

Northeast Texas Municipal Water District

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

For the years ended September 30, 2011 and 2010

Northeast Texas Municipal Water District
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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, 2011 and 2010, 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, 2011 and 2010, 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 7, 2011, 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 7, 2011

**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, 2010, to September 30, 2011, 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 \$50.8 million dollars and operating revenue was \$1,327,841.

Financial Highlights

- The total assets of the District are \$50,896,422.
- The total liabilities are \$33,091,926.
- The assets of the District exceed liabilities by \$17,804,496.
- The total net assets of the District increased by \$2,759 or less than 1%.
- The total liabilities of the District decreased by \$290,597 or less than 1%.
- The District had an operating income \$1,327,841 for the audited year compared to an operating income of \$570,215 for the previous year. Total operating revenue exceeded total operating expenses by about 35.9%.

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		
	2011	2010
Current and other assets	7,282,283	6,952,330
Capital and non-current assets	43,614,139	44,231,930
TOTAL ASSETS	50,896,422	51,184,260
Long-term liabilities	31,391,386	31,812,081
Other liabilities	1,700,540	1,570,442
TOTAL LIABILITIES	33,091,926	33,382,523
Invested in capital assets, net of related debt	12,222,753	13,385,920
Restricted/reserved	2,689,104	2,293,061
Unrestricted	2,892,639	2,122,756
TOTAL NET ASSETS	17,804,496	17,801,737

The District's Changes in Net Assets		
Business-Type		
Activities		
	2011	2010
Revenues		
Raw water sales	2,088,442	1,883,132
Treated water sales	2,574,030	2,166,583
State grants	357,518	595,449
Other grants	-	12,678
Investment income	218,541	240,233
Other	83,818	117,482
Total revenues	5,322,349	5,015,557
Expenses		
Personnel	1,144,282	1,119,880
Supplies	311,349	272,370
Maintenance	298,164	371,174
Contractual services	563,106	519,197
Depreciation	1,082,585	1,076,277
State grant programs	281,544	728,683
Other grant expenses	11,119	46
Interest expense	1,627,441	1,691,899
Total expenses	5,319,590	5,779,526
Increase in net assets before transfers	2,759	(763,969)
Transfers (net)	-	-
Increase (decrease) in net assets	2,759	(763,969)
Beginning net assets	17,801,737	18,565,706
Ending net assets	17,804,496	17,801,737

**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 increased by \$205,310 or 10.9% when compared to the previous year. Although no new customers of raw water were added during the fiscal year, existing customers were provided more raw water due to the dry weather pattern. Despite the abnormally dry weather, the District did not experience any difficulty in having enough stored water to supply all requests. While about 1 in 5 water systems in Texas had some form of voluntary or mandatory measures in place to conserve supplies in 2011, the Conservation Plan of the District for Lake O' the Pines never reached even its first stage of voluntary measures due to the more than ample supply of stored water in Lake O' the Pines and a sufficient delivery system.

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 second full fiscal year of operations. The treated water sales in the LOPSS grew by \$171,477 or 16.1%. The larger sales in the second fiscal year when compared to the first fiscal year are largely due to hotter and more dry weather causing residential usage to be greater. Production at the Tanner Plant which serves both LOPSS and RWSS exceeded 1 billion gallons in fiscal year 2011. 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 increased from \$1,101,856 in fiscal year 2010 to \$1,337,826 in fiscal year 2011. This increase in sales was \$235,970 or 21.4%. This increase in revenue is primarily due to increased usage in response to the drought occurring in 2011. The weather was much drier than normal which increased the amount sold.

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 amount used for lawn irrigation decreases. When there is not adequate rainfall, the amount used for lawn irrigation increases. According to the U.S. Army Corps of Engineers, rainfall at Lake O' the Pines in fiscal year 2011 was about 24.7 inches, compared to 30.6 inches in 2010. Normal annual rainfall is about 48.4 inches. In fiscal year 2011, there were five months of months with less than 1 inch of rainfall falling during that month.

The operating loss for the RWSS system (treated water production) decreased by \$101,118 or 14.2% when compared to the previous year. The primary reason for the improvement in the operating loss this year was the additional revenue that was received due to the dry weather pattern. The production expenses for treated water produced by the Tanner Plant continue to shared between the RWSS and the LOPSS and this sharing continues to have beneficial effects on RWSS and LOPSS.

Concerning capital assets and long-term debt activity, the District completed significant improvements financed principally from borrowing funds in prior fiscal years. No significant expansion of the existing facilities occurred during this fiscal year. No additional borrowing occurred during this fiscal year. The outstanding indebtedness is identified in Note 5 of the Financial Statements.

Capital Assets And Debt Administration

Capital Assets

	District's Capital Assets (in thousands of dollars)	
	2011	2010
Non-depreciable:		
Land and right-of-way	1,435	1,435
Water rights	1,753	1,753
Depreciable:		
Water treatment plants	24,347	24,347
Water lines and intake structures	24,139	24,062
Buildings	491	491
Other	2,431	2,043
Less accumulated depreciation:	(10,982)	(9,899)
	43,614	44,232

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)	
Bonus payable	31,391	31,812

No new debt was obtained this year.

**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 2010, 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 US Army Corp maintains Lake O' the Pines and the District is required to provide 13.4% of the maintenance cost. More than 240,000 acre feet of water is routinely stored in Lake O' the Pines. As the total maintenance cost increases, the amount that the District must pay also increases. The US Army Corp is predicting that the amount that the District must provide for the next fiscal year (2012) is \$188,076. The annual amount that the District must provide to the US Army Corp has been an average of \$176,922 since 2000. While the amount to be paid in the next fiscal year is slightly more than the average annual amount, it is significantly less than the amount of \$537,258 that was paid in fiscal year 2011.

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

Income Statement		Balance Sheet	
2000	1999	2000	1999
Revenue	1,234,567	Assets	1,234,567
Cost of sales	(567,890)	Liabilities	(567,890)
Gross profit	666,677	Net assets	666,677
Operating expenses	(123,456)		
Operating profit	543,221		
Finance income	12,345		
Finance expense	(6,789)		
Profit before tax	548,777		
Income tax	(123,456)		
Profit for the year	425,321		
Dividends	(100,000)		
Retained profit	325,321		
		Share capital	1,000,000
		Reserves	666,677
		Total	1,666,677

The financial statements are prepared on a going concern basis. The directors have a duty to ensure that the financial statements give a true and fair view of the company's financial position and performance. The financial statements are audited by independent auditors.

The company's financial statements for the year ended 31st December 1999 show a profit for the year of 425,321. This profit is available for distribution to shareholders in the form of dividends. The directors propose a dividend of 100,000 for the year.

The company's financial position at the end of the year is strong, with total assets of 1,666,677 and total liabilities of 1,000,000. The company's net assets are 666,677, which is an increase on the net assets of 666,677 at the end of the previous year.

Northeast Texas Municipal Water District
STATEMENTS OF NET ASSETS—PROPRIETARY FUNDS
As of September 30, 2011 and 2010

ASSETS	Enterprise Funds			
	Primary Water District		Regional Water Supply System	
	2011	2010	2011	2010
Current assets				
Cash on hand and in bank	883,432	755,097	293,562	190,322
Investments	962,367	1,106,264	-	-
Receivables:				
Water sales	119,723	82,146	165,636	106,950
Grants receivable	28,999	198,882	-	-
Interfund receivable	-	-	85,814	85,814
Total current assets	1,994,521	2,142,389	545,012	383,086
Non-current assets				
Restricted cash in bank	7,693	18,774	681,814	21,759
Restricted investments	-	-	1,913,450	2,216,748
Utility deposits	50	50	-	-
Deferred bond issue costs	-	-	332,846	377,253
Capital assets	3,387,928	3,000,312	31,598,980	31,521,802
Less: accumulated depreciation	(914,883)	(868,020)	(9,020,953)	(8,377,448)
Total non-current assets	2,480,788	2,151,116	25,506,137	25,760,114
Total assets	4,475,309	4,293,505	26,051,149	26,143,200
LIABILITIES				
Current liabilities				
Current portion of bonds payable	-	-	595,485	564,261
Accounts payable	29,827	26,715	761	-
Accrued expenses	2,531	-	33,726	32,944
Interfund payable	-	-	1,194,470	1,194,470
Deferred revenues:				
Water sales	191,800	186,800	-	-
Other	50,258	-	-	-
Total current liabilities	274,416	213,515	1,824,442	1,791,675
Non-current liabilities				
Accrued expenses	-	-	83,930	83,930
Bonds payable	-	-	8,643,262	9,238,747
Total non-current liabilities	-	-	8,727,192	9,322,677
Total liabilities	274,416	213,515	10,551,634	11,114,352
NET ASSETS				
Invested in capital assets, net of related debt	2,473,045	2,132,292	13,339,280	13,718,599
Restricted for debt service	-	-	2,595,264	2,238,507
Unrestricted	1,727,848	1,947,698	(435,029)	(928,258)
Total net assets	4,200,893	4,079,990	15,499,515	15,028,848

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2011	2010	2011	2010
500	500	1,177,494	945,919
-	-	962,367	1,106,264
69,280	39,743	354,639	228,839
-	-	28,999	198,882
1,108,656	1,108,656	1,194,470	1,194,470
<u>1,178,436</u>	<u>1,148,899</u>	<u>3,717,969</u>	<u>3,674,374</u>
93,840	54,554	783,347	95,087
-	-	1,913,450	2,216,748
-	-	50	50
534,621	588,818	867,467	966,071
19,608,979	19,608,979	54,595,887	54,131,093
(1,045,912)	(653,695)	(10,981,748)	(9,899,163)
<u>19,191,528</u>	<u>19,598,656</u>	<u>47,178,453</u>	<u>47,509,886</u>
<u>20,369,964</u>	<u>20,747,555</u>	<u>50,896,422</u>	<u>51,184,260</u>
589,515	480,739	1,185,000	1,045,000
68,780	-	99,368	26,715
44,457	45,583	80,714	78,527
-	-	1,194,470	1,194,470
-	-	191,800	186,800
-	-	50,258	-
<u>702,752</u>	<u>526,322</u>	<u>2,801,610</u>	<u>2,531,512</u>
-	-	83,930	83,930
21,563,124	21,528,334	30,206,386	30,767,081
<u>21,563,124</u>	<u>21,528,334</u>	<u>30,290,316</u>	<u>30,851,011</u>
<u>22,265,876</u>	<u>22,054,656</u>	<u>33,091,926</u>	<u>33,382,523</u>
(3,589,572)	(2,464,971)	12,222,753	13,385,920
93,840	54,554	2,689,104	2,293,061
1,599,820	1,103,316	2,892,639	2,122,756
<u>(1,895,912)</u>	<u>(1,307,101)</u>	<u>17,804,496</u>	<u>17,801,737</u>

Northeast Texas Municipal Water District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS—PROPRIETARY FUNDS
For the years ended September 30, 2011 and 2010

	Enterprise Funds			
	Primary Water District		Regional Water Supply System	
	2011	2010	2011	2010
OPERATING REVENUES				
Raw water sales	2,088,442	1,883,132	-	-
Treated water sales	-	-	1,337,826	1,101,856
State grants	357,518	595,449	-	-
Other grants	-	12,678	-	-
Total operating revenues	<u>2,445,960</u>	<u>2,491,259</u>	<u>1,337,826</u>	<u>1,101,856</u>
OPERATING EXPENSES				
Personnel	480,879	502,153	446,464	411,105
Supplies	22,339	21,989	168,642	163,270
Maintenance	158,626	232,037	99,286	100,145
Contractual services	215,543	201,527	251,592	237,761
Depreciation	46,863	41,733	643,505	642,327
State grant programs	281,544	728,683	-	-
Other grant programs	11,119	46	-	-
Total operating expenses	<u>1,216,913</u>	<u>1,728,168</u>	<u>1,609,489</u>	<u>1,554,608</u>
OPERATING INCOME (LOSS)	<u>1,229,047</u>	<u>763,091</u>	<u>(271,663)</u>	<u>(452,752)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income	168,087	26,242	50,454	213,991
Interest expense	-	-	(413,788)	(511,996)
Other	22,337	26,590	21,696	36,338
Total non-operating revenues (expenses)	<u>190,424</u>	<u>52,832</u>	<u>(341,638)</u>	<u>(261,667)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,419,471	815,923	(613,301)	(714,419)
TRANSFERS	<u>(1,298,568)</u>	<u>(2,235,414)</u>	<u>1,083,968</u>	<u>1,996,822</u>
INCREASE (DECREASE) IN NET ASSETS	120,903	(1,419,491)	470,667	1,282,403
NET ASSETS (DEFICIT) at beginning of year	<u>4,079,990</u>	<u>5,499,481</u>	<u>15,028,848</u>	<u>13,746,445</u>
NET ASSETS (DEFICIT) at end of year	<u><u>4,200,893</u></u>	<u><u>4,079,990</u></u>	<u><u>15,499,515</u></u>	<u><u>15,028,848</u></u>

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2011	2010	2011	2010
-	-	2,088,442	1,883,132
1,236,204	1,064,727	2,574,030	2,166,583
-	-	357,518	595,449
-	-	-	12,678
<u>1,236,204</u>	<u>1,064,727</u>	<u>5,019,990</u>	<u>4,657,842</u>
216,939	206,622	1,144,282	1,119,880
120,368	87,111	311,349	272,370
40,252	38,992	298,164	371,174
95,971	79,909	563,106	519,197
392,217	392,217	1,082,585	1,076,277
-	-	281,544	728,683
-	-	11,119	46
<u>865,747</u>	<u>804,851</u>	<u>3,692,149</u>	<u>4,087,627</u>
<u>370,457</u>	<u>259,876</u>	<u>1,327,841</u>	<u>570,215</u>
-	-	218,541	240,233
(1,213,653)	(1,179,903)	(1,627,441)	(1,691,899)
39,785	54,554	83,818	117,482
<u>(1,173,868)</u>	<u>(1,125,349)</u>	<u>(1,325,082)</u>	<u>(1,334,184)</u>
(803,411)	(865,473)	2,759	(763,969)
214,600	238,592	-	-
(588,811)	(626,881)	2,759	(763,969)
<u>(1,307,101)</u>	<u>(680,220)</u>	<u>17,801,737</u>	<u>18,565,706</u>
<u>(1,895,912)</u>	<u>(1,307,101)</u>	<u>17,804,496</u>	<u>17,801,737</u>

Northeast Texas Municipal Water District
STATEMENTS OF CASH FLOWS—PROPRIETARY FUNDS
For the years ended September 30, 2011 and 2010

	Primary Water District		Enterprise Funds	
			Regional Water Supply System	
	2011	2010	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES				
Cash received from customers	2,248,085	1,899,268	1,300,836	1,090,013
Cash received from grants	407,776	780,993	-	-
Cash paid to suppliers	(393,396)	(507,807)	(518,759)	(532,830)
Cash paid to employees	(478,348)	(508,395)	(445,682)	(419,838)
Cash paid for state grant programs	(281,544)	(779,060)	-	-
Cash paid for other grant programs	(11,119)	(46)	-	-
Net cash provided by (used in) operating activities	1,491,454	884,953	336,395	137,345
CASH FLOW FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	(1,298,568)	(943,737)	1,083,968	705,145
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(387,616)	(83,302)	(77,178)	(44,788)
Debt issuance costs	-	-	-	(86,637)
Proceeds from issuance of bonds	-	-	-	3,110,000
Interest and paying agent fees paid	-	-	(369,823)	(477,984)
Bond principal paid	-	-	(564,261)	(4,499,526)
Net cash provided by (used in) capital and related financing activities	(387,616)	(83,302)	(1,011,262)	(1,998,935)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases) sales of investment pools	349,000	161,338	302,782	454,940
Purchase of investment securities	(677,704)	(343,000)	-	(281,000)
Redemption of investment securities	449,548	404,375	-	985,615
Principal paydowns on mortgage-backed securities	71,141	305,382	-	-
Interest received on investments	119,999	65,731	51,412	102,077
Net cash provided by (used in) investing activities	311,984	593,826	354,194	1,261,632
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	117,254	451,740	763,295	105,187
CASH AND CASH EQUIVALENTS, at beginning of year	773,871	322,131	212,081	106,894
CASH AND CASH EQUIVALENTS, at end of year	891,125	773,871	975,376	212,081
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	1,229,047	763,091	(271,663)	(452,752)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	46,863	41,733	643,505	642,327
Miscellaneous income	22,337	26,590	21,696	36,338
Decrease /(Increase) in accounts receivable	132,306	181,524	(58,686)	(48,181)
Increase (decrease) in:				
Accounts payable	3,112	(102,631)	761	(23,875)
Accrued liabilities	2,531	(6,242)	782	(16,512)
Deferred revenues	55,258	(19,112)	-	-
Net cash provided by (used in) operating activities	1,491,454	884,953	336,395	137,345

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2011	2010	2011	2010
1,246,452	1,110,944	4,795,373	4,100,225
-	-	407,776	780,993
(187,811)	(216,565)	(1,099,966)	(1,257,202)
(218,065)	(206,622)	(1,142,095)	(1,134,855)
-	-	(281,544)	(779,060)
-	-	(11,119)	(46)
<u>840,576</u>	<u>687,757</u>	<u>2,668,425</u>	<u>1,710,055</u>
214,600	238,592	-	-
-	-	(464,794)	(128,090)
-	-	-	(86,637)
-	-	-	3,110,000
(535,151)	(546,321)	(904,974)	(1,024,305)
(480,739)	(325,474)	(1,045,000)	(4,825,000)
<u>(1,015,890)</u>	<u>(871,795)</u>	<u>(2,414,768)</u>	<u>(2,954,032)</u>
-	-	651,782	616,278
-	-	(677,704)	(624,000)
-	-	449,548	1,389,990
-	-	71,141	305,382
-	-	171,411	167,808
-	-	666,178	1,855,458
39,286	54,554	919,835	611,481
55,054	500	1,041,006	429,525
<u>94,340</u>	<u>55,054</u>	<u>1,960,841</u>	<u>1,041,006</u>
370,457	259,876	1,327,841	570,215
392,217	392,217	1,082,585	1,076,277
39,785	54,554	83,818	117,482
(29,537)	(8,337)	44,083	125,006
68,780	(10,553)	72,653	(137,059)
(1,126)	-	2,187	(22,754)
-	-	55,258	(19,112)
<u>840,576</u>	<u>687,757</u>	<u>2,668,425</u>	<u>1,710,055</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2011

L. 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, 2011

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, 2011, 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, 2011, 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 \$954 thousand were pledged at September 30, 2011.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2011

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, 2011, 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, 2011, the District's investments were as follows:

Investment Type	Fair Value	Principal Balance
U.S. Treasuries	1,109,374	1,032,365
U.S. Government agencies:		
Federal Farm Credit Bank	33,457	33,000
Federal Home Loan Bank	37,061	35,000
Federal Home Loan Mortgage Corporation	111,056	100,000
Government National Mortgage Association	<u>1,569,265</u>	<u>1,444,056</u>
Subtotal	<u>2,860,213</u>	<u>2,644,421</u>
External investment pools	<u>671,854</u>	<u>671,854</u>
	<u><u>3,532,067</u></u>	<u><u>3,316,275</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, 2011

B. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2011 were as follows:

	<u>Water Sales</u>	<u>Grants</u>	<u>Total</u>
Major Proprietary Funds:			
Primary Water District	119,723	28,999	148,722
Regional Water Supply	165,636	-	165,636
Lake O' the Pines Southside	69,280	-	69,280
	<u>354,639</u>	<u>28,999</u>	<u>383,638</u>

Payables at September 30, 2011, 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	29,827	2,531	-	-	32,358
Regional Water Supply	761	4,244	29,482	83,930	118,417
Lake O' the Pines Southside	68,780	-	44,457	-	113,237
	<u>99,368</u>	<u>6,775</u>	<u>73,939</u>	<u>83,930</u>	<u>264,012</u>

C. INTERFUND BALANCES /TRANSFERS

Interfund balances between the major proprietary funds total \$1,194,470 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	1,083,968
Lake O' the Pines Southside	214,600
	<u>1,298,568</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, 2011

D. CAPITAL ASSETS

The District's capital asset activity for the year ended September 30, 2011, was as follows:

	Balance 10/1/2010	Additions	Deletions	Balance 9/30/2011
Non-depreciable assets:				
Land and right-of-way	1,435,037	-	-	1,435,037
Water rights	1,752,565	-	-	1,752,565
Construction in progress	-	-	-	-
	<u>3,187,602</u>	<u>-</u>	<u>-</u>	<u>3,187,602</u>
Depreciable assets:				
Water treatment plants	24,347,721	-	-	24,347,721
Water lines and intake structures	24,062,011	77,177	-	24,139,188
Pump station	799,966	-	-	799,966
Buildings	490,788	-	-	490,788
Furniture and equipment	931,227	-	-	931,227
Autos, trucks and tractors	227,723	-	-	227,723
Clean rivers project	84,025	-	-	-
Corp of Engineers	-	387,617	-	387,617
	<u>50,943,461</u>	<u>464,794</u>	<u>-</u>	<u>51,408,255</u>
Total capital assets	<u>54,131,063</u>	<u>464,794</u>	<u>-</u>	<u>54,595,857</u>
Less accumulated depreciation for:				
Water treatment plants	(5,454,022)	(579,839)	-	(6,033,861)
Water lines and intake structures	(2,869,278)	(319,269)	-	(3,188,547)
Pump station	(433,371)	(16,000)	-	(449,371)
Buildings	(370,929)	(17,156)	-	(388,085)
Furniture and equipment	(511,878)	(123,361)	-	(635,239)
Autos, trucks and tractors	(191,493)	(9,357)	-	(200,850)
Clean rivers project	(68,193)	(9,851)	-	(78,044)
Corp of Engineers	-	(7,752)	-	(7,752)
Total accumulated depreciation	<u>(9,899,164)</u>	<u>(1,082,585)</u>	<u>-</u>	<u>(10,981,749)</u>
Net Capital Assets	<u>44,231,899</u>	<u>(617,791)</u>	<u>-</u>	<u>43,614,108</u>

Depreciation expense for the year ended September 30, 2011 was \$1,082,585.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2011

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 2011, and 7.00% for the months of the accounting year in 2010.

The contribution rate payable by the employee members for calendar year 2011 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, 2011 the annual pension cost for the TCDRS plan for its employees was \$36,185 and the actual contributions were \$36,185.

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, 2010, the basis for determining contribution rates for calendar year 2011. The December 31, 2010 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/2008	12/31/2009	12/31/2010
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, closed
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)	5.3%	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, 2011

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>
9/30/09	48,830	100.00%	-
9/30/10	54,709	100.00%	-
9/30/11	36,185	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)
12/31/08	1,162,264	1,180,120	17,856	98.49%	730,745	2.44%
12/31/09	1,252,092	1,248,683	(3,409)	100.27%	735,280	(0.46)%
12/31/10	1,379,087	1,351,416	(27,671)	102.05%	734,407	(3.77)%

(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, 2011, was as follows:

	Balance at 10/01/10	Issued	Retired	Balance at 9/30/11	Current Portion
Water System Revenue Bonds					
Series 2003	7,925,000	-	(230,000)	7,695,000	255,000
Series 2008	1,550,000	-	-	1,550,000	-
	<u>9,475,000</u>	<u>-</u>	<u>(230,000)</u>	<u>9,245,000</u>	<u>255,000</u>
Contract Revenue Bonds:					
Series 2003	11,990,000	-	(400,000)	11,590,000	500,000
Series 2009 (refunding)	6,406,323	-	-	6,406,323	-
Accreted Interest	830,757	624,306	-	1,455,063	-
Series 2010 (refunding)	3,110,000	-	(415,000)	2,695,000	430,000
	<u>22,337,080</u>	<u>624,306</u>	<u>(815,000)</u>	<u>22,146,386</u>	<u>930,000</u>
	<u>31,812,080</u>	<u>624,306</u>	<u>(1,045,000)</u>	<u>31,391,386</u>	<u>1,185,000</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2011

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, 2011 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 \$2,705,000 at September 30, 2011.

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, 2011, reserve funds restricted for debt service totaled \$2,689,103, which exceeded the coverage required.

The scheduled Maturities of bonds payable as of September 30, 2011, are as follows:

Years Ending 9/30	Principal	Interest	Total
2012	1,185,000	869,879	2,054,879
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
2017-2021	7,694,594	3,147,156	10,841,750
2022-2026	11,861,529	12,729,811	24,591,340
2027-2031	2,940,200	8,103,957	11,044,157
2032-2036	465,000	54,405	519,405
Total	29,936,323	28,019,884	57,956,207
Accreted Interest	1,455,063		
	<u>31,391,386</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, 2011

H. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments or contingencies at September 30, 2011.

I. LITIGATION

As of September 30, 2011 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 7, 2011, the financial statement issuance date.

SUPPLEMENTAL SECTION

Northeast Texas Municipal Water District
SCHEDULE OF REVENUES AND EXPENSES-
BUDGET AND ACTUAL
for the year ended September 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
Raw water sales	2,146,804	2,088,442	(58,362)
Treated water sales	2,232,795	2,574,030	341,235
State grants	421,500	357,518	(63,982)
Other grants	35,800	-	(35,800)
Total operating revenues	<u>4,836,899</u>	<u>5,019,990</u>	<u>183,091</u>
OPERATING EXPENSES			
Personnel	1,200,917	1,144,282	56,635
Supplies	390,134	311,349	78,785
Maintenance	817,397	298,164	519,233
Contractual services	582,526	563,106	19,420
State grant programs	405,000	281,544	123,456
Other grant programs	19,000	11,119	7,881
Total operating expenses	<u>3,414,974</u>	<u>2,609,564</u>	<u>805,410</u>
Excess (deficiency) of revenues over expenditures	<u>1,421,925</u>	<u>2,410,426</u>	<u>988,501</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	73,420	218,541	145,121
Interest expense	(1,958,376)	(1,627,441)	330,935
Other	437,807	83,818	(353,989)
Total non-operating revenues (expenses)	<u>(1,447,149)</u>	<u>(1,325,082)</u>	<u>122,067</u>
NET INCOME BEFORE NON-BUDGETED EXPENSES	<u>(25,224)</u>	1,085,344	<u>1,110,568</u>
NON-BUDGETED EXPENSES			
Depreciation		<u>1,082,585</u>	
NET LOSS		<u>2,759</u>	

Northeast Texas Municipal Water District
INDEX OF SUPPLEMENTAL SCHEDULES
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
for the year ended September 30, 2011

(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, 2011

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: 1,147,412
 Gallons billed to customers: 982,682

* 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	2,054,879
d. Standby Fees	_____
e. Debt Service Fund Balance to be Used	_____
f. Interest Revenues	_____
g. Other (Describe)	_____
_____	_____
_____	_____
*TOTAL ANTICIPATED FUNSD TO BE USED	\$ 2,054,879

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, 2011

Current:	
Personnel (including benefits)	1,090,597
Professional Fees:	
Auditing	22,000
Legal	988
Engineering	-
Financial adviser	-
Other professional fees	10,055
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	233,334
Repairs and maintenance	158,057
Administrative expenses:	
Directors' fees	30,150
Office supplies	8,650
Insurance	41,322
Other administrative expenses	23,535
Capital outlay:	
Acquisition of fixed assets	-
Chemicals	174,812
Transfers	-
Special projects - State grant programs	281,544
Special projects - Other grant programs	11,119
Solid waste disposal	-
Other expenditures	<u>1,605,986</u>
TOTAL OPERATING EXPENDITURES	<u><u>3,692,149</u></u>
Number of persons employed by the District:	<u>16 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 REQUIREMENTES – BY YEAR
As of September 30, 2011

Water System Revenue Bonds

FYE 9/30	Series 2010			Series 2003			Series 2008		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	430,000	67,426	497,426	255,000	294,318	549,318	-	88,428	88,428
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>2,695,000</u>	<u>244,730</u>	<u>2,939,730</u>	<u>7,695,000</u>	<u>2,686,603</u>	<u>10,381,603</u>	<u>1,550,000</u>	<u>1,641,450</u>	<u>3,191,450</u>

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTES – BY YEAR
As of September 30, 2011

FYE 9/30	Contract Revenue Bonds			Contract Revenue Refunding Bonds			TOTAL		
	Series 2003			Series 2009			Principal	Interest	Total
	Principal	Interest	Total	Principal	Interest	Total			
2012	500,000	419,707	919,707	-	-	-	1,185,000	869,879	2,054,879
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>11,590,000</u>	<u>3,783,205</u>	<u>15,373,205</u>	<u>6,406,323</u>	<u>19,663,896</u>	<u>26,070,219</u>	<u>29,936,323</u>	<u>28,019,884</u>	<u>57,956,207</u>

Northeast Texas Municipal Water District
(K) ANALYSIS OF CHANGES IN LONG-TERM DEBT
for the year ended September 30, 2011

	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	3,110,000	7,925,000	1,550,000	11,990,000	6,406,323	830,757	31,812,080
Bonds sold during the current year	-	-	-	-	-	-	-
Interest accretion	-	-	-	-	-	624,306	624,306
Retirements: principal	415,000	230,000	-	400,000	-	-	1,045,000
Bonds outstanding at end of current year	2,695,000	7,695,000	1,550,000	11,590,000	6,406,323	1,455,063	31,391,386
Retirement: interest	91,856	300,965	88,427	430,627	-	-	911,875
Bond Authority:	Tax Bonds *	Other Bonds	Refunding Bonds				
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, 2011

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	\$ 50,000			
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.
Lanny G. Walker, C.P.A.
Kris Arnold, C.P.A.
Andrew T. Arnold, C.P.A.
Melissa J. Godfrey, 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, 2011 and 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2011. 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

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.

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. 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 7, 2011

NORTHEAST TEXAS MUNICIPAL WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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, 2011

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, 2011

CORRECTIVE ACTION

N/A

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