

FRANKLIN COUNTY WATER DISTRICT

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

FOR THE YEAR ENDED DECEMBER 31, 2010

FRANKLIN COUNTY WATER DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
List of Principal Officials	1
Annual Filing Affidavit	2
FINANCIAL SECTION	
Independent Auditor's Report	3
Management's Discussion and Analysis	4
Basic Financial Statements	
Balance Sheet	7
Statement of Revenues, Expenses, and Changes in Fund Equity	8
Statement of Cash Flows	9
Notes to Financial Statements	10
SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenses, and Changes in Fund Equity – Budget and Actual	17
Index of Supplemental Schedules Included Within this Report Required by the Texas Commission on Environmental Quality	18
Schedule of Services and Rates	19
Schedule of Operating Expenses	21
Schedule of Taxes Levied and Receivable	22
Schedule of Long-Term Debt Service Requirements	23
Schedule of Changes in Long-Term Debt	24
Comparative Schedule of Revenues and Expenses – Five Years	25
Board Members, Key Personnel, and Consultants	27

INTRODUCTORY SECTION

FRANKLIN COUNTY WATER DISTRICT
LIST OF PRINCIPAL OFFICIALS
December 31, 2010

OFFICERS

Tim Philhower – President
Billy M. Jordan – Vice President
Rodney Newsom – Secretary

DIRECTORS

Dwayne Bolin
Gary Cunningham

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, Tim Philhower, 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 15th day of March, 2011, its annual audit report for the fiscal year or period ended December 31, 2010, 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 15, 2011

By: _____
(Signature of District Representative)

Tim Philhower, President
(Typed Name and Title of above District Representative)

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

(Signature of Notary)

(Seal)

My Commission Expires on: February 14, 2013, 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 basic financial statements of Franklin County Water District as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin County Water District as of December 31, 2010, 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.

Management's Discussion and Analysis on pages 4-6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Fox, Byrd + Company, P.C.

Dallas, Texas
March 8, 2011

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 \$13,249,245.
- The fund equity of the District at the end of the year was \$9,187,552.
- The fund equity of the District increased during the year by \$360,976, or about 4.1%.
- The District had operating income of \$78,234 for the year.
- The District's cash and cash equivalents decreased during the year by \$492,429.
- The District's capital assets increased during the year by \$437,217.

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) Balance Sheet; 2) Statement of Revenues, Expenses, and Changes in Fund Equity; 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 Balance Sheet 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 Fund Equity. 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 credit worthiness.

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 Balance Sheets and Statements of Revenues, Expenses, and Changes in Fund Equity are presented below.

Condensed Balance Sheets

	12/31/10	12/31/09	Dollar Change	Percent Change
Current and other assets	\$ 4,117,409	\$ 4,512,160	\$ (394,751)	-8.7%
Capital assets, net	9,131,836	8,694,619	437,217	5.0%
Total assets	<u>\$ 13,249,245</u>	<u>\$ 13,206,779</u>	<u>\$ 42,466</u>	<u>0.3%</u>
Long-term debt outstanding	\$ 3,580,000	\$ 3,700,000	\$ (120,000)	-3.2%
Other liabilities	481,693	680,203	(198,510)	-29.2%
Total liabilities	<u>\$ 4,061,693</u>	<u>\$ 4,380,203</u>	<u>\$ (318,510)</u>	<u>-7.3%</u>
Invested in capital assets, net of related debt	\$ 5,551,836	\$ 4,994,619	\$ 557,217	11.2%
Restricted	71,674	100,652	(28,978)	-28.8%
Unrestricted	3,564,042	3,731,305	(167,263)	-4.5%
Total fund equity	<u>\$ 9,187,552</u>	<u>\$ 8,826,576</u>	<u>\$ 360,976</u>	<u>4.1%</u>

Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year Ended 12/31/10	Year Ended 12/31/09	Dollar Change	Percent Change
Operating revenues	\$ 1,054,568	\$ 1,039,021	\$ 15,547	1.5%
Non-operating revenues	466,917	429,567	37,350	8.7%
Total revenues	<u>1,521,485</u>	<u>1,468,588</u>	<u>52,897</u>	<u>3.6%</u>
Depreciation expense	88,266	93,350	(5,084)	-5.4%
Other operating expense	888,068	856,943	31,125	3.6%
Non-operating expense	184,175	190,309	(6,134)	-3.2%
Total expense	<u>1,160,509</u>	<u>1,140,602</u>	<u>19,907</u>	<u>1.7%</u>
Increase in fund equity	360,976	327,986	32,990	10.1%
Beginning fund equity	<u>8,826,576</u>	<u>8,498,590</u>	<u>327,986</u>	<u>3.9%</u>
Ending fund equity	<u>\$ 9,187,552</u>	<u>\$ 8,826,576</u>	<u>\$ 360,976</u>	<u>4.1%</u>

Overview of Financial Activities and Analysis – continued

The overall financial position of the District remains sound. Both the \$394,751 decrease in current and other assets and the \$437,217 increase in capital assets are attributable to cash outlays in 2010 totaling \$701,356 related mostly to the dam remediation project. The \$198,510 decrease in other liabilities primarily represents a reduction in engineering fees and retainage payable at year-end in connection with the dam remediation project.

The \$37,350 increase in non-operating revenues was primarily due to unrealized gains on investments held at year-end, compared to losses in the previous year. This increase was partially offset by a decrease in interest income, as well as a reduction in the District's ad valorem tax rate for 2010, which yielded a lower tax levy. The \$31,125 increase in operating expenses was mainly attributable to increases in personnel and insurance costs.

There were no significant variations between the District's original and final amended budgets, nor were there significant variations between the final amended budget and the District's actual results.

Capital Asset and Debt Administration

The District's investment in capital assets as of December 31, 2010, consisted of land, lake construction, buildings, vehicles, machinery and equipment and park and lake assets. During 2010, the District continued construction of the dam remediation project at a cost of \$365,041, constructed buildings with a cost of \$75,531, and acquired various other capital assets with a combined cost of \$84,911.

The District's long-term debt activity during 2010 consisted of a principal payment in the amount of \$120,000.

Economic Factors and Next Year's Budgets and Rates

Construction on the dam remediation project is in the final stages, with the vegetative cover on the slope being all that remains to finish the project.

In the 2011 budget year, the Board will consider a 3- to 5-year plan for the District's unrestricted fund equity, with a goal of investing some of those funds in deferred maintenance projects and capital improvements to the District's facilities.

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
BALANCE SHEET
December 31, 2010

ASSETS

CURRENT ASSETS	
Cash	\$ 1,541,711
Investments	2,019,261
Receivables:	
Property tax	279,241
Accounts	21,987
Interest	13,455
Total current assets	3,875,655
 NONCURRENT ASSETS	
Restricted cash	129,453
Utility deposits	2,097
Deferred bond issuance costs	110,204
Capital assets	10,780,390
Less: accumulated depreciation	(1,648,554)
Total noncurrent assets	9,373,590
	\$ 13,249,245

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES	
Accounts payable	\$ 87,498
Accrued liabilities	82,340
Current portion of bonds payable	130,000
Deferred revenue:	
Lease income	44,150
Water permits	75,656
Pier and boathouse permits	192,049
Total current liabilities	611,693
 NONCURRENT LIABILITIES	
Bonds payable	3,450,000
Total noncurrent liabilities	3,450,000
Total liabilities	4,061,693
 FUND EQUITY	
Invested in capital assets, net of related debt	5,551,836
Restricted for debt service	71,674
Unrestricted	3,564,042
Total fund equity	9,187,552
	\$ 13,249,245

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

FRANKLIN COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
For the Year Ended December 31, 2010

OPERATING REVENUES	
Lease rental and bonus income	\$ 105,346
Admission fees	162,988
Permits and other fees	366,133
Water sales	420,101
	<u>1,054,568</u>
OPERATING EXPENSES	
Salaries and wages	435,218
Vehicle allowance	7,800
Employee benefits	55,163
Payroll taxes	33,140
Insurance	50,491
Retirement	25,347
Legal fees	18,395
Audit fees	11,000
Appraisal / tax collection	12,118
Contract labor	15,547
Supplies and equipment	28,025
Fuel and lubricants	19,742
Legal and public notices	447
Public outreach	4,871
Postage	4,230
Telephone	11,840
Utilities	41,650
Travel and per diem	4,211
Continuing education	5,646
Other recurring expenses	20,618
Internet service	3,815
Repairs and maintenance	70,624
Habitat enhancement	3,260
TCEQ fees	4,870
Depreciation	88,266
	<u>976,334</u>
OPERATING INCOME	<u>78,234</u>
NON-OPERATING REVENUES AND EXPENSES	
Interest income	87,530
Ad valorem taxes	308,664
Net increase in fair value of investments	43,037
Gain on sale of capital assets	16,230
Interest expense	(184,175)
Miscellaneous income (expense), net	11,456
	<u>282,742</u>
INCREASE IN FUND EQUITY	360,976
Fund equity at beginning of year	<u>8,826,576</u>
Fund equity at end of year	<u>\$ 9,187,552</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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,042,904
Cash paid to suppliers	(339,693)
Cash paid to employees	(555,842)
Other receipts	11,456
Net cash provided by operating activities	<u>158,825</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(701,356)
Sale of capital assets	16,230
Collections of ad valorem taxes	267,872
Principal paid on bonds	(120,000)
Interest paid on bonds	(180,237)
Net cash used in capital and related financing activities	<u>(717,491)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(638,766)
Maturities of investments	609,548
Interest received	95,455
Net cash provided by investing activities	<u>66,237</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(492,429)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,163,593</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,671,164</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 78,234
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	88,266
Net non-operating revenue	11,456
Decrease in accounts receivable	1,206
Decrease in accounts payable and accrued liabilities	(7,467)
Decrease in deferred revenue	(12,870)
Net cash provided by operating activities	<u><u>\$ 158,825</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 noncancelable leases for the next five fiscal years amount to approximately \$99,000 annually.

Basis of Accounting

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

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:

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

Deferred Revenue

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, 2010, the District had received payment for services to be performed subsequent to year end. This resulted in deferral of revenue recognition until the period when service is performed.

Deferred Bond Issuance Costs

Deferred bond issuance costs represent underwriter's discount, insurance and other costs related to bond issuance. These costs are capitalized and amortized using the straight-line method over the life of the bonds.

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 does carry over to subsequent years, but 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.

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, 2010, the District's deposits were entirely insured or collateralized with securities held by the pledging financial institution's trust department or agent in the District's name; as a result, the District's deposits were not exposed to custodial credit risk.

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS – continued

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, 2010, the District's investments were entirely insured or registered in the District's name; as a result, the District's investments were not exposed to custodial credit risk.

At December 31, 2010, 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	\$ 530,136	\$ -	\$ -	\$ 324,627	\$ 205,509
Federal Home Loan Bank	322,593	-	-	322,593	-
Federal Home Loan Mortgage Corporation	508,298	-	100,758	205,878	201,662
Federal National Mortgage Association	418,601	-	212,972	101,626	104,003
Subtotal	<u>1,779,628</u>	<u>-</u>	<u>313,730</u>	<u>954,724</u>	<u>511,174</u>
Mortgage-backed securities	39,633	-	-	-	39,633
Certificates of deposit	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,019,261</u>	<u>\$ -</u>	<u>\$ 513,730</u>	<u>\$ 954,724</u>	<u>\$ 550,807</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 2010 was as follows:

	Balance 1/1/10	Additions	Retirements	Balance 12/31/10
Non-depreciable assets:				
Land	\$ 1,069,405	\$ -	\$ -	\$ 1,069,405
Lake construction	2,791,312	-	-	2,791,312
Construction in progress	4,218,716	365,041	-	4,583,757
	<u>8,079,433</u>	<u>365,041</u>	<u>-</u>	<u>8,444,474</u>
Depreciable assets:				
Buildings	303,751	75,531	-	379,282
Machinery and equipment	146,095	6,450	(3,166)	149,379
Vehicles	299,789	21,368	(27,215)	293,942
Furniture and fixtures	61,387	17,323	-	78,710
Parks and lake assets	1,394,833	39,770	-	1,434,603
	<u>2,205,855</u>	<u>160,442</u>	<u>(30,381)</u>	<u>2,335,916</u>
Total capital assets	10,285,288	525,483	(30,381)	10,780,390
Accumulated depreciation	<u>(1,590,669)</u>	<u>(88,266)</u>	<u>30,381</u>	<u>(1,648,554)</u>
	<u>\$ 8,694,619</u>	<u>\$ 437,217</u>	<u>\$ -</u>	<u>\$ 9,131,836</u>

4. LONG-TERM DEBT

The District's long-term debt activity during 2010 was as follows:

	Balance 1/1/10	Issued During the Year	Retired During the Year	Balance 12/31/10	Current Portion
Unlimited Tax Bonds:					
Series 2008	\$ 3,700,000	\$ -	\$ (120,000)	\$ 3,580,000	\$ 130,000
	<u>3,700,000</u>	<u>-</u>	<u>(120,000)</u>	<u>3,580,000</u>	<u>130,000</u>

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT – continued

Details of bonds payable as of December 31, 2010, 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 will be 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, 2010, are as follows:

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 130,000	\$ 173,337	\$ 303,337
2012	135,000	165,863	300,863
2013	140,000	158,100	298,100
2014	150,000	150,050	300,050
2015	155,000	141,425	296,425
2016	165,000	133,675	298,675
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
	<u>\$ 3,580,000</u>	<u>\$ 1,805,556</u>	<u>\$ 5,385,556</u>

FRANKLIN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

5. WATER CUSTOMERS

At December 31, 2010, 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, 2010, these entities used 4,564 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 \$16,500 (for 2010) 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 2010 was \$361,650, while total payroll for all employees was \$435,218. The employer's 2010 contributions to the 401 Plan totaled \$25,316, or 7.0% of covered payroll. The employees' 2010 contributions to the 457 Plan totaled \$28,712, or 7.9% 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.

SUPPLEMENTAL INFORMATION

FRANKLIN COUNTY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN FUND EQUITY - BUDGET AND ACTUAL
For the Year Ended December 31, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
OPERATING REVENUES			
Lease rental and bonus income	\$ 193,700	\$ 134,216	\$ 105,346
Admission fees	140,000	150,000	162,988
Permits and other fees	301,500	362,500	366,133
Water sales	371,000	371,000	420,101
	<u>1,006,200</u>	<u>1,017,716</u>	<u>1,054,568</u>
OPERATING EXPENSES			
Salaries and wages	458,500	437,000	435,218
Vehicle allowance	7,800	7,800	7,800
Employee benefits	65,000	65,000	55,163
Payroll taxes	35,000	33,500	33,140
Insurance	37,500	37,500	50,491
Retirement	33,000	30,590	25,347
Legal fees	15,000	15,000	18,395
Audit fees	11,000	11,000	11,000
Appraisal / tax collection	12,400	12,400	12,118
Engineering expense	10,000	1,000	-
Contract labor	15,000	15,000	15,547
Supplies and equipment	20,000	28,000	28,025
Fuel and lubricants	25,000	21,000	19,742
Legal and public notices	2,500	500	447
Public outreach	10,000	4,500	4,871
Postage	4,500	4,500	4,230
Telephone	10,000	10,000	11,840
Utilities	37,500	37,500	41,650
Travel and per diem	5,000	5,000	4,211
Continuing education	5,000	4,000	5,646
Other recurring expenses	16,000	15,000	20,618
Internet service	2,500	2,500	3,815
Repairs and maintenance	50,000	63,000	70,624
Habitat enhancement	10,000	3,244	3,260
Water quality control	1,000	-	-
TCEQ fees	-	4,870	4,870
Contingencies	15,500	-	-
	<u>914,700</u>	<u>869,404</u>	<u>888,068</u>
OPERATING INCOME	<u>91,500</u>	<u>148,312</u>	<u>166,500</u>
NON-OPERATING REVENUES AND EXPENSES			
Interest income	104,000	93,175	87,530
Ad valorem taxes	300,250	300,250	308,664
Gain on sale of capital assets	20,500	16,230	16,230
Interest expense	(180,238)	(180,238)	(184,175)
Miscellaneous income (expense), net	8,500	12,200	11,456
	<u>253,012</u>	<u>241,617</u>	<u>239,705</u>
INCREASE IN FUND EQUITY BEFORE NON-BUDGETED REVENUES (EXPENSES)	<u>\$ 344,512</u>	<u>\$ 389,929</u>	406,205
NON-BUDGETED REVENUES (EXPENSES)			
Net decrease in fair value of investments			43,037
Depreciation			(88,266)
INCREASE IN FUND EQUITY			<u>\$ 360,976</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, 2010

		<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)	10
<input checked="" type="checkbox"/>	<u>Schedule of Services and Rates</u>	19
<input checked="" type="checkbox"/>	<u>Schedule of Operating Expenses</u>	21
<input checked="" type="checkbox"/>	<u>Schedule of Temporary Investments</u> (Included in the notes to the financial statements)	13
<input checked="" type="checkbox"/>	<u>Schedule of Taxes Levied and Receivable</u>	22
<input checked="" type="checkbox"/>	<u>Schedule of Long-Term Debt Service Requirements by Years</u>	23
<input checked="" type="checkbox"/>	<u>Schedule of Changes in Long-Term Debt</u>	24
<input checked="" type="checkbox"/>	<u>Comparative Schedule of Revenues and Expenses - Five Years</u>	25
<input checked="" type="checkbox"/>	<u>Board Members, Key Personnel, and Consultants</u>	27

FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF SERVICES AND RATES
 For the Year Ended December 31, 2010

1. **Services Provided by the District:**

- | | | |
|---|---|--|
| <input type="checkbox"/> Retail Water | <input checked="" type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input 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: 1,487,339
 Gallons billed to customers: 1,487,339

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:

	Amount
a. Debt Service Tax Receipts	\$ <u>303,337</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>303,337</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, 2010

Personnel (including benefits)	\$ 556,668
Professional fees	
Auditing	11,000
Legal	18,395
Engineering	-
Contracted services	27,665
Utilities	41,650
Repairs and maintenance	70,624
Administrative	
Insurance	50,491
Other administrative expense	35,060
Depreciation	88,266
Other	76,515
	\$ 976,334

Number of persons employed by the District:	10 Full-Time
	1 Part-Time

FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF TAXES LEVIED AND RECEIVABLE
 For the Year Ended December 31, 2010

	<u>Debt Service Taxes</u>
	\$ 238,449
2010 original tax levy	303,685
Less abatements	-
Total to be accounted for	<u>542,134</u>
Tax collections	(262,893)
Taxes receivable, 12/31/10	<u>\$ 279,241</u>
Property valuations:	
Land	\$ 364,682,900
Improvements	622,861,080
Personal property	101,664,430
Total property valuations	<u>\$ 1,089,208,410</u>
Tax rate per \$100 valuation	<u>\$ 0.0279</u>
Original tax levy	<u>\$ 303,685</u>
Percent of taxes collected to taxes levied	<u>86.6%</u>

FRANKLIN COUNTY WATER DISTRICT
SCHEDULE OF LONG-TERM DEBT SERVICE REQUIREMENTS
For the Year Ended December 31, 2010

Fiscal Year Ending December 30,	Unlimited Tax Bonds Series 2008		
	Principal Due 9/1	Interest Due 9/1, 3/1	Total
	\$	\$	\$
2011	130,000	173,337	303,337
2012	135,000	165,863	300,863
2013	140,000	158,100	298,100
2014	150,000	150,050	300,050
2015	155,000	141,425	296,425
2016	165,000	133,675	298,675
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	81,212	296,212
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	26,838	301,838
2028	290,000	13,775	303,775
Totals	<u>\$ 3,580,000</u>	<u>\$ 1,805,556</u>	<u>\$ 5,385,556</u>

FRANKLIN COUNTY WATER DISTRICT
 SCHEDULE OF CHANGES IN LONG-TERM DEBT
 Fiscal Year Ended December 31, 2010

	Series 2008
Interest rate	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	\$ 3,700,000
Bonds sold during the current year	\$ -
Retirements: principal	\$ 120,000
Bonds outstanding at end of current year	\$ 3,580,000

Paying Agent's Name & Address:

The Bank of New York Mellon Trust Company, N.A., P.O. Box 2320, Dallas, TX 75221-2320

Bond Authority:	<u>Tax Bonds *</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount authorized by voters	\$ 3,800,000	\$ N/A	\$ N/A
Amount issued	\$ 3,800,000	\$ -0-	\$ -0-
Remaining to be issued	\$ -0-	\$ -0-	\$ -0-

* Includes all bonds secured with tax revenues.

FRANKLIN COUNTY WATER DISTRICT
 COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
 For the Five Years Ended December 31, 2010

	AMOUNTS				
	2010	2009	2008	2007	2006
OPERATING REVENUES					
Lease rental	\$ 105,346	\$ 164,388	\$ 144,726	\$ 123,885	\$ 306,563
Permits and other fees	529,121	506,958	487,643	467,651	445,578
Water sales	420,101	367,675	361,051	295,180	299,851
Special assessment fees	-	-	-	-	61,563
	<u>1,054,568</u>	<u>1,039,021</u>	<u>993,420</u>	<u>886,716</u>	<u>1,113,555</u>
OPERATING EXPENSES					
Salaries and employee benefits	556,668	540,817	550,441	525,700	463,940
Legal and professional fees	29,395	27,670	37,201	76,160	114,736
Consumable supplies	47,767	42,673	55,239	63,027	57,760
Maintenance and repairs	70,624	69,370	68,896	80,238	85,359
Other recurring expenses	43,283	51,800	45,980	67,917	58,026
Contract labor	27,665	32,338	22,176	14,442	14,335
Telephone and utilities	57,305	54,067	50,276	50,684	53,585
Insurance	50,491	37,808	31,313	50,507	45,842
Water quality control	-	400	6,122	6,968	13,401
TCEQ fees	4,870	-	-	-	-
Depreciation	88,266	93,350	112,162	109,965	99,517
	<u>976,334</u>	<u>950,293</u>	<u>979,806</u>	<u>1,045,608</u>	<u>1,006,501</u>
OPERATING INCOME (LOSS)	<u>78,234</u>	<u>88,728</u>	<u>13,614</u>	<u>(158,892)</u>	<u>107,054</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	87,530	122,933	158,600	180,004	163,965
Ad valorem taxes	308,664	317,374	366,100	-	-
Other income	27,686	33,967	13,517	38,045	15,764
Interest expense	(184,175)	(190,309)	(66,138)	-	-
Net increase (decrease) in fair value of investments	43,037	(44,707)	21,521	43,009	3,709
Total non-operating revenues (expenses)	<u>282,742</u>	<u>239,258</u>	<u>493,600</u>	<u>261,058</u>	<u>183,438</u>
NET INCOME	<u>\$ 360,976</u>	<u>\$ 327,986</u>	<u>\$ 507,214</u>	<u>\$ 102,166</u>	<u>\$ 290,492</u>

PERCENT OF TOTAL OPERATING REVENUES

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
10.0%	15.8%	14.6%	14.0%	27.5%
50.2%	48.8%	49.1%	52.7%	40.1%
39.8%	35.4%	36.3%	33.3%	26.9%
0.0%	0.0%	0.0%	0.0%	5.5%
<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
52.8%	52.1%	55.4%	59.3%	41.7%
2.8%	2.7%	3.7%	8.6%	10.3%
4.5%	4.1%	5.6%	7.1%	5.2%
6.7%	6.7%	6.9%	9.0%	7.7%
4.1%	5.0%	4.6%	7.7%	5.2%
2.6%	3.1%	2.2%	1.6%	1.3%
5.4%	5.2%	5.1%	5.7%	4.8%
4.8%	3.6%	3.2%	5.7%	4.1%
0.0%	0.0%	0.6%	0.8%	1.2%
0.5%	0.0%	0.0%	0.0%	0.0%
8.4%	9.0%	11.3%	12.4%	8.9%
<u>92.6%</u>	<u>91.5%</u>	<u>98.6%</u>	<u>117.9%</u>	<u>90.4%</u>
<u>7.4%</u>	<u>8.5%</u>	<u>1.4%</u>	<u>-17.9%</u>	<u>9.6%</u>
8.3%	11.8%	15.9%	20.2%	14.8%
29.3%	30.5%	36.9%	0.0%	0.0%
2.6%	3.3%	1.4%	4.3%	1.4%
-17.5%	-18.3%	-6.7%	0.0%	0.0%
<u>4.1%</u>	<u>-4.3%</u>	<u>2.2%</u>	<u>4.9%</u>	<u>0.3%</u>
<u>26.8%</u>	<u>23.0%</u>	<u>49.7%</u>	<u>29.4%</u>	<u>16.5%</u>
<u>34.2%</u>	<u>31.5%</u>	<u>51.1%</u>	<u>11.5%</u>	<u>26.1%</u>

FRANKLIN COUNTY WATER DISTRICT
 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
 For the Year Ended December 31, 2010

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>					
Tim Philhower 556 Winding Lane Mt. Vernon, TX 75457	Elected 5/07-5/11	\$0.00	\$0.00	President	Yes
Billy M. Jordan 627 Texas Highway 37 Mt. Vernon, TX 75457	Elected 5/09-5/13	\$450.00	\$24.00	Vice President	Yes
Rodney Newsom P.O. Box 312 Mt. Vernon, TX 75457	Elected 5/07-5/11	\$0.00	\$0.00	Secretary	Yes
Dwayne Bolin 1186 FR 900 W. Mt. Vernon, TX 75457	Elected 5/07-5/11	\$500.00	\$81.90	Director	Yes
Gary Cunningham P.O. Box 701 Mt. Vernon, TX 75457	Appointed 6/09-5/11	\$500.00	\$19.11	Director	Yes

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

Key Administrative Personnel:

David I. Weidman P.O. Box 981 Mt. Vernon, TX 75457	Hired 10/93	\$84,223.52	\$0.00	General Manager	Yes
Sheila Donica P.O. Box 379 Mt. Vernon, TX 75457	Hired 9/00	\$42,254.14	\$0.00	Administration Manager	Yes
J.R. Alphin 182 CR SE 3286 Mt. Vernon, TX 75457	Hired 1/95	\$54,481.53	\$0.00	Operations Manager	Yes

FRANKLIN COUNTY WATER DISTRICT
BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
For the Year Ended December 31, 2010

Names and Addresses	Term of Office (Elected or Appointed) or Date Hired	Fees	Expense Reimbursements	Title at Year End	Resident of District
Consultants:					
Strasburger & Price LLP P.O. Box 849037 Dallas, TX 75284-9037	Hired 8/01	\$659.00	\$0.00	Attorney	No
KRC&L Attorneys 3700 Thanksgiving Tower 1601 Elm Street Dallas, TX 75201	Hired 8/07	\$17,676.14	\$0.00	Attorney	No
Fox, Byrd & Company, P.C. 12001 N. Central Expressway Suite 500 Dallas, TX 75243	Hired 7/93	\$13,000.00	\$0.00	Auditor	No
Freese and Nichols, Inc. P.O. Box 980004 Ft. Worth, TX 76198-0004	Hired 1/06	\$142,316.88	\$0.00	Engineers	No
Hayter Engineering 4445 SE Loop 286 Paris, TX 75460	Hired 1/00	\$1,545.77	\$0.00	Engineers	No
Danny Smith Land Surveying 138 CR SE 4232 Mt. Vernon, TX 75457	Hired 1/09	\$508.84	\$0.00	Surveyor	Yes