

FRANKLIN COUNTY WATER DISTRICT

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

FOR THE YEAR ENDED DECEMBER 31, 2016

FRANKLIN COUNTY WATER DISTRICT

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INTRODUCTORY SECTION

FRANKLIN COUNTY WATER DISTRICT
LIST OF PRINCIPAL OFFICIALS
December 31, 2016

OFFICERS

Rodney Newsom – President
Gary Cunningham – Vice President
Dwayne Bolin – Secretary

DIRECTORS

Billy Jordan
Tim Philhower

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, Rodney Newsom, 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 21st day of March, 2017, its annual audit report for the fiscal year or period ended December 31, 2016, 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 21, 2017

By: _____
(Signature of District Representative)

Rodney Newsom, President
(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 21st day of March, 2017.

(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, 2016, 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, 2016, 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.

Tox, Byrd + Company, P.C.

Dallas, Texas
March 21, 2017

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 four 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 \$12,393,424.
- The net position of the District at the end of the year was \$9,201,719.
- The net position of the District decreased during the year by \$365,959, or approximately 3.8%.
- The District had an operating loss of \$592,975 for the year.
- The District's cash and cash equivalents decreased during the year by \$163,948 and the District's investments decreased by \$216,568 due to the net operating loss.
- The District's net capital assets decreased during the year by \$142,545.

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>12/31/16</u>	<u>12/31/15</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 3,327,959	\$ 3,703,321	\$ (375,362)	-10.1%
Capital assets, net	9,065,465	9,208,010	(142,545)	-1.5%
Total assets	<u>\$ 12,393,424</u>	<u>\$ 12,911,331</u>	<u>\$ (517,907)</u>	<u>-4.0%</u>
Long-term debt outstanding	\$ 2,705,000	\$ 2,870,000	\$ (165,000)	-5.7%
Other liabilities	486,705	473,653	13,052	2.8%
Total liabilities	<u>\$ 3,191,705</u>	<u>\$ 3,343,653</u>	<u>\$ (151,948)</u>	<u>-4.5%</u>
Invested in capital assets, net of related debt	\$ 6,360,465	\$ 6,338,010	\$ 22,455	0.4%
Restricted	148,421	140,973	7,448	5.3%
Unrestricted	2,692,833	3,088,695	(395,862)	-12.8%
Total net position	<u>\$ 9,201,719</u>	<u>\$ 9,567,678</u>	<u>\$ (365,959)</u>	<u>-3.8%</u>

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

	<u>Year Ended 12/31/16</u>	<u>Year Ended 12/31/15</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues	\$ 1,371,284	\$ 1,253,212	\$ 118,072	9.4%
Non-operating revenues	357,941	378,914	(20,973)	-5.5%
Total revenues	<u>1,729,225</u>	<u>1,632,126</u>	<u>97,099</u>	<u>5.9%</u>
Depreciation expense	226,307	250,509	(24,202)	-9.7%
Other operating expense	1,737,952	1,314,668	423,284	32.2%
Non-operating expense	130,925	138,842	(7,917)	-5.7%
Total expense	<u>2,095,184</u>	<u>1,704,019</u>	<u>391,165</u>	<u>23.0%</u>
Increase in net position	(365,959)	(71,893)	(294,066)	409.0%
Beginning net position	<u>9,567,678</u>	<u>9,639,571</u>	<u>(71,893)</u>	<u>-0.7%</u>
Ending net position	<u>\$ 9,201,719</u>	<u>\$ 9,567,678</u>	<u>\$ (365,959)</u>	<u>-3.8%</u>

Overview of Financial Activities and Analysis – continued

The overall financial position and regular, ongoing operations of the District remain sound. The \$142,545 decrease in capital assets is attributable to net purchases of capital assets in 2016 totaling \$83,762, net of depreciation expense totaling \$226,307. Long-term debt declined \$165,000 representing principal paid during 2016.

The \$118,072 increase in operating revenues was due to normal fluctuations. Operating revenues are generally driven by individual transactions which vary from year to year. The \$423,284 increase in operating expenses was mainly attributable to an increase in legal-related expenses in the amount of \$55,512 and an increase in engineering fees of \$235,193. These expenses relate to erosion issues on dam remediation work and flooding of Lake Cypress Springs.

Actual legal-related expenses of \$356,886 were more than the final amended budget amount of \$350,000 by \$6,886. Actual engineering fees of \$244,496 were less than the final amended budget amount of \$250,000 by \$5,504.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2016, consisted of land, lake construction, dam reconstruction, buildings, machinery and equipment, vehicles, and park and lake assets. During 2016, the District purchased vehicle assets with a cost of \$34,610, added building costs of \$33,458, and acquired furniture and fixtures and other assets in the amount of \$12,499.

The District's long-term debt activity during 2016 consisted of a principal payment in the amount of \$165,000.

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 exploring various alternatives, including litigation, to address these erosion issues. District management expects to have the dam remediation issues resolved in 2017. The District is in the process of implementing a comprehensive engineering and legal analysis of Lake Cypress Springs to study flood relief alternatives.

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, 2016

ASSETS

CURRENT ASSETS	
Cash	\$ 2,027,601
Investments	837,140
Receivables:	
Property tax, net	263,355
Accounts	3,438
Interest	4,099
Total current assets	3,135,633
RESTRICTED ASSETS	
Restricted cash	190,229
Utility deposits	2,097
Capital assets	11,806,332
Less: accumulated depreciation	(2,740,867)
Total noncurrent assets	9,257,791
	\$ 12,393,424

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	
Accounts payable	\$ 20,979
Accrued liabilities	62,809
Current portion of bonds payable	170,000
Advance lease and permit payments	402,917
Total current liabilities	656,705
NONCURRENT LIABILITIES	
Bonds payable	2,535,000
Total noncurrent liabilities	2,535,000
Total liabilities	3,191,705
NET POSITION	
Invested in capital assets, net of related debt	6,360,465
Restricted for debt service	148,421
Unrestricted	2,692,833
Total net position	9,201,719
	\$ 12,393,424

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, 2016

OPERATING REVENUES	
Lease rental and bonus income	\$ 112,576
Admission fees	257,055
Permits and other fees	513,975
Water sales	487,678
	1,371,284
OPERATING EXPENSES	
Salaries and wages	551,080
Employee benefits	95,371
Payroll taxes	43,444
Insurance	44,510
Retirement	37,894
Legal fees	356,886
Audit fees	13,000
Appraisal / tax collection	11,601
Engineering expense	244,496
Contract labor	20,909
Supplies and equipment	27,966
Fuel and lubricants	18,489
Legal and public notices	33
Public outreach	8,211
Postage	5,101
Telephone	4,121
Utilities	51,204
Travel and per diem	5,356
Continuing education	4,836
Other recurring expenses	13,700
Internet service	38,012
Repairs and maintenance	139,499
TCEQ fees	2,233
Depreciation	226,307
	1,964,259
OPERATING LOSS	(592,975)
NON-OPERATING REVENUES AND EXPENSES	
Interest income	46,248
Ad valorem taxes	305,021
Net decrease in fair value of investments	(9,075)
Interest expense	(130,925)
Miscellaneous income (expense), net	15,747
	227,016
DECREASE IN NET POSITION	(365,959)
Net position at beginning of year	9,567,678
Net position at end of year	\$ 9,201,719

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,379,915
Cash paid to suppliers	(1,010,173)
Cash paid to employees	(722,337)
Other receipts	15,747
Net cash used in operating activities	<u>(336,848)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(87,668)
Sale of capital assets	3,905
Collections of ad valorem taxes	300,902
Principal paid on bonds	(165,000)
Interest paid on bonds	(133,675)
Net cash used in capital and related financing activities	<u>(81,536)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of investments	201,794
Interest received	52,642
Net cash provided by investing activities	<u>254,436</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(163,948)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,381,778</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,217,830</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (592,975)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	226,307
Net non-operating revenue	15,747
Decrease in accounts receivable	(1,658)
Decrease in accounts payable and accrued liabilities	5,442
Increase in advance payments	10,289
Net cash used in operating activities	<u><u>\$ (336,848)</u></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. 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, 2016, 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 21, 2017, 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, 2016, 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, 2016, 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, 2016, 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	\$ 318,987	\$ 100,177	\$ 218,810	\$ -	\$ -
Federal Home Loan Bank	211,058	103,578	107,480	-	-
Subtotal	530,045	203,755	326,290	-	-
Mortgage-backed securities	7,095	-	-	-	7,095
Certificates of deposit	300,000	200,000	100,000	-	-
	<u>\$ 837,140</u>	<u>\$ 403,755</u>	<u>\$ 426,290</u>	<u>\$ -</u>	<u>\$ 7,095</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 2016 was as follows:

	Balance <u>1/1/16</u>	Additions	Transfers	Balance <u>12/31/16</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	344,838	33,458	-	378,296
Machinery and equipment	305,024	8,740	(7,100)	306,664
Vehicles	306,471	34,610	-	341,081
Furniture and fixtures	184,225	10,859	-	195,084
Parks and lake assets	<u>2,088,729</u>	<u>-</u>	<u>-</u>	<u>2,088,729</u>
	<u>7,865,048</u>	<u>87,667</u>	<u>(7,100)</u>	<u>7,945,615</u>
Total capital assets	11,725,765	87,667	(7,100)	11,806,332
Accumulated depreciation	<u>(2,517,755)</u>	<u>(226,307)</u>	<u>3,195</u>	<u>(2,740,867)</u>
	<u>\$ 9,208,010</u>	<u>\$ (138,640)</u>	<u>\$ (3,905)</u>	<u>\$ 9,065,465</u>

4. LONG-TERM DEBT

The District's long-term debt activity during 2016 was as follows:

	Balance <u>1/1/16</u>	Issued During the Year	Retired During the Year	Balance <u>12/31/16</u>	Current Portion
Unlimited Tax Bonds:					
Series 2008	<u>\$ 2,870,000</u>	<u>\$ -</u>	<u>\$ (165,000)</u>	<u>\$ 2,705,000</u>	<u>\$ 170,000</u>

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT – continued

Details of bonds payable as of December 31, 2016 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, 2016 are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 170,000	\$ 125,425	\$ 295,425
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>\$ 2,705,000</u>	<u>\$ 883,106</u>	<u>\$ 3,588,106</u>

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5. WATER CUSTOMERS

At December 31, 2016, the District had four 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
SLJ Partners, LLC
City of Mount Pleasant (water rights holder)

For the year ended December 31, 2016, these entities used 4,277 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 2016) 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 2016 was \$479,133, while total payroll for all employees was \$551,080. The employer's 2016 contributions to the 401 Plan totaled \$33,221, or 6.9% of covered payroll. The employees' 2016 contributions to the 457 Plan totaled \$37,269, or 7.8% 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, 2016

	Original Budget	Amended Budget	Actual
OPERATING REVENUES			
Lease rental and bonus income	\$ 118,200	\$ 116,779	\$ 112,576
Admission fees	250,000	255,000	257,055
Permits and other fees	500,000	514,000	513,975
Water sales	478,485	478,485	487,678
	<u>1,346,685</u>	<u>1,364,264</u>	<u>1,371,284</u>
OPERATING EXPENSES			
Salaries and wages	566,986	516,318	551,080
Employee benefits	93,215	93,215	95,371
Payroll taxes	39,000	39,000	43,444
Insurance	40,000	42,648	44,510
Retirement	34,118	32,000	37,894
Legal fees	155,000	350,000	356,886
Audit fees	13,000	13,000	13,000
Appraisal / tax collection	10,000	10,000	11,601
Engineering expense	5,000	250,000	244,496
Contract labor	18,824	18,824	20,909
Supplies and equipment	25,000	25,500	27,966
Fuel and lubricants	25,000	15,560	18,489
Legal and public notices	2,500	500	33
Public outreach	5,000	7,500	8,211
Postage	4,000	4,000	5,101
Telephone	4,500	3,400	4,121
Utilities	45,000	45,000	51,204
Travel and per diem	5,000	5,000	5,356
Continuing education	6,000	4,000	4,836
Other recurring expenses	10,000	8,000	13,700
Internet service	15,000	35,000	38,012
Repairs and maintenance	60,000	135,000	139,499
Habitat enhancement	5,000	-	-
Water quality control	1,000	-	-
TCEQ fees	2,500	2,233	2,233
	<u>1,190,643</u>	<u>1,655,698</u>	<u>1,737,952</u>
OPERATING LOSS	<u>156,042</u>	<u>(291,434)</u>	<u>(366,668)</u>
NON-OPERATING REVENUES AND EXPENSES			
Interest income	53,379	45,000	46,248
Ad valorem taxes	298,822	298,822	305,021
Interest expense	(133,675)	(133,675)	(130,925)
Miscellaneous income (expense), net	15,000	15,500	15,747
	<u>233,526</u>	<u>225,647</u>	<u>236,091</u>
DECREASE IN NET POSITION EQUITY BEFORE NON-BUDGETED REVENUES (EXPENSES)	<u>\$ 389,568</u>	<u>\$ (65,787)</u>	<u>(130,577)</u>
NON-BUDGETED REVENUES (EXPENSES)			
Net decrease in fair value of investments			(9,075)
Depreciation			(226,307)
DECREASE IN NET POSITION			<u>\$ (365,959)</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, 2016

	<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
<input checked="" type="checkbox"/> <u>Schedule of Changes in Long-Term Debt</u>	25
<input checked="" type="checkbox"/> <u>Comparative Schedule of Revenues and Expenses - Five Years</u>	26
<input checked="" type="checkbox"/> <u>Board Members, Key Personnel, and Consultants</u>	28

FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF SERVICES AND RATES
 For the Year Ended December 31, 2016

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 checked="" 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: 1,393,583
 Gallons billed to customers: 1,393,583

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>295,425</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>295,425</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, 2016

Personnel (including benefits)	\$ 727,789
Professional fees	
Auditing	13,000
Legal	356,886
Engineering	244,496
Contracted services	32,510
Utilities	51,204
Repairs and maintenance	139,499
Administrative	
Insurance	44,510
Other administrative expense	65,670
Depreciation	226,307
Other	62,388
	\$ 1,964,259

Number of persons employed by the District:	11 Full-Time
	1 Part-Time

FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF TAXES LEVIED AND RECEIVABLE
 For the Year Ended December 31, 2016

	<u>Debt Service Taxes</u>
Taxes receivable, 1/1/16	\$ 259,164
2016 original tax levy	301,424
Less abatements	<u>-</u>
Total to be accounted for	560,588
Tax collections	<u>(297,233)</u>
Taxes receivable, 12/31/16	<u><u>\$ 263,355</u></u>
Property valuations:	
Land	\$ 351,866,710
Improvements	720,099,610
Personal property	114,110,510
Total property valuations	<u><u>\$ 1,186,076,830</u></u>
Tax rate per \$100 valuation	<u><u>\$ 0.02541</u></u>
Original tax levy	<u><u>\$ 301,424</u></u>
Percent of taxes collected to taxes levied	<u><u>98.6%</u></u>

FRANKLIN COUNTY WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS
For the Year Ended December 31, 2016

Fiscal Year Ending December 31,	Unlimited Tax Bonds Series 2008		
	Principal	Interest	Total
	Due 9/1	Due 9/1, 3/1	
2017	\$ 170,000	\$ 125,425	\$ 295,425
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	\$ <u>2,705,000</u>	\$ <u>883,106</u>	\$ <u>3,588,106</u>

FRANKLIN COUNTY WATER DISTRICT
SCHEDULE OF CHANGES IN LONG-TERM DEBT
For the Year Ended December 31, 2016

	Series 2008
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	\$ 2,870,000
Bonds sold during the current year	\$ -
Retirements: principal	\$ <u>(165,000)</u>
Bonds outstanding at end of current year	\$ <u><u>2,705,000</u></u>

Paying Agent's Name & Address:

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

	Tax Bonds *	Other Bonds	Refunding Bonds
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, 2016

	AMOUNTS				
	2016	2015	2014	2013	2012
OPERATING REVENUES					
Lease rental	\$ 112,576	\$ 141,300	\$ 110,226	\$ 120,909	\$ 118,971
Permits and other fees	771,030	663,089	594,700	558,569	548,119
Water sales	487,678	448,823	435,176	432,856	430,029
	<u>1,371,284</u>	<u>1,253,212</u>	<u>1,140,102</u>	<u>1,112,334</u>	<u>1,097,119</u>
OPERATING EXPENSES					
Salaries and employee benefits	727,789	637,152	629,577	627,291	592,946
Legal and professional fees	614,382	323,177	103,679	168,429	35,905
Consumable supplies	46,455	67,614	70,135	48,249	63,377
Maintenance and repairs	139,499	94,159	81,346	75,532	68,027
Other recurring expenses	37,237	49,651	40,996	27,797	34,551
Contract labor	32,510	34,455	28,920	31,414	30,399
Telephone and utilities	93,337	70,232	60,865	57,641	62,091
Insurance	44,510	35,695	36,341	44,083	44,086
Water quality control	-	300	-	-	-
TCEQ fees	2,233	2,233	2,233	4,870	4,870
Depreciation	226,307	250,509	238,692	231,654	243,213
	<u>1,964,259</u>	<u>1,565,177</u>	<u>1,292,784</u>	<u>1,316,960</u>	<u>1,179,465</u>
OPERATING INCOME (LOSS)	<u>(592,975)</u>	<u>(311,965)</u>	<u>(152,682)</u>	<u>(204,626)</u>	<u>(82,346)</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	46,248	61,053	42,468	62,746	66,907
Ad valorem taxes	305,021	308,210	303,239	300,405	320,549
Other income	15,747	18,343	46,787	15,926	11,445
Interest expense	(130,925)	(138,842)	(153,413)	(161,655)	(169,513)
Net increase (decrease) in fair value of investments	(9,075)	(8,692)	5,245	(48,216)	8,705
Total non-operating revenues (expenses)	<u>227,016</u>	<u>240,072</u>	<u>244,326</u>	<u>169,206</u>	<u>238,093</u>
NET INCOME (LOSS)	<u>\$ (365,959)</u>	<u>\$ (71,893)</u>	<u>\$ 91,644</u>	<u>\$ (35,420)</u>	<u>\$ 155,747</u>

PERCENT OF TOTAL OPERATING REVENUES

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
8.2%	11.3%	9.7%	10.9%	10.8%
56.2%	52.9%	52.2%	50.2%	50.0%
35.6%	35.8%	38.2%	38.9%	39.2%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
53.1%	50.8%	55.2%	56.4%	54.0%
44.8%	25.8%	9.1%	15.1%	3.3%
3.4%	5.4%	6.2%	4.3%	5.8%
10.2%	7.5%	7.1%	6.8%	6.2%
2.7%	4.0%	3.6%	2.5%	3.1%
2.4%	2.7%	2.5%	2.8%	2.8%
6.8%	5.6%	5.3%	5.2%	5.7%
3.2%	2.8%	3.2%	4.0%	4.0%
0.0%	0.0%	0.0%	0.0%	0.0%
0.2%	0.2%	0.2%	0.4%	0.4%
16.5%	20.0%	20.9%	20.8%	22.2%
<u>143.1%</u>	<u>124.9%</u>	<u>113.4%</u>	<u>118.4%</u>	<u>107.5%</u>
<u>-43.1%</u>	<u>-24.9%</u>	<u>-13.4%</u>	<u>-18.4%</u>	<u>-7.5%</u>
3.4%	4.9%	3.7%	5.6%	6.1%
22.2%	24.6%	26.6%	27.0%	29.2%
1.0%	1.5%	4.1%	1.4%	1.0%
-9.5%	-11.1%	-13.5%	-14.5%	-15.5%
<u>-0.7%</u>	<u>-0.7%</u>	<u>0.5%</u>	<u>-4.3%</u>	<u>0.8%</u>
<u>16.5%</u>	<u>19.2%</u>	<u>21.4%</u>	<u>15.2%</u>	<u>21.7%</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>	<u><u>14.2%</u></u>

FRANKLIN COUNTY WATER DISTRICT
 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
 For the Year Ended December 31, 2016

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 (Elected or Appointed) or Date Hired	Fees	Expense Reimbursements	Title at Year End	Resident of District
<u>Board Members:</u>					
Rodney Newsom P.O. Box 312 Mt. Vernon, TX 75457	Elected 5/15 - 5/19	\$1,100.00	\$110.88	President	Yes
Gary Cunningham P.O. Box 701 Mt. Vernon, TX 75457	Elected 5/13-5/17	\$1,100.00	\$18.80	Vice President	Yes
Dwayne Bolin 1186 FR 900 W. Mt. Vernon, TX 75457	Elected 5/15 - 5/19	\$1,100.00	\$110.88	Secretary	Yes
Billy M. Jordan 627 Texas Highway 37 Mt. Vernon, TX 75457	Elected 5/13-5/17	\$1,000.00	\$33.60	Director	Yes
Tim Philhower 556 Winding Lane Mt. Vernon, TX 75457	Elected 5/15 - 9/16	\$0.00	\$0.00	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	\$101,840.22	\$0.00	General Manager	Yes
Sheila Donica P.O. Box 379 Mt. Vernon, TX 75457	Hired 9/00	\$61,519.94	\$0.00	Administration Manager	Yes
J.R. Alphin 182 CR SE 3286 Mt. Vernon, TX 75457	Hired 1/95	\$76,072.36	\$0.00	Operations Manager	Yes

FRANKLIN COUNTY WATER DISTRICT
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
For the Year Ended December 31, 2016

Names and Addresses	Term of Office (Elected or Appointed) 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	\$105,115.57	\$0.00	Attorney	No
KRC&L Attorneys 3700 Thanksgiving Tower 1601 Elm Street Dallas, TX 75201	Hired 2007	\$276.50	\$0.00	Attorney	No
Lloyd Gosselink, Attorney 816 Congress Ave., Ste 1900 Austin, TX 78701	Hired 2014	\$147,088.02	\$0.00	Attorney	No
Exall & Wood, PLLC 3838 Oak Lawn Ave, Ste 1750 Dallas, TX 75219	Hired 2015	\$11,132.00	\$0.00	Attorney	No
Ramsey Law Office P O Box 518 Mt. Vernon, TX 75457	Hired 2016	\$500.00	\$0.00	Attorney	Yes
Fox, Byrd & Company, P.C. 12001 N. Central Expressway Suite 500 Dallas, TX 75243	Hired 1993	\$13,000.00	\$0.00	Auditor	No
Hayter Engineering 4445 SE Loop 286 Paris, TX 75460	Hired 2000	\$7,307.67	\$0.00	Engineers	No
Blair Surveying 219 CR 4360 Scroggins, TX 75480	Hired 2015	\$587.13	\$0.00	Surveyor	No
Harcrow Surveying 2314 West Main St Artesio, NM 88210	Hired 2016	\$32,350.00	\$0.00	Surveyor	No
Carollo Engineers P.O. Box 4932 Houston, TX 77210	Hired 2015	\$204,251.04	\$0.00	Engineers	No

FRANKLIN COUNTY WATER DISTRICT
 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
 For the Year Ended December 31, 2016

Names and Addresses	Term of Office (Elected or Appointed) or Date Hired	Fees	Expense Reimbursements	Title at Year End	Resident of District
Bryant Consultants P O Box 655 Addison, TX 75202-3794	Hired 2013	\$6,912.50	\$0.00	Dam Consultant	No
Nicholson Prof Consulting Inc 500 Sun Valley Drive Suite H-4 Roswell, GA 30076	Hired 2016	\$9,750.00	\$0.00	Dam Consultant	No
Rizzo Associates 500 Penn Center Blvd Pittsburgh, PA 15235	Hired 2015	\$71,271.09	\$0.00	Legal Consultant	No

To the Board of Directors
Franklin County Water District

We have audited the basic financial statements of Franklin County Water District for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated October 28, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

	<u>Debit</u>	<u>Credit</u>
Depreciation expense	\$ 226,307	
Accumulated depreciation		\$ 226,307
To record depreciation expense.	<u>\$ 226,307</u>	<u>\$ 226,307</u>

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

We have applied certain limited procedures to the required supplementary information (management's discussion and analysis) accompanying the financial statements 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.

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Jax, Byrd + Company, P.C.

Dallas, Texas
March 21, 2017

To the Board of Directors and Management
Franklin County Water District

In planning and performing our audit of the basic financial statements of Franklin County Water District as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the District's internal control to be material weaknesses:

Selection and Application of Accounting Principles – The District does not have adequate controls in place to ensure proper selection and application of accounting principles. The individuals responsible for the accounting and reporting function do not possess sufficient expertise in selecting and applying U.S. generally accepted accounting principles (GAAP) in recording the District's financial transactions. As a result, material adjustments were identified during the audit.

Oversight of the Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with GAAP. As part of the audit, management requested us to prepare a draft of the District's financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in entities of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. Management has reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not possess sufficient expertise to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. The absence of the ability to perform this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected and corrected by the District's internal control.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Tox, Byrd + Company, P.C.

Dallas, Texas
March 21, 2017