

Northeast Texas Municipal Water District

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

For the year ended September 30, 2010

Northeast Texas Municipal Water District
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ANNUAL FILING AFFIDAVIT

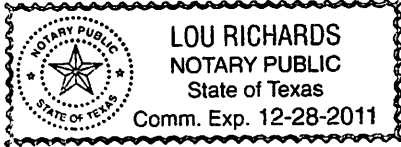
THE STATE OF TEXAS }
 }
COUNTY OF MORRIS }

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 24th day of January, 2011, its annual audit report for the fiscal year or period ended September 30, 2010, 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: January 25, 2011 By: Walt Sears Jr.
Walt Sears, Jr. General Manager

Sworn to and subscribed to before me this 25 day of January, 2011.



(SEAL)

Lou Richards
(Signature of Notary)

My Commission Expires on: December 28, 2011, Notary Public in and for the State of Texas.



ARNOLD, WALKER, ARNOLD, & Co., P.C.

Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A.
Lanny G. Walker, C.P.A.
Kris Arnold, C.P.A.
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MEMBER

American Institute Of
Certified Public Accountants

Texas State Society Of
Certified Public Accountants

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business type activities and each major fund of Northeast Texas Municipal Water District as of and for the year ended September 30, 2010, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of Northeast Texas Municipal Water District, as of September 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Texas Municipal Water District's basic financial statements. 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

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

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

December 14, 2010

**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, 2009, to September 30, 2010, 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 51.1million dollars and operating revenue was \$570,215.

Financial Highlights

- The total assets of the District are \$51,184,260.
- The total liabilities are \$33,382,523.
- The assets of the District exceed liabilities by \$17,801,737.
- The total net assets of the District decreased by \$2,329,240 or 4.4%.
- The total liabilities of the District decreased by \$1,565,271 or 4.5%.
- The District had an operating income \$570,215 for the audited year compared to an operating income of \$386,947 for the previous year. Total operating revenue exceeded total operating expenses by about 13.9%.
- The Fund Equity of the District at the end of the year was \$17,801,737 and decreased during the year by \$ 763,969 or 4.0%.

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 Equity; 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 Fund Equity indicates the effect of activities during the fiscal year. Statement of Cash Flows indicates the effect that activities have had on the cash position of the District over the fiscal year.

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

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

The financial information under the label of "Primary Water District" is information pertaining to the overall administration of the District, raw water sales, and efforts to assure water quality. To assure water quality, the District has several active programs. Some of these programs are principally funded by grants from the Texas Commission on Environmental Quality (TCEQ), the Texas State Soil and Water Conservation Board (TSSWCB) or funded by contributions from other sources. The District performed all of the tasks associated with the Onsite Septic Facilities Program (OSSF) in the counties of Marion, Morris and Cass for the audited year. 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 Balance Sheet and Statement of Revenues, Expenses, and Changes in Fund Equity is presented.

The District's Net Assets		
Business-Type		
Activities		
	2010	2009
Current and other assets	6,952,330	8,333,383
Capital and non-current assets	44,231,930	45,180,117
TOTAL ASSETS	51,184,260	53,513,500
Long-term liabilities	31,812,081	32,947,906
Other liabilities	1,570,442	1,999,888
TOTAL LIABILITIES	33,382,523	34,947,794
Invested in capital assets, net of related debt	13,385,920	12,232,211
Restricted/reserved	2,293,061	2,311,326
Unrestricted	2,122,756	4,022,169
TOTAL NET ASSETS	17,801,737	18,565,706

The District's Changes in Net Assets		
Business-Type		
Activities		
	2010	2009
Revenues		
Raw water sales	1,883,132	1,863,142
Treated water sales	2,166,583	1,583,405
State grants	595,449	782,411
Other grants	12,678	37,266
Investment income	240,233	273,916
Other	117,482	106,276
Total revenues	5,015,557	4,646,416
Expenses		
Personnel	1,119,880	1,126,931
Supplies	272,370	257,867
Maintenance	371,174	314,862
Contractual services	519,197	579,068
Depreciation	1,076,277	890,818
State grant programs	728,683	672,345
Other grant expenses	46	37,386
Interest expense	1,691,899	1,547,126
Total expenses	5,779,526	5,426,403
Increase in net assets before transfers	(763,969)	(779,987)
Transfers (net)	-	-
Increase (decrease) in net assets	(763,969)	(779,987)
Beginning net assets	18,565,706	19,345,693
Ending net assets	17,801,737	18,565,706

**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 \$19,990 or 1.07% when compared to the previous year. This change was very modest because no new customers of raw water were added during the fiscal year.

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 for the first time and sales were \$1,064,727. Compare sales in the first full fiscal year of operation of \$1,064,727 to the sales of \$773,892 in the prior year when the LOPSS was operational for about three quarters of the year. Also, compare the sales in LOPSS to the sales in RWSS of \$1,101,856. These comparisons demonstrate the significance of the LOPSS system in relation to treated water sales of the District.

The treated water sales for the RWSS increased from \$809,513 in fiscal year 2009 to \$1,101,856 in fiscal year 2010. This increase in sales was \$292,343 or 36.11%. This increase in revenue is primarily due to two factors. First, there was a rate increase for the customers of the RWSS system that went into effect on October 1, 2009. Second, the weather was slightly drier than normal which modestly increased the amount sold.

The treated water sales were modestly affected by drier weather conditions than a normal year. The previous year was wetter than normal. Much of the treated water is sold wholesale to cities. Cities use this supply to meet residential demand. Much of the residential demand can be for outdoor water uses. When there is adequate rainfall, the amount used for lawn irrigation decreases. When there is not adequate rainfall, the amount used for lawn irrigation increases. According to the U.S. Army Corps of Engineers, rainfall at Lake O' the Pines in 2010 was about 30.2 inches, compared to 65.4 inches in 2009, compared to 54.7 inches in 2008 and 58.1 inches in 2007. Normal annual rainfall is about 48.4 inches.

The operating loss for the RWSS system (treated water production) decreased by \$396,587 or 41.7% when compared to the previous year. The primary reason for the improvement in the operating loss was the emergence of the LOPSS system as a partial funding source for some of the production expenses for an entire fiscal year. The production expenses for treated water produced by the Tanner Plant were shared between the RWSS and the LOPSS and this sharing improved the RWSS by lowering the amount of water production expenses incurred by the RWSS.

Concerning capital assets and long-term debt activity, the District completed significant improvements financed principally from borrowing funds in the prior fiscal year. No significant expansion of the existing facilities occurred during this fiscal year. The long-term debt decreased because the District refunded bonds issued in 2000 with a smaller amount of issued bonds. The District lowered the amount of outstanding bonds by utilizing some of the District's unrestricted funds. This indebtedness is identified in Note 5 of the Financial Statements.

Economic Factors and Next Year's Budget

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

To aid in the proper development and management of water resources, the District serves as the Administrative Agency for the North East Texas Regional Water Planning Group (NETRWPG). The NETRWPG is a group of planners covering 19 counties in Northeast Texas. The primary funding source for the activities of the NETRWPG is the Texas Water Development Board. During the year of 2010, the NETRWPG completed the third comprehensive regional water plan. This new plan will be reviewed and amended where appropriate over the next 5-year planning cycle. Active involvement in the activities of the NETRWPG helps the District to fulfill its role in assuring a sufficient supply of water for Northeast Texas. The approved regional water plan of the NETRWPG projects that the District has a more than adequate supply of water for at least the next 50 years.

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

The US Army Corp maintains Lake O' the Pines and the District is required to provide 13.4% of the maintenance cost. More than 240,000 acre feet of water is routinely stored in Lake O' the Pines. As the total maintenance cost increases, the amount that the District must pay also increases. The US Army Corp is predicting that the amount that the District must provide will substantially increase in 2010 as a result of the funding available through the federal stimulus package. The annual amount that the District must provide to the US Army Corp in the fiscal year starting on October 1, 2010 is estimated to be \$537,258 compared to \$220,814 which was provided in 2009.

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

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 2010 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. During 2008 and again in 2009, Giant Salvinia was discovered in Lake O' the Pines. 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
BALANCE SHEETS
As of September 30, 2010

	Primary Water District	Regional Water Supply System	Lake O' the Pines South Side	Total
ASSETS				
Current assets				
Cash on hand and in bank	755,097	190,322	500	945,919
Investments	1,106,264	-	-	1,106,264
Receivables:				
Water sales	82,146	106,950	39,743	228,839
Grants receivable	198,882	-	-	198,882
Interfund receivable	-	85,814	1,108,656	1,194,470
Other	-	-	-	-
Total current assets	2,142,389	383,086	1,148,899	3,674,374
Non-current assets				
Restricted cash in bank	18,774	21,759	54,554	95,087
Restricted investments	-	2,216,748	-	2,216,748
Utility deposits	50	-	-	50
Deferred bond issue costs	-	377,253	588,818	966,071
Capital assets	3,000,312	31,521,802	19,608,979	54,131,093
Less: accumulated depreciation	(868,020)	(8,377,448)	(653,695)	(9,899,163)
Total non-current assets	2,151,116	25,760,114	19,598,656	47,509,886
Total assets	4,293,505	26,143,200	20,747,555	51,184,260
LIABILITIES				
Current liabilities				
Current portion of bonds payable	-	564,261	480,739	1,045,000
Accounts payable	26,715	-	-	26,715
Accrued expenses	-	32,944	45,583	78,527
Interfund payable	-	1,194,470	-	1,194,470
Deferred revenues:				
Water sales	186,800	-	-	186,800
Supplemental environmental projects	-	-	-	-
Other	-	-	-	-
Total current liabilities	213,515	1,791,675	526,322	2,531,512
Non-current liabilities				
Accrued expenses	-	83,930	-	83,930
Bonds payable	-	9,238,747	21,528,334	30,767,081
Total non-current liabilities	-	9,322,677	21,528,334	30,851,011
Total liabilities	213,515	11,114,352	22,054,656	33,382,523
Fund equity				
Invested in capital assets, net of related debt	2,132,292	13,718,599	(2,464,971)	13,385,920
Restricted for debt service	-	2,238,507	54,554	2,293,061
Unrestricted	1,947,698	(928,258)	1,103,316	2,122,756
Total fund equity (deficit)	4,079,990	15,028,848	(1,307,101)	17,801,737
Total liabilities and fund equity	4,293,505	26,143,200	20,747,555	51,184,260

The accompanying notes are an integral part of this statement.

Northeast Texas Municipal Water District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
As of September 30, 2010

	<u>Primary Water District</u>	<u>Regional Water Supply System</u>	<u>Lake O' the Pines South Side</u>	<u>Total</u>
OPERATING REVENUES				
Raw water sales	1,883,132	-	-	1,883,132
Treated water sales	-	1,101,856	1,064,727	2,166,583
State grants	595,449	-	-	595,449
Other grants	12,678	-	-	12,678
Total operating revenues	<u>2,491,259</u>	<u>1,101,856</u>	<u>1,064,727</u>	<u>4,657,842</u>
OPERATING EXPENSES				
Personnel	502,153	411,105	206,622	1,119,880
Supplies	21,989	163,270	87,111	272,370
Maintenance	232,037	100,145	38,992	371,174
Contractual services	201,527	237,761	79,909	519,197
Depreciation	41,733	642,327	392,217	1,076,277
State grant programs	728,683	-	-	728,683
Other grant programs	46	-	-	46
Total operating expenses	<u>1,728,168</u>	<u>1,554,608</u>	<u>804,851</u>	<u>4,087,627</u>
OPERATING INCOME (LOSS)	<u>763,091</u>	<u>(452,752)</u>	<u>259,876</u>	<u>570,215</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income	26,242	213,991	-	240,233
Interest expense	-	(511,996)	(1,179,903)	(1,691,899)
Other	26,590	36,338	54,554	117,482
Total non-operating revenues (expenses)	<u>52,832</u>	<u>(261,667)</u>	<u>(1,125,349)</u>	<u>(1,334,184)</u>
INCOME (LOSS) BEFORE TRANSFERS	815,923	(714,419)	(865,473)	(763,969)
TRANSFERS	<u>(2,235,414)</u>	<u>1,996,822</u>	<u>238,592</u>	<u>-</u>
INCREASE (DECREASE) IN FUND EQUITY	(1,419,491)	1,282,403	(626,881)	(763,969)
FUND EQUITY (DEFICIT) at beginning of year	<u>5,499,481</u>	<u>13,746,445</u>	<u>(680,220)</u>	<u>18,565,706</u>
FUND EQUITY (DEFICIT) at end of year	<u>4,079,990</u>	<u>15,028,848</u>	<u>(1,307,101)</u>	<u>17,801,737</u>

The accompanying notes are an integral part of this statement.

Northeast Texas Municipal Water District
STATEMENTS OF CASH FLOWS
As of September 30, 2010

	<u>Primary Water District</u>	<u>Regional Water Supply System</u>	<u>Lake O' the Pines South Side</u>	<u>Total</u>
CASH FLOW FROM OPERATING ACTIVITIES				
Cash received from customers	1,899,268	1,090,013	1,110,944	4,100,225
Cash received from grants	780,993	-	-	780,993
Cash paid to suppliers	(507,807)	(532,830)	(216,565)	(1,257,202)
Cash paid to employees	(508,395)	(419,838)	(206,622)	(1,134,855)
Cash paid for state grant programs	(779,060)	-	-	(779,060)
Cash paid for other grant programs	(46)	-	-	(46)
Other receipts	-	-	-	-
Net cash provided by (used in) operating activities	<u>884,953</u>	<u>137,345</u>	<u>687,757</u>	<u>1,710,055</u>
CASH FLOW FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers from (to) other funds	<u>(943,737)</u>	<u>705,145</u>	<u>238,592</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(83,302)	(44,788)	-	(128,090)
Supplies	-	(86,637)	-	(86,637)
Proceeds from issuance of bonds	-	3,110,000	-	3,110,000
Interest and paying agent fees paid	-	(477,984)	(546,321)	(1,024,305)
Bond principal paid	-	(4,499,526)	(325,474)	(4,825,000)
Net cash provided by (used in) capital and related financing activities	<u>(83,302)</u>	<u>(1,998,935)</u>	<u>(871,795)</u>	<u>(2,954,032)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (purchases) sales of investment pools	161,338	454,940	-	616,278
Purchase of investment securities	(343,000)	(281,000)	-	(624,000)
Redemption of investment securities	404,375	985,615	-	1,389,990
Principal paydowns on mortgage-backed securities	305,382	-	-	305,382
interest received on investments	65,731	102,077	-	167,808
Net cash provided by (used in) investing activities	<u>593,826</u>	<u>1,261,632</u>	<u>-</u>	<u>1,855,458</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	451,740	105,187	54,554	611,481
CASH AND CASH EQUIVALENTS, at beginning of year	<u>322,131</u>	<u>106,894</u>	<u>500</u>	<u>429,525</u>
CASH AND CASH EQUIVALENTS, at end of year	<u><u>773,871</u></u>	<u><u>212,081</u></u>	<u><u>55,054</u></u>	<u><u>1,041,006</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	763,091	(452,752)	259,876	570,215
Adjustments to reconcile operatin gincome (loss) to net cash provided by (used in) operating activities:				
Depreciation	41,733	642,327	392,217	1,076,277
Miscellaneous income	26,590	36,338	54,554	117,482
(Increase) decrease in accounts receivable	181,524	(48,181)	(8,337)	125,006
Increase (decrease) in:				
Accounts payable	(102,631)	(23,875)	(10,553)	(137,059)
Accrued liabilities	(6,242)	(16,512)	-	(22,754)
Deferred revenues	(19,112)	-	-	(19,112)
Net cash provided by (used in) operating activities	<u>884,953</u>	<u>137,345</u>	<u>687,757</u>	<u>1,710,055</u>

The accompanying notes are an integral part of this statement.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

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

B. FUND ACCOUNTING

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

C. PROPRIETARY FUNDS

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

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

D. BASIS OF ACCOUNTING

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

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

E. DEPRECIATION

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

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

**Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2010**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

F. DEFERRED REVENUE

Water sales, government grants, and other revenues are recognized when earned. Revenues are considered to be earned when the District has performed all services related to the generation of revenue. At September 30, 2010, 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.

G. INVESTMENTS

The District carries all debt securities at fair market value. These debt securities are valued based upon quotations listed in the *Wall Street Journal*.

H. 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.

I. 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.

J. CASH AND CASH EQUIVALENTS

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

K. 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.

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, 2010, 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.

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, 2010, 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.

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

A. DEPOSITS AND INVESTMENTS *continued*

At September 30, 2010, the District's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Principal Balance</u>
U.S. Treasuries	452,784	422,000
U.S. Government agencies:		
Federal Farm Credit Bank	34,021	33,000
Federal Home Loan Bank	37,920	35,000
Federal Home Loan Mortgage Corporation	147,350	139,000
Federal National Mortgage Association	-	-
Government National Mortgage Association	1,938,100	1,829,031
Subtotal	<u>2,610,175</u>	<u>2,458,031</u>
External investment pools	<u>712,837</u>	<u>712,837</u>
	<u><u>3,323,012</u></u>	<u><u>3,170,868</u></u>

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

B. CAPITAL ASSETS

The District's capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Balance</u> <u>10/1/2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>9/30/2010</u>
Non-depreciable assets:				
Land and right-of-way	1,435,037	-	-	1,435,037
Water rights	1,752,565	-	-	1,752,565
Construction in progress	-	-	-	-
	<u>3,187,602</u>	<u>-</u>	<u>-</u>	<u>3,187,602</u>
Depreciable assets:				
Water treatment plants	24,347,721	-	-	24,347,721
Water lines and intake structures	23,978,709	83,302	-	24,062,011
Pump station	799,996	-	-	799,996
Buildings	490,788	-	-	490,788
Furniture and equipment	931,227	-	-	931,227
Autos, trucks and tractors	191,621	44,788	(8,686)	227,723
Clean rivers project	84,025	-	-	84,025
	<u>50,824,087</u>	<u>128,090</u>	<u>(8,686)</u>	<u>50,943,491</u>
Total capital assets	54,011,689	128,090	(8,686)	54,131,093
Less: accumulated depreciation	<u>(8,831,572)</u>	<u>(1,076,278)</u>	<u>8,686</u>	<u>(9,899,164)</u>
Net Capital Assets	<u><u>45,180,117</u></u>	<u><u>(948,188)</u></u>	<u><u>-</u></u>	<u><u>44,231,929</u></u>

**Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
At September 30, 2010**

C. 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 2010, and 7.00% for the months of the accounting year in 2009.

The contribution rate payable by the employee members for calendar year 2010 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, 2010 the annual pension cost for the TCDRS plan for its employees was \$54,709 and the actual contributions were \$54,709.

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, 2009, the basis for determining contribution rates for calendar year 2010. The December 31, 2009 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/2007	12/31/2008	12/31/2009
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, closed
Amortization period	30 yrs.	30 yrs.	30 yrs.
Asset valuation method	Ten year smoothed value	Ten year smoothed value	Ten year smoothed value
Actuarial Assumptions:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	5.3%	5.3%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

(1) Includes inflation at the stated rate

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

C. RETIREMENT PLAN *continued*

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

<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
9/30/08	54,534	100.00%	-
9/30/09	48,830	100.00%	-
9/30/10	54,709	100.00%	-

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	1,084,047	1,057,611	(26,436)	102.50%	735,434	(3.59)%
12/31/08	1,162,264	1,180,120	17,856	98.49%	730,745	2.44 %
12/31/09	1,252,092	1,161,601	(90,491)	107.79%	735,280	(12.31)%

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

D. LONG-TERM DEBT

The District's long-term debt activity for the year ended September 30, 2010, was as follows:

	Balance at 10/01/09	Issued	Retired	Balance at 9/30/10	Current Portion
Water System Revenue Bonds					
Series 2000	4,360,000	-	(4,360,000)	-	-
Series 2003	8,140,000	-	(215,000)	7,925,000	230,000
Series 2008	1,550,000	-	-	1,550,000	-
	<u>14,050,000</u>	<u>-</u>	<u>(4,575,000)</u>	<u>9,475,000</u>	<u>230,000</u>
Contract Revenue Bonds:					
Series 2003	12,240,000	-	(250,000)	11,990,000	400,000
Series 2009 (refunding)	6,406,323	-	-	6,406,323	-
Accreted Interest	251,582	579,175	-	830,757	-
Series 2010 (refunding)	-	3,110,000	-	3,110,000	415,000
	<u>18,897,905</u>	<u>3,689,175</u>	<u>(250,000)</u>	<u>22,337,080</u>	<u>815,000</u>
Contract Revenue Notes:					
Series 2008	-	-	-	-	-
	<u>32,947,905</u>	<u>3,689,175</u>	<u>(4,825,000)</u>	<u>31,812,080</u>	<u>1,045,000</u>

Northeast Texas Municipal Water District
NOTES TO THE FINANCIAL STATEMENTS
 At September 30, 2010

D. LONG-TERM DEBT *continued*

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

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

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

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

Water System Refunding Bonds, Series 2010, dated July 7, 2010, in the aggregate principal amount of \$3,110,000; interest payable semi-annually at interest rates ranging from 2.00% to 3.00%; principal payable annually from September 1, 2011 through September 1, 2017; secured by a pledge of revenues. The bond proceeds were used to fund construction of the District's Lake O' the Pines Southside Regional Water Supply System. The bonds were used to refund the District's Water System Revenue Bonds, Series-2000.

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, 2010, reserve funds restricted for debt service totaled \$1,118,979, which exceeded the coverage required.

The scheduled Maturities of bonds payable as of September 30, 2009, are as follows:

Years Ending	Principal	Interest	Total
9/30			
2011	1,045,000	911,875	1,956,875
2012	1,185,000	869,879	2,054,879
2013	1,255,000	836,976	2,091,976
2014	1,420,000	801,942	2,221,942
2015	1,515,000	762,101	2,277,101
2016-2020	7,392,288	3,353,011	10,745,299
2021-2025	11,469,258	9,093,284	20,562,542
2026-2030	5,079,777	12,212,094	17,291,871
2031-2035	620,000	90,597	710,597
Total	30,981,323	28,931,759	59,913,082
Accreted Interest	830,757		
	<u>31,812,080</u>		

E. 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, 2010**

F. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments or contingencies at September 30, 2010.

G. LITIGATION

As of September 30, 2010 the District was not involved in any significant litigation.

H. RESERVED / RESTRICTED FUND EQUITY

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.



SUPPLEMENTAL SECTION

**Northeast Texas Municipal Water District
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
for the year ended September 30, 2010**

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Raw water sales	1,889,552	1,883,132	(6,420)
Treated water sales	2,164,412	2,166,583	2,171
State grants	1,036,610	595,449	(441,161)
Other grants	19,000	12,678	(6,322)
Total operating revenues	5,109,574	4,657,842	(451,732)
OPERATING EXPENSES			
Personnel	1,183,410	1,119,880	(63,530)
Supplies	324,540	272,370	(52,170)
Maintenance	325,200	371,174	45,974
Contractual services	809,882	519,197	(290,685)
State grant programs	842,695	728,683	(114,012)
Other grant programs	19,000	46	(18,954)
Total operating expenses	3,504,727	3,011,350	(493,377)
Excess (deficiency) of revenues over expenditures	1,604,847	1,646,492	41,645
NON-OPERATING REVENUES (EXPENSES)			
Investment income	124,406	240,233	115,827
Interest expense	(1,807,306)	(1,691,899)	115,407
Other	37,100	117,482	80,382
Total non-operating revenues (expenses)	(1,645,800)	(1,334,184)	311,616
NET INCOME BEFORE NON-BUDGETED EXPENSES	(40,953)	312,308	353,261
NON-BUDGETED EXPENSES			
Depreciation		1,076,277	
NET LOSS		(763,969)	

Northeast Texas Municipal Water District
INDEX OF SUPPLEMENTAL SCHEDULES
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
for the year ended September 30, 2010

(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)	10-16
<input checked="" type="checkbox"/>	(E) Services and rates	19
<input checked="" type="checkbox"/>	(F) Schedule of operating expenditures	21
<input checked="" type="checkbox"/>	(G) Schedule of temporary investments (Included in the notes to the financial statements)	12
<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)	12
<input checked="" type="checkbox"/>	(J) General long-term debt service requirements by years	22-23
<input checked="" type="checkbox"/>	(K) Analysis of changes in general long-term debt	24
<input type="checkbox"/>	(L) Comparative schedule of revenues and expenditures	*
<input checked="" type="checkbox"/>	(M) Insurance coverage	25
<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, 2010

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: 916,251
 Gallons billed to customers: 876,535

* 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	1,956,875
d. Standby Fees	_____
e. Debt Service Fund Balance to be Used	_____
f. Interest Revenues	_____
g. Other (Describe)	_____
_____	_____
_____	_____
*TOTAL ANTICIPATED FUNSD TO BE USED	\$ 1,956,875

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
as of September 30, 2010

Current:	
Personnel (including benefits)	1,066,551
Professional Fees:	
Auditing	29,000
Legal	131
Engineering	3,747
Financial adviser	335
Other professional fees	3,110
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	207,302
Repairs and maintenance	232,018
Administrative expenses:	
Directors' fees	29,250
Office supplies	6,358
Insurance	41,122
Other administrative expenses	24,080
Capital outlay:	
Acquisition of fixed assets	-
Chemicals	166,437
Transfers	-
Special projects - State grant programs	728,683
Special projects - Other grant programs	46
Solid waste disposal	-
Other expenditures	<u>1,549,457</u>
TOTAL OPERATING EXPENDITURES	<u><u>4,087,627</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>

The accompanying notes are an integral part of this statement.

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
for the year ended September 30, 2010

Water System Revenue Bonds

FYE 9/30	Series 2010			Series 2003			Series 2008		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	415,000	91,856	506,856	230,000	300,965	530,965	-	88,427	88,427
2012	430,000	67,426	497,426	255,000	294,318	549,318	-	88,428	88,428
2013	440,000	56,676	496,676	275,000	286,566	561,566	-	88,427	88,427
2014	450,000	46,776	496,776	300,000	277,793	577,793	-	88,428	88,428
2015	460,000	37,776	497,776	355,000	267,924	622,924	-	88,427	88,427
2016	475,000	23,976	498,976	390,000	255,889	645,889	-	88,428	88,428
2017	440,000	12,100	452,100	425,000	242,278	667,278	-	88,427	88,427
2018	-	-	-	455,000	227,021	682,021	-	88,428	88,428
2019	-	-	-	500,000	210,231	710,231	-	88,427	88,427
2020	-	-	-	530,000	191,281	721,281	-	88,428	88,428
2021	-	-	-	1,025,000	170,664	1,195,664	-	88,427	88,427
2022	-	-	-	1,045,000	130,279	1,175,279	-	88,428	88,428
2023	-	-	-	1,070,000	88,061	1,158,061	-	88,427	88,427
2024	-	-	-	1,070,000	44,298	1,114,298	-	88,428	88,428
2025	-	-	-	-	-	-	155,000	88,427	243,427
2026	-	-	-	-	-	-	155,000	79,903	234,903
2027	-	-	-	-	-	-	155,000	71,300	226,300
2028	-	-	-	-	-	-	155,000	62,620	217,620
2029	-	-	-	-	-	-	155,000	53,940	208,940
2030	-	-	-	-	-	-	155,000	45,105	200,105
2031	-	-	-	-	-	-	155,000	36,192	191,192
2032	-	-	-	-	-	-	155,000	27,203	182,203
2033	-	-	-	-	-	-	155,000	18,135	173,135
2034	-	-	-	-	-	-	155,000	9,067	164,067
	<u>3,110,000</u>	<u>336,586</u>	<u>3,446,586</u>	<u>7,925,000</u>	<u>2,987,568</u>	<u>10,912,568</u>	<u>1,550,000</u>	<u>1,729,877</u>	<u>3,279,877</u>

Northeast Texas Municipal Water District
(J) LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
for the year ended September 30, 2010

FYE 9/30	Contract Revenue Bonds			Contract Revenue Refunding Bonds			TOTAL		
	Series 2003			Series 2009			Principal	Interest	Total
	Principal	Interest	Total	Principal	Interest	Total			
2011	400,000	430,627	830,627	-	-	-	1,045,000	911,875	1,956,875
2012	500,000	419,707	919,707	-	-	-	1,185,000	869,879	2,054,879
2013	540,000	405,307	945,307	-	-	-	1,255,000	836,976	2,091,976
2014	670,000	388,945	1,058,945	-	-	-	1,420,000	801,942	2,221,942
2015	700,000	367,974	1,067,974	-	-	-	1,515,000	762,101	2,277,101
2016	735,000	345,364	1,080,364	-	-	-	1,600,000	713,657	2,313,657
2017	765,000	320,888	1,085,888	-	-	-	1,630,000	663,693	2,293,693
2018	790,000	294,649	1,084,649	-	-	-	1,245,000	610,098	1,855,098
2019	800,000	266,762	1,066,762	131,301	143,699	275,000	1,431,301	709,119	2,140,420
2020	850,000	237,722	1,087,722	105,987	139,013	245,000	1,485,987	656,444	2,142,431
2021	850,000	206,017	1,056,017	27,306	42,694	70,000	1,902,306	507,802	2,410,108
2022	850,000	173,887	1,023,887	39,259	70,741	110,000	1,934,259	463,335	2,397,594
2023	870,000	140,907	1,010,907	42,076	87,924	130,000	1,982,076	405,319	2,387,395
2024	870,000	106,716	976,716	1,317,524	3,422,764	4,740,288	3,257,524	3,662,206	6,919,730
2025	900,000	72,090	972,090	1,338,093	3,894,105	5,232,198	2,393,093	4,054,622	6,447,715
2026	900,000	36,270	936,270	1,239,577	4,028,156	5,267,733	2,294,577	4,144,329	6,438,906
2027	-	-	-	2,165,200	7,834,800	10,000,000	2,320,200	7,906,100	10,226,300
2028	-	-	-	-	-	-	155,000	62,620	217,620
2029	-	-	-	-	-	-	155,000	53,940	208,940
2030	-	-	-	-	-	-	155,000	45,105	200,105
2031	-	-	-	-	-	-	155,000	36,192	191,192
2032	-	-	-	-	-	-	155,000	27,203	182,203
2033	-	-	-	-	-	-	155,000	18,135	173,135
2034	-	-	-	-	-	-	155,000	9,067	164,067
	<u>11,990,000</u>	<u>4,213,832</u>	<u>16,203,832</u>	<u>6,406,323</u>	<u>19,663,896</u>	<u>26,070,219</u>	<u>30,981,323</u>	<u>28,931,759</u>	<u>59,913,082</u>

Northeast Texas Municipal Water District
(K) ANALYSIS OF CHANGES IN LONG-TERM DEBT
for the year ended September 30, 2010

	<u>Water System Revenue Bonds</u>				<u>Contract Revenue Bonds</u>		<u>Interest Accretion</u>	<u>Total</u>
	<u>Series 2010</u>	<u>Series 2003</u>	<u>Series 2008</u>	<u>Series 2000</u>	<u>Series 2003</u>	<u>Series 2009</u>		
Interest rate	2.00-3.00%	.74-4.14%	5.50-5.85%	2.75-4.60%	1.38-4.03%	7.25-8.50%		
Dates interest payable	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	N/A	N/A	
Maturity dates	9/1/11 to 9/1/17	9/1/05 to 9/1/24	9/1/25 to 9/1/34	9/1/01 to 9/1/20	9/1/07 to 9/1/26	9/1/19 to 9/1/27		
Bonds outstanding at beginning of current year	-	8,140,000	1,550,000	4,360,000	12,240,000	6,406,323	251,582	32,947,905
Bonds sold during the current year	3,110,000	-	-	-	-	-	-	3,110,000
Interest accretion	-	-	-	-	-	-	579,175	579,175
Retirements: principal	-	215,000	-	4,360,000	250,000	-	-	4,825,000
Bonds outstanding at end of current year	3,110,000	7,925,000	1,550,000	-	11,990,000	6,406,323	830,757	31,812,080
Retirement: interest	-	306,641	88,428	188,910	436,827	-	-	1,020,806
Bond Authority:	<u>Tax Bonds *</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>					
Amount authorized	N/A	21,050,000	3,110,000					
Amount issued	-	21,050,000	3,110,000					
Remaining to be issued	-	-	-					

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

Northeast Texas Municipal Water District
(M) INSURANCE COVERATE
September 30, 2010

Type of Coverage	Amount of Coverage	Insurer		
		Name	Type of Corporation Stock/Mutual	Policy Clause: Co-Insurance
Treasurer - Faithful Performance Bond	\$ 100,000	Western Surety Company	Stock	No
Notary - Faithful Performance Bond	\$ 5,000	CNA Surety	Stock	No
Public Employer - Faithful Performance Bond	\$ 5,000	CNA Surety	Stock	No
Building Contents and Equipment	\$ 21,033,750	Trident	Stock	No
General Liability		Mid-Continent Casualty Co	Stock	No
General Aggregate	\$ 2,000,000			
Production and Completion Operations	\$ 2,000,000			
Personal	\$ 1,000,000			
Each Occurrence	\$ 1,000,000			
Damage to Premises Rented by Policy Holder	\$ 100,000			
Liability		Travelers	Stock	No
All automobiles and Trucks				
Bodily Injury and Property Damage	\$ 1,000,000			
Uninsured Motorist	\$ 1,000,000			
Personal Injury Protection	\$ 2,500			
Comprehensive	ACV			
Collision	ACV			
Hired and Non-Owned Auto	\$ 1,000,000			
Equipment Floater	\$ 169,555	Trident	Stock	No
Commercial Inland Marine	\$ 125,000	Deep South Surplus	Stock	No
Umbrella		Mid Continent Group	Stock	No
Aggregate	\$ 5,000,000			
Each Occurrence	\$ 1,000,000			
Retained Limit	\$ 10,000			
Standard Worker's Compensation	Statutory	UTICA	Stock	No
Directors and Officers Liability	\$ 5,000,000	Great American	Stock	No
Crime Blanket		Hartford	Stock	No
Employee Dishonesty	\$ 500,000			
Forgery and Alteration	\$ 25,000			
Theft	\$ 5,000			
Computer and Funds Transfer Fraud	\$ 10,000			