

FRANKLIN COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2017

FRANKLIN COUNTY WATER DISTRICT

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INTRODUCTORY SECTION

FRANKLIN COUNTY WATER DISTRICT
LIST OF PRINCIPAL OFFICIALS
December 31, 2017

OFFICERS

Gary Cunningham – President
Billy M Jordan – Vice President
Rodney Newsom – Secretary

DIRECTORS

Jennifer Dennis
Carmen Sparks

KEY PERSONNEL

David Weidman – General Manager
Sheila Donica – Administration Manager
J.R. Alphin – Operations Manager

DISTRICT ADDRESS

Franklin County Water District
P.O. Box 559
Mount Vernon, Texas 75457
Phone (903) 537-4536

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }
 }
COUNTY OF: Franklin }

I, Gary Cunningham, President
(Name of Duly Authorized District Representative)

of the Franklin County Water District
(Name of District)

hereby swear, or affirm, that the district named above has reviewed, approved, and filed at a meeting of the Board of Directors of the District on the 20th day of March, 2018, its annual audit report for the fiscal year or period ended December 31, 2017, and that copies of the annual audit report have been filed in the district office, located at 112 N. Houston St., Mount Vernon, Texas, Franklin.
(Address of District) (County)

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 March 20, 2018

By: _____
(Signature of District Representative)

Gary Cunningham, President
(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 20th day of March, 2018.

(Signature of Notary)

(Seal)

My Commission Expires on: February 14, 2021, Notary Public in and for the State of Texas.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Franklin County Water District
Mount Vernon, Texas

We have audited the accompanying financial statements of Franklin County Water District as of and for the year ended December 31, 2017, 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 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. 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin County Water District as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5-7 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Franklin County Water District. The introductory section and supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

Jox, Byrd + Company, P.C.

Dallas, Texas
March 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is provided by the Franklin County Water District, hereafter referred to as the District.

The Franklin County Water District is a conservation and reclamation district that was created by a special act of the Texas Legislature in 1965. The District's statutory duty is to control, store, and preserve and distribute its (the District's) waters and flood waters for all useful purposes. The District is the sole provider of wholesale water for Franklin County. The District has three wholesale water customers and one water rights holder. The District, as an ancillary function, oversees the leases and acts as landlord for District owned land, collecting lease payments and use fees. The District manages and operates park and recreational facilities on Lake Cypress Springs.

Financial Highlights

- The assets of the District at the end of the year totaled \$12,040,745.
- The net position of the District at the end of the year was \$8,992,224.
- The net position of the District decreased during the year by \$209,495, or approximately 2.3%.
- The District had an operating loss of \$449,449 for the year.
- The District's cash and cash equivalents increased during the year by \$225,219 and the District's investments decreased by \$414,331 due to the net operating loss.
- The District's net capital assets decreased during the year by \$164,910.

Overview of the Financial Statements

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

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and creditworthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The financial statements also include notes that explain in more detail some of the information in the financial statements.

Overview of Financial Activities and Analysis

To begin our analysis, summaries of the District's Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position are presented below.

Condensed Statements of Net Position

	<u>12/31/17</u>	<u>12/31/16</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 3,140,190	\$ 3,327,959	\$ (187,769)	-5.6%
Capital assets, net	<u>8,900,555</u>	<u>9,065,465</u>	<u>(164,910)</u>	<u>-1.8%</u>
Total assets	<u>\$ 12,040,745</u>	<u>\$ 12,393,424</u>	<u>\$ (352,679)</u>	<u>-2.8%</u>
Long-term debt outstanding	\$ 2,535,000	\$ 2,705,000	\$ (170,000)	-6.3%
Other liabilities	<u>513,521</u>	<u>486,705</u>	<u>26,816</u>	<u>5.5%</u>
Total liabilities	<u>\$ 3,048,521</u>	<u>\$ 3,191,705</u>	<u>\$ (143,184)</u>	<u>-4.5%</u>
Invested in capital assets, net of related debt	\$ 6,365,555	\$ 6,360,465	\$ 5,090	0.1%
Restricted	157,136	148,421	8,715	5.9%
Unrestricted	<u>2,469,533</u>	<u>2,692,833</u>	<u>(223,300)</u>	<u>-8.3%</u>
Total net position	<u>\$ 8,992,224</u>	<u>\$ 9,201,719</u>	<u>\$ (209,495)</u>	<u>-2.3%</u>

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>Year Ended 12/31/17</u>	<u>Year Ended 12/31/16</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues	\$ 1,440,235	\$ 1,371,284	\$ 68,951	5.0%
Non-operating revenues	<u>372,619</u>	<u>357,941</u>	<u>14,678</u>	<u>4.1%</u>
Total revenues	<u>1,812,854</u>	<u>1,729,225</u>	<u>83,629</u>	<u>4.8%</u>
Depreciation expense	200,984	226,307	(25,323)	-11.2%
Other operating expense	1,688,700	1,737,952	(49,252)	-2.8%
Non-operating expense	<u>132,665</u>	<u>130,925</u>	<u>1,740</u>	<u>1.3%</u>
Total expense	<u>2,022,349</u>	<u>2,095,184</u>	<u>(72,835)</u>	<u>-3.5%</u>
Change in net position	(209,495)	(365,959)	156,464	-42.8%
Beginning net position	<u>9,201,719</u>	<u>9,567,678</u>	<u>(365,959)</u>	<u>-3.8%</u>
Ending net position	<u>\$ 8,992,224</u>	<u>\$ 9,201,719</u>	<u>\$ (209,495)</u>	<u>-2.3%</u>

Overview of Financial Activities and Analysis – continued

The overall financial position and regular, ongoing operations of the District remain sound. The \$164,910 decrease in capital assets is attributable to net purchases of capital assets in 2017 totaling \$36,074, net of depreciation expense totaling \$200,984. Long-term debt declined \$170,000 representing principal paid during 2017.

The \$68,951 increase in operating revenues was due to normal fluctuations. Operating revenues are generally driven by individual transactions which vary from year to year. The relatively high level of operating expenses in 2016 and 2017 is mainly attributable to an increase in legal-related expenses. These expenses relate to erosion issues on dam remediation work and flooding of Lake Cypress Springs.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2017, consisted of land, lake construction, dam reconstruction, buildings, machinery and equipment, vehicles, and park and lake assets. During 2017, the District purchased equipment with a cost of \$36,074.

The District's long-term debt activity during 2017 consisted of a scheduled principal payment in the amount of \$170,000.

Economic Factors and Next Year's Budgets and Rates

During 2013, the District began addressing erosion issues relating to the dam remediation project with its attorneys and consulting engineers. The District is currently engaged in litigation to address these erosion issues. District management expects to have the dam remediation issues resolved in 2018.

Requests 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 Franklin County Water District, P.O. Box 559, Mount Vernon, Texas 75457.

FRANKLIN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 2,246,831
Investments	422,809
Receivables:	
Property tax, net	271,677
Interest	558
Total current assets	2,941,875

RESTRICTED ASSETS

Restricted cash	196,218
Utility deposits	2,097
Capital assets	11,842,406
Less: accumulated depreciation	(2,941,851)
Total noncurrent assets	9,098,870

\$ 12,040,745

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 39,049
Accrued liabilities	61,122
Current portion of bonds payable	180,000
Advance lease and permit payments	413,350
Total current liabilities	693,521

NONCURRENT LIABILITIES

Bonds payable	2,355,000
Total noncurrent liabilities	2,355,000

Total liabilities 3,048,521

NET POSITION

Invested in capital assets, net of related debt	6,365,555
Restricted for debt service	157,136
Unrestricted	2,469,533
Total net position	8,992,224

\$ 12,040,745

The accompanying notes are an integral part of the financial statements.

FRANKLIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017

OPERATING REVENUES	
Permits and other fees	\$ 543,765
Water sales	490,713
Admission fees	287,350
Lease rental and bonus income	118,407
	<u>1,440,235</u>
OPERATING EXPENSES	
Salaries and wages	543,232
Legal fees	497,762
Depreciation	200,984
Engineering expense	115,359
Employee benefits	97,073
Repairs and maintenance	86,019
Utilities	54,955
Retirement	41,896
Payroll taxes	41,226
Insurance	39,968
Supplies and equipment	30,636
Internet service	26,784
Other recurring expenses	22,381
Fuel and lubricants	21,747
Contract labor	20,749
Audit fees	13,000
Appraisal / tax collection	12,706
Continuing education	4,924
Travel and per diem	4,681
Telephone	3,802
Postage	2,461
Election expense	2,443
TCEQ fees	2,233
Public outreach	1,546
Legal and public notices	630
Water Quality Control	342
Habitat Enhancement	145
	<u>1,889,684</u>
OPERATING LOSS	<u>(449,449)</u>
NON-OPERATING REVENUES AND EXPENSES	
Ad valorem taxes	307,239
Interest income	39,172
Miscellaneous income (expense), net	26,208
Net decrease in fair value of investments	(9,967)
Interest expense	(122,698)
	<u>239,954</u>
DECREASE IN NET POSITION	<u>(209,495)</u>
NET POSITION, beginning of year	<u>9,201,719</u>
NET POSITION, end of year	<u>\$ 8,992,224</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,454,106
Cash paid to suppliers	(1,127,398)
Cash paid to employees	(542,193)
Other receipts	26,208
Net cash used in operating activities	<u>(189,277)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(36,074)
Collections of ad valorem taxes	298,917
Principal paid on bonds	(170,000)
Interest paid on bonds	(125,424)
Net cash used in capital and related financing activities	<u>(32,581)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments	401,519
Interest received	45,558
Net cash provided by investing activities	<u>447,077</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	225,219
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,217,830</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,443,049</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (449,449)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	200,984
Net other income and expense	26,208
Change in receivables	3,438
Change in accounts payable and accrued liabilities	19,109
Change in advance payments	10,433
Net cash used in operating activities	<u>\$ (189,277)</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Franklin County Water District was created by an act of the Legislature, H.B. No. 1161, 59th Legislature of the State of Texas. The Board of Directors held its first meeting on June 15, 1965, and its first bonds were sold on January 13, 1966.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

The District's financial statements include the accounts of all District operations. The criteria for including organizations within the District's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement of Governmental Accounting Standards No. 14, *The Financial Reporting Entity*, is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The District's financial statements do not include any component units because none of the criteria for inclusion as set forth in GASB 14 have been met.

Proprietary Funds

Enterprise funds (a type of proprietary fund) 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 enterprise fund accounts for the operations of providing raw water for municipal use out of Lake Cypress Springs and for the management and maintenance of the lakes, parks, and recreational facilities located on property owned by the District. The District also leases land to tenants, generally under ninety-nine year leases, and collects land use rents. Aggregate future minimum rentals on non-cancelable leases for the next five fiscal years amount to approximately \$95,000 annually.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by 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.

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting and Financial Statement Presentation - continued

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value based on quoted prices in active markets for identical assets. The amortization of premiums and accretion of discounts is recognized in interest income using methods approximating the interest method over the remaining term of the investment.

Receivables

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

Ad Valorem (Property) Taxes

Ad valorem (property) taxes are levied on October 1st by the District based on the January 1st property values as assessed by the Franklin County Appraisal District. Taxes are due without penalty until January 31st of the next calendar year. After January 31st the District has an enforceable lien with respect to both real and personal property. Under state law, property taxes levied on real property constitute a perpetual lien on the real property which cannot be forgiven without specific approval of the State Legislature. Taxes applicable to personal property can be deemed uncollectible by the District.

Depreciation

Depreciation is provided 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:

Dam reconstruction	50 years
Buildings	5 – 20 years
Machinery and equipment	3 – 20 years
Vehicles	3 – 5 years
Furniture and fixtures	2 – 10 years
Park and lake assets	3 – 20 years

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Advance Lease and Permit Payments

Lease income, water permit fees, and pier and boathouse permit fees are recognized when earned. Revenues are considered to be earned when the District has performed all services related to the generation of revenue. At December 31, 2017, the District had received payment for services to be performed subsequent to year end. The revenue relating to these payments will be recognized in the period the service is performed.

Accumulated Unpaid Vacation and Sick Leave

An allowance for compensated absences has not been reflected in these financial statements because the liability is not material. Unused sick leave carried over to a subsequent year is capped at sixty days and is lost upon termination. Employees may elect to be paid for up to five days of unused vacation annually. Any remaining vacation must either be used by the employee's anniversary date of each year or it is lost.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through March 20, 2018, which is the date the financial statements were available to be issued.

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. 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 December 31, 2017, 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; U.S. agency securities, including mortgage-backed securities; state and local government obligations; certificates of deposit; repurchase agreements; banker's acceptances; commercial paper; and external investment pools. The District's investment policy sets forth specific criteria that each of these investments must meet to be eligible investments.

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 December 31, 2017, 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.

At December 31, 2017, the District's investments were as follows:

Investment Type	Fair Value	Maturity (years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. government agencies:					
Federal Farm Credit Bank	\$ 212,525	\$ -	\$ 212,525	\$ -	\$ -
Federal Home Loan Bank	104,123	-	104,123	-	-
	<u>316,648</u>	<u>-</u>	<u>316,648</u>	<u>-</u>	<u>-</u>
Mortgage-backed securities	6,161	-	-	-	6,161
Certificates of deposit	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 422,809</u>	<u>\$ 100,000</u>	<u>\$ 316,648</u>	<u>\$ -</u>	<u>\$ 6,161</u>

The District's investments in U.S. government agency securities are backed by the full faith and credit of the U.S. government and are rated AAA or Aaa by nationally recognized rating agencies. The District's certificates of deposit are entirely insured or collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

The District's capital asset activity during 2017 was as follows:

	<u>Balance</u> <u>1/1/17</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/17</u>
Non-depreciable assets:				
Land	\$ 1,069,405	\$ -	\$ -	\$ 1,069,405
Lake construction	<u>2,791,312</u>	<u>-</u>	<u>-</u>	<u>2,791,312</u>
	<u>3,860,717</u>	<u>-</u>	<u>-</u>	<u>3,860,717</u>
Depreciable assets:				
Dam reconstruction	4,635,761	-	-	4,635,761
Buildings	378,296	-	-	378,296
Machinery and equipment	306,664	36,074	-	342,738
Vehicles	341,081	-	-	341,081
Furniture and fixtures	195,084	-	-	195,084
Parks and lake assets	<u>2,088,729</u>	<u>-</u>	<u>-</u>	<u>2,088,729</u>
	<u>7,945,615</u>	<u>36,074</u>	<u>-</u>	<u>7,981,689</u>
Total capital assets	11,806,332	36,074	-	11,842,406
Accumulated depreciation	<u>(2,740,867)</u>	<u>(200,984)</u>	<u>-</u>	<u>(2,941,851)</u>
	<u>\$ 9,065,465</u>	<u>\$ (164,910)</u>	<u>\$ -</u>	<u>\$ 8,900,555</u>

4. LONG-TERM DEBT

The District's long-term debt activity during 2017 was as follows:

	<u>Balance</u> <u>1/1/17</u>	<u>Issued</u> <u>During</u> <u>the Year</u>	<u>Retired</u> <u>During</u> <u>the Year</u>	<u>Balance</u> <u>12/31/17</u>	<u>Current</u> <u>Portion</u>
Unlimited Tax Bonds:					
Series 2008	<u>\$ 2,705,000</u>	<u>\$ (170,000)</u>	<u>\$ -</u>	<u>\$ 2,535,000</u>	<u>\$ 180,000</u>

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT – continued

Details of bonds payable as of December 31, 2017 were as follows:

Unlimited Tax Bonds, Series 2008, dated August 1, 2008, in the aggregate principal amount of \$3,800,000; interest payable semi-annually at coupon rates ranging from 4.375% to 5.75%; principal payable annually through September 1, 2028; secured by a first lien on and pledge of the net proceeds of an annual ad valorem tax levied against all taxable property located in the District. The bond proceeds were used to fund remediation and repairs to the District's Franklin County Dam and structures and facilities for Lake Cypress Springs.

The scheduled maturities of bonds payable as of December 31, 2017 are as follows:

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 180,000	\$ 116,925	\$ 296,925
2019	190,000	107,025	297,025
2020	195,000	98,712	293,712
2021	205,000	90,181	295,181
2022	215,000	81,213	296,213
2023	230,000	71,806	301,806
2024	240,000	61,456	301,456
2025	250,000	50,657	300,657
2026	265,000	39,094	304,094
2027	275,000	26,837	301,837
2028	<u>290,000</u>	<u>13,775</u>	<u>303,775</u>
	<u>\$ 2,535,000</u>	<u>\$ 757,681</u>	<u>\$ 3,292,681</u>

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5. WATER CUSTOMERS

At December 31, 2017, the District had three wholesale customers and one water rights holder connected with the system. These entities (none of which are residential users) are listed below:

City of Mount Vernon
City of Winnsboro
Cypress Springs Special Utility District
City of Mount Pleasant (water rights holder)

For the year ended December 31, 2017, these entities used 5,122 acre-feet of surface water.

6. PENSION PLANS

The District maintains a deferred compensation plan under Section 457 of the Internal Revenue Code (the "457 Plan"). Employees are eligible to participate in the 457 Plan upon the completion of six months of service as defined by the 457 Plan. The 457 Plan allows employees to make pre-tax contributions to the plan up to the lesser of \$18,000 (for 2017) or 100% of their compensation. Employees are fully vested at all times in their contributions to the 457 Plan. The District does not make any contributions to the 457 Plan.

The District also maintains a qualified retirement plan under Section 401 of the Internal Revenue Code (the "401 Plan"). Employees are eligible to participate in the 401 Plan upon the completion of six months of service as defined by the 401 Plan. Employees may not make any contributions to the 401 Plan. The District makes matching contributions to the 401 Plan equal to the lesser of 100% of a participant's contributions to the 457 Plan or 7% of the participant's compensation. The 401 Plan has a seven year vesting schedule with 20% being vested the third year and an additional 20% becoming vested annually thereafter.

The total covered payroll for 2017 was \$476,155, while total payroll for all employees was \$543,232. The employer's 2017 contributions to the 401 Plan totaled \$32,941, or 6.9% of covered payroll. The employees' 2017 contributions to the 457 Plan totaled \$40,973, or 8.6% of covered payroll.

7. 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 various claims. The District purchases commercial insurance to indemnify it in the event of loss. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the two prior years.

SUPPLEMENTAL INFORMATION

FRANKLIN COUNTY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
For the Year Ended December 31, 2017

	Original Budget	Amended Budget	Actual
OPERATING REVENUES			
Permits and other fees	\$ 500,000	\$ 540,000	\$ 543,765
Water sales	479,800	479,800	490,713
Admission fees	250,000	250,000	287,350
Lease rental and bonus income	112,000	113,787	118,407
	<u>1,341,800</u>	<u>1,383,587</u>	<u>1,440,235</u>
OPERATING EXPENSES			
Salaries and wages	540,375	540,375	543,232
Legal fees	575,000	500,000	497,762
Engineering expense	55,000	120,450	115,359
Employee benefits	105,745	105,745	97,073
Repairs and maintenance	70,000	81,000	86,019
Utilities	40,000	50,000	54,955
Retirement	36,464	36,464	41,896
Payroll taxes	41,033	41,033	41,226
Insurance	50,200	45,200	39,968
Supplies and equipment	25,000	27,000	30,636
Internet service	15,000	25,000	26,784
Other recurring expenses	10,000	18,000	22,381
Fuel and lubricants	15,000	26,000	21,747
Contract labor	21,140	21,140	20,749
Audit fees	13,000	13,000	13,000
Appraisal / tax collection	10,000	10,000	12,706
Continuing education	4,500	4,500	4,924
Travel and per diem	5,000	5,000	4,681
Telephone	4,500	4,500	3,802
Postage	4,000	2,500	2,461
Election expense	10,000	2,443	2,443
TCEQ fees	25,000	25,000	2,233
Public outreach	7,500	2,500	1,546
Legal and public notices	2,500	1,000	630
Water Quality Control	1,000	500	342
Habitat Enhancement	-	-	145
	<u>1,686,957</u>	<u>1,708,350</u>	<u>1,688,700</u>
OPERATING LOSS	<u>(345,157)</u>	<u>(324,763)</u>	<u>(248,465)</u>
NON-OPERATING REVENUES AND EXPENSES			
Ad valorem taxes	295,000	295,000	307,239
Interest income	35,000	35,000	39,172
Miscellaneous income (expense), net	15,000	15,000	26,208
Interest expense	(125,426)	(125,426)	(122,698)
	<u>219,574</u>	<u>219,574</u>	<u>249,921</u>
DECREASE IN NET POSITION EQUITY BEFORE NON-BUDGETED REVENUES (EXPENSES)	<u>\$ (125,583)</u>	<u>\$ (105,189)</u>	1,456
NON-BUDGETED REVENUES (EXPENSES)			
Net decrease in fair value of investments			(9,967)
Depreciation			(200,984)
DECREASE IN NET POSITION			<u>\$ (209,495)</u>

FRANKLIN COUNTY WATER DISTRICT
INDEX OF SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
For the Year Ended December 31, 2017

	<u>Page Nr.</u>
<input checked="" type="checkbox"/> <u>Notes Required by the Water District Accounting Manual</u> (Included in the notes to the financial statements)	11
<input checked="" type="checkbox"/> <u>Schedule of Services and Rates</u>	20
<input checked="" type="checkbox"/> <u>Schedule of Operating Expenses</u>	22
<input checked="" type="checkbox"/> <u>Schedule of Temporary Investments</u> (Included in the notes to the financial statements)	14
<input checked="" type="checkbox"/> <u>Schedule of Taxes Levied and Receivable</u>	23
<input checked="" type="checkbox"/> <u>Schedule of Long-Term Debt Service Requirements by Years</u>	24
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FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF SERVICES AND RATES
 For the Year Ended December 31, 2017

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 checked="" 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: No "Retail Service" is provided by the District.

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

* 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.

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

Gallons pumped into system: 1,669,002
 Gallons billed to customers: 1,669,002

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:

	<u>Amount</u>
a. Debt Service Tax Receipts	\$ <u>318,126</u>
b. Surplus Construction Funds	_____
c. Water and/or Wastewater Revenue	_____
d. Standby Fees	_____
e. Debt Service Fund Balance To Be Used	_____
f. Interest Revenues	_____
g. Other (Describe)	_____
_____	_____
_____	_____
*TOTAL ANTICIPATED FUNDS TO BE USED	\$ <u>318,126</u>

7. Location of District:

County(ies) in which District is located. Franklin

Is the District located entirely within one county? Yes No

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

City(ies) in which District is located. Mount Vernon and Winnsboro

Is the District located within a city's extra territorial jurisdiction (ETJ)

Entirely Partly Not at all

ETJs in which District is located. N/A

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

If Yes, by whom? N/A

* 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.

FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF OPERATING EXPENSES
 For the Year Ended December 31, 2017

Personnel (including benefits)	\$ 723,427
Professional fees	
Auditing	13,000
Legal	497,762
Engineering	115,359
Contracted services	33,455
Utilities	54,955
Repairs and maintenance	86,019
Administrative	
Insurance	39,968
Other administrative expense	47,271
Depreciation	200,984
Other	77,484
	\$ 1,889,684

Number of persons employed by the District:	12 Full-Time
	-0- Part-Time

FRANKLIN COUNTY WATER DISTRICT
SCHEDULE OF TAXES LEVIED AND RECEIVABLE
For the Year Ended December 31, 2017

	<u>Debt Service Taxes</u>
Taxes receivable, 1/1/17	\$ 263,355
2017 original tax levy	303,082
Less abatements	<u>-</u>
Total to be accounted for	<u>566,437</u>
Tax collections	<u>(294,760)</u>
Taxes receivable, 12/31/17	<u><u>\$ 271,677</u></u>
Property valuations:	
Land	\$ 341,967,280
Improvements	772,233,420
Personal property	<u>96,306,830</u>
Total property valuations	<u><u>\$ 1,210,507,530</u></u>
Tax rate per \$100 valuation	<u><u>\$ 0.02503</u></u>
Original tax levy	<u><u>\$ 303,082</u></u>
Percent of taxes collected to taxes levied	<u><u>97.3%</u></u>

FRANKLIN COUNTY WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS
For the Year Ended December 31, 2017

Fiscal Year Ending December 31,	Unlimited Tax Bonds Series 2008		
	Principal Due 9/1	Interest Due 9/1, 3/1	Total
	\$	\$	\$
2018	180,000	116,925	296,925
2019	190,000	107,025	297,025
2020	195,000	98,712	293,712
2021	205,000	90,181	295,181
2022	215,000	81,213	296,213
2023	230,000	71,806	301,806
2024	240,000	61,456	301,456
2025	250,000	50,657	300,657
2026	265,000	39,094	304,094
2027	275,000	26,837	301,837
2028	290,000	13,775	303,775
Totals	\$ 2,535,000	\$ 757,681	\$ 3,292,681

FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF CHANGES IN LONG-TERM DEBT
 For the Year Ended December 31, 2017

	<u>Series 2008</u>
Interest rates	4.375% to 5.75%
Dates interest payable	3/1 and 9/1
Maturity dates	9/1/2009 to 9/1/2028
Bonds outstanding at beginning of current year	\$ 2,705,000
Bonds sold during the current year	\$ -
Retirements: principal	\$ <u>(170,000)</u>
Bonds outstanding at end of current year	\$ <u><u>2,535,000</u></u>

Paying Agent's Name & Address:

The Bank of New York Mellon Trust Company, N.A. - Dallas, Texas

	<u>Tax Bonds *</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Bond Authority:			
Amount authorized by voters	\$ 3,800,000	\$ -	\$ -
Amount issued	\$ 3,800,000	\$ -	\$ -
Remaining to be issued	\$ -	\$ -	\$ -

* Includes all bonds secured with tax revenues.

FRANKLIN COUNTY WATER DISTRICT
 COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
 For the Five Years Ended December 31, 2017

	AMOUNTS				
	2017	2016	2015	2014	2013
OPERATING REVENUES					
Lease rental	\$ 118,407	\$ 112,576	\$ 141,300	\$ 110,226	\$ 120,909
Permits and other fees	831,115	771,030	663,089	594,700	558,569
Water sales	490,713	487,678	448,823	435,176	432,856
	<u>1,440,235</u>	<u>1,371,284</u>	<u>1,253,212</u>	<u>1,140,102</u>	<u>1,112,334</u>
OPERATING EXPENSES					
Salaries and employee benefits	723,427	727,789	637,152	629,577	627,291
Legal and professional fees	626,121	614,382	323,177	103,679	168,429
Consumable supplies	52,383	46,455	67,614	70,135	48,249
Maintenance and repairs	86,019	139,499	94,159	81,346	75,532
Other recurring expenses	51,917	37,237	49,651	40,996	27,797
Contract labor	20,749	32,510	34,455	28,920	31,414
Telephone and utilities	85,541	93,337	70,232	60,865	57,641
Insurance	39,968	44,510	35,695	36,341	44,083
Water quality control	342	-	300	-	-
TCEQ fees	2,233	2,233	2,233	2,233	4,870
Depreciation	200,984	226,307	250,509	238,692	231,654
	<u>1,889,684</u>	<u>1,964,259</u>	<u>1,565,177</u>	<u>1,292,784</u>	<u>1,316,960</u>
OPERATING INCOME (LOSS)	<u>(449,449)</u>	<u>(592,975)</u>	<u>(311,965)</u>	<u>(152,682)</u>	<u>(204,626)</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	39,172	46,248	61,053	42,468	62,746
Ad valorem taxes	307,239	305,021	308,210	303,239	300,405
Other income	26,208	15,747	18,343	46,787	15,926
Interest expense	(122,698)	(130,925)	(138,842)	(153,413)	(161,655)
Net increase (decrease) in fair value of investments	<u>(9,967)</u>	<u>(9,075)</u>	<u>(8,692)</u>	<u>5,245</u>	<u>(48,216)</u>
Total non-operating revenues (expenses)	<u>239,954</u>	<u>227,016</u>	<u>240,072</u>	<u>244,326</u>	<u>169,206</u>
NET INCOME (LOSS)	<u>\$ (209,495)</u>	<u>\$ (365,959)</u>	<u>\$ (71,893)</u>	<u>\$ 91,644</u>	<u>\$ (35,420)</u>

PERCENT OF TOTAL OPERATING REVENUES

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
8.2%	8.2%	11.3%	9.7%	10.9%
57.7%	56.2%	52.9%	52.2%	50.2%
34.1%	35.6%	35.8%	38.2%	38.9%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
50.2%	53.1%	50.8%	55.2%	56.4%
43.5%	44.8%	25.8%	9.1%	15.1%
3.6%	3.4%	5.4%	6.2%	4.3%
6.0%	10.2%	7.5%	7.1%	6.8%
3.6%	2.7%	4.0%	3.6%	2.5%
1.4%	2.4%	2.7%	2.5%	2.8%
5.9%	6.8%	5.6%	5.3%	5.2%
2.8%	3.2%	2.8%	3.2%	4.0%
0.0%	0.0%	0.0%	0.0%	0.0%
0.2%	0.2%	0.2%	0.2%	0.4%
14.0%	16.5%	20.0%	20.9%	20.8%
<u>131.1%</u>	<u>143.2%</u>	<u>124.9%</u>	<u>113.4%</u>	<u>118.4%</u>
<u>-31.1%</u>	<u>-43.2%</u>	<u>-24.9%</u>	<u>-13.4%</u>	<u>-18.4%</u>
2.7%	3.4%	4.9%	3.7%	5.6%
21.3%	22.2%	24.6%	26.6%	27.0%
1.7%	1.1%	1.5%	4.1%	1.4%
-8.5%	-9.5%	-11.1%	-13.5%	-14.5%
<u>-0.7%</u>	<u>-0.7%</u>	<u>-0.7%</u>	<u>0.5%</u>	<u>-4.3%</u>
<u>16.6%</u>	<u>16.6%</u>	<u>19.2%</u>	<u>21.4%</u>	<u>15.2%</u>
<u><u>-14.5%</u></u>	<u><u>-26.7%</u></u>	<u><u>-5.7%</u></u>	<u><u>8.0%</u></u>	<u><u>-3.2%</u></u>

FRANKLIN COUNTY WATER DISTRICT
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
For the Year Ended December 31, 2017

Complete District Mailing Address: P.O. Box 559, Mount Vernon, Texas 75457
District Business Telephone Number: (903) 537-4536

Names and Addresses	Term of Office or Date Hired	Fees	Expense Reimbursements	Title at Year End	Resident of District
<u>Board Members:</u>					
Billy M Jordan 627 Tx Hwy 37 Mt. Vernon, Tx 75457	Elected 5/17 - 5/21	\$1,200.00	\$38.52	Vice President	Yes
Rodney Newsom P.O. Box 312 Mt. Vernon, TX 75457	Elected 5/15 - 5/19	\$1,200.00	\$115.56	Secretary	Yes
Dwayne Bolin 1186 FR 900 W. Mt. Vernon, TX 75457	Elected 5/15 – 7/17	\$800.00	\$77.04	Ex-Director (Resigned)	Yes
Gary Cunningham P.O. Box 701 Mt. Vernon, TX 75457	Elected 5/17 - 5/21	\$1,400.00	\$31.50	President	Yes
Garold Swan 981 Belmont Court Lucas, TX 75002	Appointed 1/17 – 5/17	\$500.00	\$53.50	Ex-Director (Defeated)	Yes
Jennifer Dennis 223 Triple S Drive Mt. Vernon, Tx 75457	Elected 5/17 – 5/19	\$0.00	\$0.00	Director	Yes
Carmen Sparks 556 Winding Lane Mt. Vernon, Tx 75457	Appointed 8/17 – 5/19	\$400.00	\$47.08	Director	Yes

NOTE: No director is disqualified from serving on this Board under the Texas Water Code.

Key Administrative Personnel:

David I. Weidman 1012 High Meadow Dr Mt. Vernon, TX 75457	Hired 10/93	\$109,570.34	\$0.00	General Manager	Yes
Sheila Donica P.O. Box 379 Mt. Vernon, TX 75457	Hired 9/00	\$61,069.94	\$0.00	Administration Manager	Yes
J.R. Alphin 182 CR SE 3286 Mt. Vernon, TX 75457	Hired 1/95	\$74,629.96	\$0.00	Operations Manager	Yes

FRANKLIN COUNTY WATER DISTRICT
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
For the Year Ended December 31, 2017

Names and Addresses	Term of Office or Date Hired	Fees	Expense Reimbursements	Title at Year End	Resident of District
<u>Consultants:</u>					
Strasburger & Price LLP P.O. Box 849037 Dallas, TX 75284-9037	Hired 2001	\$257,674.64	\$0.00	Attorney	No
Lloyd Gosselink, Attorney 816 Congress Ave., Ste 1900 Austin, TX 78701	Hired 2014	\$101,651.05	\$0.00	Attorney	No
Exall & Wood, PLLC 3838 Oak Lawn Ave, Ste 1750 Dallas, TX 75219	Hired 2015	\$1,291.50	\$0.00	Attorney	No
Shidlofsky Law Firm PLLC 7200 N. Mopac Expy. Suite 430 Austin, TX 78731	Hired 2017	\$2,250.00	\$0.00	Litigation Mediator	No
Johnson Stephens & Leal PLLC 4809 Cole Ave. Suite 260 Dallas, TX 75205	Hired 2017	\$5,005.00	\$0.00	Attorney	No
Harcrow Surveying 2314 West Main St Artesio, NM 88210	Hired 2016	\$19,522.00	\$0.00	Surveyor	No
Carollo Engineers P.O. Box 4932 Houston, TX 77210	Hired 2015	\$117,201.91	\$0.00	Engineers	No
Fox, Byrd & Company, P.C. 12001 N. Central Expressway Suite 500 Dallas, TX 75243	Hired 1993	\$13,000.00	\$0.00	Auditor	No
Rizzo Associates 500 Penn Center Blvd Pittsburgh, PA 15235	Hired 2015	\$9,232.61	\$0.00	Litigation Consultant	No
Bryant Consultants P O Box 655 Addison, TX 75202-3794	Hired 2013	\$104,133.22	\$0.00	Litigation Consultant	No

FRANKLIN COUNTY WATER DISTRICT
 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
 For the Year Ended December 31, 2017

Names and Addresses	Term of Office or Date Hired	Fees	Expense Reimbursements	Title at Year End	Resident of District
Nicholson Prof Consulting Inc 500 Sun Valley Drive Suite H-4 Roswell, GA 30076	Hired 2016	\$9,750.00	\$0.00	Litigation Consultant	No
DTI P.O. Box 936158 Atlanta, GA 31193	Hired 2017	\$8,745.50	\$0.00	Litigation Consultant	No