</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                  |                  |
| Sales of investments  | 82,123           | 53,341           |
| Purchases of investments  | (35,564)         | (99,814)         |
| Interest received   | 1,086            | 1,210            |
| Net cash used in investing activities   | <u>47,645</u>    | <u>(45,263)</u>  |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                             | <u>(4,470)</u>   | <u>6,891</u>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                     |                  |                  |
| (including \$21,118 and \$9,391, respectively, reported in restricted accounts)         | <u>27,042</u>    | <u>20,151</u>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   |                  |                  |
| (including \$13,857 and \$21,118, respectively, reported in restricted accounts)        | <u>\$ 22,572</u> | <u>\$ 27,042</u> |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b> |                  |                  |
| Operating income  | <u>\$ 15,437</u> | <u>\$ 16,419</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                  |                  |
| Depreciation  | 8,740            | 9,131            |
| Amortization  | 97               | 245              |
| Change in current assets and liabilities:   |                  |                  |
| (Increase) decrease in accounts receivable  | (1,419)          | 1,603            |
| (Increase) decrease in other current assets   | (781)            | 226              |
| Increase (decrease) in accounts payable   | 3,404            | 578              |
| Increase (decrease) in unearned revenue and other liabilities                           | (6,256)          | (1,134)          |
| Total adjustments   | <u>3,785</u>     | <u>10,649</u>    |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <u>\$ 19,222</u> | <u>\$ 27,068</u> |
| <b>NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                     |                  |                  |
| Write off of Capital Assets   | \$ (26,646)      | \$ (800)         |
| Amounts recorded for accrual of central office remediation obligation                   | \$ (2,400)       | \$ -             |
| Net decrease in fair value of investments   | \$ -             | \$ (2)           |
| Amounts recorded for accretion on WCRRWL Series 2000 Capital Appreciation Bonds         | \$ 81            | \$ 126           |

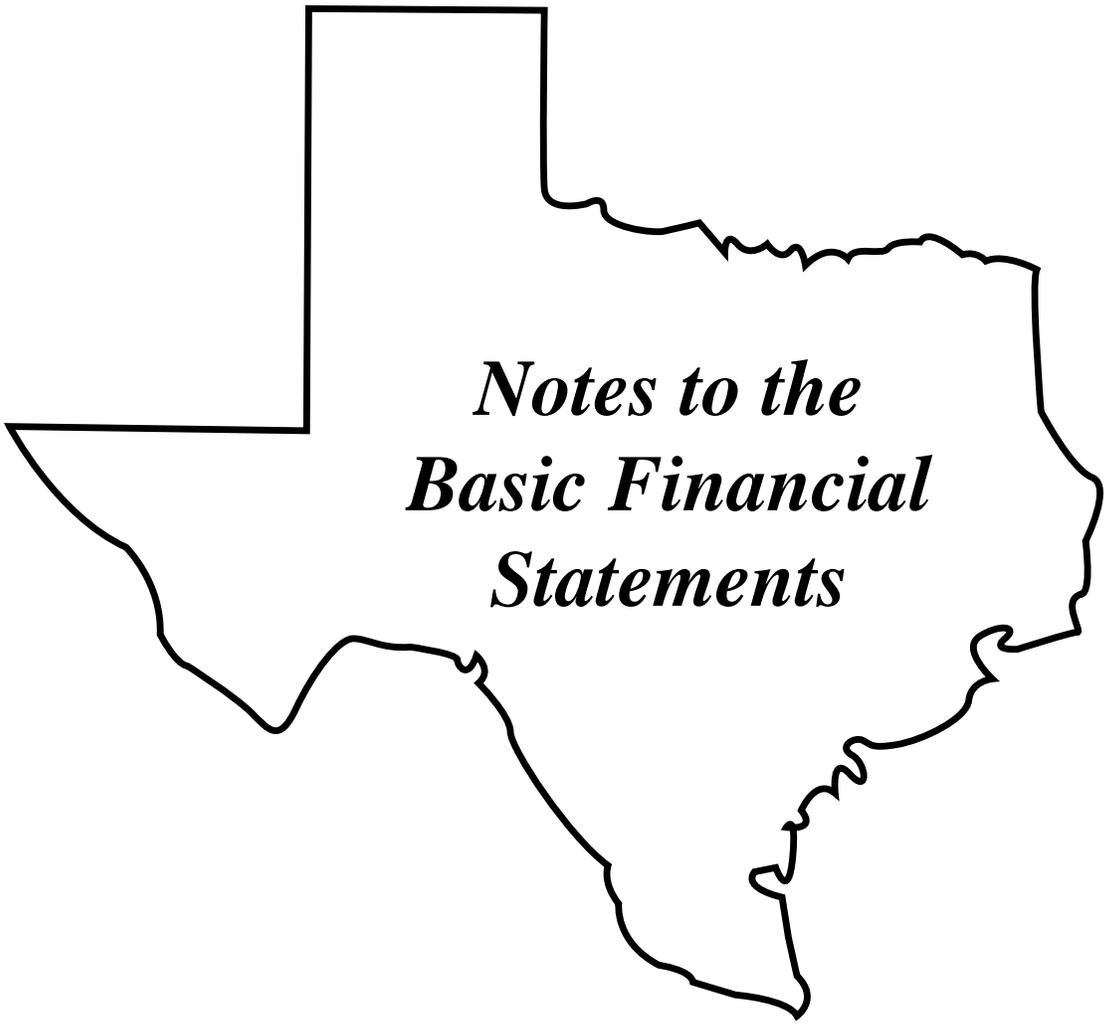
The accompanying notes are an integral part of these statements.

**BRAZOS RIVER AUTHORITY**  
**COMBINED STATEMENTS OF FIDUCIARY NET ASSETS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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|                                   | <b>2012</b>            | <b>2011</b>            |
|-----------------------------------|------------------------|------------------------|
| <b>ASSETS</b>                     |                        |                        |
| Cash                              | \$ 4,939               | \$ 1,133               |
| Investments                       | 832                    | 1,798                  |
| <b>TOTAL ASSETS</b>               | <b><u>\$ 5,771</u></b> | <b><u>\$ 2,931</u></b> |
| <b>LIABILITIES</b>                |                        |                        |
| Held for future debt service      | \$ 877                 | \$ 2,346               |
| Held for future construction cost | 4,894                  | 585                    |
| <b>TOTAL LIABILITIES</b>          | <b><u>\$ 5,771</u></b> | <b><u>\$ 2,931</u></b> |

The accompanying notes are an integral part of these statements.



*Notes to the  
Basic Financial  
Statements*

*Brazos River Authority  
Fiscal Year 2012 Comprehensive Annual Financial Report*

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** - The BRA was created by the Texas Legislature in 1929, pursuant to constitutional Provision Section 59, Article 16, as a governmental agency of the State of Texas. The BRA is governed by a Board of 21 Directors appointed by the Governor for six-year terms, subject to approval by the Texas Senate. The BRA is not financially accountable to the State of Texas. The BRA is responsible for conservation, control, and development of the surface water resources of the Brazos River basin. The BRA cooperates with cities and other local agencies in the construction and operation of water treatment and regional sewerage systems to improve and maintain the quality of water in the Brazos River and its tributaries. The BRA also plans and develops water supply projects and commits the water it can supply under contracts to cities, towns, industries, and other water users throughout the Brazos River basin and adjacent areas.

**Principles of Accounting** - The accompanying basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting as prescribed by the Governmental Accounting Standards Board (“GASB”). The BRA consists of a single enterprise fund through which all financial activities are recorded, and two agency funds that report assets and liabilities held by the BRA in a custodial capacity for others.

**Basis of Presentation** - The BRA presents its financial statements in accordance with the Governmental Accounting Standards Board’s Codification of Governmental Accounting and Financial Reporting Standards. Accordingly, the basic financial statements of the BRA consist of Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows, Combined Statement of Fiduciary Net Assets and Notes to the Basic Financial Statements.

**Enterprise Funds** – Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services include capital cost, be recovered with fees and charges, or (c) has a pricing policy designed for the fees and charges to record similar cost.

**Agency Funds** - The BRA’s Agency Funds are created to act as a custodian for the City of Keene and Jonah Water Special Utility District for the facilitating of bond proceeds in accordance with the Inter-local Agreements relating to financial programs. The Agency Funds only report assets and liabilities in a statement of fiduciary net assets.

**Revenue Recognition** - Revenues are recorded when earned. Unearned revenues are reflected in the accompanying statement of net assets as unearned revenues. Nonrefundable charges to contracting parties relating to the acquisition of capital assets or project development costs are initially recorded as noncurrent unearned revenues and are amortized to income over periods equal to the lives of the assets purchased from such charges on a straight-line basis. Refundable charges to contracting parties relating to the acquisition of capital assets or project development costs are recorded as other noncurrent liabilities.

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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The BRA has constructed reservoir, water treatment and sewerage system facilities which were financed primarily by the issuance of revenue bonds and/or federal grants. The recipients of the services provided by these facilities generally contract to pay the BRA amounts equivalent to operating and maintenance expenses and the debt service requirements of the related revenue bonds. Revenue bond debt service is predominantly applicable to interest in the early years with the portion applicable to principal retirements increasing in later years. Depreciation expense, provided on the straight-line method, usually exceeds the portion of revenues applicable to the principal portion of bond retirements which partially results in reporting operating losses in early years which will reverse in later years.

**Deposits and Investments** - All highly liquid investments (including restricted assets) with original maturities of three months or less when purchased are considered to be cash equivalents. All investments for the BRA are reported at fair value.

State Statute and Board Policy authorize the BRA to invest any and all of its deposits in fully collateralized CD's, direct securities of the United States of America and other investments specifically allowed by Chapter 2256 of the Texas Government Code (The Public Funds Investment Act)

The BRA's collateral agreement requires that all deposits be fully collateralized by government securities or Texas municipal bonds rated A or better, or Letters of Credit issued or guaranteed by the US Government, its agencies and instrumentalities that have a market value exceeding the total amount of cash and investments held at all times.

**Accounts Receivable** - Accounts receivable are considered 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.

**Restricted Assets** – Certain proceeds of the BRA's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants. When those proceeds are restricted for the acquisition or construction of noncurrent assets or are restricted for liquidation of long term debt, then they are further classified as noncurrent restricted assets.

**Capital Assets** - All purchased capital assets are stated at historical cost. Donated assets are stated at their estimated fair values on the date donated. Newly acquired assets with a cost of five thousand dollars or more and a useful life greater than three years will be capitalized. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

|   |                |
|---|----------------|
| Reservoir facilities                    | 30 to 85 years |
| Water and sewerage system facilities    | 25 to 50 years |
| Buildings, structures, and improvements | 20 to 70 years |
| Vehicles, furniture, and equipment      | 3 to 35 years  |

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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The BRA capitalizes net interest costs, as applicable, as a component cost of construction in progress. The projects that meet the capitalization rule are the deep water intake structure on Lake Granger and the Phase II pumps for the Williamson County Regional Raw Water Line. For the years ended August 31, 2012 and 2011, the BRA had \$252 and \$260 in net capitalized interest, respectively.

During Fiscal Year 2010, the BRA adopted the provisions of GASB 51 *Accounting and Financial Reporting for Intangible Assets*. The BRA owns, through contracts with the United States government, conservation storage space in nine Corps of Engineer lakes operated in the Brazos River watershed. These rights have been determined to have no evident limited life and therefore will have no amortization recognized.

**Other Assets** – The BRA capitalizes bond and loan issuance costs and amortizes such costs over the term of the related bonds and loan using the straight-line method. At August 31, 2012 and 2011, bond and loan issuance costs, (net of accumulated amortization), of approximately \$905 and \$1,604, respectively, were included in bond related costs in the accompanying Statement of Net Assets.

By agreement in 1988, the BRA amended a water contract with a utility company which provided for the sale of 162,000 acre feet of water per year through the year 2030. The amendment reduced the utility company's right to purchase water to 83,000 acre feet per year beginning January 1, 1989. As consideration for the 79,000 acre-feet reduction, the BRA (1) paid the utility company \$3,823 in 1988 and (2) reduced charges to the utility company by approximately \$350 per year beginning January 1, 1989. The BRA has sold the 79,000 acre-feet to various third parties under long-term water contracts. The balance of \$2,096 and \$2,181 at August 31, 2012 and 2011, respectively, is included in other assets and will be amortized against related revenues from such contracts over the contract lives.

**Compensated Absences** – Prior to May 1, 2002 the BRA's employees were granted vacation and sick leave in specified amounts. Effective May 1, 2002 vacation and sick leave were superseded by Personal Time Off (PTO). The BRA's current policy states that upon termination an employee will be paid for 100% of unused vacation time and 50% of their PTO balance up to a maximum of 160 hours (20 days) combined. In addition, for employees eligible to retire only, unused sick leave is paid out at a rate of 50% of their balance or 144 hours (18 days) whichever is less. The total recorded liability for compensated absences, as of August 31, 2012 and 2011, was \$685 and \$770, respectively. Based on historical data, a portion of the accrual for compensated absences is classified as other noncurrent liabilities.

**Budgets and Budgetary Accounting** - The BRA is not required under its enabling act to adopt a budget; therefore, comparative statements of actual expenses compared to budgeted expenses are not part of the basic financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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*Operating Revenues and Expenses* – Operating revenues and expenses for Proprietary Funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Post Employment Benefits (other than pension benefits)** - Except for health insurance, provided pursuant to the *Consolidated Omnibus Budget Reconciliation Act* (COBRA), the BRA provides no post employment benefits.

**2. DEPOSITS AND INVESTMENTS**

As of August 31, 2012 and 2011, the BRA had the following investments:

| Investment Type         | 2012       |                                   | 2011       |                                   |
|-------------------------|------------|-----------------------------------|------------|-----------------------------------|
|                         | Fair Value | Weighted Average Maturity (Years) | Fair Value | Weighted Average Maturity (Years) |
| Certificates of Deposit | \$ 72,983  | 0.71                              | \$ 119,543 | 0.85                              |

**Credit Risk**

*Certificates of Deposit* - The BRA's adopted Investment Policy ("Policy") and State law restrict certificates of deposit to those which are fully collateralized or insured by the FDIC or its successor. The certificates of deposit must be from banks doing business within the State of Texas or be obtained through a depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in a federally insured depository institution with the conditions prescribed in Section 2256.010(b) of the Act. A written depository agreement approved by the bank board or loan committee is required. By Policy, the certificates of deposit must be collateralized to 102% of principal and interest by obligations of the U.S. Government, its agencies and instrumentalities including mortgage backed securities which pass the bank test or obligations of municipal entities of any state rated as to investment quality by a nationally recognized rating agency as "A" or its equivalent or by Letter of Credit issued or guaranteed by the US Government, its agencies and instrumentalities. The bank party is held contractually liable for maintaining the margin daily. All pledged collateral is held by an independent custodian in the BRA's account. All certificates of deposit are restricted to a maximum of thirty-six (36) months to its stated maturity.

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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*Repurchase Agreements* - State law and the BRA's adopted Policy require repurchase agreements defined as a buy-and-sell transaction. The transactions must have a defined termination date and be placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank doing business in Texas. They must be secured by obligations of the US Government, its agencies or instrumentalities, to include mortgage backed securities. Collateral is held with a third party selected or approved by the BRA and held in the BRA's name. The custodian or counter-party is held contractually liable for maintaining a margin of 102% of principal and interest. Repurchase agreements include reverse repurchase agreements in which the reinvestment security shall not mature later than the reverse. All BRA repurchase agreement transactions are governed by an executed Master Repurchase Agreement. The maximum stated maturity is 90 days except for flex repurchase agreements used only for bond funds which are matched to the expenditure plan of the bonds. A flex requires additional approval by the General Manager/CEO and the Chief Financial Officer on an issue-by-issue basis.

*Money Market Mutual Funds* - The BRA's adopted Policy requires that SEC registered money market mutual funds be AAA-rated as to investment quality, with a dollar weighted average portfolio maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share. However, the Policy restricts BRA participation in these funds to 10% of the total assets of any individual money market mutual fund, excluding bond proceeds and reserves and other funds held for debt service in money market mutual funds.

The BRA's adopted Policy does not require that SEC registered mutual funds be rated as to investment quality. State law prohibits investment in mutual funds for any bond proceeds or debt service funds. Participation in such funds is dependent upon specific Board review and authorization.

*Local Government Investment Pools* - The local government investment pools in Texas are required by state statute to be rated no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service. Pools must comply with the restrictions of state statute (Local Government Code 2256.016).

Portfolio disclosure as of August 31, 2012:

- Certificates of deposits represented 72.6% of the total portfolio,
- Fully collateralized demand deposits represented 27.4 % of the total portfolio, and
- The BRA had no certificate of deposits with a maturity greater than two years.

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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**Concentration of Credit Risk**

The BRA's Policy requires diversification on all investments and diversification is monitored on at least a monthly basis. Diversification by investment type is established by Policy with the following maximum percentages of investment type to the total BRA investment portfolio:

|  | <u>Maximum</u>                |
|--|-------------------------------|
| a. U.S. Treasury Bills/Notes/Bonds.....              | 90%                           |
| b. U.S. Agencies & Instrumentalities .....           | 90%                           |
| c. States, Agencies, Counties, Cities, & Other ..... | 50%                           |
| Limit per issuer.....                                | 5%                            |
| d. Certificates of Deposit.....                      | 90%                           |
| e. Authorized Local Government Investment Pools..... | 75%                           |
| Limit per pool.....                                  | 50%                           |
| f. Money Market Mutual Funds.....                    | 75%                           |
| Limit per fund.....                                  | 50%                           |
| g. Repurchase Agreements.....                        | 50% (excluding bond proceeds) |

Portfolio disclosure as of August 31, 2012:

- All portfolio sectors were under the maximum percentages allowed by the Policy.

**Interest Rate Risk**

In order to limit interest and market rate risk from changes in interest rates, the BRA's Policy sets a maximum maturity on any investment of three (3) years in operating funds and five (5) years in repair and replacement funds and reserve funds. Bond proceeds are to be matched to the planned expenditures of the funds. The Policy restricts the dollar weighted average maturity of operating funds to less than 365 days. The maximum dollar weighted average maturity for repair and replacement funds is two years, for reserve funds is three years, and for debt service funds is one year.

Portfolio disclosure as of August 31, 2012:

- The dollar weighted average maturity of the total portfolio was 188 days.

As of August 31, 2012, the portfolio contained no structured securities and no mortgage backed securities

**Custodial Credit Risk**

To control custody risk State law and the BRA's Policy require all BRA owned securities and all repurchase agreement collateral be transferred delivery versus payment and all owned securities, repurchase agreement collateral and collateral pledged for time and demand deposits held by an independent party approved by the BRA in the BRA's account. The custodian is required to provide original safekeeping receipts. Repurchase agreements and deposits must be collateralized to 102% by Policy and contract.

Portfolio disclosure as of August 31, 2012:

- The portfolio contained 23 certificates of deposit
- The portfolio contained no repurchase agreements
- All bank demand deposits were fully insured and collateralized. All pledged bank collateral for demand deposits were held by an independent institution outside the bank's holding company.

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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**3. RESTRICTED ASSETS**

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

Net assets have been restricted for the excess of restricted assets over related liabilities to the extent such restricted assets were accumulated from revenues (i.e., in some cases, restricted assets were obtained in total or in part from the proceeds of bond sales or grants).

Restricted assets represent:

- *Bond Proceeds funds* - Construction of facilities, restricted by purpose of the debt issuance.
- *Debt Service funds* - Current interest and principal of bonded indebtedness, as required by bond covenants.
- *Bond Reserve funds* - Payment of final serial maturity on bonded indebtedness or payment of principal and interest of bonded indebtedness when and to the extent the amount in the debt service funds is insufficient, as required by bond covenants.
- *Repair and Replacement funds* – unexpected or extraordinary expenditures for which funds are not otherwise available or for debt service to the extent of debt service funds deficiencies as required by bond covenants.
- *Other funds* – Future health benefit payments.

Interest and redemption (sinking funds), reserve funds, and contingency funds have been established as required, in accordance with bond resolutions. Funds may be placed in secured time deposits or invested in direct obligations of, or obligations guaranteed by, the U.S. Government. Interest earned is retained in the applicable funds or transferred to meet debt service requirements in accordance with bond resolutions.

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The cash and cash equivalents, investments, and accrued interest components of each fund represented by restricted assets at August 31, 2012 and 2011 were as follows:

|   | 2012                            |                  |                     | 2011                            |                  |                     |
|---|---------------------------------|------------------|---------------------|---------------------------------|------------------|---------------------|
|   | Cash and<br>Cash<br>Equivalents | Invest-<br>ments | Accrued<br>Interest | Cash and<br>Cash<br>Equivalents | Invest-<br>ments | Accrued<br>Interest |
| <b>CURRENT RESTRICTED:</b>                |                                 |                  |                     |                                 |                  |                     |
| <b>Water Supply System:</b>               |                                 |                  |                     |                                 |                  |                     |
| Repair and replacement funds              | \$ -                            | \$ -             | \$ -                | \$ 4,441                        | \$ 201           | \$ -                |
| Bond proceeds funds                       | 9,085                           | -                | -                   | -                               | -                | -                   |
| Other funds                               | 1,236                           | -                | -                   | 547                             | 1,880            | 1                   |
| <b>Water Supply System Total</b>          | <b>10,321</b>                   | <b>-</b>         | <b>-</b>            | <b>4,988</b>                    | <b>2,081</b>     | <b>1</b>            |
| <b>Cost Reimbursable Operations:</b>      |                                 |                  |                     |                                 |                  |                     |
| Bond proceeds funds                       | 1,364                           | -                | -                   | -                               | -                | -                   |
| Debt service funds                        | 1,851                           | -                | -                   | 5,185                           | -                | -                   |
| Repair and replacement funds              | -                               | -                | -                   | 62                              | 913              | -                   |
| <b>Cost Reimbursable Operations Total</b> | <b>3,215</b>                    | <b>-</b>         | <b>-</b>            | <b>5,247</b>                    | <b>913</b>       | <b>-</b>            |
| <b>TOTAL CURRENT RESTRICTED</b>           | <b>\$ 13,536</b>                | <b>\$ -</b>      | <b>\$ -</b>         | <b>\$ 10,235</b>                | <b>\$ 2,994</b>  | <b>\$ 1</b>         |
| <b>NONCURRENT RESTRICTED:</b>             |                                 |                  |                     |                                 |                  |                     |
| <b>Water Supply System:</b>               |                                 |                  |                     |                                 |                  |                     |
| Bond proceeds funds                       | \$ -                            | \$ -             | \$ -                | \$ 6,485                        | \$ 14,732        | \$ 13               |
| Bond reserve funds                        | -                               | 1,413            | 4                   | -                               | 1,456            | 2                   |
| Repair and replacement funds              | -                               | 4,548            | 4                   | -                               | -                | -                   |
| Other funds                               | 321                             | 156              | -                   | -                               | -                | -                   |
| <b>Water Supply System Total</b>          | <b>321</b>                      | <b>6,117</b>     | <b>8</b>            | <b>6,485</b>                    | <b>16,188</b>    | <b>15</b>           |
| <b>Cost Reimbursable Operations:</b>      |                                 |                  |                     |                                 |                  |                     |
| Repair and replacement funds              | -                               | 500              | -                   | -                               | -                | -                   |
| Bond proceeds funds                       | -                               | -                | -                   | 1,801                           | -                | -                   |
| Bond reserve funds                        | -                               | -                | -                   | 2,597                           | -                | -                   |
| <b>Cost Reimbursable Operations Total</b> | <b>-</b>                        | <b>500</b>       | <b>-</b>            | <b>4,398</b>                    | <b>-</b>         | <b>-</b>            |
| <b>TOTAL NONCURRENT RESTRICTED</b>        | <b>\$ 321</b>                   | <b>\$ 6,617</b>  | <b>\$ 8</b>         | <b>\$ 10,883</b>                | <b>\$ 16,188</b> | <b>\$ 15</b>        |

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**4. CAPITAL ASSETS**

A summary of changes in capital assets for August 31, 2012 follows:

| <b>Classification</b>                                       | <b>Balance at<br/>August 31,<br/>2011</b> | <b>Additions<br/>and<br/>Transfers</b> | <b>Deletions<br/>and<br/>Transfers</b> | <b>Balance at<br/>August 31,<br/>2012</b> |
|---|---|--|--|---|
| <b>Capital assets, not being<br/>depreciated/amortized:</b> |   |  |  |   |
| Land, storage and water rights                              | \$ 84,427                                 | \$ -                                   | \$ (630)                               | \$ 83,797                                 |
| Construction in progress                                    | 21,816                                    | 23,913                                 | (2,860)                                | 42,869                                    |
| Total capital assets, not being<br>depreciated/amortized    | 106,243                                   | 23,913                                 | (3,490)                                | 126,666                                   |
| <b>Capital assets, being<br/>depreciated/amortized:</b>     |   |  |  |   |
| Reservoirs, water treatment and<br>sewerage facilities      | 175,912                                   | 1,264                                  | (51,621)                               | 125,555                                   |
| Buildings, structures and<br>improvements                   | 106,176                                   | 269                                    | (9,764)                                | 96,681                                    |
| Vehicles  | 2,793                                     | 273                                    | (284)                                  | 2,782                                     |
| Furniture   | 342                                       | -                                      | -                                      | 342                                       |
| Computers   | 3,497                                     | 117                                    | (44)                                   | 3,570                                     |
| Tools and heavy equipment                                   | 10,795                                    | 1,048                                  | (1,986)                                | 9,857                                     |
| Total capital assets, being<br>depreciated/amortized        | 299,515                                   | 2,971                                  | (63,699)                               | 238,787                                   |
| <b>TOTAL CAPITAL ASSETS</b>                                 | <b>\$ 405,758</b>                         | <b>\$ 26,884</b>                       | <b>\$ (67,189)</b>                     | <b>\$ 365,453</b>                         |
| <b>Less accumulated<br/>depreciation/amortization:</b>      |   |  |  |   |
| Reservoirs, water treatment and<br>sewerage facilities      | \$ 78,766                                 | \$ 2,908                               | \$ (34,776)                            | \$ 46,898                                 |
| Buildings, structures and<br>improvements                   | 27,573                                    | 4,546                                  | (1,448)                                | 30,671                                    |
| Vehicles  | 2,132                                     | 273                                    | (226)                                  | 2,179                                     |
| Furniture   | 333                                       | 4                                      | -                                      | 337                                       |
| Computers   | 2,955                                     | 326                                    | (23)                                   | 3,258                                     |
| Tools and heavy equipment                                   | 6,839                                     | 690                                    | (1,146)                                | 6,383                                     |
| Total accumulated<br>depreciation/amortization              | \$ 118,598                                | \$ 8,747                               | \$ (37,619)                            | \$ 89,726                                 |
| <b>NET CAPITAL ASSETS</b>                                   | <b>\$ 287,160</b>                         | <b>\$ 18,137</b>                       | <b>\$ (29,570)</b>                     | <b>\$ 275,727</b>                         |

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A summary of changes in capital assets for August 31, 2011 follows:

| <b>Classification</b>                                   | <b>Balance at August 31, 2010</b> | <b>Additions and Transfers</b> | <b>Deletions and Transfers</b> | <b>Balance at August 31, 2011</b> |
|---|-----------------------------------|--------------------------------|--------------------------------|-----------------------------------|
| <b>Capital assets, not being depreciated/amortized:</b> |                                   |                                |                                |                                   |
| Land, storage and water rights                          | \$ 84,500                         | \$ -                           | \$ (73)                        | \$ 84,427                         |
| Construction in progress                                | 18,422                            | 10,689                         | (7,295)                        | 21,816                            |
| Total capital assets, not being depreciated/amortized   | 102,922                           | 10,689                         | (7,368)                        | 106,243                           |
| <b>Capital assets, being depreciated/amortized:</b>     |                                   |                                |                                |                                   |
| Reservoirs, water treatment and sewerage facilities     | 169,260                           | 6,765                          | (113)                          | 175,912                           |
| Buildings, structures and improvements                  | 106,454                           | 597                            | (875)                          | 106,176                           |
| Vehicles  | 2,923                             | 374                            | (504)                          | 2,793                             |
| Furniture   | 765                               | -                              | (423)                          | 342                               |
| Computers   | 4,670                             | 112                            | (1,285)                        | 3,497                             |
| Tools and heavy equipment                               | 10,368                            | 1,714                          | (1,287)                        | 10,795                            |
| Total capital assets, being depreciated/amortized       | 294,440                           | 9,562                          | (4,487)                        | 299,515                           |
| <b>TOTAL CAPITAL ASSETS</b>                             | <b>\$ 397,362</b>                 | <b>\$ 20,251</b>               | <b>\$ (11,855)</b>             | <b>\$ 405,758</b>                 |
| <b>Less accumulated depreciation/amortization:</b>      |                                   |                                |                                |                                   |
| Reservoirs, water treatment and sewerage facilities     | \$ 75,685                         | \$ 3,146                       | \$ (65)                        | \$ 78,766                         |
| Buildings, structures and improvements                  | 23,402                            | 4,684                          | (513)                          | 27,573                            |
| Vehicles  | 2,268                             | 265                            | (401)                          | 2,132                             |
| Furniture   | 737                               | 7                              | (411)                          | 333                               |
| Computers   | 3,909                             | 327                            | (1,281)                        | 2,955                             |
| Tools and heavy equipment                               | 7,125                             | 715                            | (1,001)                        | 6,839                             |
| Total accumulated depreciation/amortization             | \$ 113,126                        | \$ 9,144                       | \$ (3,672)                     | \$ 118,598                        |
| <b>NET CAPITAL ASSETS</b>                               | <b>\$ 284,236</b>                 | <b>\$ 11,107</b>               | <b>\$ (8,183)</b>              | <b>\$ 287,160</b>                 |

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**5. UNEARNED REVENUES**

Nonrefundable charges to contracting parties relating to the acquisition of capital assets or project development costs are initially recorded as noncurrent unearned revenues and are amortized to income over periods equal to the lives of the assets purchased from such charges on a straight-line basis. Charges that do not yet meet the criteria for revenue recognition are recorded as current unearned revenues until they are available to liquidate liabilities of the current period. Unearned revenues at August 31, 2012 and 2011 were as follows:

|   | 2012                      |                              | 2011                      |                              |
|---|---------------------------|------------------------------|---------------------------|------------------------------|
|   | Current Unearned Revenues | Noncurrent Unearned Revenues | Current Unearned Revenues | Noncurrent Unearned Revenues |
| <b>Unrestricted</b>                       |                           |                              |                           |                              |
| <b>Water Supply System:</b>               |                           |                              |                           |                              |
| Lake Granbury                             | \$ 1,287                  | \$ -                         | \$ 322                    | \$ -                         |
| Lake Limestone                            | 1,709                     | 2,880                        | 2,128                     | 3,840                        |
| Possum Kingdom Lake                       | 389                       | -                            | 263                       | -                            |
| Federal Reservoirs                        | 4,192                     | -                            | 5,181                     | -                            |
| Other Water Supply System                 | 152                       | -                            | 200                       | -                            |
| <b>Total Water Supply</b>                 | <b>7,729</b>              | <b>2,880</b>                 | <b>8,094</b>              | <b>3,840</b>                 |
| <b>Cost Reimbursable Operations:</b>      |                           |                              |                           |                              |
| Williamson County RRWL                    | 36                        | 541                          | 754                       | 586                          |
| Lake Granbury SWATS                       | -                         | -                            | 355                       | 72                           |
| Temple-Belton RSS                         | 470                       | -                            | 618                       | -                            |
| Sandy Creek WTP                           | 31                        | -                            | 306                       | -                            |
| Clute-Richwood RSS                        | 119                       | -                            | 129                       | -                            |
| Hutto WWS                                 | 267                       | -                            | 215                       | -                            |
| Brushy Creek RWS                          | 882                       | -                            | 973                       | -                            |
| Liberty Hill WTS                          | 38                        | -                            | 20                        | -                            |
| Lee County FWD                            | 109                       | -                            | 69                        | -                            |
| <b>Total Cost Reimbursable Operations</b> | <b>1,952</b>              | <b>541</b>                   | <b>3,439</b>              | <b>658</b>                   |
| <b>Total Unrestricted</b>                 | <b>\$ 9,681</b>           | <b>\$ 3,421</b>              | <b>\$ 11,533</b>          | <b>\$ 4,498</b>              |
| <b>Restricted</b>                         |                           |                              |                           |                              |
| <b>Cost Reimbursable Operations:</b>      |                           |                              |                           |                              |
| Williamson County RRWL                    | \$ 391                    | \$ -                         | \$ 1,476                  | \$ -                         |
| Lake Granbury SWATS                       | -                         | -                            | 1,662                     | -                            |
| <b>Total Restricted</b>                   | <b>\$ 391</b>             | <b>\$ -</b>                  | <b>\$ 3,138</b>           | <b>\$ -</b>                  |

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**6. NONCURRENT LIABILITIES**

**Revenue Bonds Payable**

Revenue bonds payable consists of the following at August 31, 2012:

|  | <b>Balance at<br/>August 31,<br/>2011</b> | <b>Additions</b> | <b>Retired</b>   | <b>Balance at<br/>August 31,<br/>2012</b> | <b>Amount<br/>Due Within<br/>One Year</b> |
|--|---|------------------|------------------|---|---|
| <b><i>Water Supply System:</i></b>                   |   |                  |                  |   |   |
| Series 1972 Refunding Serial Bonds                   | \$ 1,015                                  | \$ -             | \$ 1,015         | \$ -                                      | \$ -                                      |
| Series 2002 State Participation Loan                 | 6,000                                     | -                | -                | 6,000                                     | -   |
| Series 2002 (AMT) Term Bonds                         | 6,710                                     | - 1              | 6,710            | -   | -   |
| Series 2005A (AMT) Revenue Bonds                     | 11,605                                    | - 2              | 11,605           | -   | -   |
| Series 2005B (AMT) Revenue Bonds                     | 9,660                                     | -                | 360              | 9,300                                     | 375                                       |
| Series 2006 Revenue Bonds                            | 17,805                                    | -                | -                | 17,805                                    | -   |
| Series 2009 Revenue Bonds                            | 20,940                                    | -                | 1,060            | 19,880                                    | 1,060                                     |
| <b>Total Water Supply System</b>                     | <b>\$ 73,735</b>                          | <b>\$ -</b>      | <b>\$ 20,750</b> | <b>\$ 52,985</b>                          | <b>\$ 1,435</b>                           |
| <b><i>Cost Reimbursable Operations:</i></b>          |   |                  |                  |   |   |
| Series 1997 Serial and Term Bonds                    | \$ 7,530                                  | \$ -             | 3 \$ 7,530       | \$ -                                      | \$ -                                      |
| Series 1999 State Participation Loan                 | 14,955                                    | -                | -                | 14,955                                    | -   |
| Series 2000 Serial and Capital<br>Appreciation Bonds | 2,378                                     | 101              | 605              | 1,874                                     | 375                                       |
| Series 2001 Serial and Term Bonds                    | 7,495                                     | -                | 3 7,495          | -   | -   |
| Series 2002 Revenue Bonds                            | 10,955                                    | -                | 3 10,955         | -   | -   |
| Series 2011 Revenue Bonds                            | 17,190                                    | -                | 595              | 16,595                                    | 120                                       |
| <b>Total Cost Reimbursable<br/>Operations</b>        | <b>\$ 60,503</b>                          | <b>\$ 101</b>    | <b>\$ 27,180</b> | <b>\$ 33,424</b>                          | <b>\$ 495</b>                             |
| <b>Total Revenue Bonds Payable</b>                   | <b>\$ 134,238</b>                         | <b>\$ 101</b>    | <b>\$ 47,930</b> | <b>\$ 86,409</b>                          | <b>\$ 1,930</b>                           |

1) On August 15, 2012 the BRA redeemed the \$9,635 Water Supply System Revenue Bonds Series 2002 (AMT) As a result of the early retirement of the bonds, there was a loss on early retirement of \$156.

2) On March 28, 2012 the BRA redeemed the \$12,8750 Water Supply System Revenue Bonds, Series 2005A (AMT). As a result of the early retirement of the bonds, there was a loss on early retirement of \$256.

3) On January 30, 2012 the Board of Directors of the BRA approved the resolution calling all the outstanding bonds relating to the financing and refinancing of the BRA's Lake Granbury Surface Water and Treatment System. The redemption of the bonds was in furtherance of the objectives of the Transfer Resolution discussed in footnote 13. The closing date for this transaction was May 31, 2012.

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Revenue bonds payable consists of the following at August 31, 2011:

|  | <b>Balance at<br/>August 31,<br/>2010</b> |                  | <b>Additions</b> | <b>Retired</b>   | <b>Balance at<br/>August 31,<br/>2011</b> | <b>Amounts<br/>Due<br/>Within<br/>One Year</b> |
|--|---|------------------|------------------|------------------|---|--|
| <b><i>Water Supply System:</i></b>                   |   |                  |                  |                  |   |  |
| Series 1972 Refunding Serial Bonds                   | \$ 1,960                                  | \$ -             |                  | \$ 945           | \$ 1,015                                  | \$ 1,015                                       |
| Series 2001A (AMT) Serial and<br>Term Bonds          | 5,245                                     | - a              |                  | 5,245            | -   | -  |
| Series 2001B Serial Bonds                            | 430                                       | - a              |                  | 430              | -   | -  |
| Series 2002 State Participation Loan                 | 6,000                                     | -                |                  | -                | 6,000                                     | -  |
| Series 2002 (AMT) Term Bonds                         | 7,125                                     | -                |                  | 415              | 6,710                                     | 430  |
| Series 2005A (AMT) Revenue Bonds                     | 12,045                                    | -                |                  | 440              | 11,605                                    | 460  |
| Series 2005B (AMT) Revenue Bonds                     | 10,005                                    | -                |                  | 345              | 9,660                                     | 360  |
| Series 2006 Revenue Bonds                            | 17,805                                    | -                |                  | -                | 17,805                                    | -  |
| Series 2009 Revenue Bonds                            | 22,000                                    | -                |                  | 1,060            | 20,940                                    | 1,060  |
| <b>Total Water Supply System</b>                     | <b>\$ 82,615</b>                          | <b>\$ -</b>      |                  | <b>\$ 8,880</b>  | <b>\$ 73,735</b>                          | <b>\$ 3,325</b>                                |
| <b><i>Cost Reimbursable Operations:</i></b>          |   |                  |                  |                  |   |  |
| Series 1997 Serial and Term Bonds                    | \$ 8,790                                  | \$ -             |                  | \$ 1,260         | \$ 7,530                                  | \$ 1,335                                       |
| Series 1999 State Participation Loan                 | 14,955                                    | -                |                  | -                | 14,955                                    | -  |
| Series 2000 Serial and Capital<br>Appreciation Bonds | 14,282                                    | 126 b            |                  | 12,030           | 2,378                                     | 585  |
| Series 2001 Serial and Term Bonds                    | 7,940                                     | -                |                  | 445              | 7,495                                     | 470  |
| Series 2002 Revenue Bonds                            | 11,475                                    | -                |                  | 520              | 10,955                                    | 545  |
| Series 2004 Revenue Bonds                            | 590                                       | -                |                  | 590              | -   | -  |
| Series 2011 Revenue Bonds                            | -   | 17,190 b         |                  | -                | 17,190                                    | 595  |
| <b>Total Cost Reimbursable Operations</b>            | <b>\$ 58,032</b>                          | <b>\$ 17,316</b> |                  | <b>\$ 14,845</b> | <b>\$ 60,503</b>                          | <b>\$ 3,530</b>                                |
| <b><i>Total Revenue Bonds Payable</i></b>            | <b>\$ 140,647</b>                         | <b>\$ 17,316</b> |                  | <b>\$ 23,725</b> | <b>\$ 134,238</b>                         | <b>\$ 6,855</b>                                |

a) On May 31, 2011 the BRA redeemed the \$8,925 Water Supply System Revenue Refunding & Improvement Bonds, Series 2001A (AMT) and the \$1,060 Water Supply System Revenue Refunding bonds, Series 2001B.

b) On January 31, 2011 the BRA issued the Brazos River Authority Contract Revenue and Refunding Bonds Series 2011. Proceeds from the sale of the Bonds will be used, along with other funds, to (i) add additional pumps to the Project intake structure, (ii) pay the costs of engineering and design, (iii) refund the current interest bonds of the BRA's outstanding Contract Revenue Bonds, Series 2000 in order to restructure such indebtedness while providing a net present savings and (iv) pay issuance costs on the Bonds.

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Revenue bonds payable at August 31, 2012, are further detailed as follows:

***Water Supply System:***

- *Series 1972 (\$16,885) Brazos River Authority Water Supply Refunding* - serial bonds to finance DeCordova Bend Dam and Lake Granbury; due in annual installments of \$555 to \$1,015 through 2011; interest at 5.5%
- *Series 2001A (\$8,925) Brazos River Authority* – serial and term bonds for repairs to Morris Sheppard Dam and Possum Kingdom facility and refunding the Series 1991 Water Supply Revenue Bonds; due in annual installments of \$340 to \$1,700 through 2021; interest at 4.35% to 5.65% **(redeemed on May 31, 2011)**
- *Series 2001B (\$1,060) Brazos River Authority* – serial bonds to refund Lake Whitney Corps of Engineers contract; due in annual installments of \$60 to \$100 through 2015; interest at 3.3% to 5.125% **(redeemed on May 31, 2011)**
- *Series 2002 (\$6,000) Brazos River Authority State Participation Loan (Allens Creek Project)* – for purchase of land for Allens Creek Reservoir site; due in installments of \$260 to \$580 beginning from 2022 through 2036; interest at 5.776% to 5.876%
- *Series 2002 (\$9,635) Brazos River Authority* – term bonds for repairs and renovations at DeCordova Bend Dam on Lake Granbury due in annual installments of \$325 to \$715 through 2023; interest at 3% to 4.85% **(redeemed on August 15, 2012)**
- *Series 2005A (\$12,875) Brazos River Authority* – revenue bonds for repairs and renovations at Morris Sheppard Dam on Possum Kingdom Lake due in annual installments of \$405 to \$980 through 2028; interest at 4.25% to 4.7% **(redeemed on March 28, 2012)**
- *Series 2005B (\$10,335) Brazos River Authority* – revenue bonds for acquisition and expansion of the East Williamson County Regional Water System due in annual installments of \$330 to \$775 through 2029; interest at 4% to 4.8%
- *Series 2006 (\$17,805) Brazos River Authority* – revenue bonds for the expansion of the East Williamson County Regional Water System due in annual installments of \$535 to \$1,275 through 2035; interest at 4% to 4.5%
- *Series 2009 (\$22,000) Brazos River Authority* – revenue bonds for the construction of a new deep water intake structure, raw water pump station and transmission pipeline at Granger Lake due in annual installments of \$1,065 to \$1,180 through 2023; interest at .07% to 2.25%

***Cost Reimbursable Operation:***

- *Series 1997 (\$19,935) Brazos River Authority* – serial and term bonds to refund the Lake Granbury Surface Water and Treatment System Series 1987 serial bonds; due in annual installments of \$730 to \$1,335 through 2011; term bonds due in annual installments of \$1,415 to \$1,690 beginning from 2012 through 2016; interest at 5.2% to 6.05% **(redeemed on May 31, 2012)**

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***Cost Reimbursable Operation: (continued)***

- *Series 1999 (\$14,955) Brazos River Authority Texas Water Development Board State Participation Loan for Williamson County Regional Raw Water Line – due in annual installments of \$860 to \$1,630 beginning from 2021 through 2033; Interest at 4.35% to 5.50%*
- *Series 2000 (\$2,795) Brazos River Authority – capital appreciation bonds for Williamson County Regional Raw Water Line; due in annual installments of \$300 to \$605 through 2019; interest at 5.3% to 5.80%*
- *Series 2001 (\$10,530) Brazos River Authority – serial and term bonds for expansion of Lake Granbury Surface Water and Treatment System; due in annual installments of \$320 to \$2,345 through 2022; interest at 4.375% to 5.55% (redeemed on May 31, 2012)*
- *Series 2002 (\$13,750) Brazos River Authority and Johnson County Rural WSC Contract Revenue Bonds - to replace Series 2001 Brazos River Authority taxable serial bonds for Lake Granbury Surface Water and Treatment System; due in annual payments of \$425 to \$1,090 beginning from 2006 through 2025; interest at 3.875% to 5.5%(redeemed on May 31, 2012)*
- *Series 2004 (\$3,705) Brazos River Authority and Temple-Belton Regional Sewerage System Revenue Refunding Bonds – to replace Series 1989 and 1989A Brazos River Authority serial bonds to construct the Temple-Belton Regional Sewerage System improvements; due in annual payments of \$490 to \$590 through 2011; interest at 2.0% to 3.75%*
- *Series 2011 (\$17,190) Brazos River Authority Contract Revenue and Refunding Bonds, (Williamson County Regional Raw Water Line Project) - to refund the serial portion of the Contract Revenue Bonds series 2000 for Williamson County Regional Raw Water Line. In addition, proceeds from the sale of the bonds will be used for additional pumps to the project intake structure; due in annual payments of \$115 to \$1,545 through 2030; interest at 2.0% to 5.13%*

The Water Supply System bond covenants require that the BRA will fix, establish, maintain and collect such rates, charges and fees for the use and availability of the System at all times as are necessary to produce Net Revenues for each year, which are at least 1.10 times the maximum annual debt service requirements of all then outstanding bonds and additional parity obligations. For the years ended August 31, 2012 and 2011, the BRA's coverage rates were 3.14 and 2.70, respectively. The BRA was in compliance with this and all other bond covenants and restrictions.

The BRA has adopted the provisions of Governmental Accounting Standards Board Statement No. 23, "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities." The Statement requires that the difference between the reacquisition price and the net carrying amount of the refunded old debt be deferred and amortized as a component of interest expense in a systematic and rational manner over the shorter of the life of the old debt or the life of the new debt. For the years ended August 31, 2012 and 2011 the cumulative unamortized deferred amount of \$354 and \$496, respectively, are included as an element of discount on revenue bonds payable. The deferred amount resulted from refunding of debts in 1997 and 2011.

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On January 31, 2011, the BRA issued \$17,190 of revenue bonds for a current refunding of \$11,295 of the Series 2000 Brazos River Authority Serial and Term Bonds. The refunding was done to reduce the total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$372. This amount is being netted against the new debt and amortized over the life of the new debt which is the same as the old debt. The difference between the present values of the two debt service streams of \$563 constitutes the economic gain on the transaction and a reduction of \$658 in future debt service payments.

Annual requirements to retire revenue bonds outstanding including interest are:

|              | Water Supply System |                  | Cost Reimbursable Operations |                  |
|--------------|---------------------|------------------|------------------------------|------------------|
|              | Principal           | Interest         | Principal                    | Interest         |
| 2013         | \$ 1,435            | \$ 1,889         | \$ 495                       | \$ 1,671         |
| 2014         | 1,450               | 1,873            | 408                          | 1,838            |
| 2015         | 2,005               | 2,133            | 393                          | 1,850            |
| 2016         | 2,055               | 2,087            | 369                          | 1,861            |
| 2017         | 2,100               | 2,037            | 800                          | 1,865            |
| 2018-2022    | 11,685              | 8,967            | 6,249                        | 8,605            |
| 2023-2027    | 15,070              | 5,483            | 11,215                       | 5,529            |
| 2028-2032    | 11,400              | 2,568            | 13,040                       | 2,098            |
| 2033-2036    | 5,785               | 573              | 455                          | 27               |
| <b>Total</b> | <b>\$ 52,985</b>    | <b>\$ 27,610</b> | <b>\$ 33,424</b>             | <b>\$ 25,344</b> |

Details of Net Assets invested in capital assets, net of related debt:

|   | 2012              | 2011              |
|---|-------------------|-------------------|
| Net capital assets  | \$ 275,727        | \$ 287,160        |
| Revenue bonds payable - current & noncurrent                            | (75,960)          | (111,207)         |
| Bond related costs  | 1,626             | 2,400             |
| Discount on revenue bonds payable                                       | 397               | 867               |
| Construction contracts payable  | (3,669)           | (415)             |
| Contracts payable, current & noncurrent                                 | (23,724)          | (33,766)          |
| <b>Total Net Assets invested in capital assets, net of related debt</b> | <b>\$ 174,397</b> | <b>\$ 145,039</b> |

The unspent proceeds of debt issued for capital purposes and the related debt are excluded from the computation of capital assets, net of related debt. At August 31, 2012 and 2011, the balance of unspent bond proceeds for capital purposes was \$10,449 and \$23,031 respectively.

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Contracts Payable consists of the following at August 31, 2012:

|   | Balance at<br>August 31,<br>2011 | Retired/<br>(Additions) | Balance at<br>August 31,<br>2012 | Amts Due<br>Within One<br>Year |
|---|----------------------------------|-------------------------|----------------------------------|--------------------------------|
| \$5,124 to acquire water conservation storage space in the Belton Reservoir; due in annual installments of principal and interest of \$170 through 2006 and \$126 from 2007 through 2024; interest at 2.50% to 2.54%  | \$ 1,385                         | \$ 91                   | \$ 1,294                         | \$ 94                          |
| \$1,314 to acquire water conservation storage space in the Proctor Reservoir; due in annual installments of principal and interest of \$43 through 2015 and \$35 from 2016 through 2024; interest at 2.69%  | 413                              | 32                      | 381                              | 33                             |
| \$7,127 to acquire water conservation storage space in the Stillhouse Hollow Reservoir; due in annual installments of principal and interest of \$284 through 2018; interest at 2.72%   | 1,784                            | 235                     | 1,549                            | 241                            |
| \$7,383 to acquire water conservation storage space in the Somerville Reservoir; due in annual installments of principal and interest of \$266 through 2023 and \$253 from 2024 through 2027; interest at 2.74%   | 3,369                            | 173                     | 3,196                            | 178                            |
| \$5,532 to acquire water conservation storage space in the Waco Reservoir; due in annual installments of principal and interest of \$188 through 2015; interest at 2.50%  | 709                              | 171                     | 538                              | 175                            |
| \$15,178 to acquire water conservation storage space in the Granger Reservoir; due in annual installments of principal and interest of \$599 through 2041 and \$598 in 2042; interest at 3.25%  | 11,591                           | 222                     | 11,369                           | 229                            |
| \$7,130 to acquire water conservation storage space in the Georgetown (formerly Northfork) Reservoir; due in annual installments of principal and interest ranging from \$285 through 2032 to \$135 in 2042; the interest at 3.25%  | 5,154                            | 117                     | 5,037                            | 121                            |
| \$11,194 to acquire water conservation storage space in Aquilla Reservoir; due in annual installments of principal and interest of \$593 through 2032 and \$531 from 2033 through 2042; interest on the remaining principal portion is compounded annually at 5.11% <b>Redeemed (2/21/2012)</b> | 8,956                            | 8,956                   | -                                | -                              |
| \$550 to acquire water rights from Brazos Electric Power Cooperative, Inc., due in annual installments of principal only of \$10 to \$45 through 2020   | 405                              | 45                      | 360                              | 45                             |
| <b>TOTAL</b>  | <b>\$ 33,766</b>                 | <b>\$ 10,042</b>        | <b>\$ 23,724</b>                 | <b>\$ 1,116</b>                |

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Annual requirements to retire contracts payable outstanding, including interest, are:

|              | Contracts Payable |                  | Total            |
|--------------|-------------------|------------------|------------------|
|              | Principal         | Interest         |                  |
| 2013         | \$ 1,116          | \$ 721           | \$ 1,837         |
| 2014         | 1,146             | 690              | 1,836            |
| 2015         | 1,178             | 659              | 1,837            |
| 2016         | 1,014             | 627              | 1,641            |
| 2017         | 1,042             | 598              | 1,640            |
| 2018-2022    | 4,395             | 2,583            | 6,978            |
| 2023-2027    | 4,065             | 1,957            | 6,022            |
| 2028-2032    | 3,021             | 1,399            | 4,420            |
| 2033-2037    | 3,300             | 882              | 4,182            |
| 2038-2042    | 3,447             | 340              | 3,787            |
| <b>TOTAL</b> | <b>\$ 23,724</b>  | <b>\$ 10,456</b> | <b>\$ 34,180</b> |

**Other Noncurrent Liabilities** Other noncurrent liability activity for the year ended August 31, 2012 was as follows:

|                            | Balance at<br>August 31,<br>2011 | Additions    | Reductions      | Balance at<br>August 31,<br>2012 | Amounts<br>Due Within<br>One Year |
|----------------------------|----------------------------------|--------------|-----------------|----------------------------------|-----------------------------------|
| <b>Discount on Revenue</b> |                                  |              |                 |                                  |                                   |
| <b>Bonds Payable:</b>      | \$ 867                           | \$ -         | \$ 470          | \$ 397                           | \$ 23                             |
| <b>Unearned Revenues:</b>  |                                  |              |                 |                                  |                                   |
| Lake Limestone             | \$ 4,800                         | \$ -         | \$ 960          | \$ 3,840                         | \$ 960                            |
| WCRRWL                     | 632                              | -            | 46              | 586                              | 45                                |
| SWATS                      | 95                               | -            | 95              | -                                | -                                 |
| <b>TOTAL</b>               | <b>\$ 5,527</b>                  | <b>\$ -</b>  | <b>\$ 1,101</b> | <b>\$ 4,426</b>                  | <b>\$ 1,005</b>                   |
| <b>Other Liabilities:</b>  |                                  |              |                 |                                  |                                   |
| Hydroelectric              | \$ 319                           | \$ 2         | \$ -            | \$ 321                           | \$ -                              |
| Trans TX Phase II          | 210                              | -            | -               | 210                              | -                                 |
| Compensated Absences       | 167                              | 84           | -               | 251                              | 60                                |
| Other                      | 109                              | -            | -               | 109                              | -                                 |
| <b>TOTAL</b>               | <b>\$ 805</b>                    | <b>\$ 86</b> | <b>\$ -</b>     | <b>\$ 891</b>                    | <b>\$ 60</b>                      |

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**7. RETIREMENT PLANS**

**Retirement Plan for Employees of Brazos River Authority (Plan):**

**Plan Description**

The Plan, a single employer plan, was established in 1959 by the BRA, a governmental agency of the State of Texas, and was amended and restated effective September 1, 1997. Prior to the revision, the Plan was an exclusive defined benefit structure. Effective September 1, 1997, the Plan was changed to a combination defined benefit and defined contribution structure (Internal Revenue Code Section 401 (a) plan) for all eligible employees who first become participants (or who reenter plan participation) on or after September 1, 1997. Employees who were active plan participants on August 31, 1997 made a one-time irrevocable election to choose either to remain under the benefit provisions of the prior plan as it existed August 31, 1997 or to have benefits determined under the new benefit provisions effective September 1, 1997. On July 16, 2007 the Board of Directors of the BRA approved adoption to freeze the Plan as of September 30, 2007. The resolution amended the Plan by closing the Plan to new entrants, freezing benefit accrual service, limiting compensation and service contributions to the defined contribution component of the Plan. On October 18, 2010 the Board of Directors of the BRA approved a resolution to amend and restate substantially the form of the Plan effective November 30, 2010. The resolution spun-off the defined contribution portion into its own plan and at the same time made effective November 30, 2010 the termination of the Defined Contribution Plan for Employees of Brazos River Authority. The Plan is administered by a Retirement Committee appointed by the BRA's Board of Directors and has a fiscal year-end of the last day in February.

Copies of the Plan's audited annual financial report may be obtained from the BRA's office: P.O. Box 7555, Waco, TX 76714-7555.

Participation in the Plan, as of the beginning of the year evaluation date, March 1, 2011, and March 1, 2010, is composed of the following:

| <b>Group</b>   | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
| Retirees and beneficiaries currently receiving benefits            | 96          | 94          |
| Terminated Plan members entitled to but not yet receiving benefits | 103         | 94          |
| Transferred Canal Division employees*                              | 7           | 7           |
| Active Plan members  | 159         | 172         |
| TOTAL  | 365         | 367         |

\*These participants were transferred to the Galveston County Water Authority on July 21, 1988. They will continue to accrue vesting as long as they remain employed by the Galveston County Water Authority.

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The Plan provides pension and death benefits. The Plan's normal retirement age is 65. A participant may retire after reaching both the age of 55 and completing fifteen years of service or after attaining both age 62 and completing ten years of service. Benefits vest after fifteen years of service or after both the attainment of age 45 and the completion of five years of service.

Pension benefits are based on the participant's final average monthly compensation and credited service. Final average monthly compensation is defined as the participant's average monthly rate of basic compensation during whichever five successive calendar years out of the last ten calendar years immediately preceding the participant's termination date provides the highest average monthly rate of compensation for the participant. Provided, however, compensation for calendar years beginning on or after January 1, 2008 shall not be included in the determination of average monthly compensation.

At normal retirement date, a disabled participant will receive the monthly income to which he or she would have been entitled if he or she had continued in employment with the BRA at his or her last regular rate of compensation until his or her normal retirement date; however, income payable at the normal retirement date cannot exceed the amount that he or she was receiving under disability retirement immediately preceding the normal retirement date.

Upon the death of a participant while employed or disabled prior to normal retirement, the participant's beneficiary normally receives monthly benefits payable for ten years certain and life thereafter. Such benefits are based on final average monthly compensation and credited service. If the participant dies after normal retirement but prior to actual retirement, the beneficiary normally receives monthly benefits payable for ten years certain and life thereafter. Such benefits equal the benefits the participant would have been entitled to receive if he or she had retired on his or her date of death.

**Funding Policy**

*Defined Benefit Component*

The BRA's employees were not required or allowed to contribute to the Plan. The BRA intends, but does not guarantee, to make annual contributions in amounts at least equal to the amounts that would be required to meet the minimum funding requirements of Section 412 of the Internal Revenue Code (Code).

**Annual Pension Cost**

For the fiscal year ended August 31, 2012, the BRA's Annual Required Contribution (ARC) was \$315. The BRA's ARC, Annual Pension Cost (APC), the percentage of APC and the Net Pension Obligation (NPO) for 2012 and the two preceding years were as follows:

| <b>Fiscal Year Ended</b> | <b>Annual<br/>Required<br/>Contribution</b> | <b>Annual<br/>Pension Cost</b> | <b>Percentage of<br/>APC<br/>Contributed</b> | <b>Net Pension<br/>Obligation<br/>Balance</b> |
|--------------------------|---|--------------------------------|--|---|
| August 31, 2010          | \$ 309                                      | \$ 296                         | 96%  | \$ 13   |
| August 31, 2011          | \$ 236                                      | \$ 223                         | 95%  | \$ 13   |
| August 31, 2012          | \$ 315                                      | \$ 302                         | 105%   | \$ -  |

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The ARC is actuarially determined as a percent of the covered payroll of the participating employees and is in compliance with GASB Statement No. 27 and 50 parameters based on the actuarial valuation date of March 1, 2011. The NPO balance for the previous two years remained unchanged as a result of the interest on the NPO and the ARC adjustment netting to an amount less than one thousand dollars.

**Funding Status and Funding Progress**

The following table presents funding progress of the Plan based on the most recent actuarial data.

| <b>Actuarial Valuation Date</b> | <b>Value of Assets (a)</b> | <b>Actuarial Accrued Liability (AAL) (b)</b> | <b>Underfunded AAL (UAAL) (b) - (a)</b> | <b>Funded Ratio (a)/(b)</b> | <b>*Covered Payroll (c)</b> | <b>*UAAL as % of Covered Payroll (b-a)/(c)</b> |
|---------------------------------|----------------------------|--|---|-----------------------------|-----------------------------|--|
| March 1, 2012                   | \$ 19,776                  | \$ 27,231                                    | \$ 7,455                                | 73%                         | \$ 7,070                    | 105.45   |

\*As a result of the amendment to freeze the Plan, the valuation period March 1, 2009 will be the first year the covered payroll information is no longer needed for the calculation of the ARC.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 1, 2012, actuarial valuation, the unprojected unit credit method actuarial cost method was used. The actuarial assumptions included a 6.5 percent (changed from 7.5 percent) investment rate of return (compounded annually, net of expenses). The amortization method used was a closed twenty year period (changed from a closed thirty year period) and the asset valuation method was market value with gains and losses smoothed over a five year period.

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**Texas County and District Retirement System:**

**Plan Description**

The BRA provides retirement, disability, and death benefits for all of its employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 624 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a comprehensive CAFR on a calendar year basis. The CAFR is available upon written request from the TCDRS Finance Division at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the Board of Directors, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages sixty and above with eight or more years of service, with thirty years of service regardless of age, or when the sum of their age and years of service equals eighty or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer financed benefit. Members who withdraw their personal contribution in a lump sum are not entitled to any amounts contributed by the BRA. The plan offers no post employment benefits

**Funding Policy**

The BRA has elected the annually determined contribution 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. Under the TCDRS Act, the annual employer contribution rate for calendar years 2012 and 2011 was 7.86% and 7.91% respectively. The required contribution rate payable by the employee members is the rate of 6.0% as adopted by the Board of Directors. The employee and employer contribution rates may be changed by the BRA's Board of Directors within the options available in the TCDRS Act.

**Annual Pension Cost**

For the year ended August 31, 2012 and August 31, 2011, the actual contributions made by the employees were \$823 and \$783, respectively. For the fiscal year ended August 31, 2012, the BRA's ARC was \$1,081. The BRA's ARC, the percentage of APC and the NPO for 2012 and the two preceding years were as follows:

| <b>Fiscal Year Ended</b> | <b>Annual Required Contribution</b> | <b>Annual Pension Cost</b> | <b>Percentage of APC Contributed</b> | <b>Net Pension Obligation Balance</b> |
|--------------------------|-------------------------------------|----------------------------|--------------------------------------|---------------------------------------|
| August 31, 2010          | \$ 1,032                            | \$ 1,032                   | 100%                                 | \$ -                                  |
| August 31, 2011          | \$ 1,017                            | \$ 1,017                   | 100%                                 | \$ -                                  |
| August 31, 2012          | \$ 1,081                            | \$ 1,081                   | 100%                                 | \$ -                                  |

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The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB Statement No. 27 and 50 parameters based on the actuarial valuation date of December 31, 2011

**Funding Status and Funding Progress**

As of December 31, 2011, the most recent actuarial valuation date, the plan was 83.27% funded. The actuarial accrued liability for benefits was \$10,396, and the actuarial value of assets was \$8,656, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,739. The covered payroll (annual payroll of active employees covered by the plan) was \$13,232, and the ratio for the UAAL to the covered payroll was 13.15%.

**Actuarial Methods and Assumptions:**

| <b>Actuarial Valuation Information</b> |   |
|--|---|
| <b>2012</b>                            |   |
| Actuarial valuation date               | December 31, 2011                         |
| Actuarial cost method                  | Entry age                                 |
| Amortization method                    | Level percentage of payroll, closed       |
| Amortization period of years           | 20  |
| Asset Valuation method                 | SAF: 10-yr smoothed value ESF: Fund value |

| <b>Actuarial Assumptions</b> |      |
|------------------------------|------|
| Investment return*           | 8.0% |
| Projected salary increases*  | 5.4% |
| Inflation                    | 3.5% |

\*Includes inflation at the stated rate

**Defined Contribution Plan for Employees of Brazos River Authority:**

**Plan Description**

The Defined Contribution Plan for Employees of Brazos River Authority (The Defined Contribution Plan), a single employer plan, was established on November 30, 2010 by the BRA, a governmental agency of the State of Texas. The Defined Contribution Plan is a result of a spin-off from the aforementioned Retirement Plan for Employees of Brazos River Authority (the "Plan"). The BRA approved a resolution to amend and restate substantially the form of the Plan effective November 30, 2010. The resolution spun-off the defined contribution portion into its own plan and at the same time made effective November 30, 2010 the termination of the Defined Contribution Plan. The Defined Contribution Plan is administered by a Retirement Committee appointed by the BRA's Board of Directors and has a fiscal year-end of the last day in February. Total participation in The Defined Contribution Plan, as of February 29, 2012 and February 28, 2011, was 149 and 156 respectively.

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**Funding Policy**

Prior to the resolution to freeze entry into the plan, each plan year all participants, other than prior plan-electing participants, were required to contribute an amount each pay period equal to 3.0% of their compensation earned during such pay period.

Prior to the resolution to freeze entry into the plan, each plan year the employer contributed a total amount which equals 3.0% of each participant's compensation earned during the plan year, less applicable forfeitures from non-vested employer contribution accounts.

In addition to the above employer contribution, the employer contributed, prior to the amendment to freeze the Plan, a total amount of matching employer contributions which equaled 50% of the amount of compensation amounts deferred by active participants to the eligible deferred compensation plan (457 Plan) sponsored by the employer pursuant to Code Section 457(b), less applicable forfeitures from non-vested matching employer contribution accounts. The matching employer contribution amount contributed on behalf of a particular active participant was based on actual deferrals made to the 457 Plan but not to exceed 3% of compensation earned during the Plan year.

As required under Section 7.02(c) of the Defined Contribution Plan document, all participants who had account balances in the Defined Contribution Plan, at its November 30, 2010 termination date, became fully vested in their Defined Contribution Plan benefits.

**Tax Status**

On January 8, 2011, the BRA filed the documents required to obtain a determination from the Internal Revenue Service (IRS) to ensure the newly written Defined Contribution Plan, and related trust, are designed in accordance with applicable sections of the Code and therefore is tax exempt and to terminate the Defined Contribution Plan. On April 16, 2012, the BRA received a favorable determination from the IRS, and had completed the distribution of all participant account balances, as outlined in the plan document, by August 31, 2012.

**8. FINANCING ARRANGEMENTS**

The BRA has entered into agreements with cities (contracting parties) to issue tax-exempt debt for the benefit of the contracting parties. The BRA issues the debt in amounts sufficient to provide for construction of sewerage treatment and water supply systems. The contracting parties then make payments to the BRA in amounts sufficient to service the debt.

The BRA has no liabilities for repayment of the bonds. The contracting parties pledge revenues from the project as security for the bondholders. Upon redemption of the bonds and completion of the projects, title and interest in the projects transfer to the contracting parties. Accordingly, the constructed assets and the related debt are not reflected in the basic financial statements of the BRA. However, bond proceeds, monies received from the contracting parties, and the related disbursements are included in the BRA's agency funds.

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The following is a schedule of the debt issued and outstanding for the contracting parties:

| <b>Contracting Party</b> | <b>Date of Issue</b> | <b>Original Amount</b> | <b>Date of Maturity</b> | <b>Interest Rate</b> | <b>Balance at August 31, 2012</b> |
|--------------------------|----------------------|------------------------|-------------------------|----------------------|-----------------------------------|
| Jonah Water SUD          | 2007                 | \$ 3,170               | 2009-2028               | 4.0% to 4.5%         | \$ 2,720                          |
| Jonah Water SUD          | 2008                 | \$ 2,630               | 2010-2029               | 3.0% to 5.0%         | 2,360                             |
| Jonah Water SUD          | 2012                 | \$ 5,090               | 2013-2032               | 3.0% to 5.0%         | 5,090                             |
| <b>TOTAL</b>             |                      |                        |                         |                      | <b>\$ 10,170</b>                  |

The BRA regularly enters into agreements with various companies to issue tax-exempt and taxable debt for the benefit of the companies. The BRA issues the debt in amounts sufficient to provide for the construction of the specified capital improvements (usually pollution control and waste disposal facilities) and charges the companies an issuance fee based on the size of the bond issue. The companies then make payments (in the form of installment purchase agreements) to the BRA's trustee in amounts sufficient to service the debt.

- 1) CenterPoint (formerly Houston Industries and Reliant Energy) - Air and/or Water Pollution Control & Waste Disposal facilities:

| <b>Year Issued</b>              | <b>Original Amount</b> | <b>Year of Maturity</b> | <b>Interest Rate %</b> | <b>Balance at August 31, 2012</b> |
|---------------------------------|------------------------|-------------------------|------------------------|-----------------------------------|
| 1995                            | \$ 91,945              | 2015                    | 4.000                  | \$ 91,945                         |
| 1997                            | 50,000                 | 2018                    | 5.050                  | 50,000                            |
| 1998A                           | 100,000                | 2019                    | Variable               | 100,000                           |
| 1998B                           | 90,000                 | 2020                    | Variable               | 90,000                            |
| 1998C                           | 100,000                | 2019                    | Variable               | 100,000                           |
| 1998D                           | 68,700                 | 2015                    | 4.900                  | 68,700                            |
| 1999A                           | 100,000                | 2019                    | Variable               | 100,000                           |
| 1999B                           | 100,000                | 2018                    | Variable               | 100,000                           |
| 2004                            | 43,820                 | 2017                    | 4.250                  | 43,820                            |
| 2004B                           | 83,565                 | 2017                    | 4.250                  | 83,565                            |
| <b>Subtotal for CenterPoint</b> |                        |                         |                        | <b>\$ 828,030</b>                 |

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- 2) Texas Competitive Electric Holdings Company LLC - (formerly Texas Utilities Energy Company LLC) - Air and/or Water Pollution Control and Waste Disposal Facilities:

| <b>Year Issued</b>   | <b>Original Amount</b> | <b>Year of Maturity</b> | <b>Interest Rate %</b> | <b>Balance at August 31, 2012</b> |
|--|------------------------|-------------------------|------------------------|-----------------------------------|
| 1994A  | 39,170                 | 2029                    | 5.40                   | \$ 39,170                         |
| 1994B  | 39,170                 | 2029                    | 6.50                   | 39,170                            |
| 1995A  | 50,670                 | 2030                    | 6.50                   | 49,770                            |
| 1995B  | 118,355                | 2030                    | 3.90                   | 113,895                           |
| 1999A  | 110,545                | 2033                    | 7.70                   | 110,545                           |
| 1999B  | 15,955                 | 2034                    | 6.75                   | 15,955                            |
| 1999C  | 50,000                 | 2032                    | 7.70                   | 50,000                            |
| 2001A  | 120,750                | 2030                    | 8.25                   | 70,750                            |
| 2001B  | 19,180                 | 2029                    | 10.875                 | 19,180                            |
| 2001C  | 273,985                | 2036                    | 15.00                  | 217,180                           |
| 2001D-1  | 170,895                | 2033                    | 8.25                   | 170,895                           |
| 2001D-2  | 97,410                 | 2033                    | Variable               | 97,410                            |
| 2001 I   | 62,920                 | 2036                    | Variable               | 61,790                            |
| 2002A  | 60,650                 | 2037                    | Variable               | 44,630                            |
| 2003A  | 43,685                 | 2038                    | 6.75                   | 43,685                            |
| 2003B  | 39,025                 | 2032                    | 6.30                   | 39,025                            |
| 2003C  | 72,335                 | 2038                    | 6.75                   | 51,825                            |
| 2003D  | 30,820                 | 2029                    | 5.40                   | 30,820                            |
| 2006   | 100,000                | 2041                    | 5.00                   | 100,000                           |
| Subtotal for Texas Competitive Electric Holdings Company LLC |                        |                         |                        | <u>\$ 1,365,695</u>               |
| <b>TOTAL POLLUTION CONTROL FINANCING ARRANGEMENTS</b>        |                        |                         |                        | <u><u>\$ 2,193,725</u></u>        |

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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**9. COMMITMENTS & CONTINGENCIES**

**Deferred Compensation Plans**

The BRA offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457 and 401(a). The plans are available to all regular full-time and part-time BRA employees; the plans permit employees to defer a portion of their salary until future years. Participation in the plan is optional.

All regular full-time and part-time employees who contribute to the 457 Deferred Compensation Plan are eligible for employer contributions to the 401 (a) plan. The employer contribution is based on 50% of the employee's 457 semi-monthly deferral (maximum employer contribution is 3% of the employee's semi-monthly gross compensation). Employees are vested in the employer contribution and related investment earnings (losses) after completing five or more years of continuous BRA service. Non-vested employer contributions are deposited into the ICMA Traditional Growth Fund until vesting occurs. Total deposits into the non-vested account for the twelve months ended August 31, 2012 and August 31, 2011 were \$30 and \$36, respectively.

Investments are managed by the plan's administrator under various participant-directed investment options. The choice of the investment option(s) is made by the participant. In accordance with GASB Statement 32, this plan is not reported because the assets are not held by the BRA in a trustee capacity or as an agent for the participant.

**Construction Projects**

During Fiscal Year 2012, the BRA made progress on the following projects:

| Name                                 | Construction In<br>Progress at<br>August 31, 2012 | Total Project<br>Budgeted Cost | Estimated<br>Project<br>Comp. Date |
|--------------------------------------|---|--------------------------------|------------------------------------|
| Lake Granger/Groundwater Intake      | \$ 15,260   | \$ 23,000                      | 2013                               |
| System Permit Application            | 10,788  | 19,440                         | 2018                               |
| PK Hydro Controlled Outlet Conduit   | 5,154   | 9,300                          | 2013                               |
| Graham Flood Control                 | 4,145   | 5,740                          | 2013                               |
| PK Nose Baffles & Pier 8             | 3,398   | 4,042                          | 2013                               |
| DeCordova Bend Dam Low Flow Facility | 2,001   | 3,651                          | 2013                               |
| Allens Creek Reservoir               | 237   | 67,198                         | 2017                               |
| Other                                | 1,886   | -                              | various                            |
| <b>TOTAL</b>                         | <b>\$ 42,869</b>                                  |                                |                                    |

**Other**

The BRA has participated in a number of state and federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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The BRA is subject to various other claims and lawsuits which may arise in the ordinary course of business. After consulting with counsel representing the BRA in connection with such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material effect on the financial position of the BRA.

**10. RISK MANAGEMENT**

The BRA is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions, natural disasters, and job-related injuries or illnesses to employees for which the BRA carries commercial insurance or participates in the Texas Municipal League Intergovernmental Risk Pool (Pool). The BRA's relationship with the Pool parallels that with a commercial insurance company. The Pool has the responsibility to defend any suit seeking damages on account of any liability up to the applicable limits of the agreement. The BRA has the responsibility to notify the Pool of all potential claims and pay for any amounts up to the agreement's deductible.

The BRA maintains a partially self-insured plan for medical and dental. The purpose of the partially self-insured plan is to reduce total medical cost for both employees and the BRA. Medical claims exceeding \$80 per covered individual are insured through Texas Municipal League. Annual costs exceed the plan year's additions and, as a result, the BRA's previously accumulated restricted health insurance investment account decreased by \$777. These funds will be available in any future year the health cost exceed that plan year's additions.

The past three years of changes to the restricted investment account and the accrued liability account are as follows:

| <b>Fiscal Year Ended</b> | <b>Beginning Balance</b> | <b>Additions</b> | <b>Deletions</b> | <b>Ending Balance</b> |
|--------------------------|--------------------------|------------------|------------------|-----------------------|
| August 31, 2010          | \$ 2,518                 | \$ 1,944         | \$ (2,149)       | \$ 2,313              |
| August 31, 2011          | \$ 2,313                 | \$ 1,920         | \$ (2,220)       | \$ 2,013              |
| August 31, 2012          | \$ 2,013                 | \$ 2,399         | \$ (3,176)       | \$ 1,236              |

Liabilities are reported when a contingency risk exists that may exceed reasonable cost projections. In the past three years, the BRA has had no settlements which exceeded insurance coverage. The Schedule of Insurance can be found on Page 104 of this report.

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**11. BOARD DESIGNATED RESERVES**

On April 25, 2005, the Board of Directors of the BRA approved and adopted a contingency reserves policy and incorporated such policy into Section 4.06, "Contingency Reserve" of the BRA Operations Policies Manual.

The balances of those reserves at August 31, 2012 are represented as follows:

|                                 |                  |
|---------------------------------|------------------|
| Working Capital Reserve         | \$ 5,777         |
| Contingency Reserve Fund        | 5,000            |
| Self Insurance Fund             | 500              |
| Rate Stabilization Reserve Fund | 47,170           |
| <b>TOTAL</b>                    | <b>\$ 58,447</b> |

**12. RECENTLY ISSUED GASB STATEMENTS**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement have been adopted by the BRA with no significant impact.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- i. Financial Accounting Standards Board (FASB) Statements and Interpretations
- ii. Accounting Principles Board Opinions
- iii. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business type activities to apply post November 30, 1989 FASB Statements and interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements including this Statement. The provisions of this Statement have been adopted by the BRA with no significant impact.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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In June 2011 the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011 the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after their replacement of swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

In March 2012 the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In March 2012 the GASB issued Statement No. 66, *Technical Corrections -2012- an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain

**BRAZOS RIVER AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011 (in thousands)**

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applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

In June 2012, the GASB issued Statement No 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No.27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

**13. AGREEMENT TO TRANSFER OWNERSHIP**

During Fiscal Year 2012, the contracting parties of the Lake Granbury Surface Water and Treatment System (SWATS) and the BRA entered into negotiations for the sale and transfer of the SWATS facility. Negotiations were completed and the ownership/operation was transferred to the contracting parties on May 31, 2012. The BRA paid \$6,000 at closing and all remaining assets and liabilities have been removed for the books and records resulting in a loss on sale of operations of \$11,762.

**14. CENTRAL OFFICE REMEDIATION OBLIGATION**

In September 2012, the BRA identified mold contamination within its Central Office facility in Waco, Texas. It has been determined that the BRA has a remediation obligation in Fiscal Year 2012 under GASB 49, and an impairment loss occurring in Fiscal Year 2013 under GASB 42.

For Fiscal Year 2012, the estimated remediation obligation recorded is \$2,400. The amount of this liability is calculated from environmental consultants, architect, engineering, and construction contracts entered into subsequent to August 31, 2012; including some amount for cost contingency, but no amount for insurance recovery. In accordance with the provisions of GASB Statements 34 and 49, the estimated remediation expense is classified as a Special Item in the Statements of Revenues, Expenses and Changes in Net Assets.

The first phase of the remediation project required the temporary relocation of the BRA staff for seventeen days in October 2012. The total remediation and rehabilitation project has an estimated cost of \$7,200 (including the \$2,400 mentioned above), and involves the identification and removal of damaged and/or contaminated material, the rebuilding of the interior and exterior walls, enhancements to the HVAC system, and site drainage improvements.

The Central Office building was constructed in 2001 at a total cost of \$5,523. The building had an expected useful life of forty years. The carrying amount of the building at August 31, 2012 was \$4,011. The estimated replacement cost of the building is \$9,823. The BRA estimates that an impairment loss of approximately \$1,900 will be required in Fiscal Year 2013, which is the year of discovery of the damages to the structure which caused the unexpected decline in service utility and the initiation of repairs.



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*Fiscal Year 2012 Comprehensive Annual Financial Report*

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**BRAZOS RIVER AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS (Unaudited)**

**Retirement Plan for Employees of Brazos River Authority:**

| <b>Actuarial Valuation Date</b> | <b>Value of Assets (a)</b> | <b>Actuarial Liability (AAL) (b)</b> | <b>Underfunded AAL (UAAL) (b) - (a)</b> | <b>Funded Ratio (a)/(b)</b> | <b>Covered Payroll (c) *</b> | <b>UAAL as % of Covered Payroll (b-a)/(c) *</b> |
|---------------------------------|----------------------------|--------------------------------------|---|-----------------------------|------------------------------|---|
| March 1, 2010                   | \$ 20,944                  | \$ 23,645                            | \$ 2,701                                | 89%                         | \$ 8,416                     | 32.09   |
| March 1, 2011                   | \$ 20,343                  | \$ 23,968                            | \$ 3,625                                | 85%                         | \$ 7,406                     | 48.95   |
| March 1, 2012                   | \$ 19,776                  | \$ 27,231                            | \$ 7,455                                | 73%                         | \$ 7,070                     | 105.45  |

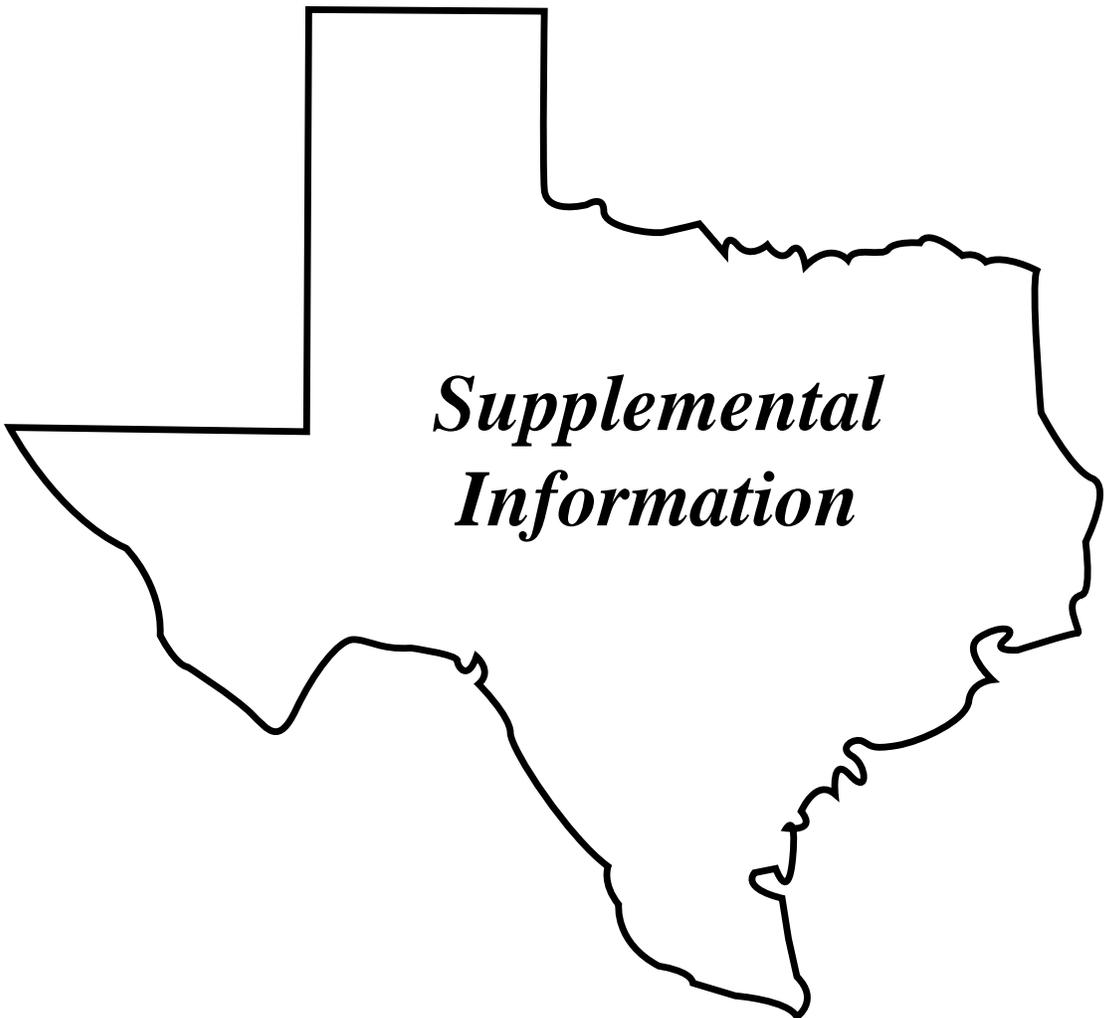
\*As a result of the amendment to freeze the Plan, the valuation period March 1, 2009 will be the first year the covered payroll information is no longer needed for the calculation of the ARC.

**Brazos River Authority TCDRS:**

| <b>Actuarial Valuation Date</b> | <b>Value of Assets (a)</b> | <b>Actuarial Liability (AAL) (b)</b> | <b>Underfunded AAL (UAAL) (b) - (a)</b> | <b>Funded Ratio (a)/(b)</b> | <b>Covered Payroll (c)</b> | <b>UAAL as % of Covered Payroll (b-a)/(c)</b> |
|---------------------------------|----------------------------|--------------------------------------|---|-----------------------------|----------------------------|---|
| December 31, 2009               | \$ 4,385                   | \$ 6,294                             | \$ 1,909                                | 69.67%                      | \$ 13,585                  | 14.06   |
| December 31, 2010               | \$ 6,469                   | \$ 8,304                             | \$ 1,835                                | 77.90%                      | \$ 13,211                  | 13.89   |
| December 31, 2011               | \$ 8,656                   | \$ 10,396                            | \$ 1,740                                | 83.26%                      | \$ 13,232                  | 13.15   |

Historical trend information about the TCDRS, a nontraditional defined benefit pension plan, is presented as supplementary information. It is intended to help users assess the plan's funding status on an on-going basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other comparable retirement systems.

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**BRAZOS RIVER AUTHORITY  
SUPPLEMENTAL INFORMATION  
COMBINING STATEMENTS OF FIDUCIARY NET ASSETS  
AUGUST 31, 2012 AND 2011 (in thousands)**

|                                    | 2012            | 2011            |
|------------------------------------|-----------------|-----------------|
| <b>City of Keene Agency Fund</b>   |                 |                 |
| <b>ASSETS</b>                      |                 |                 |
| Cash                               | \$ -            | \$ 504          |
| Investments                        | -               | 1,350           |
| <b>TOTAL ASSETS</b>                | <b>\$ -</b>     | <b>\$ 1,854</b> |
| <b>LIABILITIES</b>                 |                 |                 |
| Held for future debt service       | \$ -            | \$ 1,854        |
| <b>TOTAL LIABILITIES</b>           | <b>\$ -</b>     | <b>\$ 1,854</b> |
| <b>Jonah Water SUD Agency Fund</b> |                 |                 |
| <b>ASSETS</b>                      |                 |                 |
| Cash                               | \$ 4,939        | \$ 629          |
| Investments                        | 832             | 448             |
| <b>TOTAL ASSETS</b>                | <b>\$ 5,771</b> | <b>\$ 1,077</b> |
| <b>LIABILITIES</b>                 |                 |                 |
| Held for future debt service       | \$ 877          | \$ 492          |
| Held for future construction cost  | 4,894           | 585             |
| <b>TOTAL LIABILITIES</b>           | <b>\$ 5,771</b> | <b>\$ 1,077</b> |
| <b>Grand Total</b>                 |                 |                 |
| <b>ASSETS</b>                      |                 |                 |
| Cash                               | \$ 4,939        | \$ 1,133        |
| Investments                        | 832             | 1,798           |
| <b>TOTAL ASSETS</b>                | <b>\$ 5,771</b> | <b>\$ 2,931</b> |
| <b>LIABILITIES</b>                 |                 |                 |
| Held for future debt service       | \$ 877          | \$ 2,346        |
| Held for future construction cost  | 4,894           | 585             |
| <b>TOTAL LIABILITIES</b>           | <b>\$ 5,771</b> | <b>\$ 2,931</b> |

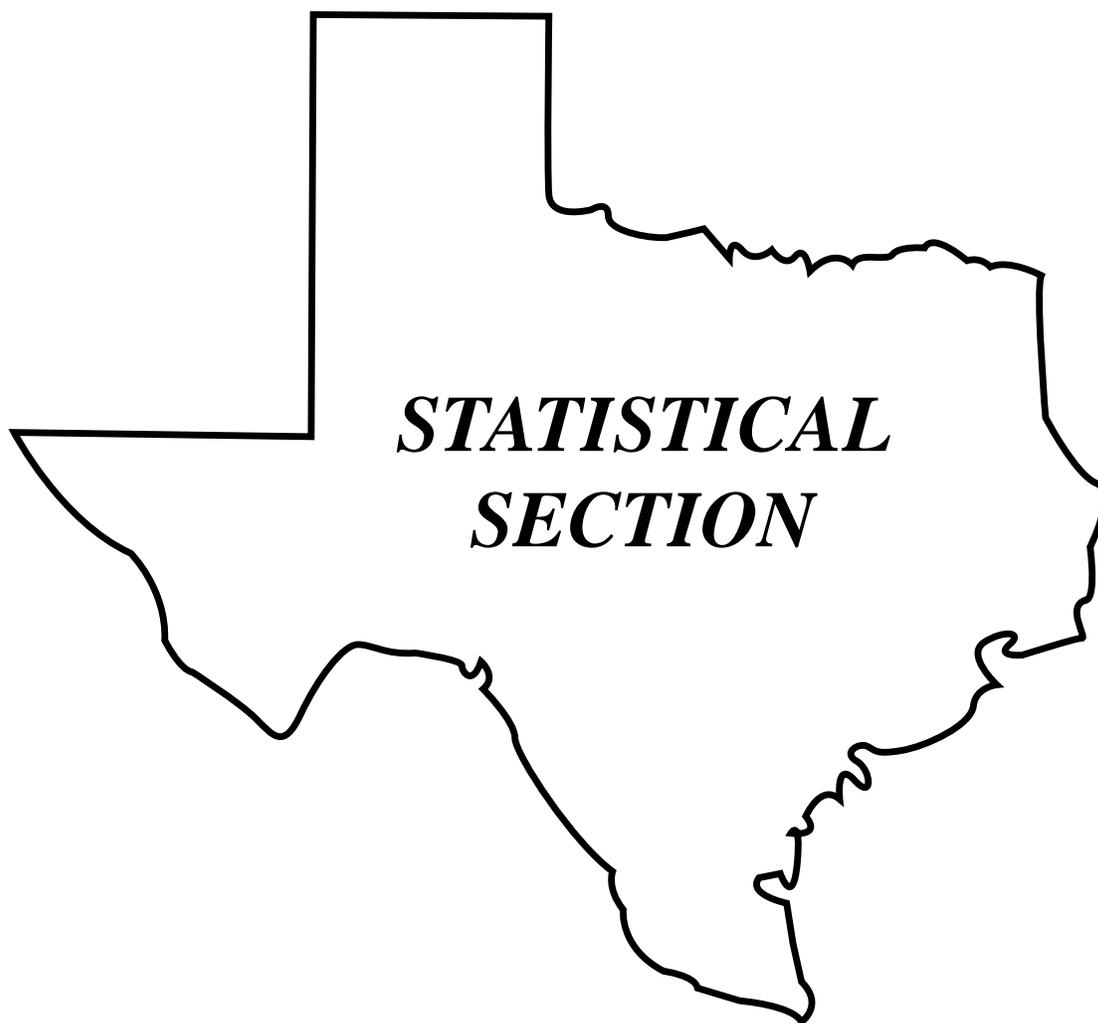
**BRAZOS RIVER AUTHORITY  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES (AGENCY FUNDS)  
YEAR ENDED AUGUST 31, 2012 (in thousands)**

|                                    | Balance<br>August 31,<br>2011 | Additions       | Deletions         | Balance<br>August 31,<br>2012 |
|------------------------------------|-------------------------------|-----------------|-------------------|-------------------------------|
| <b>City of Keene Agency Fund</b>   |                               |                 |                   |                               |
| <b>ASSETS</b>                      |                               |                 |                   |                               |
| Cash                               | \$ 504                        | \$ 1,356        | \$ (1,860)        | \$ -                          |
| Investments                        | 1,350                         | 4               | (1,354)           | -                             |
| Accrued interest                   | -                             |                 |                   | -                             |
| <b>TOTAL ASSETS</b>                | <b>\$ 1,854</b>               | <b>\$ 1,360</b> | <b>\$ (3,214)</b> | <b>\$ -</b>                   |
| <b>LIABILITIES</b>                 |                               |                 |                   |                               |
| Held for future debt service       | \$ 1,854                      |                 | \$ (1,854)        | \$ -                          |
| <b>TOTAL LIABILITIES</b>           | <b>\$ 1,854</b>               | <b>\$ -</b>     | <b>\$ (1,854)</b> | <b>\$ -</b>                   |
| <b>Jonah Water SUD Agency Fund</b> |                               |                 |                   |                               |
| <b>ASSETS</b>                      |                               |                 |                   |                               |
| Cash                               | \$ 629                        | \$ 5,744        | \$ (1,434)        | \$ 4,939                      |
| Investments                        | 448                           | 833             | (449)             | 832                           |
| <b>TOTAL ASSETS</b>                | <b>\$ 1,077</b>               | <b>\$ 6,577</b> | <b>\$ (1,883)</b> | <b>\$ 5,771</b>               |
| <b>LIABILITIES</b>                 |                               |                 |                   |                               |
| Held for future debt service       | \$ 492                        | \$ 835          | \$ (450)          | \$ 877                        |
| Held for future construction cost  | 585                           | 4,461           | (152)             | 4,894                         |
| <b>TOTAL LIABILITIES</b>           | <b>\$ 1,077</b>               | <b>\$ 5,296</b> | <b>\$ (602)</b>   | <b>\$ 5,771</b>               |

**BRAZOS RIVER AUTHORITY  
SUPPLEMENTAL INFORMATION  
COMPARISON OF BUDGETED REVENUES AND EXPENSES TO ACTUAL (NON-GAAP BASIS)  
YEAR ENDED AUGUST 31, 2012 (in thousands)**

|   | <b>2012<br/>Budget</b> | <b>2012<br/>Actual</b> | <b>Variance</b>   |    |
|---|------------------------|------------------------|-------------------|----|
| <b>OPERATING REVENUES:</b>                |                        |                        |                   |    |
| <b>Water Supply System:</b>               |                        |                        |                   |    |
| Raw water sales                           | \$ 28,471              | \$ 32,795              | \$ 4,324          | 1  |
| Treated water                             | 1,620                  | 2,019                  | 399               | 2  |
| Wastewater treatment                      | 3,450                  | 3,424                  | (26)              |    |
| Lake operations                           | 1,534                  | 1,739                  | 205               |    |
| Grants                                    | 1,029                  | 902                    | (127)             |    |
| Other                                     | 797                    | 1,149                  | 352               |    |
| <b>Cost Reimbursable Operations:</b>      |                        |                        |                   |    |
| Water conveyance                          | 3,185                  | 3,826                  | 641               |    |
| Water treatment                           | 10,927                 | 7,052                  | (3,875)           | 3  |
| Wastewater treatment                      | 9,495                  | 7,631                  | (1,864)           | 4  |
| <b>TOTAL OPERATING REVENUES</b>           | <b>60,508</b>          | <b>60,537</b>          | <b>29</b>         |    |
| <b>OPERATING EXPENSES:</b>                |                        |                        |                   |    |
| Personnel services                        | 18,638                 | 16,054                 | 2,584             | 5  |
| Materials and supplies                    | 3,709                  | 2,598                  | 1,111             | 6  |
| Utilities                                 | 5,361                  | 4,267                  | 1,094             | 7  |
| Depreciation and amortization             | -                      | 8,837                  | (8,837)           | 8  |
| Outside services                          | 5,206                  | 3,426                  | 1,780             | 9  |
| Other                                     | 11,618                 | 9,918                  | 1,700             | 10 |
| <b>TOTAL OPERATING EXPENSES</b>           | <b>44,532</b>          | <b>45,100</b>          | <b>(568)</b>      |    |
| <b>NON-OPERATING REVENUES (EXPENSES):</b> |                        |                        |                   |    |
| Investment income                         | 1,125                  | 1,074                  | (51)              |    |
| Interest expense                          | (7,202)                | (5,801)                | 1,401             | 11 |
| Other expenses                            | -                      | (2,286)                | (2,286)           | 12 |
| Gain on sale of capital assets            | -                      | (11,724)               | (11,724)          | 12 |
| Capital contributions                     | -                      | 1                      | 1                 |    |
| Special item                              | -                      | (2,400)                | (2,400)           | 12 |
| Debt service - principal                  | (7,275)                | -                      | 7,275             | 13 |
| <b>TOTAL NET NON-OPERATING REVENUES</b>   | <b>(13,352)</b>        | <b>(21,136)</b>        | <b>(7,784)</b>    |    |
| <b>CHANGE IN NET ASSETS</b>               | <b>\$ 2,624</b>        | <b>\$ (5,699)</b>      | <b>\$ (8,323)</b> |    |

- 1 Higher than expected water sales
- 2 Higher than expected treated water sales
- 3 BRA ceased operating SWATS at the end of May
- 4 Cost savings on chemicals, utilities and capital outlay at wastewater facilities
- 5 Normal attrition in the replacement of personnel and salaries allocated to CIP
- 6 Lower than expected expenditures across most departments on chemicals, fuel and office equipment
- 7 Lower than expected expenditures across most departments for electricity due to lower contract rates
- 8 Depreciation and amortization are not budgeted expenditures
- 9 Lower than expected due to timing of projects being pushed to the following year.
- 10 Budget column includes items subsequently reclassified to an asset for the preparation of the CAFR; in addition, cost savings on repair and maintenance, capital outlay, and employee development cost
- 11 A result of the early pay off of debt.
- 12 Result of SWATS transfer agreement and write off of assets and liabilities and remediation expense
- 13 Debt service principal payments are not GAAP expenditures



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*Fiscal Year 2012 Comprehensive Annual Financial Report*

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**BRAZOS RIVER AUTHORITY**  
**STATISTICAL SECTION**

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This part of the BRA's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the management's discussion and analysis, financial statements and note disclosures says about the BRA's overall financial health.

| <u><b>Contents</b></u>   | <u><b>Pages</b></u> |
|--|---------------------|
| <b>Financial Trends</b><br>These schedules contain information to assist the reader in obtaining a better understanding of how the BRA's financial performance and well-being have changed over time.  | 82 - 84             |
| <b>Revenue Capacity</b><br>These schedules contain information to assist the reader in obtaining a better understanding of the BRA's significant revenue sources, water sales and cost reimbursable operations.  | 85 - 89             |
| <b>Debt Capacity</b><br>These schedules present information to help the reader assess the affordability of the BRA's current levels of outstanding debt, the BRA's ability to issue additional debt in the future, and to provide information to comply with the continuing disclosure requirements of SEC Rule 15c2-12. | 90 - 93             |
| <b>Demographic and Economic information</b><br>These schedules offer demographic and economic indicators to help the reader understand the environment within which the BRA operates and the geographic regions the BRA manages, each with distinctive climate, topography and water needs.                              | 94 - 101            |
| <b>Operating Information</b><br>These schedules contain service and infrastructure data to help the reader understand how the information in the BRA's financial report relates to the services the BRA provides and the activities it performs.   | 103 - 106           |

**Sources:** Unless otherwise noted, the information in these schedules are derived from the comprehensive annual financial reports for the relevant year. The BRA implemented GASB Statement 34 in 2003; schedules presenting basic financial information include information beginning in that year.

Statement No. 44 of the Governmental Accounting Standards Board *Economic Condition Reporting: The Statistical Section* was implemented by the BRA during fiscal year 2005. The Statement allows governments to begin the schedules prospectively and are not required to retroactively report years prior to the implementation date of the Statement. However, governments are encouraged to report retroactively back to the year they implemented Statement 34.

**BRAZOS RIVER AUTHORITY**  
**CHANGES IN NET ASSETS (in thousands)**  
**LAST TEN FISCAL YEARS (unaudited)**  
(accrual basis of accounting)

|  | Fiscal Year       |                  |                 | Restated        |
|--|-------------------|------------------|-----------------|-----------------|
|  | 2012              | 2011             | 2010            | 2009            |
| <b>OPERATING REVENUES:</b>                                     |                   |                  |                 |                 |
| Water Supply System:   |                   |                  |                 |                 |
| Raw water  | \$ 32,795         | \$ 33,672        | \$ 28,640       | \$ 29,529       |
| Treated water  | 2,019             | 1,623            | 1,571           | 1,232           |
| Wastewater treatment   | 3,424             | 3,335            | 3,285           | 3,012           |
| Lake operations  | 1,739             | 2,095            | 4,492           | 3,243           |
| Hydroelectric  | -                 | -                | -               | 514             |
| Grants   | 902               | 778              | 1,552           | 1,578           |
| Pollution control financing fees                               | -                 | -                | -               | -               |
| Other  | 1,149             | 1,103            | 927             | 1,466           |
| Cost Reimbursable Operations:                                  |                   |                  |                 |                 |
| Water conveyance (a)   | 3,826             | 3,037            | 1,853           | 3,235           |
| Water treatment  | 7,052             | 8,938            | 8,221           | 8,953           |
| Wastewater treatment (b)                                       | 7,631             | 7,860            | 8,045           | 7,733           |
| <b>TOTAL OPERATING REVENUES</b>                                | <b>60,537</b>     | <b>62,441</b>    | <b>58,586</b>   | <b>60,495</b>   |
| <b>OPERATING EXPENSES:</b>                                     |                   |                  |                 |                 |
| Personnel services   | 16,054            | 15,740           | 16,615          | 16,355          |
| Materials and supplies   | 2,598             | 2,990            | 2,769           | 3,011           |
| Utilities  | 4,267             | 4,981            | 4,506           | 5,121           |
| Depreciation and amortization                                  | 8,837             | 9,376            | 9,789           | 9,905           |
| Outside services   | 3,426             | 4,372            | 5,422           | 4,525           |
| Other  | 9,918             | 8,563            | 7,579           | 7,317           |
| <b>TOTAL OPERATING EXPENSES</b>                                | <b>45,100</b>     | <b>46,022</b>    | <b>46,680</b>   | <b>46,234</b>   |
| <b>OPERATING INCOME</b>  | <b>15,437</b>     | <b>16,419</b>    | <b>11,906</b>   | <b>14,261</b>   |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>                      |                   |                  |                 |                 |
| Investment income  | 1,074             | 1,223            | 891             | 1,329           |
| Interest expense   | (5,801)           | (7,166)          | (7,341)         | (7,419)         |
| Other income (d)   | -                 | -                | -               | -               |
| Other expenses   | (2,286)           | (147)            | (735)           | (303)           |
| Gain/(Loss) on sale of capital assets (a),(b),(c),(e),(f)      | (11,724)          | 48,865           | 38              | (107)           |
| <b>TOTAL NET NON-OPERATING REVENUES (EXPENSES)</b>             | <b>(18,737)</b>   | <b>42,775</b>    | <b>(7,147)</b>  | <b>(6,500)</b>  |
| <b>INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; SPECIAL ITEMS:</b> | <b>(3,300)</b>    | <b>59,194</b>    | <b>4,759</b>    | <b>7,761</b>    |
| <b>CAPITAL CONTRIBUTIONS</b>                                   | <b>1</b>          | <b>636</b>       | <b>1,203</b>    | <b>1,035</b>    |
| <b>SPECIAL ITEMS (g)</b>                                       | <b>(2,400)</b>    | <b>-</b>         | <b>-</b>        | <b>-</b>        |
| <b>CHANGE IN NET ASSETS</b>                                    | <b>\$ (5,699)</b> | <b>\$ 59,830</b> | <b>\$ 5,962</b> | <b>\$ 8,796</b> |

- (a) On July 14, 2005 a transfer agreement was signed by the City of Lubbock, Texas and the BRA to transfer ownership and operation of Lake Alan Henry to the City of Lubbock. As a result of this transaction, the BRA removed all related assets, liabilities and net assets from its books resulting in a loss from sale of operations in the amount of \$9,425
- (b) During Fiscal Year 2004, the customer cities of WMARSS and the BRA entered into negotiations for early termination of their contract, which had approximately eight years remaining. Negotiations were completed and the ownership/operation was transferred to the City of Waco on February 24, 2004 and all existing contracts, assets, and related debt were transferred to the City of Waco.
- (c) During Fiscal Year 2006 a transfer agreement was signed by the City of Sugar Land, Texas and the BRA, to transfer ownership and operation of the City of Sugar Land. As a result of this transaction, the BRA removed all related assets, liabilities and net assets from its books resulting in a loss from sale of operations in the amount of \$5.681
- (d) Proceeds from litigation settlement of capital assets
- (e) During Fiscal Year 2011, the BRA sold most residential and selected commercial leases at Possum Kingdom Lake to Patterson PK Land Partnership, Ltd.
- (f) During Fiscal Year 2012, the customer cities of SWATS and the BRA entered into negotiations for early termination of their contract. Negotiations were completed and the ownership/operation was transferred to the customers May 31, 2012 and all existing contracts, assets, and related debt were transferred to the SWATS customers.
- (g) Central office mold remediation expenses

|    | 2008    | 2007      | 2006       | 2005       | 2004      | 2003       |
|----|---------|-----------|------------|------------|-----------|------------|
| \$ | 26,093  | \$ 23,010 | \$ 19,460  | \$ 18,653  | \$ 18,044 | \$ 17,462  |
|    | 1,022   | 1,062     | 1,115      | 886        | 247       | -          |
|    | 2,989   | 2,572     | 2,301      | 1,021      | 836       | -          |
|    | 3,181   | 3,121     | 2,875      | 2,508      | 2,396     | 2,258      |
|    | 631     | 603       | 677        | 750        | 625       | 603        |
|    | 1,264   | 1,101     | 1,615      | 2,863      | 2,805     | 2,357      |
|    | -       | -         | 750        | -          | 933       | 267        |
|    | 1,356   | 1,229     | 1,259      | 1,251      | 981       | 962        |
|    | 2,346   | 2,247     | 1,801      | 5,954      | 6,058     | 5,617      |
|    | 8,174   | 7,880     | 8,038      | 6,877      | 6,632     | 5,437      |
|    | 7,827   | 7,321     | 7,186      | 7,520      | 9,914     | 13,761     |
|    | 54,883  | 50,146    | 47,077     | 48,283     | 49,471    | 48,724     |
|    | 15,271  | 14,744    | 14,670     | 14,195     | 15,009    | 13,588     |
|    | 2,613   | 2,501     | 2,792      | 2,389      | 2,183     | 2,518      |
|    | 4,836   | 4,545     | 4,355      | 3,087      | 3,800     | 3,704      |
|    | 8,804   | 9,819     | 9,965      | 11,478     | 10,434    | 10,412     |
|    | 4,993   | 4,959     | 4,551      | 7,358      | 6,715     | 5,695      |
|    | 7,025   | 6,655     | 6,677      | 4,985      | 5,281     | 5,070      |
|    | 43,542  | 43,223    | 43,010     | 43,492     | 43,422    | 40,987     |
|    | 11,341  | 6,923     | 4,067      | 4,791      | 6,049     | 7,737      |
|    | 2,187   | 2,832     | 1,941      | 1,253      | 1,376     | 1,718      |
|    | (5,848) | (5,928)   | (5,963)    | (8,797)    | (9,134)   | (11,577)   |
|    | 4,125   | -         | -          | -          | -         | -          |
|    | (292)   | (765)     | (1,352)    | (197)      | (361)     | (305)      |
|    | (391)   | 33        | (5,674)    | (9,418)    | 1,875     | -          |
|    | (219)   | (3,828)   | (11,048)   | (17,159)   | (6,244)   | (10,164)   |
|    | 11,122  | 3,095     | (6,981)    | (12,368)   | (195)     | (2,427)    |
|    | 661     | 1,933     | 1,126      | 4,177      | 2,871     | -          |
|    | -       | -         | -          | -          | -         | -          |
| \$ | 11,783  | \$ 5,028  | \$ (5,855) | \$ (8,191) | \$ 2,676  | \$ (2,427) |

**BRAZOS RIVER AUTHORITY**  
**NET ASSETS BY COMPONENT** (in thousands)  
**LAST TEN FISCAL YEARS** (unaudited)  
(accrual basis of accounting)

| <b>Fiscal Year</b> | <b>Invested in<br/>Capital<br/>Assets Net<br/>of Related<br/>Debt</b> | <b>Restricted</b> | <b>Unrestricted</b> | <b>Total Net<br/>Assets</b> |
|--------------------|---|-------------------|---------------------|-----------------------------|
| 8/31/2003          | \$ 88,046   | \$ 30,805         | \$ 41,625           | \$ 160,476                  |
| 8/31/2004          | 105,899   | 16,139            | 41,471              | 163,509                     |
| 8/31/2005          | 115,103   | 12,116            | 29,404              | 156,623                     |
| 8/31/2006          | 98,325  | 18,678            | 35,071              | 152,074                     |
| 8/31/2007          | 98,880  | 22,634            | 36,907              | 158,421                     |
| 8/31/2008          | 111,857   | 13,774            | 44,572              | 170,203                     |
| 8/31/2009          | 135,152   | 6,149             | 37,698              | 178,999                     |
| 8/31/2010          | 135,931   | 5,641             | 43,389              | 184,961                     |
| 8/31/2011          | 145,039   | 9,393             | 90,359              | 244,791                     |
| 8/31/2012          | 174,397   | 6,490             | 58,205              | 239,092                     |

- During Fiscal Year 2004, the customer cities of WMARSS and the BRA entered into negotiations for early termination of their contract, which had approximately eight years remaining. Negotiations were completed and the ownership/operation was transferred to the City of Waco on February 24, 2004 and all existing contracts, assets and related debt were transferred to the City of Waco.
- During Fiscal Year 2006, the customer, City of Sugar Land, and the BRA entered into negotiations for early termination of their contract. Negotiations were completed and the ownership/operation was transferred to the City of Sugar Land on October 25, 2005 and all existing contracts, assets and related debt were transferred to the City of Sugar Land.
- During Fiscal Year 2008, the BRA spent the majority of the bond proceeds and completed the expansion project at its East Williamson County Regional Water System.
- During Fiscal Year 2009, the BRA issued \$22,000 in new debt for the construction of the deep water intake structure on Granger Lake.
- During Fiscal Year 2011, the BRA sold most residential and selected commercial leases at Possum Kingdom Lake to Patterson PK Land Partnership, Ltd.
- During Fiscal Year 2012, the BRA disposed of all assets and liabilities related to the SWATS operation as a result of the transfer agreement with the contracting parties of the SWATS operation. In addition, during the Fiscal Year 2012, the BRA redeemed the Series 2002 Water Supply bonds, the Series 2005A Water Supply bonds, and the Contracts Payable for the Aquilla Reservoir storage space.

**BRAZOS RIVER AUTHORITY  
 BUDGETED LONG TERM WATER SUPPLY REVENUES BY CONTRACT TYPE  
 LAST TEN FISCAL YEARS (unaudited)**

| Year | System Rate |           |        | Agriculture |           |         | Two-Tier  |           |        | Other Fixed |           |        | Colorado Basin |           |         | Utilities |           |  | Total |      |
|------|-------------|-----------|--------|-------------|-----------|---------|-----------|-----------|--------|-------------|-----------|--------|----------------|-----------|---------|-----------|-----------|--|-------|------|
|      | Acre Feet   | Avg Price |        | Acre Feet   | Avg Price |         | Acre Feet | Avg Price |        | Acre Feet   | Avg Price |        | Acre Feet      | Avg Price |         | Acre Feet | Avg Price |  | Acre  | Feet |
| 2003 | 191,039     | 34.50     | -      | -           | -         | -       | 98,170    | 16.48     | 20.40  | 60,402      | 20.40     | 21,860 | 49.22          | 227,047   | 33.69   | 598,518   |           |  |       |      |
| 2004 | 195,382     | 39.75     | -      | -           | -         | 105,503 | 15.75     | 21.23     | 56,976 | 21.23       | 21,860    | 49.22  | 227,047        | 45.75     | 606,768 |           |           |  |       |      |
| 2005 | 206,184     | 45.75     | 11,344 | 39.75       | 105,503   | 15.94   | 20.86     | 56,916    | 20.86  | 53.91       | 22,460    | 53.91  | 205,447        | a         | 607,854 |           |           |  |       |      |
| 2006 | 205,817     | 49.65     | 11,344 | 39.75       | 105,503   | 16.30   | 21.10     | 56,300    | 21.10  | 54.08       | 22,460    | 54.08  | 205,447        |           | 606,871 |           |           |  |       |      |
| 2007 | 224,537     | 52.50     | 9,940  | 39.75       | 105,503   | 16.36   | 20.00     | 56,916    | 20.00  | 62.07       | 20,984    | 62.07  | 205,447        |           | 623,327 |           |           |  |       |      |
| 2008 | 243,481     | 54.50     | 9,990  | 39.75       | 103,838   | 16.59   | 17.52     | 33,583    | b      | 67.73       | 21,528    | 67.73  | 205,447        |           | 617,867 |           |           |  |       |      |
| 2009 | 289,414     | 57.00     | 9,990  | 39.75       | 100,238   | 16.51   | 17.71     | 33,583    |        | 72.86       | 25,000    | 72.86  | 205,447        |           | 663,672 |           |           |  |       |      |
| 2010 | 294,741     | 60.50     | 10,190 | 42.35       | 100,238   | 16.54   | 17.87     | 33,633    |        | 74.19       | 21,528    | 74.19  | 205,447        |           | 665,777 |           |           |  |       |      |
| 2011 | 296,773     | 62.50     | 10,190 | 43.75       | 100,238   | 16.54   | 18.14     | 33,633    |        | 83.07       | 25,000    | 83.07  | 205,447        |           | 671,281 |           |           |  |       |      |
| 2012 | 296,891     | 62.50     | 10,160 | 43.75       | 100,238   | 16.72   | 18.30     | 33,583    |        | 81.49       | 21,528    | 81.49  | 205,447        |           | 667,847 |           |           |  |       |      |

Source: Brazos River Authority Annual Operating Plan.

a - Twenty one thousand acre feet, consisting of four Utility Contracts, expired and were reclassified under System Rate as required by contract.

b - Twenty three thousand three hundred acre feet, consisting of an Other Fixed Price Contract, expired and was contracted under a System Rate contract.

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12

**BRAZOS RIVER AUTHORITY**  
**MAJOR CUSTOMERS**  
**ALL OPERATION**  
**LAST TEN FISCAL YEARS (unaudited) (in thousands)**

| Fiscal Year 2012            |                  |                               | Fiscal Year 2011            |                                 |                               |
|-----------------------------|------------------|-------------------------------|-----------------------------|---------------------------------|-------------------------------|
| Customer                    | Revenues         | % of Total Operating Revenues | Customer                    | Revenues                        | % of Total Operating Revenues |
| City of Round Rock          | \$ 8,450         | 13.96                         | City of Round Rock          | \$ 7,167                        | 11.48                         |
| Johnson County S.U.D.*      | 5,673            | 9.37                          | Gulf Coast Water Authority  | 6,821                           | 10.93                         |
| City of Georgetown          | 4,470            | 7.38                          | Johnson County S.U.D.*      | 5,611                           | 8.99                          |
| Gulf Coast Water Authority  | 4,412            | 7.29                          | City of Georgetown          | 4,968                           | 7.96                          |
| NRG Texas Power, L.L.C. **  | 2,593            | 4.28                          | NRG Texas Power, L.L.C. **  | 2,594                           | 4.16                          |
| City of Sugar Land          | 2,121            | 3.50                          | City of Temple              | 2,350                           | 3.77                          |
| City of Temple              | 2,241            | 3.70                          | City of Sugar Land          | 1,994                           | 3.19                          |
| Bell County Water C.I.D. #1 | 1,828            | 3.02                          | Dow Chemical Company        | 1,928                           | 3.09                          |
| Dow Chemical Company        | 1,820            | 3.01                          | Bell County Water C.I.D. #1 | 1,813                           | 2.90                          |
| TXU Electric / Oakgrove     | 1,648            | 2.72                          | TXU Electric / Oakgrove     | 1,450                           | 2.32                          |
|                             | <u>\$ 35,256</u> | <u>58.23</u>                  |                             | <u>\$ 36,696</u> <sup>(1)</sup> | <u>58.79</u>                  |

| Fiscal Year 2010               |                      |                               | Fiscal Year 2009               |                                 |                               |
|--------------------------------|----------------------|-------------------------------|--------------------------------|---------------------------------|-------------------------------|
| Customer                       | Revenues             | % of Total Operating Revenues | Customer                       | Revenues                        | % of Total Operating Revenues |
| Johnson County S.U.D.*         | \$ 6,551             | 11.18                         | Johnson County S.U.D.*         | \$ 7,593                        | 12.55                         |
| City of Round Rock             | 6,357                | 10.85                         | Lower Colorado River Authority | 6,779                           | 11.21                         |
| City of Georgetown             | 4,472                | 7.63                          | City of Georgetown             | 4,129                           | 6.83                          |
| Lower Colorado River Authority | 3,414 <sup>(2)</sup> | 5.83                          | City of Round Rock             | 4,040                           | 6.68                          |
| NRG Texas Power, L.L.C.**      | 2,629                | 4.49                          | Gulf Coast Water Authority     | 3,266                           | 5.40                          |
| City of Temple                 | 2,579                | 4.40                          | City of Temple                 | 2,550                           | 4.22                          |
| Gulf Coast Water Authority     | 2,513                | 4.29                          | NRG Texas Power, L.L.C.**      | 2,525                           | 4.17                          |
| Bell County W.C.I.D. #1        | 1,782                | 3.04                          | City of Sugar Land             | 1,846                           | 3.05                          |
| City of Sugar Land             | 1,743                | 2.98                          | Dow Chemical Company           | 1,810                           | 2.99                          |
| TXU Electric / Oakgrove        | 1,545                | 2.64                          | Bell County W.C.I.D. #1        | 1,727                           | 2.85                          |
|                                | <u>\$ 33,585</u>     | <u>57.33</u>                  |                                | <u>\$ 36,265</u> <sup>(1)</sup> | <u>59.95</u>                  |

| Fiscal Year 2008                 |                  |                               | Fiscal Year 2007               |                  |                               |
|----------------------------------|------------------|-------------------------------|--------------------------------|------------------|-------------------------------|
| Customer                         | Revenues         | % of Total Operating Revenues | Customer                       | Revenues         | % of Total Operating Revenues |
| Johnson County S.U.D.*           | \$ 6,845         | 12.47                         | Johnson County S.U.D.*         | \$ 6,580         | 13.12                         |
| Lower Colorado River Authority   | 5,791            | 10.55                         | Lower Colorado River Authority | 5,335            | 10.64                         |
| City of Georgetown               | 4,100            | 7.47                          | City of Round Rock             | 3,884            | 7.74                          |
| City of Round Rock               | 3,750            | 6.83                          | City of Georgetown             | 3,597            | 7.17                          |
| NRG Texas Power, L.L.C.**        | 2,466            | 4.49                          | City of Temple                 | 2,550            | 5.09                          |
| Acton Municipal Utility District | 2,049            | 3.73                          | NRG Texas Power, L.L.C.**      | 2,148            | 4.28                          |
| City of Temple                   | 2,013            | 3.67                          | Bell County W.C.I.D. #1        | 1,646            | 3.28                          |
| Gulf Coast Water Authority       | 1,806            | 3.29                          | City of Sugar Land             | 1,579            | 3.15                          |
| Bell County W.C.I.D. #1          | 1,692            | 3.08                          | City of Granbury               | 1,397            | 2.79                          |
| City of Sugar Land               | 1,622            | 2.96                          | Gulf Coast Water Authority     | 1,077            | 2.15                          |
|                                  | <u>\$ 32,134</u> | <u>58.54</u>                  |                                | <u>\$ 29,793</u> | <u>59.41</u>                  |

| Fiscal Year 2006               |                  |                               | Fiscal Year 2005               |                  |                               |
|--------------------------------|------------------|-------------------------------|--------------------------------|------------------|-------------------------------|
| Customer                       | Revenues         | % of Total Operating Revenues | Customer                       | Revenues         | % of Total Operating Revenues |
| Lower Colorado River Authority | \$ 5,080         | 10.79                         | City of Lubbock                | \$ 4,637         | 9.60                          |
| Johnson County S.U.D.*         | 4,824            | 10.25                         | Johnson County S.U.D.*         | 4,345            | 9.00                          |
| City of Round Rock             | 3,285            | 6.98                          | City of Sugar Land             | 3,912            | 8.10                          |
| City of Georgetown             | 2,998            | 6.37                          | Lower Colorado River Authority | 3,727            | 7.72                          |
| City of Temple                 | 2,413            | 5.13                          | City of Georgetown             | 2,959            | 6.13                          |
| City of Sugar Land             | 2,155            | 4.58                          | City of Round Rock             | 2,656            | 5.50                          |
| NRG Texas, LP (Texas Genco)**  | 1,919            | 4.08                          | Texas Genco, LP**              | 2,429            | 5.03                          |
| TXU Electric Company           | 1,863            | 3.96                          | City of Temple                 | 2,410            | 4.99                          |
| City of Taylor                 | 1,160            | 2.46                          | TXU Electric Company           | 2,361            | 4.89                          |
| Bell County W.C.I.D. #1        | 1,121            | 2.38                          |                                |                  |                               |
|                                | <b>\$ 26,818</b> | <b>56.98</b>                  |                                | <b>\$ 29,436</b> | <b>60.96</b>                  |

| Fiscal Year 2004               |                  |                               | Fiscal Year 2003               |                  |                               |
|--------------------------------|------------------|-------------------------------|--------------------------------|------------------|-------------------------------|
| Customer                       | Revenues         | % of Total Operating Revenues | Customer                       | Revenues         | % of Total Operating Revenues |
| TXU Electric Company           | \$ 8,230 (3)     | 16.64                         | City of Waco                   | \$ 6,186         | 12.70                         |
| City of Sugar Land             | 5,077            | 10.26                         | TXU Electric Company           | 5,671            | 11.64                         |
| City of Lubbock                | 4,534            | 9.16                          | City of Lubbock                | 4,172            | 8.56                          |
| Johnson County S.U.D.*         | 3,751            | 7.58                          | Johnson County R.W.S.C.*       | 3,476            | 7.13                          |
| City of Waco                   | 3,230 (4)        | 6.53                          | Lower Colorado River Authority | 2,948            | 6.05                          |
| Lower Colorado River Authority | 3,044            | 6.15                          | City of Temple                 | 2,482            | 5.09                          |
| Texas Genco, LP**              | 2,942            | 5.95                          | City of Round Rock             | 2,452            | 5.03                          |
| City of Temple                 | 2,586            | 5.23                          | Texas Genco, LP**              | 1,988            | 4.08                          |
| City of Georgetown             | 2,552            | 5.16                          | City of Georgetown             | 1,333            | 2.74                          |
| City of Round Rock             | 2,339            | 4.73                          | City of Sugar Land             | 1,307            | 2.68                          |
|                                | <b>\$ 38,285</b> | <b>77.39</b>                  |                                | <b>\$ 32,015</b> | <b>65.70</b>                  |

\*Johnson County Special Utility District was formerly Johnson County Rural Water Supply Corporation

\*\*NRG Texas, LP was formerly Texas Genco, LP; formerly Reliant Energy; and formerly Houston Lighting & Power Co.

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12

Source: Brazos River Authority Billing System

- (1) The increase is due to higher demand for water during the record drought
- (2) The decrease is due to LCRA selling back operations to the contracting parties
- (3) Increase due to the collection of the final balloon payment on debt service
- (4) Decrease due to the transfer agreement and subsequent sale of the operational unit.

**BRAZOS RIVER AUTHORITY  
MAJOR CUSTOMERS  
WATER SUPPLY SYSTEM  
LAST TEN FISCAL YEARS (unaudited) (in thousands)**

| <b>Fiscal Year 2012</b>     |                  |                                | <b>Fiscal Year 2011</b>     |                  |                                |
|-----------------------------|------------------|--------------------------------|-----------------------------|------------------|--------------------------------|
| <b>Customer</b>             | <b>Revenues</b>  | <b>% of Total WSS Revenues</b> | <b>Customer</b>             | <b>Revenues</b>  | <b>% of Total WSS Revenues</b> |
| Gulf Coast Water Authority  | \$ 4,412         | 10.58                          | Gulf Coast Water Authority  | \$ 6,821         | 16.02                          |
| City of Georgetown          | 3,654            | 8.77                           | City of Georgetown          | 3,582            | 8.41                           |
| City of Round Rock          | 3,309            | 7.94                           | City of Round Rock          | 3,301            | 7.75                           |
| NRG Texas Power LLC         | 2,593            | 6.22                           | NRG Texas Power LLC         | 2,594            | 6.09                           |
| City of Sugar Land          | 2,121            | 5.09                           | City of Sugar Land          | 1,998            | 4.69                           |
| Bell County Water C.I.D. #1 | 1,828            | 4.39                           | Dow Chemical Company        | 1,928            | 4.53                           |
| Dow Chemical Company        | 1,820            | 4.37                           | Bell County Water C.I.D. #1 | 1,813            | 4.26                           |
| TXU Electric / Oakgrove     | 1,648            | 3.95                           | TXU Electric / Oakgrove     | 1,450            | 3.41                           |
| City of Taylor              | 1,608            | 3.86                           | City of Taylor              | 1,262            | 2.96                           |
| City of Cleburne            | 938              | 2.25                           | City of Cleburne            | 938              | 2.20                           |
|                             | <b>\$ 23,931</b> | <b>57.42</b>                   |                             | <b>\$ 25,687</b> | <b>60.32</b>                   |

| <b>Fiscal Year 2010</b>       |                  |                                | <b>Fiscal Year 2009</b>           |                  |                                |
|-------------------------------|------------------|--------------------------------|-----------------------------------|------------------|--------------------------------|
| <b>Customer</b>               | <b>Revenues</b>  | <b>% of Total WSS Revenues</b> | <b>Customer</b>                   | <b>Revenues</b>  | <b>% of Total WSS Revenues</b> |
| City of Georgetown            | \$ 3,489         | 8.62                           | City of Georgetown                | \$ 3,276         | 8.06                           |
| City of Round Rock            | 3,062            | 7.57                           | Gulf Coast Water Authority        | 3,266            | 8.04                           |
| NRG Texas Power, L.L.C.**     | 2,629            | 6.50                           | City of Round Rock                | 2,975            | 7.32                           |
| Gulf Coast Water Authority    | 2,513            | 6.21                           | NRG Texas Power, LLC*             | 2,525            | 6.22                           |
| Bell County W.C.I.D. #1       | 1,782            | 4.40                           | City of Sugar Land                | 1,846            | 4.54                           |
| City of Sugar Land            | 1,743            | 4.31                           | Dow Chemical Company              | 1,810            | 4.46                           |
| TXU Electric / Oakgrove       | 1,545            | 3.82                           | Bell County W.C.I.D. #1           | 1,727            | 4.25                           |
| City of Taylor                | 1,262            | 3.12                           | TXU Electric Company              | 1,404            | 3.46                           |
| Texas Water Development Board | 1,028            | 2.54                           | Brazos Electric Power Cooperative | 1,075            | 2.65                           |
| City of Cleburne              | 908              | 2.24                           | City of Taylor                    | 1,010            | 2.49                           |
|                               | <b>\$ 19,961</b> | <b>49.33</b>                   |                                   | <b>\$ 20,914</b> | <b>51.49</b>                   |

| <b>Fiscal Year 2008</b>    |                  |                                | <b>Fiscal Year 2007</b>           |                  |                                |
|----------------------------|------------------|--------------------------------|-----------------------------------|------------------|--------------------------------|
| <b>Customer</b>            | <b>Revenues</b>  | <b>% of Total WSS Revenues</b> | <b>Customer</b>                   | <b>Revenues</b>  | <b>% of Total WSS Revenues</b> |
| City of Round Rock         | \$ 2,777         | 7.60                           | City of Round Rock                | \$ 2,841         | 8.69                           |
| NRG Texas Power, LLC*      | 2,187            | 5.99                           | City of Georgetown                | 2,817            | 8.62                           |
| Gulf Coast Water Authority | 1,789            | 4.90                           | Bell County W.C.I.D. #1           | 1,648            | 5.04                           |
| City of Georgetown         | 1,753            | 4.80                           | City of Sugar Land                | 1,579            | 4.83                           |
| Bell County W.C.I.D. #1    | 1,692            | 4.63                           | NRG Texas Power, LLC*             | 1,367            | 4.18                           |
| City of Sugar Land         | 1,623            | 4.44                           | Gulf Coast Water Authority        | 1,067            | 3.26                           |
| City of Taylor             | 1,094            | 2.99                           | City of Taylor                    | 1,062            | 3.25                           |
| TXU Electric Company       | 788              | 2.16                           | TXU Electric Company              | 1,027            | 3.14                           |
| Johnson County S.U.D.      | 734              | 2.01                           | North Texas Living Water Resource | 934              | 2.86                           |
| City of Cleburne           | 681              | 1.86                           | Johnson County S.U.D.             | 707              | 2.16                           |
|                            | <b>\$ 15,118</b> | <b>41.38</b>                   |                                   | <b>\$ 15,049</b> | <b>46.03</b>                   |

| Fiscal Year 2006                  |                  |                         |
|-----------------------------------|------------------|-------------------------|
| Customer                          | Revenues         | % of Total WSS Revenues |
| City of Georgetown                | \$ 2,426         | 8.07                    |
| NRG Texas, LP (Texas Genco)*      | 1,919            | 6.39                    |
| City of Round Rock                | 1,851            | 6.16                    |
| TXU Electric Company              | 1,831            | 6.09                    |
| City of Taylor                    | 1,160            | 3.86                    |
| Bell County W.C.I.D. #1           | 1,121            | 3.73                    |
| Gulf Coast Water Authority        | 1,093            | 3.64                    |
| City of Sugar Land                | 1,085            | 3.61                    |
| Brazos Electric Power Cooperative | 686              | 2.28                    |
| Johnson County S.U.D.             | 669              | 2.23                    |
|                                   | <u>\$ 13,841</u> | <u>46.06</u>            |

| Fiscal Year 2005                  |                  |                         |
|-----------------------------------|------------------|-------------------------|
| Customer                          | Revenues         | % of Total WSS Revenues |
| City of Georgetown                | \$ 2,438         | 8.73                    |
| City of Round Rock                | 2,382            | 8.53                    |
| Texas Genco, L.P.*                | 2,265            | 8.11                    |
| TXU Electric Company              | 1,754            | 6.28                    |
| Gulf Coast Water Authority        | 1,057            | 3.78                    |
| City of Taylor                    | 952              | 3.41                    |
| Bell County W.C.I.D. #1           | 947              | 3.39                    |
| Brazos Electric Power Cooperative | 776              | 2.78                    |
| Johnson County S.U.D.             | 616              | 2.21                    |
| Wellborn Special Utility District | 500              | 1.79                    |
|                                   | <u>\$ 13,687</u> | <u>49.01</u>            |

| Fiscal Year 2004                  |                  |                         |
|-----------------------------------|------------------|-------------------------|
| Customer                          | Revenues         | % of Total WSS Revenues |
| TXU Electric Company              | \$ 8,059 (2)     | 30.00                   |
| Texas Genco, LP*                  | 2,137            | 7.95                    |
| City of Georgetown                | 2,031            | 7.56                    |
| City of Round Rock                | 1,551            | 5.77                    |
| Gulf Coast Water Authority        | 1,001            | 3.73                    |
| Bell County W.C.I.D. #1           | 924              | 3.44                    |
| Brazos Electric Power Cooperative | 650              | 2.42                    |
| Johnson County S.U.D.             | 536              | 1.99                    |
| City of Granbury                  | 514              | 1.91                    |
| City of Taylor                    | 494              | 1.84                    |
|                                   | <u>\$ 17,897</u> | <u>66.61</u>            |

| Fiscal Year 2003                  |                  |                         |
|-----------------------------------|------------------|-------------------------|
| Customer                          | Revenues         | % of Total WSS Revenues |
| TXU Electric Company              | \$ 5,670         | 23.72                   |
| Texas Genco, LP*                  | 1,982            | 8.29                    |
| City of Round Rock                | 1,495            | 6.25                    |
| City of Georgetown                | 1,107            | 4.63                    |
| Bell County W.C.I.D. #1           | 969              | 4.05                    |
| Gulf Coast Water Authority        | 952              | 3.98                    |
| City of Taylor                    | 517              | 2.16                    |
| Brazos Electric Power Cooperative | 484              | 2.02                    |
| City of Granbury                  | 481              | 2.01                    |
| Johnson County S.U.D.             | 465              | 1.94                    |
|                                   | <u>\$ 14,122</u> | <u>59.05</u>            |

\*NRG Texas, LP was formerly Texas Genco, LP; formerly Reliant Energy; and formerly Houston Lighting & Power Co.

- (1) The increase is due to higher demand for water during the record drought  
(2) Increase due to the collection of the final balloon payment on debt service

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12  
Source: Brazos River Authority Billing System

**BRAZOS RIVER AUTHORITY  
WATER SUPPLY REVENUE BOND DEBT  
SERIES 2005B, SERIES 2006  
AND SERIES 2009 (in thousands)  
AMORTIZATION SCHEDULE (unaudited)**

| Fiscal Year<br>Ended<br>August 31 | Series 2005B |          | Subordinate Lien<br>Series 2006 |           | Series 2009 |          | Outstanding Bonds |           | Total<br>Debt Service<br>Requirements | % Of<br>Principal<br>Retired |
|-----------------------------------|--------------|----------|---------------------------------|-----------|-------------|----------|-------------------|-----------|---------------------------------------|------------------------------|
|                                   | PRINCIPAL    | INTEREST | PRINCIPAL                       | INTEREST  | PRINCIPAL   | INTEREST | PRINCIPAL         | INTEREST  |                                       |                              |
| 2013                              | \$ 375       | \$ 419   | \$ -                            | \$ 776    | \$ 1,060    | \$ 343   | \$ 1,435          | \$ 1,538  | \$ 2,973                              |                              |
| 2014                              | 390          | 403      | -                               | 776       | 1,060       | 342      | 1,450             | 1,522     | 2,972                                 |                              |
| 2015                              | 405          | 386      | 535                             | 766       | 1,065       | 339      | 2,005             | 1,491     | 3,496                                 |                              |
| 2016                              | 425          | 369      | 560                             | 744       | 1,070       | 333      | 2,055             | 1,446     | 3,501                                 |                              |
| 2017                              | 445          | 349      | 580                             | 721       | 1,075       | 325      | 2,100             | 1,395     | 3,495                                 | 19.25                        |
| 2018                              | 465          | 329      | 605                             | 697       | 1,085       | 315      | 2,155             | 1,341     | 3,496                                 |                              |
| 2019                              | 485          | 308      | 630                             | 673       | 1,100       | 301      | 2,215             | 1,282     | 3,497                                 |                              |
| 2020                              | 505          | 285      | 655                             | 646       | 1,115       | 285      | 2,275             | 1,216     | 3,491                                 |                              |
| 2021                              | 530          | 262      | 685                             | 618       | 1,135       | 264      | 2,350             | 1,144     | 3,494                                 |                              |
| 2022                              | 555          | 237      | 715                             | 589       | 1,160       | 241      | 2,430             | 1,067     | 3,497                                 | 43.57                        |
| 2023                              | 580          | 211      | 745                             | 557       | 1,185       | 215      | 2,510             | 983       | 3,493                                 |                              |
| 2024                              | 610          | 183      | 780                             | 524       | 1,215       | 187      | 2,605             | 894       | 3,499                                 |                              |
| 2025                              | 640          | 153      | 815                             | 489       | 1,245       | 157      | 2,700             | 799       | 3,499                                 |                              |
| 2026                              | 670          | 123      | 850                             | 453       | 1,275       | 125      | 2,795             | 701       | 3,496                                 |                              |
| 2027                              | 705          | 90       | 890                             | 414       | 1,310       | 92       | 2,905             | 596       | 3,501                                 | 72.33                        |
| 2028                              | 740          | 55       | 930                             | 373       | 1,345       | 56       | 3,015             | 484       | 3,499                                 |                              |
| 2029                              | 775          | 19       | 975                             | 331       | 1,380       | 19       | 3,130             | 369       | 3,499                                 |                              |
| 2030                              |              |          | 1,015                           | 286       |             |          | 1,015             | 286       | 1,301                                 |                              |
| 2031                              |              |          | 1,065                           | 239       |             |          | 1,065             | 239       | 1,304                                 |                              |
| 2032                              |              |          | 1,115                           | 190       |             |          | 1,115             | 190       | 1,305                                 | 92.21                        |
| 2033                              |              |          | 1,165                           | 139       |             |          | 1,165             | 139       | 1,304                                 |                              |
| 2034                              |              |          | 1,220                           | 85        |             |          | 1,220             | 85        | 1,305                                 |                              |
| 2035                              |              |          | 1,275                           | 29        |             |          | 1,275             | 29        | 1,304                                 | 100.00                       |
| TOTAL                             | \$ 9,300     | 4,181    | \$ 17,805                       | \$ 11,115 | \$ 19,880   | \$ 3,941 | \$ 46,985         | \$ 19,238 | \$ 66,224                             |                              |

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12.

**BRAZOS RIVER AUTHORITY  
WATER SUPPLY REVENUE BONDS  
SERIES 2005B, SERIES 2006 AND SERIES 2009  
COVERAGE AND ACCOUNT BALANCES  
AUGUST 31, 2012 (unaudited) (in thousands)**

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|   |                      |
|---|----------------------|
| Average Annual Principal and Interest Requirements, 2013 - 2035   | \$ 2,879             |
| Coverage of Average Requirements by August 31, 2012 Net Revenues* | 4.93                 |
| Maximum Principal and Interest Requirements, 2016                 | 3,500                |
| Coverage of Maximum Requirements by August 31, 2012 Net Revenues* | 4.06                 |
| System Revenue Bonds Outstanding, August 31, 2012                 | 46,985               |
| Interest and Sinking Account Balance, August 31, 2012             | - <sup>1</sup>       |
| Reserve Account Balance, August 31, 2012 (Series 2009)            | \$1,412 <sup>2</sup> |

\*Coverage is based on Net Revenues after payment of the Prior Lien Debt.

<sup>1</sup> Funds are transferred to the Interest and Sinking Fund in equal monthly installments sufficient to make the next debt service payment when due.

<sup>2</sup> In lieu of a Reserve Fund, Surety Bonds were purchased from Municipal Bond Insurance Association Insurance Corporation for the Series 2005B and Series 2006. At August 31, 2012 all reserve account balances met all coverage requirements.

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12.

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**BRAZOS RIVER AUTHORITY**  
**WATER SUPPLY SYSTEM**  
**CONDENSED SUMMARY OF OPERATING RESULTS**  
**(CALCULATION BASED ON BOND RESOLUTION REQUIREMENTS)**  
**AUGUST 31, 2012 (unaudited) (in thousands)**

|   | Fiscal Year Ended August 31 |                         |                         |                         |                         |
|---|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | 2012                        | 2011                    | 2010                    | 2009                    | 2008                    |
| Gross Revenues:                                   |                             |                         |                         |                         |                         |
| Raw water   | \$ 31,835                   | \$ 32,712               | \$ 27,680               | \$ 28,619               | \$ 25,133               |
| Treated water                                     | 2,019                       | 1,623                   | 1,571                   | 1,232                   | 1,022                   |
| Wastewater treatment                              | 3,424                       | 3,335                   | 3,285                   | 3,012                   | 2,989                   |
| Power sales                                       | -                           | -                       | -                       | 514                     | 631                     |
| Lease income                                      | 1,739                       | 2,095                   | 4,476                   | 3,226                   | 3,181                   |
| Other   | 831                         | 779                     | 655                     | 1,225                   | 1,159                   |
| Interest  | 1,032                       | 1,173                   | 822                     | 1,258                   | 2,093                   |
| Grants  | 902                         | 778                     | 1,552                   | 1,578                   | 1,264                   |
| Other non-operating                               | -                           | -                       | -                       | -                       | 36                      |
| Less: Existing debt service (1)                   | <u>(1,042)</u>              | <u>(1,027)</u>          | <u>(1,027)</u>          | <u>(1,025)</u>          | <u>(1,016)</u>          |
| <b>TOTAL GROSS REVENUES</b>                       | <b><u>\$ 40,740</u></b>     | <b><u>\$ 41,468</u></b> | <b><u>\$ 39,014</u></b> | <b><u>\$ 39,639</u></b> | <b><u>\$ 36,492</u></b> |
| Operation & Maintenance Expenses:                 |                             |                         |                         |                         |                         |
| Personnel services                                | \$ 12,676                   | \$ 12,110               | \$ 12,919               | \$ 12,737               | \$ 11,834               |
| Materials, supplies & services                    | 1,427                       | 1,346                   | 1,285                   | 1,467                   | 1,329                   |
| Utilities   | 877                         | 1,060                   | 1,033                   | 1,057                   | 1,001                   |
| Outside services                                  | 2,798                       | 3,666                   | 4,549                   | 3,686                   | 4,150                   |
| Other   | 5,333                       | 5,151                   | 4,650                   | 4,708                   | 4,298                   |
| Other non-operating                               | 55                          | 95                      | 44                      | 379                     | 343                     |
| Program and project expenditures                  | 730                         | 193                     | 1,432                   | -                       | -                       |
| Other debt service (2)                            | <u>2,650</u>                | <u>2,728</u>            | <u>2,670</u>            | <u>2,607</u>            | <u>2,426</u>            |
| <b>TOTAL OPERATION &amp; MAINTENANCE</b>          | <b><u>\$ 26,546</u></b>     | <b><u>\$ 26,349</u></b> | <b><u>\$ 28,582</u></b> | <b><u>\$ 26,641</u></b> | <b><u>\$ 25,381</u></b> |
| <b>NET REVENUES AVAILABLE TO PAY DEBT SERVICE</b> | <b><u>\$ 14,194</u></b>     | <b><u>\$ 15,119</u></b> | <b><u>\$ 10,432</u></b> | <b><u>\$ 12,998</u></b> | <b><u>\$ 11,111</u></b> |
| <b>DEBT SERVICE WATER SUPPLY SYSTEM BONDS</b>     | <b><u>\$ 4,522</u></b>      | <b><u>\$ 5,608</u></b>  | <b><u>\$ 4,210</u></b>  | <b><u>\$ 3,603</u></b>  | <b><u>\$ 3,123</u></b>  |
| <b>COVERAGE PERCENTAGE</b>                        | <b>3.14</b>                 | <b>2.70</b>             | <b>2.48</b>             | <b>3.61</b>             | <b>3.56</b>             |

(1) Debt service related to Brazos River Authority Water Supply Revenue Refunding Bonds, Series 1972

(2) Debt service related to the purchase of water storage rights in the Federal Reservoirs

Information provided to comply with continuing disclosure requirements of SEC Rule 15c2-12

**BRAZOS RIVER AUTHORITY**  
**POSSUM KINGDOM ELECTRIC POWER GENERATION AND LAKE ELEVATIONS**  
**CALENDAR YEARS 1942 - 2011 (unaudited)**

| Calendar Year | Water Used Acre-Feet | Annual KWH Generation | Elevation 1st of Yr. | Elevation During Year |           |       |           |
|---------------|----------------------|-----------------------|----------------------|-----------------------|-----------|-------|-----------|
|               |                      |                       |                      | High                  |           | Low   |           |
|               |                      |                       |                      | Date                  | Elevation | Date  | Elevation |
| 1942          | -                    | 4,242,700             | 996.00               | 10/17                 | 1,000.30  | 01/24 | 995.00    |
| 1943          | 446,000              | 42,091,500            | 998.29               | 01/01                 | 998.29    | 12/24 | 997.90    |
| 1944          | 144,000              | 12,043,900            | 977.99               | 10/11                 | 988.77    | 02/25 | 977.29    |
| 1945          | 299,000              | 25,111,500            | 985.70               | 07/23                 | 997.08    | 03/03 | 983.11    |
| 1946          | 489,000              | 45,558,700            | 995.06               | 09/10                 | 997.79    | 08/28 | 987.25    |
| 1947          | 408,910              | 37,564,600            | 994.60               | 05/20                 | 998.80    | 10/25 | 984.90    |
| 1948          | 309,070              | 26,822,200            | 987.20               | 07/13                 | 994.02    | 05/25 | 981.05    |
| 1949          | 547,280              | 52,225,100            | 984.96               | 06/17                 | 998.55    | 03/21 | 983.53    |
| 1950          | 574,552              | 57,744,900            | 988.02               | 09/11                 | 999.20    | 04/12 | 985.43    |
| 1951          | 357,360              | 36,602,000            | 991.56               | 06/20                 | 997.40    | 12/31 | 983.23    |
| 1952          | 157,480              | 13,498,300            | 983.22               | 01/01                 | 983.22    | 11/23 | 967.27    |
| 1953          | 238,915              | 23,801,300            | 967.50               | 10/30                 | 999.41    | 03/08 | 966.83    |
| 1954          | 434,830              | 45,944,900            | 996.63               | 05/28                 | 1,000.00  | 11/08 | 987.23    |
| 1955          | 412,610              | 43,699,600            | 987.93               | 09/27                 | 999.00    | 02/02 | 987.18    |
| 1956          | 327,740              | 32,517,800            | 997.05               | 01/01                 | 997.05    | 12/18 | 975.15    |
| 1957          | 663,595              | 69,229,400            | 976.34               | 04/30                 | 1,000.90  | 02/05 | 974.52    |
| 1958          | 407,445              | 43,014,400            | 994.39               | 07/07                 | 997.60    | 12/28 | 989.29    |
| 1959          | 296,210              | 31,430,400            | 989.31               | 10/08                 | 997.89    | 05/05 | 986.83    |
| 1960          | 424,715              | 44,984,500            | 995.61               | 10/27                 | 999.16    | 10/14 | 992.54    |
| 1961          | 561,185              | 59,939,400            | 994.32               | 06/22                 | 999.07    | 04/28 | 991.64    |
| 1962          | 513,245              | 54,644,500            | 992.85               | 09/14                 | 999.24    | 06/01 | 988.46    |
| 1963          | 383,380              | 40,729,700            | 995.97               | 06/13                 | 999.71    | 10/23 | 990.36    |
| 1964          | 137,285              | 12,554,000            | 993.01               | 02/18                 | 994.59    | 09/19 | 987.08    |
| 1965          | 250,580              | 26,329,200            | 990.71               | 05/22                 | 999.25    | 04/14 | 989.02    |
| 1966          | 420,120              | 44,491,100            | 996.52               | 09/27                 | 999.85    | 04/22 | 994.19    |
| 1967          | 260,910              | 27,278,600            | 996.10               | 07/23                 | 999.72    | 04/13 | 995.02    |
| 1968          | 536,665              | 57,762,100            | 995.58               | 07/10                 | 999.51    | 11/26 | 993.29    |
| 1969          | 609,120              | 62,014,000            | 993.53               | 05/20                 | 999.80    | 11/13 | 984.68    |
| 1970          | 253,265              | 25,195,000            | 987.22               | 06/11                 | 997.78    | 12/31 | 983.12    |
| 1971          | 208,405              | 21,510,000            | 983.20               | 10/03                 | 999.60    | 05/28 | 981.20    |
| 1972          | 416,931              | 43,941,100            | 998.70               | 11/02                 | 999.70    | 08/16 | 996.70    |
| 1973          | 382,765              | 39,997,400            | 996.80               | 03/16                 | 998.20    | 07/26 | 992.67    |
| 1974          | 263,249              | 27,186,300            | 993.10               | 10/19                 | 999.70    | 08/24 | 990.40    |

Source: Brazos River Authority Water Services Department

**BRAZOS RIVER AUTHORITY**  
**POSSUM KINGDOM ELECTRIC POWER GENERATION AND LAKE ELEVATIONS**  
**CALENDAR YEARS 1942 - 2011 (unaudited)**

| Calendar Year | Water Used Acre-Feet | Annual KWH Generation | Elevation 1st of Yr. | Elevation During Year |           |       |           |
|---------------|----------------------|-----------------------|----------------------|-----------------------|-----------|-------|-----------|
|               |                      |                       |                      | High                  |           | Low   |           |
|               |                      |                       |                      | Date                  | Elevation | Date  | Elevation |
| 1975          | 427,328              | 44,363,000            | 998.60               | 05/30                 | 999.30    | 03/31 | 995.80    |
| 1976          | 264,984              | 26,507,000            | 997.50               | 11/03                 | 999.50    | 04/11 | 996.10    |
| 1977          | 239,709              | 23,135,000            | 997.07               | 04/24                 | 999.31    | 12/26 | 993.47    |
| 1978          | 183,016              | 17,387,000            | 993.55               | 09/12                 | 999.73    | 03/16 | 992.92    |
| 1979          | 245,685              | 24,852,000            | 997.60               | 05/10                 | 999.40    | 12/17 | 995.40    |
| 1980          | 366,493              | 36,673,000            | 995.60               | 10/05                 | 999.70    | 08/24 | 991.40    |
| 1981          | 432,796              | 44,012,000            | 997.80               | 10/15                 | 1,002.20  | 02/13 | 995.40    |
| 1982          | 460,319              | 48,729,000            | 997.20               | 05/16                 | 999.30    | 05/05 | 995.50    |
| 1983          | 267,661              | 26,848,000            | 995.80               | 06/13                 | 999.00    | 10/21 | 990.00    |
| 1984          | 78,522               | 7,963,000             | 994.80               | 12/31                 | 997.40    | 10/25 | 987.80    |
| 1985          | 573,162              | 59,762,000            | 998.30               | 02/26                 | 999.60    | 10/06 | 993.00    |
| 1986          | 560,397              | 57,469,000            | 998.60               | 06/22                 | 999.60    | 04/10 | 995.10    |
| 1987          | 581,560              | 56,849,000            | 998.65               | 02/28                 | 999.42    | 12/18 | 985.09    |
| 1988          | 44,036               | 3,932,000             | 980.64               | 10/09                 | 990.30    | 05/19 | 985.60    |
| 1989          | 297,614              | 30,244,000            | 988.53               | 06/15                 | 999.98    | 04/13 | 987.10    |
| 1990          | 586,568              | 58,759,000            | 995.14               | 06/06                 | 999.74    | 01/14 | 994.94    |
| 1991          | 529,061              | 52,527,000            | 996.94               | 12/20                 | 999.49    | 05/02 | 994.78    |
| 1992          | 181,582              | 74,255,000            | 998.60               | 03/03                 | 999.33    | 11/18 | 994.96    |
| 1993          | 233,236              | 22,526,000            | 996.10               | 04/01                 | 998.30    | 09/10 | 991.85    |
| 1994          | 154,896              | 14,786,000            | 993.71               | 05/15                 | 997.74    | 05/06 | 993.25    |
| 1995          | 263,974              | 25,699,000            | 996.42               | 06/18                 | 999.40    | 05/23 | 995.71    |
| 1996          | 161,485              | 15,575,000            | 996.40               | 11/30                 | 999.49    | 08/27 | 993.19    |
| 1997          | 484,984              | 47,076,000            | 998.54               | 03/04                 | 999.41    | 12/19 | 993.45    |
| 1998          | 152,293              | 13,961,000            | 993.79               | 03/31                 | 999.15    | 12/30 | 988.25    |
| 1999          | 99,971               | 9,119,000             | 988.29               | 07/05                 | 999.30    | 01/25 | 988.00    |
| 2000          | 39,999               | 3,769,100             | 991.82               | 07/11                 | 996.58    | 03/23 | 991.19    |
| 2001          | 154,073              | 15,184,000            | 995.37               | 03/03                 | 999.24    | 10/11 | 993.51    |
| 2002          | 121,324              | 11,636,000            | 994.53               | 07/11                 | 999.18    | 03/16 | 993.16    |
| 2003          | 102,617              | 8,952,000             | 995.67               | 07/10                 | 997.20    | 12/29 | 991.07    |
| 2004          | 281,064              | 26,468,000            | 991.07               | 12/05                 | 999.55    | 02/10 | 990.52    |
| 2005          | 309,127              | 30,008,000            | 999.23               | 08/26                 | 999.44    | 08/04 | 994.21    |
| 2006          | 128,821              | 10,028,000            | 996.55               | 05/16                 | 999.11    | 10/13 | 993.18    |
| 2007          | 299,150              | 29,994,500            | 997.49               | 06/27                 | 999.34    | 04/30 | 997.37    |
| 2008          | -                    | -                     | 998.39               | 04/25                 | 999.23    | 09/08 | 996.48    |
| 2009          | -                    | -                     | 997.54               | 01/03                 | 997.60    | 12/20 | 996.48    |
| 2010          | -                    | -                     | 994.90               | 01/09                 | 999.48    | 05/03 | 994.78    |
| 2011          |                      |                       | 998.57               | 02/01                 | 998.72    | 10/08 | 988.29    |

**BRAZOS RIVER AUTHORITY  
MISCELLANEOUS DEMOGRAPHIC AND ECONOMIC INFORMATION  
AUGUST 31, 2012 (unaudited)**

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**BRA was created under Acts 1929, 41<sup>st</sup> Legislature, 2<sup>nd</sup> C.S., Spec. Leg. Page 22, Ch. 13. as amended.**

**Year created:** 1929  
**Domicile:** Waco, Texas  
**Last revision of Enabling Act:** 2001  
**Last revision of Bylaws:** 2004  
**Population of District:** 1,800,000 (TWDB)  
**Area of District:** 42,800 square miles  
**Brazos River**  
Total river miles: 840 miles  
Average discharge: 6,000,000 acre feet

**Average annual rainfall in the Basin ranges from:**  
West - 16 inches  
Southeast - 47 inches

**Number of employees:** 273 Full-time, 21 Part-time

**Offices:**

- Central office - Waco, Texas
- Regional office - Austin, Texas
- Regional office - Georgetown, Texas
- Operations office - Belton, Texas
- Operations office - Clute, Texas
- Operations office - Georgetown, Texas
- Operations office - Lake Granbury, Texas
- Operations office - Lake Limestone, Texas
- Operations office - Leander, Texas
- Operations office - Possum Kingdom Lake, Texas
- Operations office - Round Rock, Texas
- Operations office - Sugar Land, Texas
- Operations office - Taylor, Texas

**BRAZOS RIVER AUTHORITY  
MISCELLANEOUS DEMOGRAPHIC AND ECONOMIC INFORMATION  
AUGUST 31, 2012 (unaudited)**

| <b>Brazos River Authority Operating Statistics:</b><br>(water/wastewater treated in thousands of gallons) | <b>Years Ended August 31</b> |             |
|---|------------------------------|-------------|
|   | <b>2012</b>                  | <b>2011</b> |
| Temple-Belton Regional Sewerage System  | 2,316,922                    | 1,995,990   |
| Sugar Land Regional Sewerage System   | 2,973,838                    | 2,799,963   |
| Lake Granbury Surface Water and Treatment System  | 930,898 *                    | 1,755,023   |
| Brushy Creek Regional Wastewater System   | 5,670,133                    | 6,025,671   |
| Hutto Wastewater System   | 359,131                      | 346,040     |
| Clute/Richwood Regional Sewerage System   | 672,570                      | 702,180     |
| Sandy Creek Regional Water Treatment Plant  | 1,273,238                    | 1,213,258   |
| Lee County Fresh Water District #1  | 13,074                       | 18,006      |
| City of Georgetown Wastewater Treatment Plant   | 1,479,058                    | 1,585,417   |
| East Williamson County Water Treatment System   | 1,103,736                    | 1,141,588   |
| Liberty Hill Water Treatment System   | 45,351                       | 42,644      |
| * Flow information through May 31, 2012   |                              |             |

| <b>Brazos River Authority Dams and Reservoirs:</b>  |                            |
|---|----------------------------|
| <b>Possum Kingdom</b>   | (TWDB Survey January 2005) |
| Capacity - 540,340 acre-feet<br>Surface Area - 16,716 acres<br>Elevation - 1,000.0 ft-msl |                            |
| <b>Limestone</b>  | (TWDB Survey April 2002)   |
| Capacity - 208,017 acre-feet<br>Surface Area - 12,553 acres<br>Elevation - 363.0 ft-msl   |                            |
| <b>Granbury</b>   | (TWDB Survey July 2003)    |
| Capacity - 129,011 acre-feet<br>Surface Area - 7,945 acres<br>Elevation - 693.0 ft-msl    |                            |

**BRAZOS RIVER AUTHORITY  
MISCELLANEOUS DEMOGRAPHIC AND ECONOMIC INFORMATION  
AUGUST 31, 2012 (unaudited)**

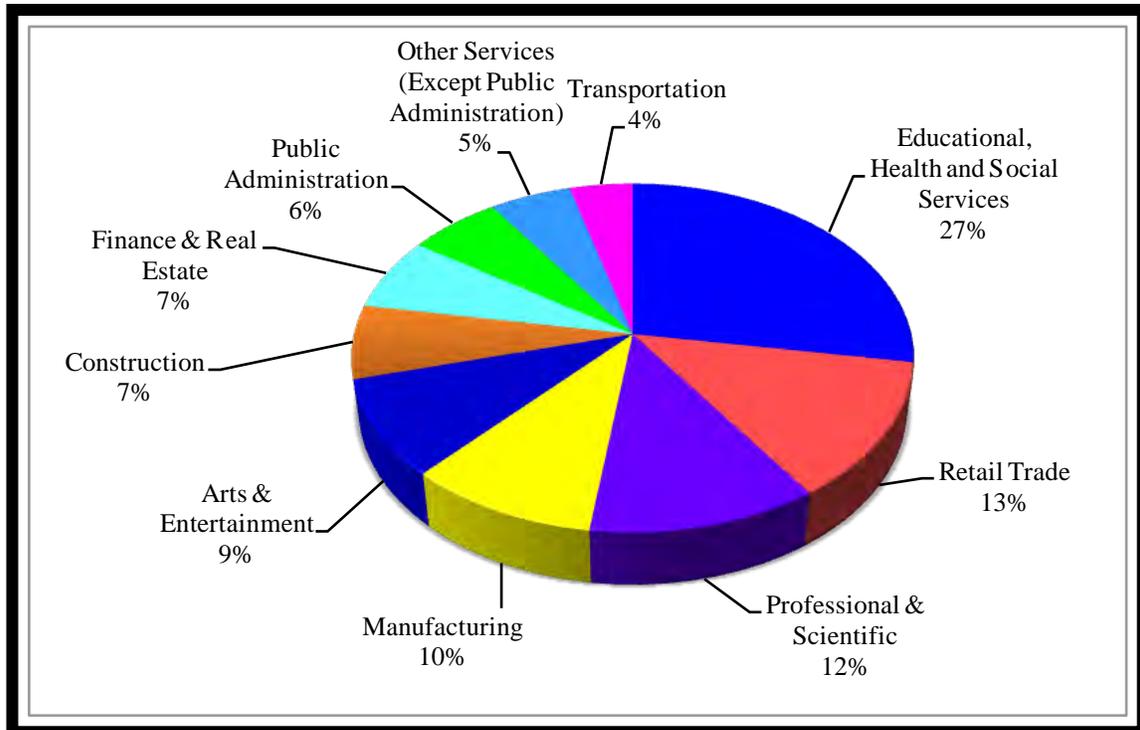
| <b>U. S. Army Corps of Engineers Dams and Reservoirs</b> |                          |                           |
|--|--------------------------|---------------------------|
| <b>Aquilla</b>   | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 43,319 acre-feet         | 86,700 acre-feet          |
| Surface Area   | 3,020 acres              | 7,000 acres               |
| Elevation  | 537.5 ft-msl             | 556.0 ft-msl              |
|  |                          | TWDB Survey April 2002    |
| <b>Belton</b>  | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 435,225 acre-feet        | 640,000 acre-feet         |
| Surface Area   | 12,135 acres             | 23,620 acres              |
| Elevation  | 594.0 ft-msl             | 631.0 ft-msl              |
|  |                          | TWDB Survey May 2003      |
| <b>Granger</b>   | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 52,525 acre-feet         | 162,200 acre-feet         |
| Surface Area   | 4,064 acres              | 11,040 acres              |
| Elevation  | 504.0 ft-msl             | 528.0 ft-msl              |
|  |                          | TWDB Survey April 2002    |
| <b>Georgetown</b>  | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 36,904 acre-feet         | 87,600 acre-feet          |
| Surface Area   | 1,287 acres              | 3,220 acres               |
| Elevation  | 791.0 ft-msl             | 834.0 ft-msl              |
|  |                          | TWDB Survey May 2005      |
| <b>Proctor</b>   | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 55,457 acre-feet         | 341,500 acre-feet         |
| Surface Area   | 4,537 acres              | 14,010 acres              |
| Elevation  | 1,162.0 ft-msl           | 1,197.0 ft-msl            |
|  |                          | TWDB Survey July 2005     |
| <b>Somerville</b>  | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 147,104 acre-feet        | 337,700 acre-feet         |
| Surface Area   | 11,555 acres             | 24,400 acres              |
| Elevation  | 238.0 ft-msl             | 258.0 ft-msl              |
|  |                          | TWDB Survey July 2003     |
| <b>Stillhouse Hollow</b>                                 | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 227,825 acre-feet        | 390,600 acre-feet         |
| Surface Area   | 6,484 acres              | 11,830 acres              |
| Elevation  | 622.0 ft-msl             | 666.0 ft-msl              |
|  |                          | TWDB Survey May 2005      |
| <b>Waco</b>  | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 199,227 acre-feet        | 553,300 acre-feet         |
| Surface Area   | 8,437 acres              | 19,440 acres              |
| Elevation  | 462.0 ft-msl             | 500.0 ft-msl              |
|  |                          | TWDB Survey March 1995    |
| <b>Whitney</b>   | <b>Conservation Pool</b> | <b>Flood Control Pool</b> |
| Capacity   | 554,203 acre-feet        | 1,372,400 acre-feet       |
| Surface Area   | 23,220 acres             | 49,820 acres              |
| Elevation  | 533.0 ft-msl             | 571.0 ft-msl              |
|  |                          | TWDB Survey June 2005     |

Source: Brazos River Authority Water Services Department

**BRAZOS RIVER AUTHORITY  
 MISCELLANEOUS DEMOGRAPHIC AND ECONOMIC INFORMATION  
 AUGUST 31, 2012 (unaudited)**

**Brazos Basin Geographic Area  
 Ten Largest Industries**

| Industry                                      | Number of Entities in Category |
|---|--------------------------------|
| Educational, Health and Social Services       | 279,093                        |
| Retail Trade                                  | 130,391                        |
| Professional & Scientific                     | 118,291                        |
| Manufacturing                                 | 98,201                         |
| Arts & Entertainment                          | 91,482                         |
| Construction                                  | 69,137                         |
| Finance & Real Estate                         | 68,356                         |
| Public Administration                         | 61,043                         |
| Other Services (Except Public Administration) | 54,248                         |
| Transportation                                | 41,842                         |

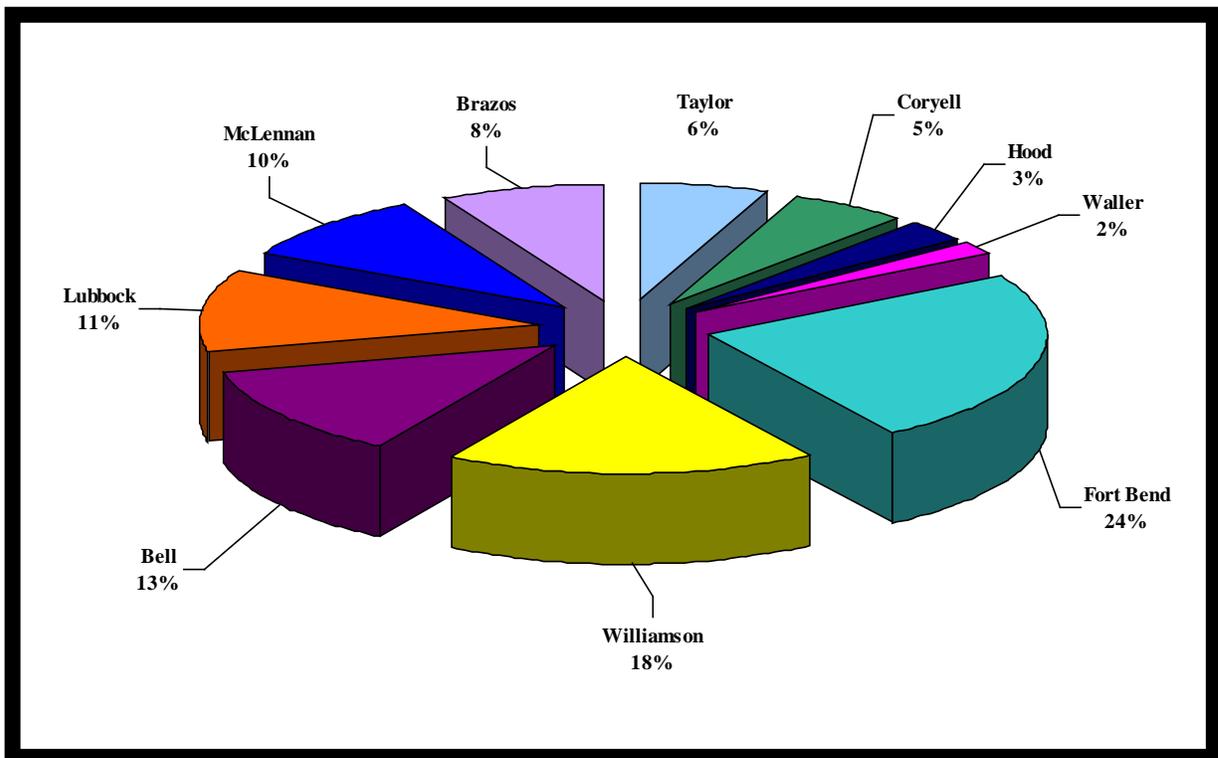


Source: U.S. Census Bureau, Census 2010

**BRAZOS RIVER AUTHORITY  
 MISCELLANEOUS DEMOGRAPHIC AND ECONOMIC INFORMATION  
 AUGUST 31, 2012 (unaudited)**

**Brazos River Basin Population  
 by County (Largest)**

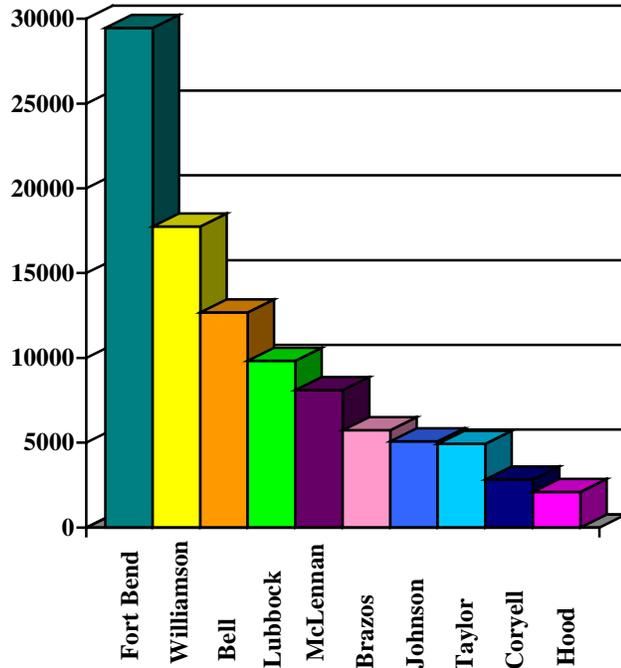
| County     | Population |
|------------|------------|
| Fort Bend  | 606,953    |
| Williamson | 442,782    |
| Bell       | 315,196    |
| Lubbock    | 283,910    |
| McLennan   | 238,564    |
| Brazos     | 197,632    |
| Taylor     | 152,734    |
| Coryell    | 132,755    |
| Hood       | 76,508     |
| Waller     | 51,670     |



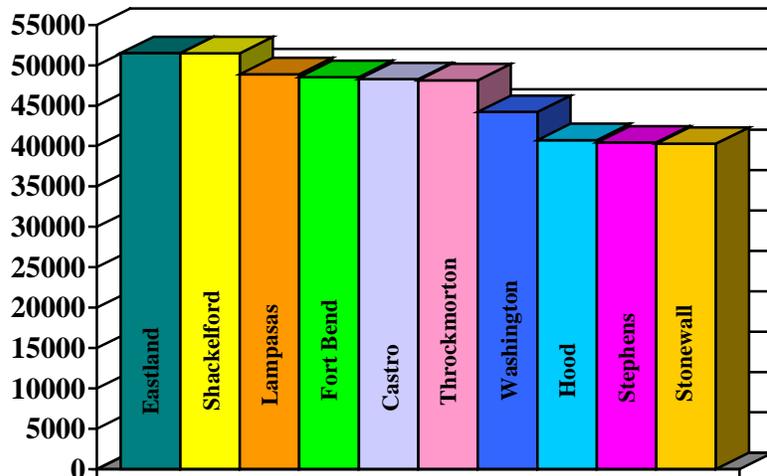
Source: Bureau of Economic Analysis, Updated November 2012

**BRAZOS RIVER AUTHORITY  
MISCELLANEOUS DEMOGRAPHIC AND ECONOMIC INFORMATION  
AUGUST 31, 2012 (unaudited)**

| <b>County<br/>(Top Ten)</b> | <b>Total<br/>Personal<br/>Income<br/>(in millions)</b> |
|-----------------------------|--|
| Fort Bend                   | 29,465   |
| Williamson                  | 17,741   |
| Bell                        | 12,678   |
| Lubbock                     | 9,836  |
| McLennan                    | 8,098  |
| Brazos                      | 5,740  |
| Johnson                     | 5,081  |
| Taylor                      | 4,929  |
| Coryell                     | 2,826  |
| Hood                        | 2,105  |



| <b>County<br/>(Top Ten)</b> | <b>Total Per<br/>Capita<br/>Income<br/>(in thousands)</b> |
|-----------------------------|---|
| Eastland                    | 51,520  |
| Shackelford                 | 51,496  |
| Lampasas                    | 48,898  |
| Fort Bend                   | 48,545  |
| Castro                      | 48,285  |
| Throckmorton                | 48,144  |
| Washington                  | 44,229  |
| Hood                        | 40,740  |
| Stephens                    | 40,449  |
| Stonewall                   | 40,298  |



Source: Bureau of Economic Analysis, Updated November 2012

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**BRAZOS RIVER AUTHORITY**  
**SCHEDULE OF CAPITAL ASSETS - NET ADDITIONS/(DELETIONS) BY OPERATIONS**  
**AUGUST 31, 2012 (unaudited) (in thousands)**  
 (accrual basis of accounting)

| Year | Last Ten Fiscal Years |                 |             |             |           |           |        |          |        |             |                |          |             | Total |
|------|-----------------------|-----------------|-------------|-------------|-----------|-----------|--------|----------|--------|-------------|----------------|----------|-------------|-------|
|      | Cost Reimbursables    |                 |             |             |           |           |        |          |        |             |                |          |             |       |
|      | Water Supply          | Lake Alan Henry | WMARSS      | SLRSS       | SWATS     | WRRWL     | TBRSS  | BCRWS    | Hutto  | Sandy Creek | Clute-Richwood | Dime Box | Total       |       |
| 2003 | \$ 12,012             | \$ -            | \$ 2,899    | \$ 25       | \$ 29,646 | \$ 40     | \$ 383 | \$ 23    | \$ -   | \$ 5        | \$ 43          | \$ -     | \$ 45,076   |       |
| 2004 | 6,167                 | 41              | (60,375)    | 1,071       | 382       | 11        | 63     | 44       | -      | -           | 18             | -        | (52,578)    |       |
| 2005 | 329                   | (64,610)        | -           | 1,302       | 161       | 35,602    | (154)  | (77)     | 3      | (6)         | 1              | (11)     | (27,460)    |       |
| 2006 | 1,487                 | -               | -           | (14,383)    | (277)     | 1,433     | 5      | 43       | -      | -           | -              | -        | (11,692)    |       |
| 2007 | 1,140                 | -               | -           | -           | 1,625     | 8         | 94     | (16)     | 5      | -           | -              | -        | 2,856       |       |
| 2008 | 32,962                | -               | -           | -           | 362       | -         | (13)   | 25       | -      | -           | 16             | -        | 33,352      |       |
| 2009 | 11,895                | -               | -           | -           | 8,454     | -         | 124    | 33       | 7      | -           | 1              | -        | 20,514      |       |
| 2010 | 1,452                 | -               | -           | -           | 196       | -         | 26     | 22       | -      | 38          | -              | -        | 1,734       |       |
| 2011 | (1,504)               | -               | -           | -           | 272       | 6,693     | 13     | (287)    | (18)   | (15)        | (152)          | -        | 5,002       |       |
| 2012 | (3,547)               | -               | -           | -           | (28,126)  | (1,101)   | 307    | (8)      | -      | (8)         | (3)            | -        | (32,486)    |       |
|      | \$ 62,393             | \$ (64,569)     | \$ (57,476) | \$ (11,985) | \$ 12,695 | \$ 42,686 | \$ 848 | \$ (198) | \$ (3) | \$ 14       | \$ (76)        | \$ (11)  | \$ (15,682) |       |

**BRAZOS RIVER AUTHORITY**  
**SCHEDULE OF CAPITAL ASSETS - NET ADDITIONS/(DELETIONS) BY CLASSIFICATION**  
**AUGUST 31, 2012 (unaudited) (in thousands)**  
 (accrual basis of accounting)

|   | Last Ten Fiscal Years |             |             |             |          |           |           |          |          |             | Total       |        |
|---|-----------------------|-------------|-------------|-------------|----------|-----------|-----------|----------|----------|-------------|-------------|--------|
|   | Cost Reimbursables    |             |             |             |          |           |           |          |          |             |             |        |
|   | 2003                  | 2004        | 2005        | 2006        | 2007     | 2008      | 2009      | 2010     | 2011     | 2012        |             |        |
| Land, storage and water rights                      | \$ 41                 | \$ (228)    | \$ 396      | \$ 350      | \$ 591   | \$ -      | \$ -      | \$ -     | \$ -     | \$ (73)     | \$ (630)    | \$ 447 |
| Reservoirs, water treatment and sewerage facilities | 29,555                | (48,770)    | (63,005)    | (13,999)    | -        | 7,835     | 1,911     | -        | 6,652    | (18,490)    | \$ (98,311) |        |
| Building, structures and improvements               | 13,056                | (3,708)     | 36,225      | 1,432       | 1,693    | 24,450    | 17,386    | 1,150    | (278)    | (12,594)    | \$ 78,812   |        |
| Vehicles, furniture and equipment                   | 2,424                 | 128         | (1,076)     | 525         | 572      | 1,067     | 1,217     | 584      | (1,299)  | (772)       | \$ 3,370    |        |
| Total   | \$ 45,076             | \$ (52,578) | \$ (27,460) | \$ (11,692) | \$ 2,856 | \$ 33,352 | \$ 20,514 | \$ 1,734 | \$ 5,002 | \$ (32,486) | \$ (15,682) |        |

Source: Fixed Asset general ledger accounts and previous CAFRs.

**BRAZOS RIVER AUTHORITY  
SCHEDULE OF INSURANCE  
AS OF AUGUST 31, 2012 (unaudited)**

| <b>Policy</b>                          | <b>Name of Company</b>                           | <b>Policy Number</b> | <b>Summary of Coverage</b>   | <b>Limits of Liability</b>  | <b>Coverage Period</b>             |
|--|--|----------------------|--|---|------------------------------------|
| Aircraft Liability                     | Texas Municipal League                           | 1970-10              | Non-owned Aircraft Liability<br>Deductible - None  | \$10,000,000<br>each occurrence   | October 1, 2011<br>October 1, 2012 |
| Airport Liability                      | Texas Municipal League                           | 1970-10              | Airport Liability Premises (BI&PD)<br>Airport Liability Premises (PI&AI)<br>Products & Completed Operations<br>Max. of all Coverages Combined<br>Deductible - None | \$10,000,000<br>\$10,000,000<br>\$10,000,000<br>\$10,000,000                              | October 1, 2011<br>October 1, 2012 |
| Automobile Liability & Physical Damage | Texas Municipal League                           | 1970-10              | Automobile Liability<br>Uninsured Motorist<br>Collision<br>Comprehensive<br>Deductible - None<br>Hired Auto Comp/Coll<br>Deductible: \$ 250/Scheduled Vehicles     | \$5,000,000<br>\$1,000,000<br>Actual Cash Value<br>Actual Cash Value<br>Actual Cash Value | October 1, 2011<br>October 1, 2012 |
| Commercial Crime                       | Texas Municipal League                           | 1970-10              | Public Employee Dishonesty<br>Forgery or Alteration<br>Computer Fraud<br>Deductible: \$10,000<br>Theft, Disappearance & Destruction<br>Deductible - None           | \$2,000,000<br>\$1,000,000<br>\$1,000,000<br>\$10,000                                     | October 1, 2011<br>October 1, 2012 |
| Fiduciary and Employee Benefits        | Wachovia Ins. Services/<br>Federal Insurance Co. | 82095688             | Annual Aggregate<br>Per Occurrence<br>Deductible: \$10,000   | \$5,000,000<br>\$5,000,000  | October 1, 2011<br>October 1, 2012 |
| General Liability                      | Texas Municipal League                           | 1970-10              | General Aggregate<br>Products/Completed Operation<br>Each Occurrence (BI, PI, AI)<br>Fire Damage<br>Deductible - None  | \$5,000,000<br>\$5,000,000<br>\$5,000,000<br>\$5,000,000                                  | October 1, 2011<br>October 1, 2012 |
| Marine and Hull/<br>Mobile Equipment   | Texas Municipal League                           | 1970-10              | Coverage for Boats, Motors<br>and Mobile Equipment<br>Deductible: \$10,000   | \$6,116,215   | October 1, 2011<br>October 1, 2012 |
| Law Enforcement Liability              | Texas Municipal League                           | 1970-10              | Each Occurrence<br>Annual Aggregate<br>Deductible: \$2,500   | \$5,000,000<br>\$10,000,000   | October 1, 2011<br>October 1, 2012 |

**BRAZOS RIVER AUTHORITY  
SCHEDULE OF INSURANCE  
AS OF AUGUST 31, 2012 (unaudited)**

| <b>Policy</b>                                      | <b>Name of Company</b>                      | <b>Policy Number</b> | <b>Summary of Coverage</b>   | <b>Limits of Liability</b>  | <b>Coverage Period</b>               |
|--|---|----------------------|--|---|--------------------------------------|
| Property/Boiler & Machinery                        | Texas Municipal League                      | 1970-10              | Blanket Real & Personal Property, EDP, & Boiler & Machinery<br>Deductible: \$50,000<br>Terrorism<br>Valuable Papers & Records<br>Accounts Receivable<br>Fine Arts<br>Transportation<br>Business Income<br>Demolition<br>Increased cost of Construction<br>Expediting Costs<br>Mobile Homes per Location<br>Pollution Cleanup in the Aggregate per premises<br>Flood in the Aggregate<br>(no flood coverage in 100 year flood zone or in Tier 1 and 2 counties)<br>Deductible: \$25,000 | \$169,918,774<br><br>\$10,000,000<br>\$25,000,000<br>\$1,000,000<br>\$1,000,000<br>\$1,000,000<br>\$1,000,000<br>Blanket Limit<br>Blanket Limit<br>Blanket Limit<br>Blanket Limit<br>\$10,000<br>\$10,000,000 | October 1, 2011<br>October 1, 2012   |
| Public Officials and Employees Practices Liability | Texas Municipal League                      | 1970-10              | Each Wrongful Act<br>Annual Aggregate<br>Deductible: \$25,000  | \$5,000,000<br>\$10,000,000   | October 1, 2011<br>October 1, 2012   |
| Public Officials Bond                              | Insurors of Texas                           | CMB-06-0005836       | Treasurer's Bond<br>Deductible - None  | \$100,000   | April 18, 2012<br>April 18, 2013     |
| Public Officials Bond                              | Insurors of Texas                           | 71252612             | Board of Director's Bond<br>Deductible - None  | \$105,000   | May 10, 2012<br>May 10, 2013         |
| Peace Officer Bond                                 | Insurors of Texas                           | 46BSBAE6365          | Peace Officer Bond<br>Deductible - None  | \$15,000  | February 1, 2012<br>February 1, 2013 |
| Travel Accident                                    | Insurors of Texas/<br>Hartford Life         | ETB-4333             | Aggregate for Hazard<br>Excludes Personal Aircraft<br>Deductible - None  | \$5,000,000   | November 1, 2011<br>November 1, 2012 |
| Workers' Compensation                              | Texas Municipal League                      | 1970                 | Self-insured for first<br>50,000 per occurrence  | Aggregate Deduct<br>\$150,000   | October 1, 2011<br>October 1, 2012   |
| Reinsurance  | Texas Municipal League<br>HM Life Insurance | 402823-B             | Medical expense claims<br>self-insured for first<br>80,000 per employee  | Mamimum Specific<br>Benefit<br>Unlimited  | January 1, 2012<br>December 31, 2012 |
| Reinsurance  | Texas Municipal League<br>HM Life Insurance | 402823-A             | Medical expense claims<br>self-insured for first<br>80,000 per employee  | Mamimum Specific<br>Benefit<br>\$1,853,334  | January 1, 2011<br>December 31, 2011 |

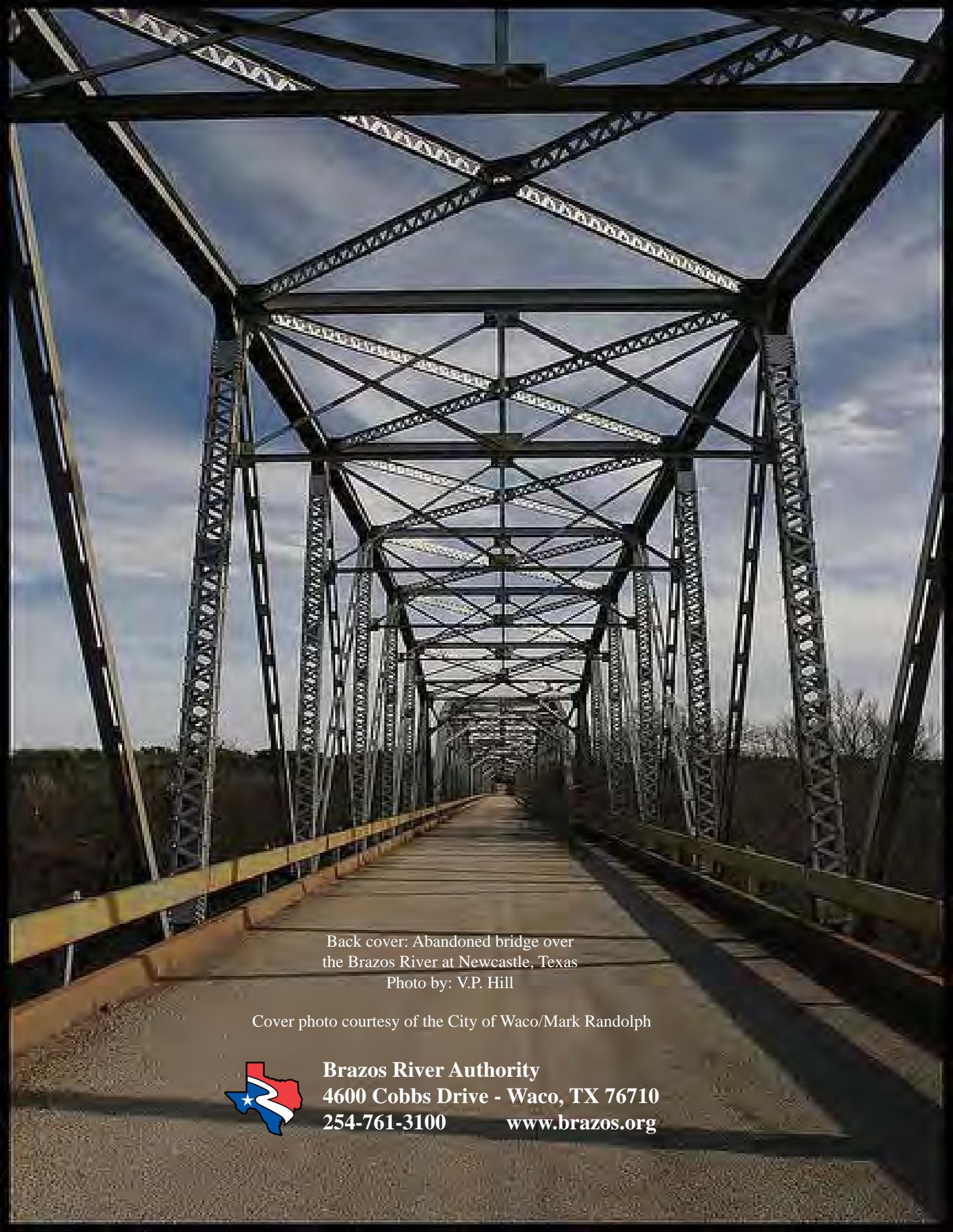
**BRAZOS RIVER AUTHORITY  
FULL -TIME EQUIVALENT  
LAST TEN FISCAL YEARS (unaudited)**

| <b>Full-Time Equivalent Employees<br/>Per Annual Operating Plan</b> |             |             |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
| <b>Upper Basin</b>  |             |             |             |             |             |             |             |             |             |             |
| Management  | 4           | 4           | 4           | 4           | 4           | 4           | 5           | 5           | 5           | 5           |
| Lake Alan Henry   | 0           | 0           | 0           | 0           | 0           | 0           | 2           | 2           | 1           | 2           |
| Possum Kingdom  | 51          | 53          | 54          | 57          | 57          | 60          | 58          | 55          | 56          | 54          |
| SWATS   | 18          | 18          | 18          | 17          | 15          | 15          | 15          | 15          | 15          | 15          |
| Lake Granbury   | 14          | 12          | 12          | 12          | 12          | 10          | 10          | 9           | 9           | 10          |
| <b>Central Basin</b>  |             |             |             |             |             |             |             |             |             |             |
| Management & Lab  | 26          | 23          | 21          | 23          | 20          | 19          | 14          | 12          | 5           | 5           |
| WMARSS (a)  | 0           | 0           | 0           | 0           | 0           | 0           | 0           | 0           | 25          | 26          |
| Temple-Belton RSS   | 10          | 10          | 11          | 10          | 10          | 10          | 10          | 10          | 15          | 15          |
| Brushy Creek RWS  | 17          | 17          | 17          | 16          | 13          | 13          | 13          | 11          | 12          | 15          |
| Georgetown WWTP   | 8           | 8           | 9           | 8           | 7           | 7           | 7           | 7           | 0           | 0           |
| Sandy Creek WTP   | 5           | 5           | 5           | 6           | 6           | 4           | 4           | 3           | 3           | 3           |
| Hutto WWS   | 0           | 0           | 0           | 0           | 1           | 1           | 1           | 0           | 0           | 0           |
| East Williamson RWS   | 5           | 5           | 5           | 5           | 4           | 3           | 3           | 3           | 0           | 0           |
| <b>Lower Basin</b>  |             |             |             |             |             |             |             |             |             |             |
| Management  | 0           | 4           | 4           | 4           | 4           | 4           | 4           | 5           | 5           | 5           |
| Lake Limestone  | 9           | 9           | 9           | 9           | 9           | 9           | 9           | 9           | 8           | 8           |
| SLRSS   | 10          | 10          | 11          | 11          | 11          | 11          | 12          | 11          | 12          | 12          |
| Clute   | 4           | 4           | 4           | 4           | 4           | 4           | 4           | 4           | 4           | 4           |
| Liberty Hill  | 1           | 1           | 1           | 1           | 1           | 0           | 0           | 0           | 0           | 0           |
| <b>Central Office</b>   |             |             |             |             |             |             |             |             |             |             |
| General Administration  | 4           | 4           | 4           | 4           | 4           | 4           | 4           | 3           | 3           | 2           |
| Legal Services  | 4           | 4           | 4           | 4           | 4           | 4           | 3           | 3           | 4           | 3           |
| Financial Services  | 17          | 17          | 17          | 17          | 17          | 17          | 17          | 16          | 15          | 16          |
| Human Resources   | 4           | 4           | 4           | 4           | 4           | 4           | 4           | 4           | 4           | 4           |
| Gov. Cus. Relations   | 7           | 7           | 7           | 7           | 6           | 6           | 5           | 6           | 6           | 6           |
| Information Technology  | 12          | 12          | 12          | 12          | 12          | 11          | 10          | 10          | 10          | 9           |
| Planning & Development  | 1           | 1           | 1           | 1           | 1           | 2           | 2           | 2           | 3           | 0           |
| Strategic Planning  | 2           | 2           | 2           | 3           | 2           | 1           | 4           | 4           | 5           | 5           |
| Technical Analysis  | 0           | 0           | 0           | 0           | 0           | 0           | 1           | 2           | 0           | 0           |
| Technical Services  | 40          | 42          | 37          | 40          | 37          | 35          | 33          | 35          | 35          | 36          |
|   | <u>273</u>  | <u>276</u>  | <u>273</u>  | <u>279</u>  | <u>265</u>  | <u>258</u>  | <u>254</u>  | <u>246</u>  | <u>260</u>  | <u>260</u>  |

(a) During Fiscal Year 2004, the customer cities of WMARSS and the BRA entered into early negotiations termination of their contract, which had approximately eight years remaining. Negotiations were completed and the ownership/operation was transferred to the City of Waco on February 24, 2004 and all existing contracts, assets, and related debt were transferred to the City of Waco.

Source: Brazos River Authority Annual Operating Plan





Back cover: Abandoned bridge over  
the Brazos River at Newcastle, Texas  
Photo by: V.P. Hill

Cover photo courtesy of the City of Waco/Mark Randolph



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