

Northeast Texas Municipal Water District

**Financial Statements
And Independent Auditor's Report**

For the years ended September 30, 2012 and 2011

Northeast Texas Municipal Water District
TABLE OF CONTENTS
Years ended September 30, 2012 and 2011

	<u>Page</u>
Annual Filing Affidavit	1
Independent Auditor's Report	2
Management's Discussion and Analysis	3-6
<u>BASIC FINANCIAL STATEMENTS</u>	
Statements of Net Assets- Proprietary Funds	7-8
Statements of Revenues, Expenses, and Changes in Net Assets-Proprietary Funds	9-10
Statements of Cash Flows-Proprietary Funds	11-12
Notes to the Financial Statements	13-21
<u>SUPPLEMENTAL SECTION</u>	
Schedule of Revenues and Expenses – Budget and Actual	22
Index of Supplemental Schedules Required by the Texas Commission on Environmental Quality	23
(E) Schedule of Services and Rates	24-25
(F) Schedule of Operating Expenditures	26
(J) Long-Term Debt Service Requirements – By Year	27-28
(K) Analysis of Changes in Long Term Debt	29
(M) Insurance Coverage	30
<u>INTERNAL CONTROL AND COMPLIANCE SECTION</u>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	31
Schedule of Findings and Questioned Costs	32
Schedule of Status of Prior Findings	33
Corrective Action Plan	34



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**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

To the Board of Directors
Northeast Texas Municipal Water District
Hughes Springs, Texas

We have audited the accompanying financial statements of the business-type activities and each major fund of Northeast Texas Municipal Water District (the District) as of and for the year ended September 30, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 respective financial position of the business-type activities and each major fund of Northeast Texas Municipal Water District as of September 30, 2012 and 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the District'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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and on pages 3 through 6 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental section has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.
December 12, 2012

**Northeast Texas Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis is provided by the Northeast Texas Municipal Water District, hereafter referred to as the District.

The Northeast Texas Municipal Water District was created in 1953 and performs two primary purposes. One purpose is to assure a sufficient supply of water for Northeast Texas. A second purpose is to assure water quality in the Cypress Creek Basin. During the time from October 1, 2011, to September 30, 2012, significant activities occurred in furtherance of each of these purposes. During this time, the value of the total assets of the District changed to an amount slightly greater than \$49.9 million dollars and operating revenue was \$1,122,023.

Financial Highlights

- The total assets of the District are \$49,939,260.
- The total liabilities are \$33,383,791.
- The assets of the District exceed liabilities by \$16,555,469.
- The total net assets of the District decreased by \$1,249,027 mainly because of the current year interest accretion of \$1.6 million on capital appreciation bonds.
- The total liabilities of the District increased by \$291,865 because of the interest accretion.
- The District had an operating income of \$1,122,023 for the audited year compared to an operating income of \$1,327,847 for the previous year. Total operating revenue exceeded total operating expenses by about 24%.

Overview of the Financial Statements

This section is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are: 1) Balance Sheet; 2) Statement of Revenues, Expenses, and Changes in Fund Net Assets; and, 3) Statement of Cash Flows.

The Balance Sheet indicates the financial condition at the end of the fiscal year expressed in terms of assets, liabilities, and equity. The Statement of Revenues, Expenses, and Changes in Net Assets indicates the effect of activities during the fiscal year. Statement of Cash Flows indicates the effect that activities have had on the cash position of the District over the fiscal year.

Some of the information in the basic statements has been separated by enterprise. Concerning this separation, please be aware that water production has been separately identified in some of these statements.

The District provides water in two ways. One way is to make the water available in a raw or unimproved condition. A second way that water is made available is in a potable condition. The information in the financial statements labeled "Regional Water Supply System" or "RWSS" is information related to the operations where water is made potable and then sold on a wholesale basis. The District operates two regional water treatment plants that change the water from its natural condition to a condition usable for municipal and industrial consumption. The District developed and operates a regional water project serving needs in areas that are south and west of Lake O' the Pines. The financial information labeled "Lake O' the Pines South Side" or "LOPSS" refers to that regional project that primarily serves Tryon Road SUD, Diana SUD, and Ore City.

The financial information under the label of "Primary Water District" is information pertaining to the overall administration of the District, raw water sales, and efforts to assure water quality. To assure water quality, the District has several active programs. Some of these programs are principally funded by grants from the Texas Commission on Environmental Quality (TCEQ), the Texas State Soil and Water Conservation Board (TSSWCB) or funded by contributions from other sources. The District performed all of the tasks associated with the Onsite Septic Facilities Program (OSSF) in the counties of Marion, Morris and Cass for the audited year. The District also began performing the OSSF responsibilities for Upshur County during the audited year. In the audited year, the District continued a significant multi-year effort related to reducing nutrient loading in the Cypress Creek Basin. In the audited year, The District continued a Watershed Protection Plan (WPP) for Caddo Lake and its watershed. Lake O' the Pines is within the watershed of Caddo Lake.

**Northeast Texas Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Overview of Financial Activities and Analysis

To begin our analysis, a summary of the District's Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets is presented.

The District's Net Assets		
Business-Type		
Activities		
	2012	2011
Current and other assets	7,238,123	7,282,283
Capital and non-current assets	42,701,137	43,614,139
TOTAL ASSETS	49,939,260	50,896,422
Long-term liabilities	31,818,296	31,391,386
Other liabilities	1,565,495	1,700,540
TOTAL LIABILITIES	33,383,791	33,091,926
Invested in capital assets, net of related debt	10,882,841	12,222,753
Restricted/reserved	2,866,356	2,689,104
Unrestricted	2,806,272	2,892,639
TOTAL NET ASSETS	16,555,469	17,804,496

The District's Changes in Net Assets		
Business-Type		
Activities		
	2012	2011
Revenues		
Raw water sales	2,055,121	2,088,442
Treated water sales	2,500,463	2,574,030
State grants	163,796	357,518
Other grants	3,200	-
Investment income	131,977	218,541
Other	41,977	83,818
Total revenues	4,896,534	5,322,349
Expenses		
Personnel	1,150,760	1,144,282
Supplies	353,996	311,349
Maintenance	290,419	298,164
Contractual services	553,321	563,106
Depreciation	1,072,874	1,082,585
State grant programs	179,187	281,544
Other grant expenses	-	11,119
Interest expense (A)	2,574,840	1,627,441
Total expenses	6,175,397	5,319,590
Increase in net assets before transfers	(1,278,863)	2,759
Transfers (net)	-	-
Increase (decrease) in net assets	(1,278,863)	2,759
Beginning net assets	17,804,496	17,801,737
Prior period adjustment	29,836	-
Ending net assets	16,555,469	17,804,496

(A) Interest accretion on capital appreciation bonds was \$1.6 million in fiscal year 2012 and was \$624 thousand in fiscal year 2011.

**Northeast Texas Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The overall financial position of the District remains sound. The financial position of the District has not materially changed as a result of the year's daily operations. The amount of assets and liabilities modestly changed as a result of the year's activities.

Concerning raw water sales, the revenue decreased by \$33,321 or 1.6% when compared to the previous year. No new customers of raw water were added during the fiscal year. The weather pattern for the fiscal year was drier than normal but somewhat wetter than the weather in the previous fiscal year. The revenues from most of the raw water contracts are more influenced by the amount reserved rather than the amount actually diverted. The variation of 1.6% in raw water sales from the previous year demonstrates that the revenue from raw water sales is not as variable on weather patterns as revenue from treated water sales.

Concerning treated water sales, the most significant activity was the continuation of deliveries to the LOPSS system. The LOPSS system was in operation for the entire fiscal year which was the third full fiscal year of operations. The treated water sales in the LOPSS increased by \$63,274 or 5.2%. Production at the Tanner Plant which serves both LOPSS and RWSS exceeded 970 million gallons in fiscal year 2012. Comparisons of sales of LOPSS to sales in the RWSS demonstrate the significance of the LOPSS system in relation to treated water sales of the District.

The treated water sales for the RWSS decreased from \$1,337,826 in fiscal year 2011 to \$1,200,985 in fiscal year 2012. This decrease in sales was \$136,841 or 10.2%. This decrease in revenue is primarily due to a weather pattern change in fiscal year 2012. The weather in fiscal year 2012 was drier than normal but wetter than fiscal year 2011. Treated water sales are strongly correlated to the weather.

The treated water sales in RWSS and LOPSS were affected by drier weather conditions than a normal year. Much of the treated water is sold wholesale to cities. Cities use this supply to meet residential demand. Much of the residential demand can be for outdoor water uses. When there is adequate rainfall, the lawn irrigation amount decreases. When there is not adequate rainfall, the lawn irrigation amount increases. According to the U.S. Army Corps of Engineers, rainfall at Lake O' the Pines in fiscal year 2012 was about 42.8 inches, compared to 24.7 inches in 2011 and to 30.6 inches in 2010. Normal annual rainfall is about 48.4 inches. Though the rainfall for fiscal year 2012 was below normal, the amount was more than in the previous fiscal year.

The operating loss for the RWSS system (treated water production) increased by \$118,258 or 43.5% when compared to the previous year. The primary reason for this change was the decrease in the amount of water sold and the increase in the cost of chemicals used in the purification of the water. The production expenses for treated water produced by the Tanner Plant continue to be shared between the RWSS and the LOPSS and this sharing continues to have beneficial effects on RWSS and LOPSS.

Capital Assets And Debt Administration

Capital Assets

	District's Capital Assets (in thousands of dollars)	
	2012	2011
Non-depreciable:		
Land and right-of-way	1,480	1,435
Water rights	1,753	1,753
Depreciable:		
Water treatment plants	24,347	24,347
Water lines and intake structures	24,242	24,139
Buildings	497	491
Other	2,437	2,431
Less accumulated depreciation:	(12,055)	(10,982)
	42,701	43,614

The only significant addition was flood damage reduction costs paid to the Corp of Engineers.

Long-Term Debt.

	District's Long-Term Debt (in thousands of dollars)	
Bonds payable	31,818	31,391

No new debt was obtained this year. Interest accretion on the capital appreciation bonds for the current year is \$1.6 million.

**Northeast Texas Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors and Next Year's Budget

The most significant financial effect for the District over the next fiscal year is likely to be additional water sales out of Lake O' the Pines. The approved State of Texas Water Plan and the applicable approved regional plan acknowledge an available supply of water in Lake O' the Pines for further use. This water is under permit to the District. The District is expected to evaluate offers for this available water over the next fiscal year. It is anticipated that as the demand for water increases the value of the available water will also increase. In 2006, the District agreed to sell some of the available water to the city of Marshall. Marshall has begun paying for that water. The unit price of the water in the contract involving Marshall starts at \$100 per acre foot. At \$100 per acre foot, the annual revenue from 5,000 acre feet is \$500,000. The District estimates that the amount of water potentially available for further sale could generate revenue in the amount of several million dollars annually. Some of the available water is within the control of some of the District's current customers. These customers will also realize a financial benefit if some of their available water is supplied to additional customers.

To aid in the proper development and management of water resources, the District serves as the Administrative Agency for the North East Texas Regional Water Planning Group (NETRWPG). The NETRWPG is a group of planners covering 19 counties in Northeast Texas. The primary funding source for the activities of the NETRWPG is the Texas Water Development Board. During the year of 2011, the NETRWPG completed the third comprehensive regional water plan. This new plan will be reviewed and amended where appropriate over the next 5-year planning cycle. During the audited year, the fourth round of regional water planning began. Active involvement in the activities of the NETRWPG helps the District to fulfill its role in assuring a sufficient supply of water for Northeast Texas. The approved regional water plan of the NETRWPG projects that the District has a more than adequate supply of water for at least the next 50 years.

The next year's budget has two additional significant modifying components. Each of these components financially affects the District. These components are: 1) payments to the US Army Corp for maintaining Lake O' the Pines; and 2) continued activities that improve the management of nutrients and assure environmental flows in the Cypress Creek Basin.

The District intends to increase the reliability of the water supply to the city of Daingerfield by constructing a storage tank at the delivery site to Daingerfield. The District intends to pay for this storage tank with funds on hand. When completed, the construction will decrease the amount of investments currently held by the District

The development of information and analysis related to nutrient loading in the Cypress Creek Basin continues to be important. Nutrient loading affects the water treatment techniques of the District. Reducing nutrient loading can reduce the treatment cost while increasing the nutrient loading could cause an increase in the cost of water treatment. State agencies and federal agencies continue to develop a program to address the nutrient loadings in the Cypress Creek Basin. More action on nutrient control in 2012 is anticipated. The District is also taking steps to assure the health of Caddo Lake. Caddo Lake is downstream of the major supply source for the District, Lake O' the Pines. Those steps include nutrient reduction and addressing noxious invasive plants that have the potential to affect all lakes within the Cypress Creek Basin. Invasive plants of concern include Giant Salvinia, Water Hyacinth, and Hydrilla. The District continues to try to control the expansion of Giant Salvinia within Northeast Texas.

The District continues to be keenly interested in assuring adequate flows for the environment in the Cypress Creek Basin. It is anticipated that work will be ongoing in this regard and that federal, state, regional, and local stakeholders will continue to be involved in this work.

Summary

Looking at the next five years, the District intends to continue activities devoted to assuring water quantity and water quality. The District expects to sustain a significant increase in its financial condition during this time period due to additional sales of raw water. With the improvements recently placed into operation, the water production capability should be sufficient for at least the next decade.

Request for Information:

This financial report is designed to provide a general overview of the District's finances for those with an interest in the District's activities. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Northeast Texas Municipal Water District, PO Box 955, Hughes Springs, TX 75656.

BASIC FINANCIAL STATEMENTS

Northeast Texas Municipal Water District
STATEMENTS OF NET ASSETS—PROPRIETARY FUNDS
As of September 30, 2012 and 2011

ASSETS	Primary Water District		Enterprise Funds Regional Water Supply System	
	2012	2011	2012	2011
	Current assets			
Cash on hand and in bank	394,410	883,432	411,209	293,562
Investments	1,297,422	962,367	-	-
Receivables:				
Water sales	101,660	119,723	136,921	165,636
Grants receivable	13,671	28,999	-	-
Interfund receivable	-	-	85,814	85,814
Total current assets	1,807,163	1,994,521	633,944	545,012
Non-current assets				
Restricted cash in bank	7,705	7,693	669,019	681,814
Restricted investments	-	-	2,129,245	1,913,450
Utility deposits	50	50	-	-
Deferred bond issue costs	-	-	292,343	332,846
Capital assets	3,393,677	3,387,928	31,725,648	31,598,980
Less: accumulated depreciation	(954,839)	(914,883)	(9,661,654)	(9,020,953)
Total non-current assets	2,446,593	2,480,788	25,154,601	25,506,137
Total assets	4,253,756	4,475,309	25,788,545	26,051,149
LIABILITIES				
Current liabilities				
Current portion of bonds payable	-	-	618,464	595,485
Accounts payable	36,074	29,827	769	761
Accrued expenses	1,553	2,531	30,844	33,726
Interfund payable	-	-	1,194,470	1,194,470
Deferred revenues:				
Water sales	191,800	191,800	-	-
Other	-	50,258	-	-
Total current liabilities	229,427	274,416	1,844,547	1,824,442
Non-current liabilities				
Accrued expenses	-	-	26,500	83,930
Bonds payable	-	-	8,024,798	8,643,262
Total non-current liabilities	-	-	8,051,298	8,727,192
Total liabilities	229,427	274,416	9,895,845	10,551,634
NET ASSETS				
Invested in capital assets, net of related debt	2,438,838	2,473,045	13,420,732	13,339,280
Restricted for debt service	-	-	2,798,264	2,595,264
Unrestricted	1,585,491	1,727,848	(326,296)	(435,029)
Total net assets	4,024,329	4,200,893	15,892,700	15,499,515

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2012	2011	2012	2011
500	500	806,119	1,177,494
-	-	1,297,422	962,367
40,980	69,280	279,561	354,639
-	-	13,671	28,999
1,108,656	1,108,656	1,194,470	1,194,470
<u>1,150,136</u>	<u>1,178,436</u>	<u>3,591,243</u>	<u>3,717,969</u>
68,092	93,840	744,816	783,347
-	-	2,129,245	1,913,450
-	-	50	50
480,426	534,621	772,769	867,467
19,636,434	19,608,979	54,755,759	54,595,887
(1,438,129)	(1,045,912)	(12,054,622)	(10,981,748)
<u>18,746,823</u>	<u>19,191,528</u>	<u>46,348,017</u>	<u>47,178,453</u>
<u>19,896,959</u>	<u>20,369,964</u>	<u>49,939,260</u>	<u>50,896,422</u>
636,536	589,515	1,255,000	1,185,000
40,483	68,780	77,326	99,368
43,002	44,457	75,399	80,714
-	-	1,194,470	1,194,470
-	-	191,800	191,800
-	-	-	50,258
<u>720,021</u>	<u>702,752</u>	<u>2,793,995</u>	<u>2,801,610</u>
-	-	26,500	83,930
22,538,498	21,563,124	30,563,296	30,206,386
<u>22,538,498</u>	<u>21,563,124</u>	<u>30,589,796</u>	<u>30,290,316</u>
<u>23,258,519</u>	<u>22,265,876</u>	<u>33,383,791</u>	<u>33,091,926</u>
(4,976,729)	(3,589,572)	10,882,841	12,222,753
68,092	93,840	2,866,356	2,689,104
1,547,077	1,599,820	2,806,272	2,892,639
<u>(3,361,560)</u>	<u>(1,895,912)</u>	<u>16,555,469</u>	<u>17,804,496</u>

Northeast Texas Municipal Water District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS—PROPRIETARY FUNDS
For the years ended September 30, 2012 and 2011

	Primary		Enterprise Funds	
	Water District		Regional Water Supply System	
	2012	2011	2012	2011
OPERATING REVENUES				
Raw water sales	2,055,121	2,088,442	-	-
Treated water sales	-	-	1,200,985	1,337,826
State grants	163,796	357,518	-	-
Other grants	3,200	-	-	-
Total operating revenues	2,222,117	2,445,960	1,200,985	1,337,826
OPERATING EXPENSES				
Personnel	484,336	480,879	448,476	446,464
Supplies	22,078	22,339	205,285	168,642
Maintenance	194,516	158,626	70,029	99,286
Contractual services	232,238	215,543	226,415	251,592
Depreciation	39,956	46,863	640,701	643,505
State grant programs	179,187	281,544	-	-
Other grant programs	-	11,119	-	-
Total operating expenses	1,152,311	1,216,913	1,590,906	1,609,489
OPERATING INCOME (LOSS)	1,069,806	1,229,047	(389,921)	(271,663)
NON-OPERATING REVENUES (EXPENSES)				
Investment income	118,340	168,087	13,637	50,454
Interest expense	-	-	(387,163)	(413,788)
Other	35,977	22,337	-	21,696
Total non-operating revenues (expenses)	154,317	190,424	(373,526)	(341,638)
INCOME (LOSS) BEFORE TRANSFERS	1,224,123	1,419,471	(763,447)	(613,301)
TRANSFERS	(1,400,687)	(1,298,568)	1,126,796	1,083,968
INCREASE (DECREASE) IN NET ASSETS	(176,564)	120,903	363,349	470,667
NET ASSETS (DEFICIT) at beginning of year	4,200,893	4,079,990	15,499,515	15,028,848
Prior Period Adjustment	-	-	29,836	-
NET ASSETS (DEFICIT) at end of year	4,024,329	4,200,893	15,892,700	15,499,515

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2012	2011	2012	2011
-	-	2,055,121	2,088,442
1,299,478	1,236,204	2,500,463	2,574,030
-	-	163,796	357,518
-	-	3,200	-
<u>1,299,478</u>	<u>1,236,204</u>	<u>4,722,580</u>	<u>5,019,990</u>
217,948	216,939	1,150,760	1,144,282
126,633	120,368	353,996	311,349
25,874	40,252	290,419	298,164
94,668	95,971	553,321	563,106
392,217	392,217	1,072,874	1,082,585
-	-	179,187	281,544
-	-	-	11,119
<u>857,340</u>	<u>865,747</u>	<u>3,600,557</u>	<u>3,692,149</u>
<u>442,138</u>	<u>370,457</u>	<u>1,122,023</u>	<u>1,327,841</u>
-	-	131,977	218,541
(2,187,677)	(1,213,653)	(2,574,840)	(1,627,441)
6,000	39,785	41,977	83,818
<u>(2,181,677)</u>	<u>(1,173,868)</u>	<u>(2,400,886)</u>	<u>(1,325,082)</u>
(1,739,539)	(803,411)	(1,278,863)	2,759
<u>273,891</u>	<u>214,600</u>	<u>-</u>	<u>-</u>
(1,465,648)	(588,811)	(1,278,863)	2,759
(1,895,912)	(1,307,101)	17,804,496	17,801,737
-	-	29,836	-
<u>(3,361,560)</u>	<u>(1,895,912)</u>	<u>16,555,469</u>	<u>17,804,496</u>

Northeast Texas Municipal Water District
STATEMENTS OF CASH FLOWS—PROPRIETARY FUNDS
For the years ended September 30, 2012 and 2011

	Primary Water District		Enterprise Funds	
			Regional Water Supply System	
	2012	2011	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES				
Cash received from customers	2,109,162	2,248,085	1,229,700	1,300,836
Cash received from grants	132,066	407,776	-	-
Cash paid to suppliers	(442,585)	(393,396)	(529,315)	(518,759)
Cash paid to employees	(485,315)	(478,348)	(450,016)	(445,682)
Cash paid for state grant programs	(179,187)	(281,544)	-	-
Cash paid for other grant programs	-	(11,119)	-	-
Net cash provided by (used in) operating activities	<u>1,134,141</u>	<u>1,491,454</u>	<u>250,369</u>	<u>336,395</u>
CASH FLOW FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>(1,400,687)</u>	<u>(1,298,568)</u>	<u>1,126,796</u>	<u>1,083,968</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(5,749)	(387,616)	(126,668)	(77,178)
Interest and paying agent fees paid	-	-	(348,002)	(369,823)
Bond principal paid	-	-	(595,485)	(564,261)
Net cash provided by (used in) capital and related financing activities	<u>(5,749)</u>	<u>(387,616)</u>	<u>(1,070,155)</u>	<u>(1,011,262)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases) sales of investment pools	-	349,000	(489,015)	302,782
Purchase of investment securities	(483,659)	(677,704)	-	-
Redemption of investment securities	83,527	449,548	278,001	-
Principal paydowns on mortgage-backed securities	76,979	71,141	-	-
Interest received on investments	106,438	119,999	8,856	51,412
Net cash provided by (used in) investing activities	<u>(216,715)</u>	<u>311,984</u>	<u>(202,158)</u>	<u>354,194</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(489,010)	117,254	104,852	763,295
CASH AND CASH EQUIVALENTS, at beginning of year	<u>891,125</u>	<u>773,871</u>	<u>975,376</u>	<u>212,081</u>
CASH AND CASH EQUIVALENTS, at end of year	<u>402,115</u>	<u>891,125</u>	<u>1,080,228</u>	<u>975,376</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	1,069,806	1,229,047	(389,921)	(271,663)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	39,956	46,863	640,701	643,505
Miscellaneous income	35,977	22,337	-	21,696
Decrease /(Increase) in accounts receivable	33,391	132,306	28,715	(58,686)
Increase (decrease) in:				
Accounts payable	6,247	3,112	8	761
Accrued liabilities	(978)	2,531	(29,134)	782
Deferred revenues	(50,258)	55,258	-	-
Net cash provided by (used in) operating activities	<u>1,134,141</u>	<u>1,491,454</u>	<u>250,369</u>	<u>336,395</u>

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2012	2011	2012	2011
1,333,778	1,246,452	4,672,640	4,795,373
-	-	132,066	407,776
(275,475)	(187,811)	(1,247,375)	(1,099,966)
(217,948)	(218,065)	(1,153,279)	(1,142,095)
-	-	(179,187)	(281,544)
-	-	-	(11,119)
<u>840,355</u>	<u>840,576</u>	<u>2,224,865</u>	<u>2,668,425</u>
273,891	214,600	-	-
(27,455)	-	(159,872)	(464,794)
(523,024)	(535,151)	(871,026)	(904,974)
(589,515)	(480,739)	(1,185,000)	(1,045,000)
<u>(1,139,994)</u>	<u>(1,015,890)</u>	<u>(2,215,898)</u>	<u>(2,414,768)</u>
-	-	(489,015)	651,782
-	-	(483,659)	(677,704)
-	-	361,528	449,548
-	-	76,979	71,141
-	-	115,294	171,411
-	-	<u>(418,873)</u>	<u>666,178</u>
(25,748)	39,286	(409,906)	919,835
<u>94,340</u>	<u>55,054</u>	<u>1,960,841</u>	<u>1,041,006</u>
<u>68,592</u>	<u>94,340</u>	<u>1,550,935</u>	<u>1,960,841</u>
442,138	370,457	1,122,023	1,327,841
392,217	392,217	1,072,874	1,082,585
6,000	39,785	41,977	83,818
28,300	(29,537)	90,406	44,083
(28,300)	68,780	(22,045)	72,653
-	(1,126)	(30,112)	2,187
-	-	(50,258)	55,258
<u>840,355</u>	<u>840,576</u>	<u>2,224,865</u>	<u>2,668,425</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northeast Texas Municipal Water District (District) was created in 1953 by the legislature of the State of Texas. The member cities are Avinger, Daingerfield, Hughes Springs, Jefferson, Lone Star, Ore City, and Pittsburg. The District provides raw and purified water on a wholesale basis to the member cities and industrial users.

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

A. REPORTING ENTITY

The reporting entity refers to the scope of activities, organizations, and functions included in the financial statements. The District is an independent unit with no dependent agencies and is managed by governing body of appointed officials. The funds included in these financial statements represent the reporting entity in accordance with requirements of the Governmental Accounting Standards Board.

B. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues, and expenses. The following is a description of the fund type used by the District in the accompanying financial statements.

C. PROPRIETARY FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's three major enterprise funds are described below:

1. Primary Water District Fund – accounts for the operations of providing a raw water supply for municipal and industrial use out of the Lake O' the Pines.
2. Regional Water Supply System Fund – accounts for the operations of providing a treated water supply to the District's member cities and other customers.
3. Lake O' the Pines South Side Fund – accounts for the construction of improvements providing a treated water supply to the communities of Tryon Road, Diana, and Ore City.

D. BASIS OF ACCOUNTING

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Generally accepted accounting principles prescribed by the Financial Accounting Standards Board are applied unless they conflict with or contradict GASB pronouncements, or were issued after November 30, 1989.

Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

E. DEPRECIATION

Depreciation is provided for in the Enterprise Funds in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on the straight-line method. The service lives by type of asset are as follows:

Water intake structure	80 Years
Water treatment plants and pipelines	30-80 Years
Buildings	10-40 Years
Auto, furniture, tools and equipment	3-10 Years

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

F. BOND ISSUE COSTS

Bond issuance costs are deferred and amortized over the term of the bonds.

G. DEFERRED REVENUE

Water sales, government grants, and other revenues are recognized when earned. Revenues are considered to be earned when the District has performed all services related to the generation of revenue. At September 30, 2012, the District had received payment for services to be performed subsequent to year end. This resulted in deferral of revenue recognition until the period when service is performed.

H. INVESTMENTS

The District carries all debt securities at fair market value.

I. RECEIVABLES

Accounts receivable are considered fully collectible; accordingly, no allowance for doubtful accounts is required. In the event an account becomes uncollectible in the future, in whole or in part, such amount will be charged to operations when that determination is made.

J. VACATION AND PERSONAL TIME OFF

The District provides for vacations and personal time off. Vacation days may not be carried over from one year to the next. Any unused vacation is payable upon termination. Employees may accrue 12 days per year of sick leave. The amount accrued is not payable upon termination, death, or retirement.

K. CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and cash deposit accounts in banks.

L. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

M. OTHER

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if not used.

II. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. At September 30, 2012, the District's deposits were entirely insured or collateralized with securities held by the pledging financial institution's trust department or agent in the District's name; as a result, the District's deposits were not exposed to custodial credit risk. Securities with a market value of approximately \$965 thousand were pledged at September 30, 2012.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

A. DEPOSITS AND INVESTMENTS *continued*

Investments

The Texas Public Funds Investment Act and the District's investment policy authorize the District to invest in U.S. Treasury securities; certain U.S. agency securities, including mortgage-backed securities; certain external investment pools; and certificates of deposit.

Custodial credit risk for investments is the risk that the District will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2012, the District's investments were entirely insured or registered in the District's name; as a result, the District's investments were not exposed to custodial credit risk.

Interest rate risk occurs when potential purchases of debt securities do not agree to pay the face value for these securities if interest rates rise. The District does not purchase investments where the face value is not guaranteed.

Concentration risk is defined as position of 5% or more in the securities of a single issuer. Investments in external risk pools are not subject to concentration risk. The District is not exposed to any amounts of concentration risk.

At September 30, 2012 the District was in compliance with The Public Funds Investment Act.

At September 30, 2012, the District's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Principal Balance</u>
U.S. Treasuries	1,528,261	1,430,069
U.S. Government agencies:		
Federal Home Loan Bank	35,903	34,541
Federal Home Loan Mortgage Corporation	99,055	84,923
Government National Mortgage Association	<u>1,259,476</u>	<u>1,120,612</u>
Subtotal	<u>2,922,695</u>	<u>2,670,145</u>
External investment pools	<u>1,162,720</u>	<u>1,162,720</u>
	<u><u>4,085,415</u></u>	<u><u>3,832,865</u></u>

The District's investments in U.S. Treasuries and Government National Mortgage Association securities are backed by the full faith and credit of the U.S. Government. The District's other investments in U.S. government agencies are rated AAA by Moody's Investors Service. The District's investments in external investment pools are rated AAA by Standard & Poor's.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

B. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2012 were as follows:

	<u>Water Sales</u>	<u>Grants</u>	<u>Total</u>
Major Proprietary Funds:			
Primary Water District	101,660	13,671	115,331
Regional Water Supply	136,921	-	136,921
Lake O' the Pines Southside	40,980	-	40,980
	<u>279,561</u>	<u>13,671</u>	<u>293,232</u>

Payables at September 30, 2012, were as follows:

	<u>Accounts Payable</u>	<u>Accrued Benefits</u>	<u>Accrued Interest</u>	<u>Accrued Sludge Disposal</u>	<u>Total</u>
Major Proprietary Funds:					
Primary Water District	36,074	1,553	-	-	37,627
Regional Water Supply	769	2,704	28,140	26,500	58,113
Lake O' the Pines Southside	40,483	-	43,002	-	83,485
	<u>77,326</u>	<u>4,257</u>	<u>71,142</u>	<u>26,500</u>	<u>179,225</u>

C. INTERFUND BALANCES /TRANSFERS

Interfund balances between the major proprietary funds total \$1,108,656 between the Regional Water Supply System and the Lake O' the Pines Southside funds.

Interfund transfers between the three major proprietary funds for the year netted as follows:

Transfers from Primary Water District to:	
Regional Water Supply System	1,247,425
Lake O' the Pines Southside	273,890
	<u>1,521,315</u>
 Transfers from Regional Water Supply System to:	
Primary Water System	<u>120,629</u>

These are transfers for operations and debt service and will not be repaid.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2012

D. CAPITAL ASSETS

The District's capital asset activity for the year ended September 30, 2012, was as follows:

	Balance 10/1/2011	Additions	Deletions	Balance 9/30/2012
Non-depreciable assets:				
Land and right-of-way	1,435,037	45,350	-	1,480,387
Water rights	1,752,565	-	-	1,752,565
Construction in progress	-	-	-	-
	<u>3,187,602</u>	<u>45,350</u>	<u>-</u>	<u>3,232,952</u>
Depreciable assets:				
Water treatment plants	24,347,751	-	-	24,347,751
Water lines and intake structures	24,139,188	102,704	-	24,241,892
Pump station	799,966	-	-	799,966
Buildings	490,788	6,070	-	496,858
Furniture and equipment	931,227	5,748	-	936,975
Autos, trucks and tractors	227,723	-	-	227,723
Clean rivers project	84,025	-	-	84,025
Corp of Engineers	387,617	-	-	387,617
	<u>51,408,285</u>	<u>114,522</u>	<u>-</u>	<u>51,522,807</u>
Total capital assets	<u>54,595,887</u>	<u>159,872</u>	<u>-</u>	<u>54,755,759</u>
Less accumulated depreciation for:				
Water treatment plants	(6,033,861)	(578,819)	-	(6,612,680)
Water lines and intake structures	(3,188,547)	(323,622)	-	(3,512,169)
Pump station	(449,371)	(16,000)	-	(465,371)
Buildings	(388,085)	(17,853)	-	(405,938)
Furniture and equipment	(635,239)	(118,077)	-	(753,316)
Autos, trucks and tractors	(200,850)	(8,957)	-	(209,807)
Clean rivers project	(78,044)	(1,794)	-	(79,838)
Corp of Engineers	(7,752)	(7,752)	-	(15,504)
Total accumulated depreciation	<u>(10,981,749)</u>	<u>(1,072,874)</u>	<u>-</u>	<u>(12,054,623)</u>
Net Capital Assets	<u>43,614,138</u>	<u>(913,002)</u>	<u>-</u>	<u>42,701,136</u>

Depreciation expense for the year ended September 30, 2012 was \$1,072,874.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

E. RETIREMENT PLAN

- 1. Plan Description.** The district provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent multiple-employer public employee retirement system consisting of over 586 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with ten or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after ten years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump-sum are not entitled to any amounts contributed by the employer.

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

- 2. Funding Policy.** The employer has elected the annually determined contribution rate (ADCR) 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 contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 7.00% for the months of the accounting year in 2012, and 7.00% for the months of the accounting year in 2011.

The contribution rate payable by the employee members for calendar year 2012 is the rate of 7.0% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS act.

- 3. Annual Pension Cost.** For the employer's accounting year ended September 30, 2012 the annual pension cost for the TCDRS plan for its employees was \$38,258 and the actual contributions were \$38,258.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2011, the basis for determining contribution rates for calendar year 2012. The December 31, 2011 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/2009	12/31/2010	12/31/2011
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	30 yrs.	30 yrs.	30 yrs.
Asset valuation method	Ten year smoothed value	Ten year smoothed value	Ten year smoothed value
 Actuarial Assumptions:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	5.4%	5.4%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

(1) Includes inflation at the stated rate

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

E. RETIREMENT PLAN *continued*

Trend Information
for the Retirement Plan for the Employees of the District

<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
9/30/10	54,709	100.00%	-
9/30/11	36,185	100.00%	-
9/30/12	38,258	100.00%	-

Schedule of Funding Progress for the Retirement Plan
for the Employees of the District

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	1,252,092	1,248,683	(3,409)	100.27%	435,280	(0.46)%
12/31/10	1,379,087	1,351,416	(27,671)	102.05%	734,407	(3.77)%
12/31/11	1,537,385	1,504,841	(32,544)	102.16%	740,692	(4.39)%

(1) The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

F. LONG-TERM DEBT

The District's long-term debt activity for the year ended September 30, 2012, was as follows:

	Balance at 10/01/11	Issued	Retired	Balance at 9/30/12	Current Portion
Water System Revenue Bonds					
Series 2003	7,695,000	-	(255,000)	7,440,000	275,000
Series 2008	1,550,000	-	-	1,550,000	-
	<u>9,245,000</u>	<u>-</u>	<u>(255,000)</u>	<u>8,990,000</u>	<u>275,000</u>
Contract Revenue Bonds:					
Series 2003	11,590,000	-	(500,000)	11,090,000	540,000
Series 2009 (refunding)	6,406,323	-	-	6,406,323	-
Accreted Interest	1,455,063	-	1,611,909	3,066,972	-
Series 2010 (refunding)	2,695,000	-	(430,000)	2,265,000	440,000
	<u>22,146,386</u>	<u>-</u>	<u>681,909</u>	<u>22,828,295</u>	<u>980,000</u>
	<u>31,391,386</u>	<u>-</u>	<u>426,909</u>	<u>31,818,295</u>	<u>1,255,000</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2012

F. LONG-TERM DEBT *continued*

Water System Revenue Bonds, Series 2003, dated March 1, 2003, in the aggregate principal amount of \$8,650,000; interest payable semi-annually at coupon rates ranging from 0.74% to 4.14%; principal payable annually through September 1, 2024; secured by a pledge of revenues. The bond proceeds were used to fund improvements to the District's Tanner water treatment plant.

Water System Revenue Bonds, Series 2008, dated November 12, 2008, in the aggregate principal amount of \$1,550,000; interest payable semi-annually at coupon rates ranging from 5.5% to 5.85%; principal payable annually from September 1, 2025 through September 1, 2034; secured by a pledge of revenues. The bond proceeds were used to fund improvements to the District's Tanner water treatment plant.

Contract Revenue Bonds, Series 2003, dated March 1, 2003, in the aggregate principal amount of \$12,400,000; interest payable semi-annually at coupon rates ranging from 1.38% to 4.03%; principal payable annually through September 1, 2026; secured by a pledge of revenues. The bond proceeds were used to fund construction of the District's Lake O' the Pines Southside Regional Water Supply System.

Contract Revenue Refunding Bonds, Series 2009, dated March 1, 2009, in the aggregate principal amount of \$6,406,324; the bonds are capital appreciation bonds and do not pay periodic interest: the final maturity amount of \$26,070,219 (including accreted interest totaling \$19,663,895) is payable in irregular annual installments from September 1, 2019 through September 1, 2027; secured by a pledge of revenues. The bond proceeds were used to refund the District's Contract Revenue Notes, Series 2008.

Water System Refunding Bonds, Series 2010, dated July 7, 2010, in the aggregate principal amount of \$3,110,000; interest payable semi-annually at interest rates ranging from 2.00% to 3.00%; principal payable annually from September 1, 2012 through September 1, 2017; secured by a pledge of revenues. The bonds were used to refund the District's Water System Revenue Bonds, Series-2000. Interest payments decreased approximately \$600 thousand because of this refunding. The principal balance of the refunded debt is \$2,305,000 at September 30, 2012.

Certain bond agreements require the District to maintain reserve funds in an amount equal to the average annual principal and interest requirements of the outstanding bonds. As of September 30, 2012, reserve funds restricted for debt service totaled \$3,026,385, which exceeded the coverage required.

The scheduled Maturities of bonds payable as of September 30, 2012, are as follows:

Years Ending 9/30	Principal	Interest	Total
2013	1,255,000	836,976	2,091,976
2014	1,420,000	801,942	2,221,942
2015	1,515,000	762,101	2,277,101
2016	1,600,000	713,657	2,313,657
2017	1,630,000	663,693	2,293,693
2018-2022	7,998,853	2,946,798	10,945,651
2023-2027	12,247,470	20,172,576	32,420,046
2028-2032	775,000	225,060	1,000,060
2033-2035	310,000	27,202	337,202
Total	28,751,323	<u>27,150,005</u>	<u>55,901,328</u>
Accreted Interest	3,066,972		<u>31,818,295</u>

G. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The District purchases commercial insurance to indemnify it in the event of loss.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2012

H. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments or contingencies at September 30, 2012.

I. LITIGATION

As of September 30, 2012 the District was not involved in any significant litigation.

J. RESERVED / RESTRICTED NET ASSETS

Reservations or restrictions of fund equity reflect amounts legally set aside for specified purposes. The purpose of each is indicated by the account title on the face of the statement of net assets.

K. DEFICIT NET ASSETS-LAKE O' THE PINES SOUTHSIDE

The Lake O' the Pines South Side Fund reflects deficit net assets. This fund was established in late 2008. Over time as water is sold and this activity goes forward, and through transfers from the Primary Water District, this deficit will decrease and become neutral.

L. SUBSEQUENT EVENTS

Administration has evaluated subsequent events through December 12, 2012, the financial statement issuance date.

M. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$29,836 is reflected as an increase to beginning net assets in the Regional Water Supply System Fund. This adjustment was made to correct accrued sludge disposal expense for over-accruals from prior years.

SUPPLEMENTAL SECTION

Northeast Texas Municipal Water District
SCHEDULE OF REVENUES AND EXPENSES-
BUDGET AND ACTUAL
for the year ended September 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Raw water sales	2,026,804	2,055,121	28,317
Treated water sales	2,381,073	2,500,463	119,390
State grants	213,650	163,796	(49,854)
Other grants	3,250	3,200	(50)
Total operating revenues	<u>4,624,777</u>	<u>4,722,580</u>	<u>97,803</u>
OPERATING EXPENSES			
Personnel	1,196,654	1,150,760	45,894
Supplies	331,035	353,996	(22,961)
Maintenance	384,675	290,419	94,256
Contractual services	600,036	553,321	46,715
State grant programs	217,350	179,187	38,163
Other grant programs	3,250	-	3,250
Total operating expenses	<u>2,733,000</u>	<u>2,527,683</u>	<u>205,317</u>
Excess (deficiency) of revenues over expenditures	<u>1,891,777</u>	<u>2,194,897</u>	<u>303,120</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	103,200	131,977	28,777
Interest expense	(2,055,878)	(2,574,840)	(518,962)
Other	19,500	41,977	22,477
Total non-operating revenues (expenses)	<u>(1,933,178)</u>	<u>(2,400,886)</u>	<u>(467,708)</u>
NET INCOME BEFORE NON-BUDGETED EXPENSES	<u>(41,401)</u>	(205,989)	<u>(164,588)</u>
NON-BUDGETED EXPENSES			
Depreciation		<u>1,072,874</u>	
NET LOSS		<u>(1,278,863)</u>	

Northeast Texas Municipal Water District
INDEX OF SUPPLEMENTAL SCHEDULES
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
for the year ended September 30, 2012

(Check those schedules included and provide a brief explanation below the schedule title for any schedule omissions)

		<u>Page Number</u>
<input checked="" type="checkbox"/>	(D) Notes required by the Water District Accounting Manual (Included in the notes to the financial statements)	13-21
<input checked="" type="checkbox"/>	(E) Services and rates	24-25
<input checked="" type="checkbox"/>	(F) Schedule of operating expenditures	26
<input checked="" type="checkbox"/>	(G) Schedule of temporary investments (Included in the notes to the financial statements)	15
<input type="checkbox"/>	(H) Analysis of taxes levied and receivable	*
<input checked="" type="checkbox"/>	(I) Analysis of changes in general fixed assets (Included in the notes to the financial statements)	17
<input checked="" type="checkbox"/>	(J) General long-term debt service requirements by years	27-28
<input checked="" type="checkbox"/>	(K) Analysis of changes in general long-term debt	29
<input type="checkbox"/>	(L) Comparative schedule of revenues and expenditures	*
<input checked="" type="checkbox"/>	(M) Insurance coverage	30
<input type="checkbox"/>	(N) Board members, key personnel, and consultants	*

* The Northeast Texas Municipal Water District provides only wholesale water services and therefore is not required to provide this supplemental information.

N/A – Not applicable

Northeast Texas Municipal Water District
(E) SCHEDULE OF SERVICES AND RATES
 For the year ended September 30, 2012

1. Services provided by the District:

<input type="checkbox"/> Retail water	<input checked="" type="checkbox"/> Wholesale water	<input type="checkbox"/> Drainage
<input type="checkbox"/> Retail wastewater	<input type="checkbox"/> Wholesale wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/recreation	<input type="checkbox"/> Fire protection	<input type="checkbox"/> Security
<input type="checkbox"/> Solid waste/garbage	<input type="checkbox"/> Flood control	<input type="checkbox"/> Roads
<input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other (specify): _____		

2. Retail rates based on 5/8" meter: Retail rates not applicable

Most prevalent type of meter (if not a 5/8"): _____

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	_____	\$ _____	_____	\$ _____	_____ to _____
WASTEWATER:	_____	\$ _____	_____	\$ _____	_____ to _____
SURCHARGE:	_____	\$ _____	_____	\$ _____	_____ to _____

District employs winter averaging for wastewater usage? yes no

Total water and wastewater charges per 10, 000 gallons usage (including surcharges). \$ _____

3. Retail Service Providers: Number of retail water and/or wastewater* connections within the District as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC) as noted:

N/A	Active Connections	Active ESFC	Inactive Connections (ESFC)**
Single Family	_____	_____	_____
Multi-Family	_____	_____	_____
Commercial	_____	_____	_____
Other-recreational centers, government & VFD	_____	_____	_____
TOTAL	=====	=====	=====

4. Total Water Consumption (in Thousands) During the Fiscal Year:

Gallons pumped into system: 1,086,283
 Gallons billed to customers: 993,049

* Number of connections relates to water service, if provided. Otherwise, the number of wastewater connections should be provided.

** "Inactive" means that water and wastewater connections were made, but service is not being provided.

5. **Standby Fees:** Does the District assess standby fees? Yes No

For the most recent full fiscal year, FYE _____:

Debt Service: Total levy \$ _____
 Total collected \$ _____
 Percentage collected _____

Operation & Maintenance: Total levy \$ _____
 Total collected \$ _____
 Percentage collected _____

Have standby fees been levied in accordance with Water Code Section 49,231 thereby constituting a lien on property. Yes No

6. **Anticipated sources of funds to be used for debt service payments in the District's following fiscal year:**

a. Debt Service Tax Receipts	\$ _____
b. Surplus Construcion Funds	_____
c. Water and/or Wastewater Revenue	2,091,976
d. Standby Fees	_____
e. Debt Service Fund Balance to be Used	_____
f. Interest Revenues	_____
g. Other (Describe)	_____
_____	_____
_____	_____
*TOTAL ANTICIPATED FUNSD TO BE USED	\$ 2,091,976

7. **Location of District:**

County(ies) in which District is located. Cass, Morris, Marion, Upshur, Camp

Is the District located entirely within one county? Yes No

Is the District within a City? Not at all Partly Entirely

City(ies) in which District is located. Avinger, Daingerfield, Hughes Springs, Jefferson, Lone Star, Ore City, Pittsburg

Is the District located within a city's extra territorial jurisdiction (ETJ)? Not at all Partly Entirely

ETJ's in which District is located. _____

Is the general membership of the Board appointed by an office outside the District? Yes No

If Yes, by whom? _____

* This total should equal the District's total annual debt service for the fiscal year following the fiscal year reported or in the audited financial statements.

Northeast Texas Municipal Water District
(F) SCHEDULE OF OPERATING EXPENDITURES
For the year ended September 30, 2012

Current:	
Personnel (including benefits)	1,106,982
Professional Fees:	
Auditing	23,100
Legal	7,580
Engineering	-
Financial advisor	-
Other professional fees	3,582
Purchased services for resale:	
Bulk water and sewer service purchases	-
Tap connection expenses	-
Contracted services:	
Bookkeeping	-
General manager	-
Appraisal district	-
Tax collector	-
Other contracted services	-
Utilities	218,564
Repairs and maintenance	290,418
Administrative expenses:	
Directors' fees	23,250
Office supplies	7,255
Insurance	41,877
Other administrative expenses	20,528
Capital outlay:	
Acquisition of fixed assets	-
Chemicals	223,617
Transfers	-
Special projects - State grant programs	179,187
Special projects - Other grant programs	-
Solid waste disposal	-
Other expenditures	<u>1,454,617</u>
TOTAL OPERATING EXPENDITURES	<u><u>3,600,557</u></u>
Number of persons employed by the District:	<u>17 full-time</u>
(Does not include independent contractors or consultants)	<u>0 part-time</u>

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
As of September 30, 2012

FYE 9/30	Water System Revenue Bonds								
	Series 2010			Series 2003			Series 2008		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	440,000	56,676	496,676	275,000	286,566	561,566	-	88,427	88,427
2014	450,000	46,776	496,776	300,000	277,793	577,793	-	88,428	88,428
2015	460,000	37,776	497,776	355,000	267,924	622,924	-	88,427	88,427
2016	475,000	23,976	498,976	390,000	255,889	645,889	-	88,428	88,428
2017	440,000	12,100	452,100	425,000	242,278	667,278	-	88,427	88,427
2018	-	-	-	455,000	227,021	682,021	-	88,428	88,428
2019	-	-	-	500,000	210,231	710,231	-	88,427	88,427
2020	-	-	-	530,000	191,281	721,281	-	88,428	88,428
2021	-	-	-	1,025,000	170,664	1,195,664	-	88,427	88,427
2022	-	-	-	1,045,000	130,279	1,175,279	-	88,428	88,428
2023	-	-	-	1,070,000	88,061	1,158,061	-	88,427	88,427
2024	-	-	-	1,070,000	44,298	1,114,298	-	88,428	88,428
2025	-	-	-	-	-	-	155,000	88,427	243,427
2026	-	-	-	-	-	-	155,000	79,903	234,903
2027	-	-	-	-	-	-	155,000	71,300	226,300
2028	-	-	-	-	-	-	155,000	62,620	217,620
2029	-	-	-	-	-	-	155,000	53,940	208,940
2030	-	-	-	-	-	-	155,000	45,105	200,105
2031	-	-	-	-	-	-	155,000	36,192	191,192
2032	-	-	-	-	-	-	155,000	27,203	182,203
2033	-	-	-	-	-	-	155,000	18,135	173,135
2034	-	-	-	-	-	-	155,000	9,067	164,067
	<u>2,265,000</u>	<u>177,304</u>	<u>2,442,304</u>	<u>7,440,000</u>	<u>2,392,285</u>	<u>9,832,285</u>	<u>1,550,000</u>	<u>1,553,022</u>	<u>3,103,022</u>

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
As of September 30, 2012

FYE 9/30	Contract Revenue Bonds			Contract Revenue Refunding Bonds			TOTAL		
	Series 2003			Series 2009			Principal	Interest	Total
	Principal	Interest	Total	Principal	Interest	Total			
2013	540,000	405,307	945,307	-	-	-	1,255,000	836,976	2,091,976
2014	670,000	388,945	1,058,945	-	-	-	1,420,000	801,942	2,221,942
2015	700,000	367,974	1,067,974	-	-	-	1,515,000	762,101	2,277,101
2016	735,000	345,364	1,080,364	-	-	-	1,600,000	713,657	2,313,657
2017	765,000	320,888	1,085,888	-	-	-	1,630,000	663,693	2,293,693
2018	790,000	294,649	1,084,649	-	-	-	1,245,000	610,098	1,855,098
2019	800,000	266,762	1,066,762	131,301	143,699	275,000	1,431,301	709,119	2,140,420
2020	850,000	237,722	1,087,722	105,987	139,013	245,000	1,485,987	656,444	2,142,431
2021	850,000	206,017	1,056,017	27,306	42,694	70,000	1,902,306	507,802	2,410,108
2022	850,000	173,887	1,023,887	39,259	70,741	110,000	1,934,259	463,335	2,397,594
2023	870,000	140,907	1,010,907	42,076	87,924	130,000	1,982,076	405,319	2,387,395
2024	870,000	106,716	976,716	1,317,524	3,422,764	4,740,288	3,257,524	3,662,206	6,919,730
2025	900,000	72,090	972,090	1,338,093	3,894,105	5,232,198	2,393,093	4,054,622	6,447,715
2026	900,000	36,270	936,270	1,239,577	4,028,156	5,267,733	2,294,577	4,144,329	6,438,906
2027	-	-	-	2,165,200	7,834,800	10,000,000	2,320,200	7,906,100	10,226,300
2028	-	-	-	-	-	-	155,000	62,620	217,620
2029	-	-	-	-	-	-	155,000	53,940	208,940
2030	-	-	-	-	-	-	155,000	45,105	200,105
2031	-	-	-	-	-	-	155,000	36,192	191,192
2032	-	-	-	-	-	-	155,000	27,203	182,203
2033	-	-	-	-	-	-	155,000	18,135	173,135
2034	-	-	-	-	-	-	155,000	9,067	164,067
	<u>11,090,000</u>	<u>3,363,498</u>	<u>14,453,498</u>	<u>6,406,323</u>	<u>19,663,896</u>	<u>26,070,219</u>	<u>28,751,323</u>	<u>27,150,005</u>	<u>55,901,328</u>

Northeast Texas Municipal Water District
(K) ANALYSIS OF CHANGES IN LONG-TERM DEBT
for the year ended September 30, 2012

	Water System Revenue Bonds			Contract Revenue Bonds		Interest Accretion	Total
	Series 2010	Series 2003	Series 2008	Series 2003	Series 2009		
Interest rate	2.00-3.00%	.74-4.14%	5.50-5.85%	1.38-4.03%	7.25-8.50%		
Dates interest payable	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	N/A	N/A	
Maturity dates	9/1/11 to 9/1/17	9/1/05 to 9/1/24	9/1/25 to 9/1/34	9/1/07 to 9/1/26	9/1/19 to 9/1/27		
Bonds outstanding at beginning of current year	2,695,000	7,695,000	1,550,000	11,590,000	6,406,323	1,455,063	31,391,386
Bonds sold during the current year	-	-	-	-	-	-	-
Interest accretion	-	-	-	-	-	1,611,909	1,611,909
Retirements: principal	430,000	255,000	-	500,000	-	-	1,185,000
Bonds outstanding at end of current year	2,265,000	7,440,000	1,550,000	11,090,000	6,406,323	3,066,972	31,818,295
Retirement: interest	67,426	294,318	88,428	419,707	-	-	869,879
Bond Authority:	<u>Tax Bonds *</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>				
Amount authorized	N/A	21,050,000	3,110,000				
Amount issued	-	21,050,000	3,110,000				
Remaining to be issued	-	-	-				

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Northeast Texas Municipal Water District
(M) INSURANCE COVERAGE
September 30, 2012

Type of Coverage	Insurer			
	Amount of Coverage	Name	Type of Corporation Stock/Mutual	Policy Clause: Co-Insurance
Treasurer - Faithful Performance Bond	\$ 100,000	Western Surety Company	Stock	No
Notary - Faithful Performance Bond	\$ 5,000	CNA Surety	Stock	No
Public Employer - Faithful Performance Bond	\$ 5,000	CNA Surety	Stock	No
Building Contents and Equipment	\$ 21,435,000	Trident	Stock	No
General Liability		Mid-Continent Casualty Co	Stock	No
General Aggregate	\$ 2,000,000			
Production and Completion Operations	\$ 2,000,000			
Personal	\$ 1,000,000			
Each Occurrence	\$ 1,000,000			
Damage to Premises Rented by Policy Holder	\$ 100,000			
Liability		Travelers	Stock	No
All automobiles and Trucks				
Bodily Injury and Property Damage	\$ 1,000,000			
Uninsured Motorist	\$ 55,000			
Personal Injury Protection	\$ 2,500			
Comprehensive	ACV			
Collision	ACV			
Hired and Non-Owned Auto	\$50,000 or ACV			
Equipment Floater	\$ 169,555	Trident	Stock	No
Commercial Inland Marine	\$ 125,000	Deep South Surplus	Stock	No
Umbrella		Mid Continent Group	Stock	No
Aggregate	\$ 5,000,000			
Each Occurrence	\$ 1,000,000			
Retained Limit	\$ 10,000			
Standard Worker's Compensation	Statutory	UTICA	Stock	No
Directors and Officers Liability	\$ 5,000,000	Great American	Stock	No
Crime Blanket		Hartford	Stock	No
Employee Dishonesty	\$ 500,000			
Forgery and Alteration	\$ 25,000			
Theft	\$ 5,000			
Computer and Funds Transfer Fraud	\$ 10,000			

INTERNAL CONTROL AND COMPLIANCE SECTION



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A., P.F.S.
Lanny G. Walker, C.P.A., P.F.S.
Kris Arnold, C.P.A., P.F.S.
Andrew T. Arnold, C.P.A.
Melissa J. Godfrey, C.P.A.
Amy E. Smith, C.P.A.

MEMBER
American Institute Of
Certified Public Accountants
Texas State Society Of
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Northeast Texas Municipal Water District
Hughes Springs, Texas

Members of the Board:

We have audited the financial statements of the business-type activities, each major fund Northeast Texas Municipal Water District as of and for the years ended September 30, 2012 and 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2012. 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.

Internal Control Over Financial Reporting

Management of Northeast Texas Municipal Water District is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The tests performed provide sufficient, appropriate evidence to support the results of our testing. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

December 12, 2012

Northeast Texas Municipal Water District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Northeast Texas Municipal Water District was an unqualified opinion.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. NONE
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. NONE
- e. The type of report the auditor issued on compliance for major programs. unqualified opinion
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section ____510(a). These include: NONE
- g. An identification of major programs: N/A
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A
- i. A statement as to whether the auditee qualified as a low-risk auditee. N/A

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

N/A

Northeast Texas Municipal Water District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

N/A

STATUS OF PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

N/A

Northeast Texas Municipal Water District
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

CORRECTIVE ACTION

N/A

The contact at the District is Walt Sears at (903) 639-7538.