

Northeast Texas Municipal Water District

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

For the years ended September 30, 2015 and 2014

Northeast Texas Municipal Water District
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Independent Auditor's Report

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

Report on the Financial Statements

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, 2015 and 2014 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, 2015, and 2014 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.

Emphasis of Matter

As discussed in Note I to the financial statements, in 2015, the District adopted new accounting guidance prescribed by GASB #68 for its pension plan a multiple-employer, cost-sharing, defined contribution plan that has a special funding situation. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added to the financial statements. The statement of net position discloses the District's Net Pension Asset and some deferred resource outflows related to the District's pension plan. The statements of revenues, expenses, and changes in net position discloses the adjustment to the District's Beginning Net Position. Our opinion is not modified with respect to the matter.

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 16, 2015, 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 16, 2015

**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, 2014, to September 30, 2015, 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 \$47.7 million dollars and operating revenue was \$1,566,011.

Financial Highlights

For September 30, 2015

- The total assets of the District are \$47,684,904.
- The total liabilities are \$30,686,584.
- The assets of the District exceed liabilities by \$17,087,917.
- The total net position of the District increased by \$305 thousand as compared to an increase of \$324 thousand the prior year from net income.
- The District was required to record its portion of the net pension asset/liability as per Governmental Accounting Standards Board (GASB) Statement number 68. The District is overfunded and has a net pension asset of \$290 thousand and deferred outflows of resources of \$90 thousand related to TCDRS.
- The total liabilities of the District decreased by \$798,426 because of the payment of debt principal and the accretion of interest.
- The District had an operating income of \$1,566,011 for the audited year compared to an operating income of \$1,437,060 for the previous year.
- Operating revenue increased \$414 thousand. \$260 thousand of this was more grant money. Water sales increased \$154 thousand or about 4%.

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 Upshur, Marion, Morris and Cass 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. 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 Position and Statement of Revenues, Expenses, and Changes in Fund Net Position is presented.

	The District's Net Position	
	Business-Type	
	Activities	
	2015	2014
Current and other assets	6,582,272	6,251,771
Capital and non-current assets	40,813,115	41,687,895
Net pension asset	289,517	-
TOTAL ASSETS	<u>47,684,904</u>	<u>47,939,666</u>
Deferred Outflow related to TCDRS	89,597	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>89,597</u>	<u>-</u>
Long-term liabilities	29,046,267	29,871,805
Other liabilities	1,640,317	1,613,205
TOTAL LIABILITIES	<u>30,686,584</u>	<u>31,485,010</u>
Invested in capital assets, net of related debt	11,766,768	11,816,040
Restricted/reserved	2,313,920	2,759,561
Unrestricted	3,007,229	1,879,055
TOTAL NET POSITION	<u>17,087,917</u>	<u>16,454,656</u>

	The District's Changes in Net Position	
	Business-Type	
	Activities	
	2015	2014
Revenues		
Raw water sales	2,256,326	2,171,260
Treated water sales	2,725,110	2,656,020
State grants	554,960	294,629
Other grants	3,200	3,200
Investment income	60,460	38,172
Other	50,811	188,864
Total revenues	<u>5,650,867</u>	<u>5,352,145</u>
Expenses		
Personnel	1,082,871	1,126,210
Supplies	409,198	372,665
Maintenance	238,805	280,287
Contractual services	736,538	607,343
Depreciation	972,708	1,014,779
State grant programs	533,465	287,230
Other grant expenses	-	960
Interest expense (A)	1,372,779	1,338,610
Total expenses	<u>5,346,364</u>	<u>5,028,084</u>
Increase (decrease) in net assets before transfers	304,503	324,061
Transfers (net)	-	-
Increase (decrease) in net position	304,503	324,061
Beginning net position	16,454,656	16,130,595
Prior period adjustment (B)	328,758	-
Ending net position	<u>17,087,917</u>	<u>16,454,656</u>

- (A) Interest accretion on capital appreciation bonds was \$800 thousand in fiscal year 2014 and was \$869 thousand in fiscal year 2015.
- (B) The prior period adjustment reflects recording the beginning net pension asset as required by GASB 68. The District is overfunded by \$379 thousand at September 30, 2015.

**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 \$85 thousand or 4% when compared to the previous year. No new customers of raw water were added during the fiscal year. The weather pattern for the fiscal year was wetter compared to the previous fiscal year. The revenues from most of the raw water contracts are more influenced by the amount reserved rather than the amount actually diverted. The variation of 4% in raw water sales from the previous year demonstrates that the revenue from raw water sales is not as variable on weather patterns as revenue from treated water sales.

Concerning treated water sales, the most significant activity was the continuation of deliveries to the LOPSS system. The LOPSS system was in operation for the entire fiscal year which was the sixth full fiscal year of operations. The treated water sales in the LOPSS increased by \$92 thousand or 6.5%. Production at the Tanner Plant which serves both LOPSS and RWSS exceeded 980 million gallons in fiscal year 2015. During the fiscal year of 2015, the largest purchaser of water from the Tanner Plant was Tryon Road SUD. Comparisons of sales of LOPSS to sales in the RWSS demonstrate the significance of the LOPSS system in relation to treated water sales of the District.

The treated water sales for the RWSS decreased from \$1.232 million in fiscal year 2014 to \$1.208 million in fiscal year 2015. This decrease in sales was \$23 thousand or 1.9%. Treated water sales are strongly correlated to the weather. The sales rose during the dry summer months and offset some of the decrease in sales due to the decrease in usage by U.S. Steel. Due to relatively low production, the volume taken by US Steel in 2015 was about \$54 thousand less than anticipated and about \$44 thousand less than the prior fiscal year.

The treated water sales in RWSS and LOPSS were affected by wetter weather conditions than a normal year. Much of the treated water is sold wholesale to cities. Cities use this supply to meet residential demand. Much of the residential demand can be for outdoor water uses. When there is adequate rainfall, the lawn irrigation amount decreases. According to the U.S. Army Corps of Engineers, rainfall at Lake O' the Pines in fiscal year 2015 was about 57.38 inches, compared to 48.08 inches in 2014 and to 34.86 inches in 2013. Normal annual rainfall is about 48.4 inches.

The operating loss for the RWSS system (treated water production) was approximately the same as the prior year. The production expenses for treated water produced by the Tanner Plant continue to be shared between the RWSS and the LOPSS and this sharing continues to have beneficial effects on RWSS and LOPSS.

Capital Assets And Debt Administration

Capital Assets

	District's Capital Assets (in thousands of dollars)	
	2015	2014
Non-depreciable:		
Land and right-of-way	1,480	1,480
Water rights	1,753	1,753
Depreciable:		
Water treatment plants	25,223	25,223
Water lines and intake structures	24,460	24,399
Buildings	501	497
Other	2,509	2,477
Less accumulated depreciation:	(15,113)	(14,141)
	40,813	41,688

The District added \$98 thousand of new assets in fiscal year 2015.

Long-Term Debt.

	District's Long-Term Debt (in thousands of dollars)	
Bonds payable	29,046	29,871

No new debt was added during the year ended September 30, 2015. \$1.7 million of debt principal was paid in the current year. Interest of \$869 thousand was accreted in the current 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 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 2015, the NETRWPG completed the fourth comprehensive regional water plan. This new plan will be reviewed and amended where appropriate over the next 5-year planning cycle. During the next fiscal year, the fifth round of regional water planning will begin. 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 comprehensive plan assesses both supplies and demands. The recently 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. A copy of this plan may be viewed at the District office or online at the Texas Water Development Board website at <http://www.twdb.texas.gov/waterplanning/rwp/plans/2016/index.asp>.

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 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 2015 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, Floating Crested Heart, Water Hyacinth, and Hydrilla. The District continues to try to control the expansion of Giant Salvinia within Northeast Texas.

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

Summary

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

Request for Information:

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

BASIC FINANCIAL STATEMENTS

Northeast Texas Municipal Water District
STATEMENTS OF NET POSITION—PROPRIETARY FUNDS
As of September 30, 2015 and 2014

	Primary Water District		Enterprise Funds	
			Regional Water Supply System	
	2015	2014	2015	2014
ASSETS				
Current assets				
Cash on hand and in bank	946,861	469,202	196,381	164,097
Investments	1,175,677	1,237,328	-	-
Receivables:				
Water sales	168,463	98,396	150,359	130,307
Grants receivable	60,648	19,383	-	-
Receivable-damages	74,508	127,849	-	-
Interfund receivable	-	-	85,814	85,814
Inventory	-	-	19,979	-
Total current assets	<u>2,426,157</u>	<u>1,952,158</u>	<u>452,533</u>	<u>380,218</u>
Non-current assets				
Restricted cash in bank	181,886	100,880	215,863	216,413
Restricted investments	-	-	2,052,983	2,369,216
Utility deposits	50	50	-	-
Capital assets	3,421,032	3,393,677	32,673,747	32,639,139
Less: accumulated depreciation	(1,058,250)	(1,026,279)	(11,573,273)	(10,944,494)
Net pension asset	121,597	-	112,912	-
Total non-current assets	<u>2,666,315</u>	<u>2,468,328</u>	<u>23,482,232</u>	<u>24,280,274</u>
Total assets	<u>5,092,472</u>	<u>4,420,486</u>	<u>23,934,765</u>	<u>24,660,492</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow of resources related to TCDRS	37,630	-	34,943	-
Total deferred outflows of resources	<u>37,630</u>	<u>-</u>	<u>34,943</u>	<u>-</u>
LIABILITIES				
Current liabilities				
Current portion of bonds payable	-	-	750,808	716,339
Accounts payable	82,448	58,540	5,728	40,236
Accrued expenses	2,119	1,974	20,546	22,102
Interfund payable	-	-	1,194,470	1,194,470
Unearned revenues:				
Water sales	195,573	195,573	-	-
Grants	25,519	-	-	-
Total current liabilities	<u>305,659</u>	<u>256,087</u>	<u>1,971,552</u>	<u>1,973,147</u>
Non-current liabilities				
Accrued expenses	-	-	26,500	26,500
Bonds payable	-	-	5,971,370	6,722,178
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>5,997,870</u>	<u>6,748,678</u>
Total liabilities	<u>305,659</u>	<u>256,087</u>	<u>7,969,422</u>	<u>8,721,825</u>
NET POSITION				
Invested in capital assets, net of related debt	2,362,782	2,367,398	14,378,216	14,256,128
Restricted for debt service	50,336	50,030	2,052,983	2,585,629
Restricted for other purposes	131,549	50,850	-	-
Unrestricted	2,279,776	1,696,121	(430,913)	(903,090)
Total net position	<u>4,824,443</u>	<u>4,164,399</u>	<u>16,000,286</u>	<u>15,938,667</u>

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2015	2014	2015	2014
500	500	1,143,742	633,799
-	-	1,175,677	1,237,328
64,592	50,678	383,414	279,381
-	-	60,648	19,383
-	-	74,508	127,849
1,108,656	1,108,656	1,194,470	1,194,470
-	-	19,979	-
<u>1,173,748</u>	<u>1,159,834</u>	<u>4,052,438</u>	<u>3,492,210</u>
79,052	73,052	476,801	390,345
-	-	2,052,983	2,369,216
-	-	50	50
19,831,759	19,795,744	55,926,538	55,828,560
(2,481,900)	(2,169,942)	(15,113,423)	(14,140,715)
55,008	-	289,517	-
<u>17,483,919</u>	<u>17,698,854</u>	<u>43,632,466</u>	<u>44,447,456</u>
<u>18,657,667</u>	<u>18,858,688</u>	<u>47,684,904</u>	<u>47,939,666</u>
17,024	-	89,597	-
-	-	89,597	-
<u>1,024,192</u>	<u>978,661</u>	<u>1,775,000</u>	<u>1,695,000</u>
65,654	50,178	153,830	148,954
21,760	23,632	44,425	47,708
-	-	1,194,470	1,194,470
-	-	195,573	195,573
-	-	25,519	-
<u>1,111,606</u>	<u>1,052,471</u>	<u>3,388,817</u>	<u>3,281,705</u>
-	-	26,500	26,500
21,299,897	21,454,627	27,271,267	28,176,805
<u>21,299,897</u>	<u>21,454,627</u>	<u>27,297,767</u>	<u>28,203,305</u>
<u>22,411,503</u>	<u>22,507,098</u>	<u>30,686,584</u>	<u>31,485,010</u>
(4,974,230)	(4,807,486)	11,766,768	11,816,040
-	-	2,103,319	2,635,659
79,052	73,052	210,601	123,902
1,158,366	1,086,024	3,007,229	1,879,055
<u>(3,736,812)</u>	<u>(3,648,410)</u>	<u>17,087,917</u>	<u>16,454,656</u>

Northeast Texas Municipal Water District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION—PROPRIETARY FUNDS
For the years ended September 30, 2015 and 2014

	Enterprise Funds			
	Primary Water District		Regional Water Supply System	
	2015	2014	2015	2014
OPERATING REVENUES				
Raw water sales	2,256,326	2,171,260	-	-
Treated water sales	-	-	1,208,442	1,231,797
State grants	554,960	294,629	-	-
Other grants	3,200	3,200	-	-
Total operating revenues	<u>2,814,486</u>	<u>2,469,089</u>	<u>1,208,442</u>	<u>1,231,797</u>
OPERATING EXPENSES				
Personnel	490,375	496,025	398,068	423,983
Supplies	24,739	24,128	222,886	215,188
Maintenance	147,954	188,256	54,277	60,553
Contractual services	385,685	254,703	227,632	244,912
Depreciation	31,971	31,484	628,778	644,096
State grant programs	533,465	287,230	-	-
Other grant programs	-	960	-	-
Total operating expenses	<u>1,614,189</u>	<u>1,282,786</u>	<u>1,531,641</u>	<u>1,588,732</u>
OPERATING INCOME (LOSS)	<u>1,200,297</u>	<u>1,186,303</u>	<u>(323,199)</u>	<u>(356,935)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income, net	66,444	73,708	(5,984)	(35,536)
Interest expense and debt fees	-	-	(227,168)	(240,925)
Damages	-	-	-	-
Other	44,810	43,690	-	-
Total non-operating revenues (expenses)	<u>111,254</u>	<u>117,398</u>	<u>(233,152)</u>	<u>(276,461)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,311,551	1,303,701	(556,351)	(633,396)
TRANSFERS, NET	<u>(789,585)</u>	<u>(1,527,287)</u>	<u>489,754</u>	<u>1,227,482</u>
INCREASE (DECREASE) IN NET POSITION	521,966	(223,586)	(66,597)	594,086
NET POSITION (DEFICIT) at beginning of year	4,164,399	4,387,985	15,938,667	15,344,581
Prior period adjustment	138,078	-	128,216	-
NET POSITION (DEFICIT) at end of year	<u>4,824,443</u>	<u>4,164,399</u>	<u>16,000,286</u>	<u>15,938,667</u>

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2015	2014	2015	2014
-	-	2,256,326	2,171,260
1,516,668	1,424,223	2,725,110	2,656,020
-	-	554,960	294,629
-	-	3,200	3,200
<u>1,516,668</u>	<u>1,424,223</u>	<u>5,539,596</u>	<u>5,125,109</u>
194,428	206,202	1,082,871	1,126,210
161,573	133,349	409,198	372,665
36,574	31,478	238,805	280,287
123,221	106,303	736,538	605,918
311,959	339,199	972,708	1,014,779
-	-	533,465	287,230
-	-	-	960
<u>827,755</u>	<u>816,531</u>	<u>3,973,585</u>	<u>3,688,049</u>
<u>688,913</u>	<u>607,692</u>	<u>1,566,011</u>	<u>1,437,060</u>
-	-	60,460	38,172
(1,145,611)	(1,099,110)	(1,372,779)	(1,340,035)
-	139,174	-	139,174
6,001	6,000	50,811	49,690
<u>(1,139,610)</u>	<u>(953,936)</u>	<u>(1,261,508)</u>	<u>(1,112,999)</u>
(450,697)	(346,244)	304,503	324,061
299,831	299,805	-	-
(150,866)	(46,439)	304,503	324,061
(3,648,410)	(3,601,971)	16,454,656	16,130,595
62,464	-	328,758	-
<u>(3,736,812)</u>	<u>(3,648,410)</u>	<u>17,087,917</u>	<u>16,454,656</u>

Northeast Texas Municipal Water District
STATEMENTS OF CASH FLOWS—PROPRIETARY FUNDS
For the years ended September 30, 2015 and 2014

	Primary Water District		Enterprise Funds	
			Regional Water Supply System	
	2015	2014	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES				
Cash received from customers	2,284,410	2,173,040	1,188,390	1,261,722
Cash received from grants	542,414	328,141	-	-
Cash paid to suppliers	(551,176)	(405,438)	(539,303)	(425,196)
Cash paid to employees	(511,379)	(495,961)	(437,579)	(481,428)
Cash paid for state grant programs	(516,759)	(346,332)	-	-
Net cash provided by (used in) operating activities	<u>1,247,510</u>	<u>1,253,450</u>	<u>211,508</u>	<u>355,098</u>
CASH FLOW FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>(789,585)</u>	<u>(1,666,461)</u>	<u>489,754</u>	<u>1,227,482</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(27,355)	-	(34,608)	(822,388)
Interest and paying agent fees paid	-	-	(228,831)	(242,118)
Bond principal paid	-	-	(716,339)	(673,891)
Net cash provided by (used in) capital and related financing activities	<u>(27,355)</u>	<u>-</u>	<u>(979,778)</u>	<u>(1,738,397)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases) sales of investment pools	-	-	-	-
Purchase of investment securities	-	-	-	-
Redemption of investment securities	51,971	450,000	-	176,502
Principal paydowns on mortgage-backed securities	12,269	20,896	308,772	-
Interest received on investments	63,855	79,802	1,478	2,419
Net cash provided by (used in) investing activities	<u>128,095</u>	<u>550,698</u>	<u>310,250</u>	<u>178,921</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>558,665</u>	<u>137,687</u>	<u>31,734</u>	<u>23,104</u>
CASH AND CASH EQUIVALENTS, at beginning of year	<u>570,082</u>	<u>432,395</u>	<u>380,510</u>	<u>357,406</u>
CASH AND CASH EQUIVALENTS, at end of year	<u><u>1,128,747</u></u>	<u><u>570,082</u></u>	<u><u>412,244</u></u>	<u><u>380,510</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	1,200,297	1,186,303	(323,199)	(356,935)
Adjustments to reconcile operatin gincome (loss) to net cash provided by (used in) operating activities:				
Depreciation	31,971	31,484	628,778	644,096
Miscellaneous income	44,810	43,690	-	-
(Increase) in pension asset	(21,149)	-	(19,639)	-
Decrease /(increase) in accounts receivable	(57,991)	31,593	(20,052)	29,925
Increase (decrease) in:				
Inventory	-	-	(19,979)	-
Accounts payable	23,908	(40,184)	(34,508)	39,225
Accrued liabilities	145	64	107	(1,213)
Unearned revenues	25,519	500	-	-
Net cash provided by (used in) operating activities	<u>1,247,510</u>	<u>1,253,450</u>	<u>211,508</u>	<u>355,098</u>

The accompanying notes are an integral part of these statements.

Lake O' the Pines South Side		Total Proprietary Funds	
2015	2014	2015	2014
1,508,755	1,435,619	4,981,555	4,870,381
-	-	542,414	328,141
(305,892)	(275,496)	(1,396,371)	(1,106,130)
(203,996)	(206,202)	(1,152,954)	(1,183,591)
-	-	(516,759)	(346,332)
<u>998,867</u>	<u>953,921</u>	<u>2,457,885</u>	<u>2,562,469</u>
299,831	438,979	-	-
(36,015)	(157,323)	(97,978)	(979,711)
(278,022)	(300,508)	(506,853)	(542,626)
(978,661)	(936,109)	(1,695,000)	(1,610,000)
<u>(1,292,698)</u>	<u>(1,393,940)</u>	<u>(2,299,831)</u>	<u>(3,132,337)</u>
-	-	-	-
-	-	-	-
-	-	51,971	626,502
-	-	321,041	20,896
-	-	65,333	82,221
-	-	<u>438,345</u>	<u>729,619</u>
6,000	(1,040)	596,399	159,751
<u>73,552</u>	<u>74,592</u>	<u>1,024,144</u>	<u>864,393</u>
<u>79,552</u>	<u>73,552</u>	<u>1,620,543</u>	<u>1,024,144</u>
688,913	607,692	1,566,011	1,437,060
311,959	339,199	972,708	1,014,779
6,001	6,000	50,811	49,690
(9,568)	-	(50,356)	-
(13,914)	5,396	(91,957)	66,914
-	-	(19,979)	-
15,476	(4,366)	4,876	(5,325)
-	-	252	(1,149)
-	-	25,519	500
<u>998,867</u>	<u>953,921</u>	<u>2,457,885</u>	<u>2,562,469</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014, 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. PENSION PLAN

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

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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 September 30, 2012. The District implemented GASB Statement No. 68 Accounting and Financial Reporting for Pensions for the year ended September 30, 2015. 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 one type of item that qualifies for reporting in this category, outflows related to TCDRS as per GASB 68 related to pension accounting. These will be recognized as an outflow of resources in the subsequent years as they are amortized.

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.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2015 and 2014

O. 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.

P. 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, 2015, 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 \$2.3 million and \$1.2 million were pledged at September 30, 2015 and 2014 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, 2015 and 2014, 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, 2015 and 2014 the District was in compliance with The Public Funds Investment Act.

At September 30, 2015 and 2014, the District's investments were as follows:

Investment Type	2015		2014	
	Fair Value	Principal Balance	Fair Value	Principal Balance
U.S. Treasuries	930,766	892,215	1,098,008	1,058,188
U.S. Government agencies:				
Federal Home Loan Bank	-	-	-	-
Federal Home Loan Mortgage Corporation	92,477	84,828	92,195	84,861
Government National Mortgage Association	664,942	621,266	877,366	824,763
Subtotal	1,688,185	1,598,309	2,067,569	1,967,812
External investment pools	1,540,475	1,540,475	1,538,975	1,538,875
	<u>3,228,660</u>	<u>3,138,784</u>	<u>3,606,544</u>	<u>3,506,687</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, 2015 and 2014

B. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2015 and 2014 were as follows:

	2015				2014			
	Water Sales	Grants	Other	Total	Water Sales	Grants	Other	Total
Major Proprietary Funds:								
Primary Water District	168,463	60,648	74,508	303,619	98,396	19,383	127,849	245,628
Regional Water Supply	150,359	-	-	150,359	130,307	-	-	130,307
Lake O' the Pines Southside	64,592	-	-	64,592	50,678	-	-	50,678
	<u>383,414</u>	<u>60,648</u>	<u>74,508</u>	<u>518,570</u>	<u>279,381</u>	<u>19,383</u>	<u>127,849</u>	<u>426,613</u>

Payables at September 30, 2015, were as follows:

	Accounts Payable	Accrued Benefits	Accrued Interest	Accrued Sludge Disposal	Total
Major Proprietary Funds:					
Primary Water District	82,448	2,119	-	-	84,567
Regional Water Supply	5,728	2,850	17,696	26,500	52,774
Lake O' the Pines Southside	65,654	-	21,760	-	87,414
	<u>153,830</u>	<u>4,969</u>	<u>39,456</u>	<u>26,500</u>	<u>224,755</u>

Payables at September 30, 2014, were as follows:

	Accounts Payable	Accrued Benefits	Accrued Interest	Accrued Sludge Disposal	Total
Major Proprietary Funds:					
Primary Water District	58,540	1,974	-	-	60,514
Regional Water Supply	40,236	2,743	19,359	26,500	88,838
Lake O' the Pines Southside	50,178	-	23,632	-	73,810
	<u>148,954</u>	<u>4,717</u>	<u>42,991</u>	<u>26,500</u>	<u>223,162</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, 2015 and 2014.

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

	2015	2014
Transfers from Primary Water District to:		
Regional Water Supply System	489,754	1,227,482
Lake O' the Pines Southside	299,831	299,805
	<u>789,585</u>	<u>1,527,287</u>
Transfers from Regional Water Supply System to:		
Primary Water System	<u>-</u>	<u>-</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, 2015 and 2014

D. CAPITAL ASSETS

The District's capital asset activity for the year ended September 30, 2015, was as follows:

	Balance 10/1/2014	Additions	Deletions	Balance 9/30/2015
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	25,223,729	-	-	25,223,729
Water lines and intake structures	24,399,215	60,303	-	24,459,518
Pump station	799,966	-	-	799,966
Buildings	496,858	4,574	-	501,432
Furniture and equipment	969,663	15,447	-	985,110
Autos, trucks and tractors	234,535	17,654	-	252,189
Clean rivers project	84,025	-	-	84,025
Corp of Engineers	387,617	-	-	387,617
	<u>52,595,608</u>	<u>97,978</u>	<u>-</u>	<u>52,693,586</u>
Total capital assets	<u>55,828,560</u>	<u>97,978</u>	<u>-</u>	<u>55,926,538</u>
Less accumulated depreciation for:				
Water treatment plants	(7,792,462)	(597,358)	-	(8,389,820)
Water lines and intake structures	(4,150,702)	(322,380)	-	(4,473,082)
Pump station	(497,370)	(16,000)	-	(513,370)
Buildings	(432,902)	(8,363)	-	(441,265)
Furniture and equipment	(922,398)	(15,363)	-	(937,761)
Autos, trucks and tractors	(230,445)	(4,896)	-	(235,341)
Clean rivers project	(83,430)	(595)	-	(84,025)
Corp of Engineers	(31,006)	(7,753)	-	(38,759)
Total accumulated depreciation	<u>(14,140,715)</u>	<u>(972,708)</u>	<u>-</u>	<u>(15,113,423)</u>
Net Capital Assets	<u>41,687,845</u>	<u>(874,730)</u>	<u>-</u>	<u>40,813,115</u>

Depreciation expense for the year ended September 30, 2015 was \$972,708.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2015 and 2014

D. CAPITAL ASSETS (Continued)

The District's capital asset activity for the year ended September 30, 2014, was as follows:

	Balance 10/1/2013	Additions	Deletions	Balance 9/30/2014
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	24,426,024	797,705	-	25,223,729
Water lines and intake structures	24,241,892	157,323	-	24,399,215
Pump station	799,966	-	-	799,966
Buildings	496,858	-	-	496,858
Furniture and equipment	944,980	24,683	-	969,663
Autos, trucks and tractors	234,535	-	-	234,535
Clean rivers project	84,025	-	-	84,025
Corp of Engineers	387,617	-	-	387,617
	<u>51,615,897</u>	<u>979,711</u>	<u>-</u>	<u>52,595,608</u>
Total capital assets	<u>54,848,849</u>	<u>979,711</u>	<u>-</u>	<u>55,828,560</u>
Less accumulated depreciation for:				
Water treatment plants	(7,195,104)	(597,358)	-	(7,792,462)
Water lines and intake structures	(3,829,986)	(320,716)	-	(4,150,702)
Pump station	(481,370)	(16,000)	-	(497,370)
Buildings	(423,611)	(9,291)	-	(432,902)
Furniture and equipment	(870,849)	(51,549)	-	(922,398)
Autos, trucks and tractors	(220,126)	(10,319)	-	(230,445)
Clean rivers project	(81,636)	(1,794)	-	(83,430)
Corp of Engineers	(23,254)	(7,752)	-	(31,006)
Total accumulated depreciation	<u>(13,125,936)</u>	<u>(1,014,779)</u>	<u>-</u>	<u>(14,140,715)</u>
Net Capital Assets	<u>41,722,913</u>	<u>(35,068)</u>	<u>-</u>	<u>41,687,845</u>

Depreciation expense for the year ended September 30, 2014 was \$1,014,779.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2015 and 2014

E. DEFINED BENEFIT PENSION PLANS

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined contribution 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 600 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 Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service or with 30 years of service regardless of age or when the sum of their age and years of service equals 80 or more. A member is vested after 10 years of service but must leave his accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump-sum, he is not entitled to any amounts contributed by the employer.

All eligible employees of the District are required to participate in the TCDRS.

Benefits Provided

TCDRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS.

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 as if 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.

Employees covered by benefit terms.

At December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit	-	
Inactive employees entitled to but not yet receiving benefits	5	
Active employees	15	
	20	

Contributions

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

Employees for the District were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the District were 7% and 7% in calendar years 2014 and 2015, respectively. The District's contributions to TCDRS for the year ended September 30, 2015, were \$56,413, and were equal to the required contributions.

Net Pension Liability

The District's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0%	per year	
Overall payroll growth	4.9%	per year	
Investment Rate of Return	8.0%	net of pension plan investment expenses, including inflation	

Demographic and economic assumptions are used to estimate employer liabilities and to determine the amount of funding required from employer contributions as opposed to investment earnings. These assumptions reflect a long-term perspective of 30 years or more. Examples of key economic assumptions include long-term investment return, long-term inflation and annual payroll increase.

Demographic assumptions are the actuary's best estimate of what will happen to TCDRS members and retirees. Examples of demographic assumptions are employment termination rates, retirement rates and retiree mortality rates. A complete listing of all actuarial assumptions can be found in the annual system-wide valuation report.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2015 and 2014

E. DEFINED BENEFIT PENSION PLANS continued

The long-term expected rate of return on pension plan investments is 8.1%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return
US Equity	16.5%	5.35%
International Equity	21.5%	5.35% - 6.35%
Various	25.0%	.55% - 7.20%
Hedge Funds	25.0%	5.15%
Private Equity	12.0%	8.35%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balance at December 31, 2013	\$ 1,894,052	\$ 2,180,384	\$ (286,332)
Changes for the year:			
Service cost	76,628	-	76,628
Interest	152,425	-	152,425
Change of benefit terms	-	-	-
Difference between expected and actual experience	26,430	-	26,430
Changes of assumptions	-	-	-
Contributions - employer	-	52,046	(52,046)
Contributions - employee	-	52,046	(52,046)
Net investment income	-	147,141	(147,141)
Benefit payments, including refund of contributions	(101,636)	(101,636)	-
Administrative expense	-	(1,740)	1,740
Other changes	-	9,175	(9,175)
Net changes	\$ 153,847	\$ 157,032	\$ (3,185)
Balance at December 31, 2014	\$ 2,047,899	\$ 2,337,416	\$ (289,517)

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2015 and 2014

E. DEFINED BENEFIT PENSION PLANS continued

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the District, calculated using the discount rate of 8.1%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	1% Decrease in		1% Increase in
	Discount Rate	Discount Rate	Discount Rate
	7.1%	8.1%	9.1%
District's net pension liability/(Asset)	\$ (71,182)	\$ (289,517)	\$ (475,727)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at www.tcdrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the District recognized pension expense of \$31,885.

At September 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred	Deferred
	Outflows	Inflows
	of Resources	of Resources
Differences between expected and actual economic experience	-	22,025
Changed is actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	25,283
Contributions subsequent to the measurement date	-	-
Total	-	47,308

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

Year ended September 30:	
2016	10,726
2017	10,726
2018	10,726
2019	10,726
2020	4,404
Thereafter	-

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2015 and 2014

F. LONG-TERM DEBT

The District's long-term debt activity for the year ended September 30, 2015, was as follows:

	Balance at 10/1/2014	Issued	Retired/ Refunded	Balance at 9/30/15	Current Portion
Water System Revenue Bonds					
Series 2008	1,550,000	-	-	1,550,000	-
Series 2013 (refunding)	6,955,000	-	(395,000)	6,560,000	425,000
	<u>8,505,000</u>	<u>-</u>	<u>(395,000)</u>	<u>8,110,000</u>	<u>425,000</u>
Contract Revenue Bonds:					
Series 2009 (refunding)	6,406,323	-	-	6,406,323	-
Accreted Interest	3,670,480	-	869,462	4,539,942	-
Series 2010 (refunding)	1,375,000	-	(460,000)	915,000	475,000
Series 2013 (refunding)	9,915,000	-	(840,000)	9,075,000	875,000
	<u>21,366,803</u>	<u>-</u>	<u>(430,538)</u>	<u>20,936,265</u>	<u>1,350,000</u>
	<u>29,871,803</u>	<u>-</u>	<u>(825,538)</u>	<u>29,046,265</u>	<u>1,775,000</u>

The District's long-term debt activity for the year ended September 30, 2014, was as follows:

	Balance at 10/01/13	Issued	Retired/ Refunded	Balance at 9/30/14	Current Portion
Water System Revenue Bonds					
Series 2003	-	-	-	-	-
Series 2008	1,550,000	-	-	1,550,000	-
Series 2013 (refunding)	7,300,000	-	(345,000)	6,955,000	395,000
	<u>8,850,000</u>	<u>-</u>	<u>(345,000)</u>	<u>8,505,000</u>	<u>395,000</u>
Contract Revenue Bonds:					
Series 2003	-	-	-	-	-
Series 2009 (refunding)	6,406,323	-	-	6,406,323	-
Accreted Interest	2,870,088	-	800,392	3,670,480	-
Series 2010 (refunding)	1,825,000	-	(450,000)	1,375,000	460,000
Series 2013 (refunding)	10,730,000	-	(815,000)	9,915,000	840,000
	<u>21,831,411</u>	<u>-</u>	<u>(464,608)</u>	<u>21,366,803</u>	<u>1,300,000</u>
	<u>30,681,411</u>	<u>-</u>	<u>(809,608)</u>	<u>29,871,803</u>	<u>1,695,000</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2015 and 2014

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 \$6,510,000 at September 30, 2015.

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 \$1,105,000 at September 30, 2015.

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 \$9,180,000 at September 30, 2015.

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, 2015, reserve funds restricted for debt service totaled \$2,319,182, which exceeded the coverage required.

The scheduled Maturities of bonds payable as of September 30, 2015, are as follows:

Years Ending	Principal	Interest	Total
9/30			
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	1,571,301	492,452	2,063,753
2020	1,610,987	455,367	2,066,354
2021-2025	11,544,258	8,486,229	20,030,487
2026-2030	4,179,777	12,175,824	16,355,601
2031-2034	620,000	90,597	710,597
	<hr/>	<hr/>	<hr/>
Total	24,506,323	22,968,092	47,474,415
Accreted Interest	4,539,942		
	<hr/>		
	29,046,265		

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2015 and 2014

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.

H. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments or contingencies at September 30, 2015.

I. LITIGATION

As of September 30, 2015 the District was not involved in any significant litigation.

J. RESERVED/RESTRICTED NET POSITION

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 ASSET- LAKE O' THE PINES SOUTHSIDE

The Lake O' the Pines South Side Fund reflects deficit net position. 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 16, 2015, the financial statement issuance date.

M. PRIOR PERIOD ADJUSTMENT

During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the District must assume their proportionate share of the Net Pension Asset/Liability of the TCDRS. Adoption of GASB 68 require a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment for GASB 68 is \$328,758 which is a net pension asset as the District is overfunded. The restated beginning net position is \$16,783,414.

SUPPLEMENTAL SECTION

Northeast Texas Municipal Water District
SCHEDULE OF REVENUES AND EXPENSES-
BUDGET AND ACTUAL
for the year ended September 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Raw water sales	2,256,327	2,256,326	(1)
Treated water sales	2,916,727	2,725,110	(191,617)
State grants	255,000	554,960	299,960
Other grants	2,110	3,200	1,090
Total operating revenues	<u>5,430,164</u>	<u>5,539,596</u>	<u>109,432</u>
OPERATING EXPENSES			
Personnel	1,243,987	1,082,871	161,116
Supplies	337,846	409,198	(71,352)
Maintenance	366,082	238,805	127,277
Contractual services	689,139	736,538	(47,399)
State grant programs	255,000	533,465	(278,465)
Other grant programs	2,110	-	2,110
Total operating expenses	<u>2,894,164</u>	<u>3,000,877</u>	<u>(106,713)</u>
Excess (deficiency) of revenues over expenditures	<u>2,536,000</u>	<u>2,538,719</u>	<u>2,719</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income, net	62,520	60,460	(2,060)
Interest expense and debt fees	(1,391,170)	(1,372,779)	18,391
Damages	-	-	-
Other	39,700	50,811	11,111
Total non-operating revenues (expenses)	<u>(1,288,950)</u>	<u>(1,261,508)</u>	<u>27,442</u>
NET INCOME BEFORE NON-BUDGETED EXPENSES	<u>1,247,050</u>	1,277,211	<u>30,161</u>
NON-BUDGETED EXPENSES			
Depreciation		<u>972,708</u>	
NET INCOME/(LOSS)		<u>304,503</u>	

Northeast Texas Municipal Water District
INDEX OF SUPPLEMENTAL SCHEDULES
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
for the year ended September 30, 2015

(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)	14-25
<input checked="" type="checkbox"/>	(E) Services and rates	28-29
<input checked="" type="checkbox"/>	(F) Schedule of operating expenditures	30
<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	31-32
<input checked="" type="checkbox"/>	(K) Analysis of changes in general long-term debt	33
<input type="checkbox"/>	(L) Comparative schedule of revenues and expenditures	*
<input checked="" type="checkbox"/>	(M) Insurance coverage	34
<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, 2015

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: 1,129,507
 Gallons billed to customers: 1,052,039

* 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	2,239,192
d. Standby Fees	_____
e. Debt Service Fund Balance to be Used	_____
f. Interest Revenues	_____
g. Other (Describe)	_____
_____	_____
_____	_____
*TOTAL ANTICIPATED FUNSD TO BE USED	\$ 2,239,192

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 apointed 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, 2015

Current:	
Personnel (including benefits)	1,032,241
Professional Fees:	
Auditing	25,565
Legal	1,097
Engineering	115,450
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	269,826
Repairs and maintenance	238,805
Administrative expenses:	
Directors' fees	26,400
Office supplies	11,537
Insurance	30,470
Other administrative expenses	24,231
Capital outlay:	
Acquisition of fixed assets	117,957
Chemicals	262,153
Transfers	-
Special projects - State grant programs	533,465
Special projects - Other grant programs	-
Solid waste disposal	-
Other expenditures	429,637
	<hr/>
TOTAL OPERATING EXPENDITURES	<u><u>3,118,834</u></u>
Number of persons employed by the District:	<u>17 full-time</u>
(Does not include independent contractors or consultants)	<u>0 part-time</u>

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
As of September 30, 2015

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
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>915,000</u>	<u>36,076</u>	<u>951,076</u>	<u>6,560,000</u>	<u>866,928</u>	<u>7,426,928</u>	<u>1,550,000</u>	<u>1,287,740</u>	<u>2,837,740</u>

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
As of September 30, 2015

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			
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	325,783	2,333,089
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>9,075,000</u>	<u>1,113,452</u>	<u>10,188,452</u>	<u>6,406,323</u>	<u>19,663,896</u>	<u>26,070,219</u>	<u>24,506,323</u>	<u>22,968,092</u>	<u>47,474,415</u>

Northeast Texas Municipal Water District
(K) ANALYSIS OF CHANGES IN LONG-TERM DEBT
for the year ended September 30, 2015

	Water System Revenue Bonds			Contract Revenue Bonds			Interest Total
	Series 2010	Series 2008	Series 2013	Series 2009	Series 2013	Accretion	
Interest rate	2.00-3.00%	5.50-5.85%	2.25%	7.25-8.50%	2.25%		
Dates interest payable	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	9/1/25 to 9/1/34	9/1/13 to 9/1/24	9/1/19 to 9/1/27	9/1/13 to 9/1/25		
Bonds outstanding at beginning of current year	1,375,000	1,550,000	6,955,000	6,406,323	9,915,000	3,670,480	29,871,803
Bonds sold during the current year	-	-	-	-	-	-	-
Interest accretion	-	-	-	-	-	869,462	-
Retirements: principal	460,000	-	395,000	-	840,000	-	1,695,000
Bonds outstanding at end of current year	915,000	1,550,000	6,560,000	6,406,323	9,075,000	4,539,942	29,046,265
Retirement: interest	37,776	88,427	156,488	-	223,088	-	505,779
Bond Authority:	<u>Tax Bonds *</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>				
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, 2015

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	\$ 28,954,451	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	\$ 205,071	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

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

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

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, 2015 and 2014, 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 16, 2015.

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 16, 2015

Northeast Texas Municipal Water District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

CORRECTIVE ACTION

N/A

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