

Northeast Texas Municipal Water District

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

For the years ended September 30, 2013 and 2012

Northeast Texas Municipal Water District
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ANNUAL FILING AFFIDAVIT

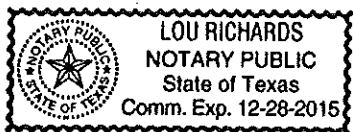
THE STATE OF TEXAS }
 }
COUNTY OF MORRIS }

I, Walt Sears Jr., General Manager of the Northeast Texas Municipal Water District hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 27TH day of January, 2014, its annual audit report for the fiscal year or period ended September 30, 2013, and that copies of the annual audit report have been filed in the District office, located at Highway 250, Hughes Springs, Texas.

The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Texas Water Code.

Date: 1-27, 2014 By: Walt Sears Jr.
Walt Sears, Jr. General Manager

Sworn to and subscribed to before me this 27th day of JANUARY, 2014



(SEAL)

Lou Richards
(Signature of Notary)

My Commission Expires On: December 28, 2015, Notary Public in and for the State of Texas.



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

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MEMBER
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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 as of and for the years ended September 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 from material misstatement.

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

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

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 the District, as of September 30, 2013, and 2012 and the respective changes in financial position and cash flows thereof and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

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

Arnold, Walker, Arnold & Co., P.C.
December 12, 2013

**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, 2012, to September 30, 2013, 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 \$48.4 million dollars and operating revenue was \$1,222,099.

Financial Highlights

For September 30, 2013

- The total assets of the District are \$48,432,977.
- The total liabilities are \$32,302,382.
- The assets of the District exceed liabilities by \$16,130,595.
- The total net position of the District increased by \$348 thousand as compared to a decrease of \$1.2 million the prior year because of a decrease in the current year interest accretion on capital appreciation bonds. The current year amount was \$1.8 million less than the prior year.
- The total liabilities of the District decreased by \$1,081,409 because of the payment of debt principal.
- The District had an operating income of \$1,222,099 for the audited year compared to an operating income of \$1,122,023 for the previous year. Total operating revenue exceeded total operating expenses by about 25%.
- The District refunded the 2003 Water System Revenue Bonds and the 2003 Contract Revenue Bonds with the issuance of the 2013 Water System Revenue Refunding Bonds and the 2013 Contract Revenue Refunding Bonds. The present value of the combined economic gain to the District over the life of this debt is approximately \$1.58 million.

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 Position; 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 Position 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 Cass, Marion, Morris and Upshur for 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. During the audited year, the District continued to monitor raw water within the Cypress Creek Basin as part of the efforts to protect and assure the water quality in the basin. Information about water quality is available at <http://www.netmwd.com>.

**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 Position and Statement of Revenues, Expenses, and Changes in Fund Net Position is presented.

	The District's Net Position	
	Business-Type	
	Activities	
	<u>2013</u>	<u>2012</u>
Current and other assets	6,710,064	6,465,354
Capital and non-current assets	<u>41,722,913</u>	<u>42,701,137</u>
TOTAL ASSETS	<u>48,432,977</u>	<u>49,166,491</u>
Long-term liabilities	30,681,413	31,818,296
Other liabilities	<u>1,620,969</u>	<u>1,565,495</u>
TOTAL LIABILITIES	<u>32,302,382</u>	<u>33,383,791</u>
Invested in capital assets, net of related debt	11,041,500	10,882,841
Restricted/reserved	2,874,533	2,866,356
Unrestricted	<u>2,214,562</u>	<u>2,033,503</u>
TOTAL NET POSITION	<u>16,130,595</u>	<u>15,782,700</u>

	The District's Changes in Net Position	
	Business-Type	
	Activities	
	<u>2013</u>	<u>2012</u>
Revenues		
Raw water sales	2,134,056	2,055,121
Treated water sales	2,571,708	2,500,463
State grants	198,050	163,796
Other grants	3,200	3,200
Investment income	(1,085)	131,977
Other	<u>42,640</u>	<u>41,977</u>
Total revenues	<u>4,948,569</u>	<u>4,896,534</u>
Expenses		
Personnel	1,170,249	1,150,760
Supplies	373,170	353,996
Maintenance	270,045	290,419
Contractual services	559,726	553,321
Depreciation	1,071,314	1,072,874
State grant programs	240,411	179,187
Other grant expenses	-	-
Interest expense (A)	<u>915,759</u>	<u>2,480,142</u>
Total expenses	<u>4,600,674</u>	<u>6,080,699</u>
Increase (decrease) in net assets before transfers	347,895	(1,184,165)
Transfers (net)	<u>-</u>	<u>-</u>
Increase (decrease) in net position	347,895	(1,184,165)
Beginning net position	15,782,700	17,804,496
Prior period adjustment	-	(837,631)
Ending net position	<u>16,130,595</u>	<u>15,782,700</u>

(A) Interest accretion on capital appreciation bonds was \$(197) thousand in fiscal year 2013 and was \$1.6 million in fiscal year 2012.

**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 \$78,935 or 4% when compared to the previous year. No new customers of raw water were added during the fiscal year. The revenues from most of the raw water contracts are more influenced by the amount reserved and the price paid for that reservation rather than the amount actually diverted.

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 fourth full fiscal year of operations. The treated water sales in the LOPSS increased by \$34,313 or 3%. Production at the Tanner Plant which serves both LOPSS and RWSS exceeded 929 million gallons in fiscal year 2013. The treated water sales of LOPSS (\$1,333,791) were slightly more than the treated water sales in the RWSS.

The treated water sales for the RWSS increased from \$1,200,985 in fiscal year 2012 to \$1,237,917 in fiscal year 2013. This increase in sales was \$36,932 or 3%. This increase in revenue is primarily due to a weather pattern change in fiscal year 2013. The weather in fiscal year 2013 was slightly drier than normal, overall. Treated water sales are strongly correlated to the weather.

The treated water sales in RWSS and LOPSS were affected by drier weather conditions during the summer months than in 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 2013 was about 34.86 inches, compared to 42.8 inches in 2012 and to 24.7 inches in 2011. Normal annual rainfall is about 48.4 inches. The rainfall for fiscal year 2013 was below normal and was less than the previous fiscal year.

The operating loss for the RWSS system (treated water production) decreased by \$41,077 or 11% when compared to the previous year. The primary reasons for this change were the increase 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

	<u>District's Capital Assets</u> (in thousands of dollars)	
	<u>2013</u>	<u>2012</u>
Non-depreciable:		
Land and right-of-way	1,480	1,480
Water rights	1,753	1,753
Depreciable:		
Water treatment plants	24,426	24,347
Water lines and intake structures	24,242	24,242
Buildings	497	497
Other	2,451	2,437
Less accumulated depreciation:	<u>(13,126)</u>	<u>(12,055)</u>
	<u>41,723</u>	<u>42,701</u>

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

Long-Term Debt.

	<u>District's Long-Term Debt</u> (in thousands of dollars)	
Bonds payable	<u>30,681</u>	<u>31,818</u>

The District refunded two different Series of debt from 2003 in June 2013 by issuing two new Series of refunding bonds. An economic gain of \$1.58 million in present value will be experienced over the life of the debt. The primary reason for this gain is the interest rate is lower in the new debt compared to rate of interest of the refunded debt.

**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. A comprehensive regional water plan is completed every five years. During the audited year, the fourth 5-year cycle of regional water planning was underway. 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 latest 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) payment for a 750,000 gallon concrete water storage tank; 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 concrete storage tank at the delivery site to Daingerfield. The District intends to pay for this storage tank with funds on hand. The District anticipates that the construction of the tank will be completed in 2014. 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 2014 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.

Northeast Texas Municipal Water District
STATEMENTS OF NET POSITION—PROPRIETARY FUNDS
As of September 30, 2013 and 2012

ASSETS	Enterprise Funds			
	Primary Water District		Regional Water Supply System	
	2013	2012	2013	2012
Current assets				
Cash on hand and in bank	340,392	394,410	139,445	411,209
Investments	1,714,319	1,297,422	-	-
Receivables:				
Water sales	88,351	101,660	160,232	136,921
Grants receivable	49,696	13,671	-	-
Interfund receivable	-	-	85,814	85,814
Total current assets	2,192,758	1,807,163	385,491	633,944
Non-current assets				
Restricted cash in bank	92,002	7,705	817,288	669,019
Restricted investments	-	-	1,983,153	2,129,245
Utility deposits	50	50	-	-
Capital assets	3,393,677	3,393,677	31,816,751	31,725,648
Less: accumulated depreciation	(994,795)	(954,839)	(10,300,398)	(9,661,654)
Total non-current assets	2,490,934	2,446,593	24,316,794	24,862,258
Total assets	4,683,692	4,253,756	24,702,285	25,496,202
LIABILITIES				
Current liabilities				
Current portion of bonds payable	-	-	673,891	618,464
Accounts payable	98,724	36,074	1,011	769
Accrued expenses	1,910	1,553	23,315	30,844
Interfund payable	-	-	1,194,470	1,194,470
Unearned revenues:				
Water sales	195,073	191,800	-	-
Total current liabilities	295,707	229,427	1,892,687	1,844,547
Non-current liabilities				
Accrued expenses	-	-	26,500	26,500
Bonds payable	-	-	7,438,517	8,024,798
Total non-current liabilities	-	-	7,465,017	8,051,298
Total liabilities	295,707	229,427	9,357,704	9,895,845
NET POSITION				
Invested in capital assets, net of related debt	2,398,882	2,438,838	13,403,945	13,420,732
Restricted for debt service	-	-	2,800,441	2,798,264
Unrestricted	1,989,103	1,585,491	(859,805)	(618,639)
Total net position	4,387,985	4,024,329	15,344,581	15,600,357

The accompanying notes are an integral part of these statements.

BASIC FINANCIAL STATEMENTS

Lake O' the Pines South Side		Total Proprietary Funds	
2013	2012	2013	2012
500	500	480,337	806,119
-	-	1,714,319	1,297,422
56,074	40,980	304,657	279,561
-	-	49,696	13,671
1,108,656	1,108,656	1,194,470	1,194,470
<u>1,165,230</u>	<u>1,150,136</u>	<u>3,743,479</u>	<u>3,591,243</u>
74,092	68,092	983,382	744,816
-	-	1,983,153	2,129,245
-	-	50	50
19,638,421	19,636,434	54,848,849	54,755,759
(1,830,743)	(1,438,129)	(13,125,936)	(12,054,622)
<u>17,881,770</u>	<u>18,266,397</u>	<u>44,689,498</u>	<u>45,575,248</u>
<u>19,047,000</u>	<u>19,416,533</u>	<u>48,432,977</u>	<u>49,166,491</u>
936,109	636,536	1,610,000	1,255,000
54,544	40,483	154,279	77,326
25,422	43,002	50,647	75,399
-	-	1,194,470	1,194,470
-	-	195,073	191,800
<u>1,016,075</u>	<u>720,021</u>	<u>3,204,469</u>	<u>2,793,995</u>
-	-	26,500	26,500
21,632,896	22,538,498	29,071,413	30,563,296
<u>21,632,896</u>	<u>22,538,498</u>	<u>29,097,913</u>	<u>30,589,796</u>
<u>22,648,971</u>	<u>23,258,519</u>	<u>32,302,382</u>	<u>33,383,791</u>
(4,761,327)	(4,976,729)	11,041,500	10,882,841
74,092	68,092	2,874,533	2,866,356
1,085,264	1,066,651	2,214,562	2,033,503
<u>(3,601,971)</u>	<u>(3,841,986)</u>	<u>16,130,595</u>	<u>15,782,700</u>

Northeast Texas Municipal Water District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION—PROPRIETARY FUNDS
For the years ended September 30, 2013 and 2012

	Primary Water District		Enterprise Funds	
			Regional Water Supply System	
	2013	2012	2013	2012
OPERATING REVENUES				
Raw water sales	2,134,056	2,055,121	-	-
Treated water sales	-	-	1,237,917	1,200,985
State grants	198,050	163,796	-	-
Other grants	3,200	3,200	-	-
Total operating revenues	<u>2,335,306</u>	<u>2,222,117</u>	<u>1,237,917</u>	<u>1,200,985</u>
OPERATING EXPENSES				
Personnel	497,636	484,336	453,106	448,476
Supplies	23,765	22,078	217,564	205,285
Maintenance	186,481	194,516	57,490	70,029
Contractual services	243,252	232,238	219,857	226,415
Depreciation	39,956	39,956	638,744	640,701
State grant programs	240,411	179,187	-	-
Other grant programs	-	-	-	-
Total operating expenses	<u>1,231,501</u>	<u>1,152,311</u>	<u>1,586,761</u>	<u>1,590,906</u>
OPERATING INCOME (LOSS)	<u>1,103,805</u>	<u>1,069,806</u>	<u>(348,844)</u>	<u>(389,921)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income, net	65,985	118,340	(67,070)	13,637
Interest expense and debt fees	-	-	(408,489)	(346,660)
Other	36,640	35,977	-	-
Total non-operating revenues (expenses)	<u>102,625</u>	<u>154,317</u>	<u>(475,559)</u>	<u>(333,023)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>1,206,430</u>	<u>1,224,123</u>	<u>(824,403)</u>	<u>(722,944)</u>
TRANSFERS, NET	<u>(842,774)</u>	<u>(1,400,687)</u>	<u>568,627</u>	<u>1,126,796</u>
INCREASE (DECREASE) IN NET POSITION	<u>363,656</u>	<u>(176,564)</u>	<u>(255,776)</u>	<u>403,852</u>
NET POSITION (DEFICIT) at beginning of year	<u>4,024,329</u>	<u>4,200,893</u>	<u>15,600,357</u>	<u>15,499,515</u>
Prior Period Adjustment	-	-	-	(303,010)
NET POSITION (DEFICIT) at end of year	<u>4,387,985</u>	<u>4,024,329</u>	<u>15,344,581</u>	<u>15,600,357</u>

The accompanying notes are an integral part of these statements.

Lake Of the Pines South Side		Total Proprietary Funds	
2013	2012	2013	2012
-	-	2,134,056	2,055,121
1,333,791	1,299,478	2,571,708	2,500,463
-	-	198,050	163,796
-	-	3,200	3,200
<u>1,333,791</u>	<u>1,299,478</u>	<u>4,907,014</u>	<u>4,722,580</u>
219,507	217,948	1,170,249	1,150,760
131,841	126,633	373,170	353,996
26,074	25,874	270,045	290,419
96,617	94,668	559,726	553,321
392,614	392,217	1,671,314	1,672,874
-	-	240,411	179,187
-	-	-	-
<u>866,653</u>	<u>857,340</u>	<u>3,684,915</u>	<u>3,600,557</u>
<u>467,138</u>	<u>442,138</u>	<u>1,222,099</u>	<u>1,122,023</u>
-	-	(1,685)	131,977
(507,270)	(2,133,482)	(915,759)	(2,480,142)
6,000	6,000	42,640	41,977
<u>(501,270)</u>	<u>(2,127,482)</u>	<u>(874,204)</u>	<u>(2,306,188)</u>
(34,132)	(1,685,344)	347,895	(1,184,165)
<u>274,147</u>	<u>273,891</u>	-	-
240,015	(1,411,453)	347,895	(1,184,165)
(3,841,986)	(1,895,912)	15,782,700	17,804,496
-	(534,621)	-	(837,631)
<u>(3,601,971)</u>	<u>(3,841,986)</u>	<u>16,130,595</u>	<u>15,782,700</u>

Northeast Texas Municipal Water District
STATEMENTS OF CASH FLOWS—PROPRIETARY FUNDS
For the years ended September 30, 2013 and 2012

	Enterprise Funds			
	Primary Water District		Regional Water Supply System	
	2013	2012	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES				
Cash received from customers	2,187,278	2,109,162	1,214,606	1,229,700
Cash received from grants	165,225	132,066	-	-
Cash paid to suppliers	(416,107)	(442,585)	(502,256)	(529,315)
Cash paid to employees	(497,278)	(485,315)	(453,048)	(450,016)
Cash paid for state grant programs	(215,153)	(179,187)	-	-
Net cash provided by (used in) operating activities	<u>1,223,965</u>	<u>1,134,141</u>	<u>259,302</u>	<u>250,369</u>
CASH FLOW FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>(842,774)</u>	<u>(1,400,687)</u>	<u>568,627</u>	<u>1,126,796</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	-	(5,749)	(91,103)	(126,668)
Debt issuance costs	-	-	(63,708)	-
Proceeds from issuance of bonds	-	-	4,805,549	-
Interest and paying agent fees paid	-	-	(344,781)	(348,002)
Bond principal paid and refunded	-	-	(5,336,403)	(595,485)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>(5,749)</u>	<u>(1,030,446)</u>	<u>(1,070,155)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases) sales of investment pools	-	-	-	(489,015)
Purchase of investment securities	(800,000)	(483,659)	-	-
Redemption of investment securities	295,209	83,527	74,161	278,001
Principal paydowns on mortgage-backed securities	56,606	76,979	-	-
Interest received on investments	97,274	106,438	4,861	8,856
Net cash provided by (used in) investing activities	<u>(350,911)</u>	<u>(216,715)</u>	<u>79,022</u>	<u>(202,158)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,280	(489,010)	(123,495)	104,852
CASH AND CASH EQUIVALENTS, at beginning of year	<u>402,115</u>	<u>891,125</u>	<u>1,080,228</u>	<u>975,376</u>
CASH AND CASH EQUIVALENTS, at end of year	<u>432,395</u>	<u>402,115</u>	<u>956,733</u>	<u>1,080,228</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	1,103,805	1,069,806	(348,844)	(389,921)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	39,956	39,956	638,744	640,701
Miscellaneous income	36,640	35,977	-	-
Decrease/(increase) in accounts receivable	(22,716)	33,391	(23,311)	28,715
Increase (decrease) in:				
Accounts payable	62,650	6,247	242	8
Accrued liabilities	357	(978)	(7,529)	(29,134)
Unearned revenues	3,273	(50,258)	-	-
Net cash provided by (used in) operating activities	<u>1,223,965</u>	<u>1,134,141</u>	<u>259,302</u>	<u>250,369</u>

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2013	2012	2013	2012
1,324,697	1,333,778	4,726,581	4,672,640
-	-	165,225	132,066
(258,054)	(275,475)	(1,176,417)	(1,247,375)
(219,507)	(217,948)	(1,169,833)	(1,153,279)
-	-	(215,153)	(179,187)
<u>847,136</u>	<u>840,355</u>	<u>2,330,403</u>	<u>2,224,865</u>
274,147	273,891	-	-
(1,987)	(27,455)	(93,090)	(159,872)
(160,249)	-	(223,957)	-
13,474,451	-	18,280,000	-
(347,017)	(523,024)	(691,798)	(871,026)
(14,080,481)	(589,515)	(19,416,884)	(1,185,000)
<u>(1,115,283)</u>	<u>(1,139,994)</u>	<u>(2,145,729)</u>	<u>(2,215,898)</u>
-	-	-	(489,015)
-	-	(800,000)	(483,659)
-	-	369,370	361,528
-	-	56,606	76,979
-	-	102,135	115,294
-	-	<u>(271,889)</u>	<u>(418,873)</u>
6,000	(25,748)	(87,215)	(409,906)
68,592	94,340	1,550,935	1,960,841
<u>74,592</u>	<u>68,592</u>	<u>1,463,720</u>	<u>1,550,935</u>
467,138	442,138	1,222,099	1,122,023
392,614	392,217	1,071,314	1,072,874
6,000	6,000	42,640	41,977
(15,094)	28,300	(61,121)	90,406
14,058	(28,300)	76,950	(22,045)
(17,580)	-	(24,752)	(30,112)
-	-	3,273	(50,258)
<u>847,136</u>	<u>840,355</u>	<u>2,330,403</u>	<u>2,224,865</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2013 and 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

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, 2013 and 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

F. BOND ISSUANCE COSTS

The District elected to early implement GASB 65 regarding bond issuance costs. These costs are now charges to expense in the year incurred.

G. UNEARNED 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, 2013 and 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. RESTRICTED CASH AND INVESTMENTS

Some cash and investments are restricted for future debt payments.

M. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The District implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended August 31, 2013. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no type of item that qualifies for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has no type of item that qualifies for reporting in this category.

N. 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.

O. 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.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2013 and 2012

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 \$943 thousand and \$965 were pledged at September 30, 2013 and 2012 respectively.

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, 2013 and 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, 2013 and 2012 the District was in compliance with The Public Funds Investment Act.

At September 30, 2013 and 2012, the District's investments were as follows:

Investment Type	2013		2012	
	Fair Value	Principal Balance	Fair Value	Principal Balance
U.S. Treasuries	1,189,970	1,138,190	1,528,261	1,430,069
U.S. Government agencies:				
Federal Home Loan Bank	-	-	35,903	34,541
Federal Home Loan Mortgage Corporation	93,536	84,893	99,055	84,923
Government National Mortgage Association	1,075,935	993,486	1,259,476	1,120,612
Subtotal	2,359,441	2,216,569	2,922,695	2,670,145
External investment pools	1,937,358	1,937,198	1,162,720	1,162,720
	<u>4,296,799</u>	<u>4,153,767</u>	<u>4,085,415</u>	<u>3,832,865</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, 2013 and 2012

B. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2013 and 2012 were as follows:

	2013			2012		
	Water Sales	Grants	Total	Water Sales	Grants	Total
Major Proprietary Funds:						
Primary Water District	88,351	49,696	138,047	101,660	13,671	115,331
Regional Water Supply	160,232	-	160,232	136,921	-	136,921
Lake O' the Pines Southside	56,074	-	56,074	40,980	-	40,980
	<u>304,657</u>	<u>49,696</u>	<u>354,353</u>	<u>279,561</u>	<u>13,671</u>	<u>293,232</u>

Payables at September 30, 2013, were as follows:

	Accounts Payable	Accrued Benefits	Accrued Interest	Accrued Sludge Disposal	Total
Major Proprietary Funds:					
Primary Water District	98,724	1,910	-	-	100,634
Regional Water Supply	1,011	2,762	20,553	26,500	50,826
Lake O' the Pines Southside	54,544	-	25,422	-	79,966
	<u>154,279</u>	<u>4,672</u>	<u>45,975</u>	<u>26,500</u>	<u>231,426</u>

Payables at September 30, 2012, were as follows:

	Accounts Payable	Accrued Benefits	Accrued Interest	Accrued Sludge Disposal	Total
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 \$1,194,470 between the Regional Water Supply System and the Lake O' the Pines Southside funds at September 30, 2013 and 2012.

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

Transfers from Primary Water District to:	<u>2013</u>	<u>2012</u>
Regional Water Supply System	677,986	1,247,425
Lake O' the Pines Southside	274,165	273,890
	<u>952,151</u>	<u>1,521,315</u>
 Transfers from Regional Water Supply System to:		
Primary Water System	<u>109,358</u>	<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, 2013 and 2012

D. CAPITAL ASSETS

The District's capital asset activity for the year ended September 30, 2013, was as follows:

	Balance 10/1/2012	Additions	Deletions	Balance 9/30/2013
Non-depreciable assets:				
Land and right-of-way	1,480,387	-	-	1,480,387
Water rights	1,752,565	-	-	1,752,565
Construction in progress	-	-	-	-
	<u>3,232,952</u>	<u>-</u>	<u>-</u>	<u>3,232,952</u>
Depreciable assets:				
Water treatment plants	24,347,751	78,273	-	24,426,024
Water lines and intake structures	24,241,892	-	-	24,241,892
Pump station	799,966	-	-	799,966
Buildings	496,858	-	-	496,858
Furniture and equipment	936,975	8,005	-	944,980
Autos, trucks and tractors	227,723	6,812	-	234,535
Clean rivers project	84,025	-	-	84,025
Corp of Engineers	387,617	-	-	387,617
	<u>51,522,807</u>	<u>93,090</u>	<u>-</u>	<u>51,615,897</u>
Total capital assets	<u>54,755,759</u>	<u>93,090</u>	<u>-</u>	<u>54,848,849</u>
Less accumulated depreciation for:				
Water treatment plants	(6,612,680)	(582,424)	-	(7,195,104)
Water lines and intake structures	(3,512,169)	(317,817)	-	(3,829,986)
Pump station	(465,371)	(15,999)	-	(481,370)
Buildings	(405,938)	(17,673)	-	(423,611)
Furniture and equipment	(753,316)	(117,533)	-	(870,849)
Autos, trucks and tractors	(209,807)	(10,319)	-	(220,126)
Clean rivers project	(79,838)	(1,798)	-	(81,636)
Corp of Engineers	(15,504)	(7,750)	-	(23,254)
Total accumulated depreciation	<u>(12,054,623)</u>	<u>(1,071,313)</u>	<u>-</u>	<u>(13,125,936)</u>
Net Capital Assets	<u>42,701,136</u>	<u>(978,223)</u>	<u>-</u>	<u>41,722,913</u>

Depreciation expense for the year ended September 30, 2013 was \$1,071,313.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2013 and 2012

D. CAPITAL ASSETS (Continued)

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, 2013 and 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 2013, and 7.00% for the months of the accounting year in 2012.

The contribution rate payable by the employee members for calendar year 2013 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, 2013 the annual pension cost for the TCDRS plan for its employees was \$56,540 and the actual contributions were \$56,540.

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, 2012, the basis for determining contribution rates for calendar year 2013. The December 31, 2012 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/2010	12/31/2011	12/31/2012
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

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>
9/30/11	54,434	100.00%	-
9/30/12	57,163	100.00%	-
9/30/13	56,540	100.00%	-

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2013 and 2012

E. RETIREMENT PLAN (Continued)

**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)
12/31/10	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)%
12/31/12	1,430,665	1,419,033	(11,632)	100.82%	796,109	(1.46)%

(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, 2013, was as follows:

	Balance at 10/01/12	Issued	Retired/ Refunded	Balance at 9/30/13	Current Portion
Water System Revenue Bonds					
Series 2003	7,440,000	-	(7,440,000)	-	-
Series 2008	1,550,000	-	-	1,550,000	-
Series 2013 (refunding)	-	7,405,000	(105,000)	7,300,000	345,000
	<u>8,990,000</u>	<u>7,405,000</u>	<u>(7,545,000)</u>	<u>8,850,000</u>	<u>345,000</u>
Contract Revenue Bonds:					
Series 2003	11,090,000	-	(11,090,000)	-	-
Series 2009 (refunding)	6,406,323	-	-	6,406,323	-
Accreted Interest	3,066,972	-	(196,884)	2,870,088	-
Series 2010 (refunding)	2,265,000	-	(440,000)	1,825,000	450,000
Series 2013 (refunding)	-	10,875,000	(145,000)	10,730,000	815,000
	<u>22,828,295</u>	<u>10,875,000</u>	<u>(11,871,884)</u>	<u>21,831,411</u>	<u>1,265,000</u>
	<u>31,818,295</u>	<u>18,280,000</u>	<u>(19,416,884)</u>	<u>30,681,411</u>	<u>1,610,000</u>

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

	Balance at 10/01/11	Issued	Retired/ Refunded	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, 2013 and 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. These bonds were refunded by the issuance of the Water System Revenue Refunding Bonds Series 2013.

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.

Water System Revenue Refunding Bonds, Series 2013, dated June 25, 2013, in the aggregate principal amount of \$7,405,000, interest payable semi-annually at a rate of 2.25%, principal payable annually through September 1, 2024; secured by a pledge of revenues. The bond proceeds were used to advance refund the Water System Revenue Bonds Series 2003. The refunding was undertaken to reduce total debt service payments over the next 12 years by approximately \$787 thousand and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of approximately \$684 thousand. The principal balance of the refunded debt is \$7,165,000 at September 30, 2013.

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. These bonds were refunded by the issuance of the Contract Revenue Refunding Bonds, Series 2013.

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 \$1,905,000 at September 30, 2013.

Contract Revenue Refunding Bonds, Series 2013, dated June 25, 2013, in the aggregate principal amount of \$10,875,000, interest payable semi-annually at a rate of 2.25%, principal payable annually through September 1, 2025; secured by a pledge of revenues. The bond proceeds were used to advance refund the Contract Revenue Bonds, Series 2003. The refunding was undertaken to reduce the total debt service payments over the next 13 years by approximately \$1.21 million and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of approximately \$897 thousand. The principal balance of the refunded debt is \$10,550,000 at September 30, 2013.

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, 2013, reserve funds restricted for debt service totaled \$2,874,533, which exceeded the coverage required.

The scheduled Maturities of bonds payable as of September 30, 2013, are as follows:

Years Ending 9/30	Principal	Interest	Total
2014	1,610,000	540,880	2,150,880
2015	1,695,000	505,779	2,200,779
2016	1,775,000	464,192	2,239,192
2017	1,800,000	423,065	2,223,065
2018	1,405,000	380,366	1,785,366
2019-2023	9,235,929	1,863,112	11,099,041
2024-2028	9,360,394	19,647,115	29,007,509
2029-2033	775,000	180,575	955,575
2034-2036	155,000	9,067	164,067
Total	27,811,323	24,014,151	51,825,474
Accreted Interest	2,870,088		30,681,411

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, 2013 and 2012

H. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments or contingencies at September 30, 2013.

I. LITIGATION

As of September 30, 2013 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, 2013, the financial statement issuance date.

M. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$303,010 is reflected as a decrease to beginning net position at October 1, 2011 in the Regional Water Supply System Fund. An adjustment was made to correct accrued sludge disposal expense for over-accruals from prior years for \$29,836. This was an increase to beginning net position. Also, an adjustment has been made to early implement GASB 65 which changes the accounting for bond issuance costs. Prior to GASB 65, these were deferred and amortized over the life of the debt. GASB 65 calls for bond issuance costs to be expensed in the year the debt is issued. The unamortized bond issuance costs of \$292,343 is a decrease to beginning net position. Also, \$40,503 of amortization expense in the September 30, 2012 income statement is reflected as a decrease to beginning net position at October 1, 2011.

Prior period adjustments of \$534,621 are reflected as a decrease to beginning net position of the Lake O' the Pines South Side Fund at October 1, 2011. This is related to the early implementation of GASB 65 as per above. The unamortized bond issuance costs of \$480,426 and the amortization expense of \$54,195 in this fund are reflected as prior period adjustments just as those above were to that fund.

SUPPLEMENTAL SECTION

Northeast Texas Municipal Water District
SCHEDULE OF REVENUES AND EXPENSES-
BUDGET AND ACTUAL
for the year ended September 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Raw water sales	2,118,561	2,134,056	15,495
Treated water sales	2,784,296	2,571,708	(212,588)
State grants	321,628	198,050	(123,578)
Other grants	10,955	3,200	(7,755)
Total operating revenues	<u>5,235,440</u>	<u>4,907,014</u>	<u>(328,426)</u>
OPERATING EXPENSES			
Personnel	1,238,295	1,170,249	68,046
Supplies	365,189	373,170	(7,981)
Maintenance	387,120	270,045	117,075
Contractual services	641,527	559,726	81,801
State grant programs	321,628	240,411	81,217
Other grant programs	7,705	-	7,705
Total operating expenses	<u>2,961,464</u>	<u>2,613,601</u>	<u>347,863</u>
Excess (deficiency) of revenues over expenditures	<u>2,273,976</u>	<u>2,293,413</u>	<u>19,437</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income, net	101,300	(1,085)	(102,385)
Interest expense and debt fees	(2,091,975)	(915,759)	1,176,216
Other	26,500	42,640	16,140
Total non-operating revenues (expenses)	<u>(1,964,175)</u>	<u>(874,204)</u>	<u>1,089,971</u>
NET INCOME BEFORE NON-BUDGETED EXPENSES	<u>309,801</u>	1,419,209	<u>1,109,408</u>
NON-BUDGETED EXPENSES			
Depreciation		<u>1,071,314</u>	
NET INCOME/(LOSS)		<u>347,895</u>	

Northeast Texas Municipal Water District
INDEX OF SUPPLEMENTAL SCHEDULES
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
for the year ended September 30, 2013

(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)	14-23
<input checked="" type="checkbox"/>	(E) Services and rates	26-27
<input checked="" type="checkbox"/>	(F) Schedule of operating expenditures	28
<input checked="" type="checkbox"/>	(G) Schedule of temporary investments (Included in the notes to the financial statements)	16
<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)	18-19
<input checked="" type="checkbox"/>	(J) General long-term debt service requirements by years	29-30
<input checked="" type="checkbox"/>	(K) Analysis of changes in general long-term debt	31
<input type="checkbox"/>	(L) Comparative schedule of revenues and expenditures	*
<input checked="" type="checkbox"/>	(M) Insurance coverage	32
<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, 2013

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: 1,090,094
 Gallons billed to customers: 1,021,453

* 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	2,150,880
d. Standby Fees	_____
e. Debt Service Fund Balance to be Used	_____
f. Interest Revenues	_____
g. Other (Describe)	_____
_____	_____
_____	_____
*TOTAL ANTICIPATED FUNSD TO BE USED	\$ 2,150,880

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, 2013

Current:	
Personnel (including benefits)	1,117,112
Professional Fees:	
Auditing	26,615
Legal	-
Engineering	-
Financial advisor	-
Other professional fees	-
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	240,768
Repairs and maintenance	270,045
Administrative expenses:	
Directors' fees	27,450
Office supplies	9,456
Insurance	29,180
Other administrative expenses	25,686
Capital outlay:	
Acquisition of fixed assets	-
Chemicals	237,364
Transfers	-
Special projects - State grant programs	234,811
Special projects - Other grant programs	5,600
Solid waste disposal	-
Other expenditures	<u>1,460,828</u>
TOTAL OPERATING EXPENDITURES	<u><u>3,684,915</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, 2013

FYE 9/30	Water System Refunding Bonds			Water System Revenue Refunding Bonds			Water System Revenue Bonds		
	Series 2010			Series 2013			Series 2008		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	450,000	46,776	496,776	345,000	164,250	509,250	-	88,428	88,428
2015	460,000	37,776	497,776	395,000	156,488	551,488	-	88,427	88,427
2016	475,000	23,976	498,976	425,000	147,600	572,600	-	88,428	88,428
2017	440,000	12,100	452,100	460,000	138,038	598,038	-	88,427	88,427
2018	-	-	-	485,000	127,688	612,688	-	88,428	88,428
2019	-	-	-	520,000	116,776	636,776	-	88,427	88,427
2020	-	-	-	545,000	105,076	650,076	-	88,428	88,428
2021	-	-	-	1,030,000	92,812	1,122,812	-	88,427	88,427
2022	-	-	-	1,035,000	69,638	1,104,638	-	88,428	88,428
2023	-	-	-	1,040,000	46,350	1,086,350	-	88,427	88,427
2024	-	-	-	1,020,000	22,950	1,042,950	-	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>1,825,000</u>	<u>120,628</u>	<u>1,945,628</u>	<u>7,300,000</u>	<u>1,187,666</u>	<u>8,487,666</u>	<u>1,550,000</u>	<u>1,464,595</u>	<u>3,014,595</u>

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
As of September 30, 2013

FYE 9/30	Contract Revenue Refunding Bonds			Contract Revenue Refunding Bonds			TOTAL		
	Series 2013			Series 2009			Principal	Interest	Total
	Principal	Interest	Total	Principal	Interest	Total			
2014	815,000	241,426	1,056,426	-	-	-	1,610,000	540,880	2,150,880
2015	840,000	223,088	1,063,088	-	-	-	1,695,000	505,779	2,200,779
2016	875,000	204,188	1,079,188	-	-	-	1,775,000	464,192	2,239,192
2017	900,000	184,500	1,084,500	-	-	-	1,800,000	423,065	2,223,065
2018	920,000	164,250	1,084,250	-	-	-	1,405,000	380,366	1,785,366
2019	920,000	143,550	1,063,550	131,301	143,699	275,000	1,571,301	492,452	2,063,753
2020	960,000	122,850	1,082,850	105,987	139,013	245,000	1,610,987	455,367	2,066,354
2021	950,000	101,850	1,051,850	27,306	42,694	70,000	2,007,306	325,183	2,332,489
2022	940,000	79,876	1,019,876	39,259	70,741	110,000	2,014,259	308,683	2,322,942
2023	950,000	58,726	1,008,726	42,076	87,924	130,000	2,032,076	281,427	2,313,503
2024	935,000	37,350	972,350	1,317,524	3,422,764	4,740,288	3,272,524	3,571,492	6,844,016
2025	725,000	16,312	741,312	1,338,093	3,894,105	5,232,198	2,218,093	3,998,844	6,216,937
2026	-	-	-	1,239,577	4,028,156	5,267,733	1,394,577	4,108,059	5,502,636
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>10,730,000</u>	<u>1,577,966</u>	<u>12,307,966</u>	<u>6,406,323</u>	<u>19,663,896</u>	<u>26,070,219</u>	<u>27,811,323</u>	<u>24,014,151</u>	<u>51,825,474</u>

Northeast Texas Municipal Water District
(K) ANALYSIS OF CHANGES IN LONG-TERM DEBT
for the year ended September 30, 2013

	Water System Revenue Bonds			Contract Revenue Bonds			Interest Accretion	Total	
	Series 2010	Series 2003	Series 2008	Series 2013	Series 2003	Series 2009			Series 2013
Interest rate	2.00-3.00%	.74-4.14%	5.50-5.85%	2.25%	1.38-4.03%	7.25-8.50%	2.25%		
Dates interest payable	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	N/A	3/1 & 9/1	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	9/1/13 to 9/1/24	9/1/07 to 9/1/26	9/1/19 to 9/1/27	9/1/13 to 9/1/25		
Bonds outstanding at beginning of current year	2,265,000	7,440,000	1,550,000	-	11,090,000	6,406,323	-	3,066,972	31,818,295
Bonds sold during the current year	-	-	-	7,405,000	-	-	10,875,000	-	18,280,000
Interest accretion	-	-	-	-	-	-	-	(196,884)	(196,884)
Retirements: principal	440,000	7,440,000	-	105,000	11,090,000	-	145,000	-	19,220,000
Bonds outstanding at end of current year	1,825,000	-	1,550,000	7,300,000	-	6,406,323	10,730,000	2,870,088	30,681,411
Retirement: interest	56,676	142,383	88,427	30,456	548,181	-	44,859	-	910,982
Bond Authority:	Tax Bonds *	Other Bonds	Refunding Bonds						
Amount authorized	N/A	1,550,000	47,460,219						
Amount issued	-	1,550,000	47,460,219						
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, 2013

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
Commercial Property - Real and Personal Property	\$ 22,433,750	TML	Pool	No
Valuable Paper and Records	\$ 50,000			
Loss of Revenues, Extra Expenses and Rents	\$ 50,000			
Commercial General Liability		TML	Pool	No
Limits of Liability	\$ 10,000,000			
Sudden Events, Involving Pollution	\$ 2,000,000			
Annual Aggregate	\$ 10,000,000			
Commercial Auto/Truck		TML	Pool	No
Limits of Liability	\$ 5,000,000			
Medical Payments Limit	\$ 25,000			
Automobile Physical Damage	ACV			
Uninsured/Underinsured Motorist	\$ 1,000,000			
Mobile Equipment	\$ 173,571	TML	Pool	No
Sludge Dredge - Floating Pump	\$ 200,000	TML	Pool	No
Boiler and Machinery	\$ 100,000	TML	Pool	No
Workers Compensation and Employers Liability	Statutory	UTICA National Insurance Group	Stock	No
Directors and Officers Liability	\$ 5,000,000	Great American Insurance	Stock	No
Crime Blanket - Per Occurrence		TML	Pool	No
Public Employee Dishonesty	\$ 500,000			
Forgery and Alteration	\$ 25,000			
Theft, Disappearance and Destruction	\$ 10,000			
Computer Fraud	\$ 10,000			

INTERNAL CONTROL AND COMPLIANCE SECTION



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

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MEMBER
American Institute Of
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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

We have audited, in accordance with the 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, the financial statements of the business-type activities and each major fund of Northeast Texas Municipal Water District, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Northeast Texas Municipal Water District, basic financial statements, and have issued our report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

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

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

December 12, 2013

**Northeast Texas Municipal Water District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 and 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 unmodified 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. N/A
- 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 YEARS ENDED SEPTEMBER 30, 2013 and 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 YEARS ENDED SEPTEMBER 30, 2013 and 2012**

CORRECTIVE ACTION

N/A

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