

Mount Hermon Water District
of the
Parish of Washington, Louisiana
Franklinton, Louisiana

Annual Financial Statements

As of and for the Year Ended December 31, 2017
(With Supplemental Information Schedules and
with 2016 summarized comparative information)



BRUCE HARRELL & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

Mount Hermon Water District
Annual Financial Statements
As of and for the Year Ended December 31, 2017
(With Supplemental Information Schedules
with 2016 summarized comparative information)

TABLE OF CONTENTS

	Statement	Schedule	Page
Accountant’s Compilation Report.....			4
Management’s Discussion and Analysis (Required Supplemental Information):			
Financial Highlights.....			7
Overview of Annual Financial Report.....			8
Financial Analysis.....			8
Condensed Statements of Net Position.....			9
Condensed Statements of Revenues, Expenses, and Changes in Net Position			10
Budgetary Highlights.....			11
Other Significant Trends and Account Changes			12
Capital Assets			13
Long Term Obligations and Future Economic Plans			14
Basic Financial Statements:			
Business-Type Financial Statements:			
Statement of Net Position.....	A		16
Statement of Revenues, Expenses, and Changes in Net Position.....	B		17
Statement of Cash Flows	C		18
Notes to the Financial Statements			20
Other Supplemental Information:			
Schedule of Revenues, Expenses, and Changes in Net Position Budget (GAAP Basis) and Actual.....		1	34
Schedule of Insurance Coverage.....		2	35
Schedule of Compensation Paid Board of Commissioners.....		3	36
Schedule of Compensation, Benefits, and Other Payments to Agency Head...		4	37
Schedule of Water Rates and Schedule of Water Customers.....		5	38

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To Board of Commissioners
Mount Hermon Water District of the Parish of Washington, Louisiana
Mount Hermon, Louisiana

Management is responsible for the accompanying financial statements of the business-type activities of Mount Hermon Water District (a component unit of the Washington Parish Council), as of and for the year ended December 31, 2017, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on page 7 through page 14 be presented to supplement the basic financial statements. Such information is presented for purposes of additional analysis and, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. The required supplementary information was subject to our compilation engagement. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

The prior year summarized comparative information has been derived from the District's 2016 financial statements and, in our compilation report dated April 20, 2017, we stated that we did not express an opinion or provide any assurance on those financial statements.

The supplementary information contained in the schedules listed as Other Supplemental Information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The supplementary information was subject to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

We are not independent with respect to Mount Hermon Water District.

Bruce Harrell & Company, CPAs
A Professional Accounting Corporation
Kentwood, LA

April 20, 2018

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Management's Discussion and Analysis (Required Supplemental Information)

Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

Introduction

The Mount Hermon Water District (the District) is pleased to present its Annual Financial Statements developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (GASB 34), as amended. The amendment of GASB 34, including the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and applicable standards as more fully described in the financial statement footnotes as *Footnote 1 – Summary of Significant Accounting Policies*.

The District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position, (d) identify any significant variations from the District's financial plan, and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the District's financial statements in this report.

Financial Highlights

- At December 31, 2017, total assets were \$1,737,430, and exceeded liabilities in the amount of \$787,284 (i.e., net position). Of the total net position, \$177,846 was unrestricted and available to support short-term operations.
- The District's operating income increased by \$18,697 due to a six percent increase or \$11,803 in water sales, over one-hundred percent increase or \$3,415 in installation fees, and seventy percent increases or \$2,783 and \$696 respectively for penalties and other income.
- The District's operating expenses, other than depreciation expense, increased by \$1,593 to \$103,166 as compared to \$101,573 for the prior fiscal year. The increase is due primarily to an increase of \$5,312 in operations and maintenance-contract, an increase in insurance of \$1,349, an increase of \$1,890 in bad debt expense offset by decreases of \$6,045 in repairs and maintenance and \$1,177 in utilities.
- Total long-term debt decreased by \$36,270 in principal payments; there was no new issuance of bond debt. Total long term bonded debt was \$911,941 at December 31, 2017 as compared to \$948,211 at December 31, 2016.

Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

Overview of the Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The District's basic financial statements include the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector.

The Statement of Net Position provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Position accounts for the revenues and expenses for the fiscal year, and provides information on how net position changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to a full understanding of the data provided in the District's basic financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule and key information schedules on operation of the District.

Financial Analysis

The purpose of financial analysis is to help determine whether Mount Hermon Water District is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Statement of Net Position, and the Statement of Revenues, Expenses, and Changes in Net Position, are presented below in condensed format. These statements report the net position, the difference between assets and liabilities, and the change in net position, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

**Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)**

**Condensed Statements of Net Position
2017 and 2016**

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 356,387	\$ 315,183	\$ 41,204	13.07%
Capital Assets	<u>1,381,043</u>	<u>1,443,183</u>	<u>(62,140)</u>	-4.31%
Total Assets	<u>1,737,430</u>	<u>1,758,366</u>	<u>(20,936)</u>	-1.19%
Liabilities:				
Long-Term Debt Outstanding	911,941	948,211	(36,270)	-3.83%
Other Liabilities	<u>38,205</u>	<u>35,530</u>	<u>2,675</u>	7.53%
Total Liabilities	<u>950,146</u>	<u>983,741</u>	<u>(33,595)</u>	-3.42%
Net Position:				
Net Investment in Capital Assets	462,852	488,601	(25,749)	-5.27%
Restricted for Capital Activity and Debt Service	146,586	141,888	4,698	3.31%
Unrestricted	<u>177,846</u>	<u>144,136</u>	<u>33,710</u>	23.39%
Total Net Position	<u>\$ 787,284</u>	<u>\$ 774,625</u>	<u>\$ 12,659</u>	1.63%

The changes in the Condensed Statements of Net Position from December 31, 2016 to December 31, 2017 were the results of a decrease in capital assets due to depreciation expense of \$62,140. The District's Long-Term Debt Outstanding decreased by the principal payments of \$36,270 for total debt. The total increase in net position for the year was \$(12,659).

**Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)**

**Condensed Statements of Revenues, Expenses and Changes in Net Position
2017 and 2016**

	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues	\$ 216,073	\$ 197,376	\$ 18,697	9.47%
Nonoperating Revenues	1,899	883	1,016	115.06%
Total Revenues	<u>217,972</u>	<u>198,259</u>	<u>19,713</u>	9.94%
Expenses:				
Depreciation Expense	62,140	62,140	-	0.00%
Other Operating Expense	103,166	101,573	1,593	1.57%
Nonoperating Expense	40,007	41,509	(1,502)	-3.62%
Total Expenses	<u>205,313</u>	<u>205,222</u>	<u>91</u>	0.04%
Changes in Net Position	12,659	(6,963)	19,622	281.80%
Beginning Net Position	<u>774,625</u>	<u>781,588</u>	<u>(6,963)</u>	-0.89%
Ending Net Position	<u>\$ 787,284</u>	<u>\$ 774,625</u>	<u>\$ 12,659</u>	1.63%

While the Statement of Net Position shows the change in financial position of net position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers to the nature and scope of these changes. The above table gives an indication of how Mount Hermon Water District is being conservatively managed.

Total "Operating Revenues" (including water sales and revenues related to providing water and related services to customers) increased approximately ten percent. Water sales increased approximately \$11,803.

Total "Nonoperating Revenues" increased by approximately \$1,016 primarily due to increases in interest income.

Operating expenses increased primarily from bad debts, operations and maintenance-contract, and insurance which increased approximately \$1,890, \$5,312 and \$1,349, respectively, offset by a decrease in repairs and maintenance and utilities of \$6,045 and \$1,177 respectively.

Nonoperating expenses decreased due to interest expense decrease of \$1,502.

The District's net position increased by \$12,659 primarily due to increases in operating revenue and decreases in repairs and maintenance and utilities. Water rates for the year ended December 31, 2017 did not increase.

**Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)**

Budgetary Highlights

Mount Hermon Water District adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 – Schedule of Revenues, Expenses, and Changes in Net Position Budget (GAAP Basis) and Actual", as supplementary information, following the footnotes to the financial statements.

Budget vs. Actual - Fiscal Year ended December 31, 2017

	Budget Year ended December 31, 2017	Actual Year ended December 31, 2017	Favorable (Unfavorable) Variance
Revenues:			
Operating Revenues	\$ 208,650	\$ 216,073	\$ 7,423
Nonoperating Revenues	200	1,899	1,699
Total Revenues	208,850	217,972	9,122
Expenses:			
Depreciation Expense	62,200	62,140	60
Other Operating Expense	103,251	103,166	85
Nonoperating Expense	40,300	40,007	293
Total Expenses	205,751	205,313	438
Change in Net Position	\$ 3,099	\$ 12,659	\$ 9,560

**Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)**

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Increase (Decrease)</u>
Customers			
Residential	364	364	-
Commercial	24	25	(1)
Total Customers	<u>388</u>	<u>389</u>	<u>(1)</u>

Revenue and Expense Data Per Customer per Month

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Increase (Decrease)</u>
Water Sales	\$ 43.14	\$ 40.50	\$ 2.64
Operating Revenues	46.41	42.28	4.13
Total Revenues	46.82	42.47	4.35
Operating Expenses	35.50	35.07	0.43
Total Expenses	44.10	43.96	0.14

**Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)**

One key measure of a water district's profitability, and the ability to generate positive cash flows, is the ability of the water system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2017 and 2016.

	<u>Year Ended December 31, 2017</u>	<u>Year Ended December 31, 2016</u>	<u>Increase (Decrease)</u>
Accounts Receivable			
Current	\$ 13,728	\$ 10,003	\$ 3,725
31-60 Days Past Due	9,539	8,870	669
61-90 Days Past Due	-	-	-
Over 90 Days Past Due	-	-	-
Subtotal	<u>23,267</u>	<u>18,873</u>	4,394
Allowance for Uncollectible Accounts	<u>(825)</u>	<u>(825)</u>	-
Net Accounts Receivable	<u>\$ 22,442</u>	<u>\$ 18,048</u>	<u>\$ 4,394</u>

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ending December 31, 2017, Mount Hermon Water District had \$1,381,043 (net of accumulated depreciation) recorded in capital assets. This includes water systems and improvements, investment for storage for water system equipment and supplies, and land owned by the District. The changes in capital assets are presented in the table below.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Capital Assets				
Land	\$ 3,890	\$ 3,890	\$ -	0.00%
Utility System	2,310,500	2,310,500	-	0.00%
Subtotal	<u>2,314,390</u>	<u>2,314,390</u>	-	0.00%
Less: Accumulated Depreciation	<u>(933,347)</u>	<u>(871,207)</u>	<u>(62,140)</u>	-7.13%
Net Capital Assets	<u>\$ 1,381,043</u>	<u>\$ 1,443,183</u>	<u>\$ (62,140)</u>	-4.31%

**Mount Hermon Water District
Management's Discussion and Analysis
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)**

Long-Term Obligations

The sources of long-term financing for Mount Hermon Water District water system improvements are a revenue bond financed by the United States Department of Agriculture, Rural Utilities Service (RUS), and bond financing through the Department of Health of Human Resources (DHH) currently providing financing for a new water well. The reader should refer to *Footnote 7 – Long-Term Obligations* for a listing of current debt balance and bond covenants and related requirements.

Bonds financed for Mount Hermon Water District require a specific debt to net income ratio. Specifically, bond covenants require:

The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120 percent of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

New bond requirements became effective March, 2015 for the 2013 series. For the fiscal year ending December 31, 2017, the bond debt coverage factor was 146 percent, which is above the percentage required by the bond covenant of 120 percent. See *Footnote 8 - Flow of Funds, Restrictions on Use*.

Future Economic Plans

The Mount Hermon Water District's management approach is conservative. The Board of Commissioners actively monitors revenues and expenses and evaluates the costs of proposed expansion projects. The board's emphasis is on managing operating expenses. These plans are anticipated to result in lower utility bills for customers and to only approve rate increases when necessary to pay operating expenses and fund water revenue bond requirements.

Basic Financial Statements

Statement A

Mount Hermon Water District
Statement of Net Position
As of December 31, 2017
(With Comparative Totals as of December 31, 2016)

	2017	2016
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 152,808	\$ 122,094
Receivables, Net :		
Accounts	22,442	18,048
Unbilled	10,419	9,705
Prepaid Insurance and Other	1,685	2,681
Total Current Assets	187,354	152,528
Restricted Assets:		
Restricted Cash and Cash Equivalents		
Customer Deposits	22,228	20,548
Bond Reserve Account - RUS	64,314	63,696
Bond Contingency Account - RUS	60,653	57,597
Bond Sinking Account	21,618	20,594
Total Restricted Assets	168,813	162,435
Property, Plant, and Equipment		
Land	3,890	3,890
Property, Plant and Equipment, Net	1,377,153	1,439,293
Total Property, Plant, and Equipment	1,381,043	1,443,183
Other Assets		
Utility Deposits	220	220
Total Other Assets	220	220
Total Assets	1,737,430	1,758,366
Liabilities		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	8,388	7,835
Other Accrued Payables	1,340	777
Total Current Liabilities (Payable From Current Assets)	9,728	8,612
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits	22,227	20,547
Revenue Bonds Payable	38,061	36,127
Accrued Interest Bonds - RUS	6,250	6,371
Total Current Liabilities (Payable From Restricted Assets)	66,538	63,045
Long Term Liabilities:		
Bonds Payable	873,880	912,084
Total Long Term Liabilities	873,880	912,084
Total Liabilities	950,146	983,741
Net Position		
Net Investment in Capital Assets	462,852	488,601
Restricted for:		
Capital Projects and Debt Service	146,586	141,888
Unrestricted	177,846	144,136
Total Net Position	\$ 787,284	\$ 774,625

See accompanying notes and accountant's report.

Statement B

Mount Hermon Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Water Sales	\$ 200,857	\$ 189,054
Installation Fees	6,755	3,340
Penalties	6,766	3,983
Other	1,695	999
Total Operating Revenues	<u>216,073</u>	<u>197,376</u>
Operating Expenses		
Bad Debts	3,061	1,171
Operations and Maintenance - Contract	63,222	57,910
Depreciation	62,140	62,140
Insurance	8,215	6,866
Mileage	5,700	6,000
Other	2,000	1,536
Professional Fees	5,500	5,400
Repairs and Maintenance	1,686	7,731
Utilities	13,782	14,959
Total Operating Expenses	<u>165,306</u>	<u>163,713</u>
Operating Income (Loss)	<u>50,767</u>	<u>33,663</u>
Nonoperating Revenues (Expenses)		
Interest Income	1,899	883
Interest Expense	(40,007)	(41,509)
Total Nonoperating Revenues (Expenses)	<u>(38,108)</u>	<u>(40,626)</u>
Change in Net Position	12,659	(6,963)
Total Net Position, Beginning	<u>774,625</u>	<u>781,588</u>
Total Net Position, Ending	<u>\$ 787,284</u>	<u>\$ 774,625</u>

See accompanying notes and accountant's report.

Mount Hermon Water District
Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 195,749	\$ 181,115
Received for Meter Deposit Fees	1,680	994
Other Receipts	15,216	8,322
Payments for Operations	<u>(101,054)</u>	<u>(102,382)</u>
Net Cash Provided by Operating Activities	<u>111,591</u>	<u>88,049</u>
Cash Flows From Capital and Related Financing Activities		
(Payments for) Capital Acquisitions	-	-
Principal Proceeds from (Repayments for) Long Term Debt	(36,270)	(35,191)
Interest Payments for Long Term Debt	<u>(40,128)</u>	<u>(41,920)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(76,398)</u>	<u>(77,111)</u>
Cash Flows From Investing Activities		
Receipt of Interest	<u>1,899</u>	<u>883</u>
Net Cash Provided by Investing Activities	<u>1,899</u>	<u>883</u>
Net Cash Increase (Decrease) in Cash and Cash Equivalents	37,092	11,821
Cash and Cash Equivalents, Beginning of Year	<u>284,529</u>	<u>272,708</u>
Cash and Cash Equivalents, End of Year	<u>\$ 321,621</u>	<u>\$ 284,529</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:		
Cash and Cash Equivalents, Unrestricted	\$ 152,808	\$ 122,094
Cash and Cash Equivalents, Restricted	<u>168,813</u>	<u>162,435</u>
Total Cash and Cash Equivalents	<u>\$ 321,621</u>	<u>\$ 284,529</u>

(Continued)

See accompanying notes and accountant's report.

Mount Hermon Water District
Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	<u>12/31/17</u>	<u>12/31/16</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ 50,767	\$ 33,663
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	62,140	62,140
(Increase) decrease in Accounts Receivable	(5,108)	(7,939)
(Increase) decrease in Prepaid Insurance	996	48
Increase (decrease) in Accounts Payable	553	344
Increase (decrease) in Accrued Expenses	563	(1,201)
Increase (decrease) in Customer Deposits	1,680	994
Net Cash Provided (Used) by Operating Activities	<u>\$ 111,591</u>	<u>\$ 88,049</u>

(Concluded)

See accompanying notes and accountant's report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

Introduction

Mount Hermon Water District of the Parish of Washington, State of Louisiana was established July 23, 1986, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Chapter 8 of Title 33 of the Louisiana Revised Statutes of 1950, and other constitutional and statutory authority supplemented thereto, describes and defines the boundaries of the water district, and provides for a five member governing board of commissioners appointed by the Washington Parish Council.

Mount Hermon Water District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

Construction of the water system plant and equipment for the water system was financed under a loan/grant program from the United States Rural Utilities Service (RUS) office, with construction completed in March, 1997. Mount Hermon Water District, as of December 31, 2017, serves 388 water customers. The District contracts the operation and maintenance of the water system, including billings of water customers, to an outside agent.

GASB Statement No. 14, *The Reporting Entity*, as amended, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Mount Hermon Water District is considered a component unit of the Washington Parish Council.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as described in the following paragraphs.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, as amended by GASB Statements described in the following paragraphs. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The definition and composition of these statements, as originally defined in GASB Statement No. 34, are as amended by GASB Statements included in the following paragraphs. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net position.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for financial statement periods ending after December 15, 2012, provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined *Deferred Outflows of Resources* as a consumption of net assets by the government that is applicable to a future reporting period, and *Deferred Inflows of*

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

Resources as an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB Concepts Statement 4 identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The definition and reporting of net position is further described in *Footnote J – Net Position*. As required by the Governmental Accounting Standards Board (GASB), the District implemented GASB Statement No. 63 during the year ended December 31, 2012. The District did not have any deferred outflows or inflows of resources at December 31, 2017.

The District has also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The application of this standard to long-term debt offerings is more fully described in *Footnote I – Long-Term Obligations*.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term measurement focus denotes what is being measured and reported in the District’s operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the statement of net position. The statement of revenues, expenses, and changes in net position includes all costs of providing goods and services during the period.

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. The principal operating revenues of the proprietary funds are user charges for the services provided by the enterprise funds. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

B. Cash and Cash Equivalents and Investments

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits, the Louisiana Asset Management Pool (LAMP) and those investments with original maturities of three months or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost
- There is no involuntary participation in an external investment pool.

At December 31, 2017, Mount Hermon Water District had no investments.

D. Inventories

Inventories consist of materials and supplies and are recorded as an expense when consumed. Inventories are valued at cost using the first-in, first-out method.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. Additionally, funds held for customers' meter deposits are also classified as restricted assets.

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations.

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Utility System	20 to 40 Years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

H. Compensated Absences

At December 31, 2017, the District did not have employees that accumulate or vest benefits.

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are now expended in the period incurred under GASB 65.

The District has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and with the implementation of GASB 65, the recognition of bond-related costs, including the costs related to issuance and refunding of debt, are revised. This standard was intended to compliment GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are now expended in the period incurred under GASB 65. The District did not have any bond related costs in the year ending December 31, 2017.

GASB Statement 23, as amended, establishes accounting and financial reporting for current refundings and advance refundings resulting in defeasance of debt. Refundings involve the issuance of new debt whose proceeds are used to repay previously issued (“old”) debt. The new debt proceeds may be used to repay the old debt immediately (a current refunding); or the new debt proceeds may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding). As described in paragraphs 3 and 4 of GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, an advance refunding may result in the in-substance defeasance of the old debt provided that certain criteria are met.

For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

See accountant’s compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

Paragraph 187 of GASB Statement 62 establishes standards of accounting and financial reporting for debt issuance costs. Paragraph 12 of Statement 7 indicates that debt issuance costs include all costs incurred to issue the bonds, including but not limited to insurance costs (net of rebates from the old debt, if any), financing costs (such as rating agency fees), and other related costs (such as printing, legal, administrative, and trustee expenses). Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

J. Net Position

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, required reclassification of net assets into three separate components. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, revised the terminology by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. GASB Statement No. 63 requires the following components of net position:

- **Net Investment in Capital Assets Component of Net Position** - The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.
- **Restricted Component of Net Position** - The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- **Unrestricted Component of Net Position** - The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

K. Comparative Data/Reclassifications

The financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. Any prior period adjustments recorded in the current period have been reflected in prior period data presented wherever possible.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the District, which are either unusual in nature or infrequent in occurrence.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount 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 reported period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

At December 31, 2017, the District has cash and cash equivalents (book balances) as follows:

Demand Deposits	\$	123,092
Louisiana Asset Management Pool (LAMP)		198,529
		321,621
	\$	321,621

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2017, the District has \$118,330 in deposits (collected bank balances), all consisting of demand deposits in one bank. These deposits are fully secured from risk by federal deposit insurance.

In accordance with GASB Codification Section I50.165, the investment in the Louisiana Asset Management Pool (LAMP) at December 31, 2017, is not categorized in the three risk categories provided by GASB Codification Section I50.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. The investment in LAMP is stated at the value of the pool shares, which is the same as the fair value. LAMP is administered by LAMP, Inc., a

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

non-profit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. The corporation is governed by a board of directors comprised of the State Treasurer, representatives from various organizations of local government, the Government Finance Office Association of Louisiana, and the Society of Louisiana CPAs. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. LAMP is subject to the regulator oversight of the state treasurer and the board of directors. LAMP is not registered with the SEC as an investment company.

While LAMP is not required to be a registered investment company under the Investment Company Act of 1940, its investment policies are similar to those established by Rule 2a7, which governs registered money market funds. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LSA-R.S. 33:2955.

GASB 40, *Deposit and Investment Risk Disclosure*, requires disclosure of credit risk, custodial credit risk, concentration of credit risk interest rate risk, and foreign currency risk for all public entity investments.

LAMP is a 2a7 – like investment pool. The following facts are relevant for 2a7 like investment pools:

1. Credit risk: LAMP is rated AAAM by Standards and Poor's.
2. Custodial credit risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.
3. Concentration of credit risk: Pooled investments are excluded from the five percent disclosure requirement.
4. Interest rate risk: 2a7-like investment pools are excluded from this disclosure requirement per paragraph 15 of the GASB 40 statement. However, LAMP prepares its own interest rate risk disclosure using the weighted average maturity (WAM) method. The WAM of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. The WAM for LAMP's total investments, as provided by LAMP, is 43 days as of December 31, 2017.
5. Foreign currency risk: Not applicable to 2a7-like pools.

LAMP is designed to be highly liquid to give its participants immediate access to their account balances. The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the net asset value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and the board of directors. LAMP is not registered with the SEC as an investment company. LAMP, Inc., issues an annual publicly available financial report that includes financial statements and required supplementary information for LAMP, Inc. That report may be obtained by calling (800) 249-5267.

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

3. Investments

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name.

In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair market value when held, with the estimated fair market value based on quoted market prices. The District did not hold any investments at December 31, 2017.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

4. Receivables

The following is a summary of receivables at December 31, 2017 and 2016:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Increase (Decrease)
Accounts Receivable			
Current	\$ 13,728	\$ 10,003	\$ 3,725
31-60 Days Past Due	9,539	8,870	669
61-90 Days Past Due	-	-	-
Over 90 Days Past Due	-	-	-
Subtotal	23,267	18,873	4,394
Allowance for Uncollectible Accounts	(825)	(825)	-
Net Accounts Receivable	\$ 22,442	\$ 18,048	\$ 4,394

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. Periodically, the board reviews the aging of receivables and determines the actual amount uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectibility.

Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. At December 31, 2017, accrued billings amounts were \$10,419.

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

5. Restricted Assets

Restricted assets were applicable to the following at December 31, 2017:

Customer Deposits	\$	22,228
Bond Reserve		64,314
Bond Depreciation & Contingency		60,653
Bond Sinking		<u>21,618</u>
	\$	<u>168,813</u>

See footnote 8 sections b, c, and d for descriptions of the Bond Reserve, Bond Contingency, and Bond Sinking accounts.

6. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2017 is as follows:

	<u>Beginning Balance 12/31/16</u>	<u>Additions and Reclassifications</u>	<u>Deletions and Reclassifications</u>	<u>Ending Balance 12/31/17</u>
Capital Assets				
Land	\$ 3,890	\$ -	\$ -	\$ 3,890
Utility System	<u>2,310,500</u>	<u>-</u>	<u>-</u>	<u>2,310,500</u>
Total Capital Assets	2,314,390	-	-	2,314,390
Less Accumulated Depreciation	<u>(871,207)</u>	<u>(62,140)</u>	<u>-</u>	<u>(933,347)</u>
Total Capital Assets, Net	<u>\$ 1,443,183</u>	<u>\$ (62,140)</u>	<u>\$ -</u>	<u>\$ 1,381,043</u>

At December 31, 2017, the District did not have any asset additions nor disposals.

Depreciation expense for the fiscal year ending December 31, 2017, totaled \$62,140.

7. Long-Term Obligations

The following is a summary of long-term obligation transactions for the year ended December 31, 2017:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-Term Debt					
1996 Water Revenue Bond	\$ 534,211	\$ -	\$ (18,270)	\$ 515,941	\$ 19,061
Series 2013 Water Revenue Bond	<u>414,000</u>	<u>-</u>	<u>(18,000)</u>	<u>396,000</u>	<u>19,000</u>
Total Long-Term Debt	<u>\$ 948,211</u>	<u>\$ -</u>	<u>\$ (36,270)</u>	<u>\$ 911,941</u>	<u>\$ 38,061</u>

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

Bonds Payable as of December 31, 2017 are as follows:

	<u>Bonds Payable</u> <u>End of Year</u>	<u>Due Within One</u> <u>Year</u>
Revenue Bond \$ 754,000 1996 Water Revenue Utility Bonds		
Dated 2/8/1996 due in monthly installments of principal and interest of		
\$ 3,702 through 2/6/2036 interest at 5.0%	\$ 515,941	\$ 19,061
Revenue Bond \$ 700,000 Series 2013 Water Revenue Bonds		
Dated 3/8/2013 due in semi-annual installments of principal and interest of		
\$17,000 to \$34,000 through 3/1/2033 interest at 2.95%	396,000	19,000
	<u>\$ 911,941</u>	<u>\$ 38,061</u>

The first revenue bond above was issued through the United States Department of Agriculture, Rural Utility Service (RUS) at a total bond amount of \$754,000 on February 8, 1996, at an annual interest rate of 5.0%. The second loan, Series 2013 Water Revenue Bonds, is dated 3/8/13 and is issued through the Department of Health and Hospitals (DHH), State of Louisiana at an annual interest rate of 2.95% and an annual administrative fee of .5%. Under the terms of the DHH Series 2013 bond issue, the bonds are issued at a "Principal Amount Before Forgiveness" of \$700,000, and a "Principal Amount Net of Forgiveness" of \$490,000. The gross amount of \$700,000 represents the total amount available for project construction; whereas the net amount of \$490,000 represents the amount that the District will incur as indebtedness for project construction. The difference between the gross amount of \$700,000 and the net amount of \$490,000 was recognized on the financial statements of the District as State Grant Income in prior years. Construction for the new water well was completed in 2014.

The annual requirements to amortize all debt outstanding as of December 31, 2017, including interest payments of \$410,220 are as follows:

<u>Year Ending</u> <u>12/31/17</u>	<u>1996 RUS Water</u> <u>Revenue Bonds</u>	<u>Series 2013,</u> <u>Water Revenue</u> <u>Bonds</u>		<u>Total</u>
2018	\$ 44,426	\$ 32,334	\$	76,760
2019	44,426	32,662		77,088
2020	44,426	31,972		76,398
2021	44,426	32,264		76,690
2022	44,426	32,523		76,949
2023 to 2027	222,128	160,710		382,838
2028 to 2032	222,128	160,078		382,206
2033 to 2037	140,683	32,551		173,234
	<u>\$ 807,067</u>	<u>\$ 515,094</u>	\$	<u>1,322,161</u>

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

8. Flow of Funds, Restrictions on Use

As of December 31, 2017, Mount Hermon Water District had two Revenue Bonds. The first bond with the Rural Utilities Service (RUS) was issued at \$754,000 on February 8, 1996, at an interest rate of 5.0 percent. The second bond, Series 2013 Water Revenue Bonds, is dated 3/8/13 and was issued through the Department of Health and Hospitals (DHH) at an annual interest rate of 2.95% and an annual administrative fee of .5%, at a maximum principal amount, net of forgiveness, of \$490,000. Total interest expense from all water revenue bonds equaled \$40,007 for the year ended December 31, 2017. The gross revenue recognized during the current period was \$217,972.

Bond covenants specify that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions applying to the two bond issues are summarized below:

- a) The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120 percent of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

New bond requirements became effective March, 2015 for the 2013 series. For the fiscal year ending December 31, 2017, the bond debt coverage factor was 146 percent, which is above the percentage required by the bond covenant of 120 percent.

- b) The establishment and maintenance of a “Water Bond and Interest Sinking Fund” (the Sinking Fund) sufficient in amount to pay promptly and fully the principal and interest on the bonds.

The actual creation of a sinking fund was not required for the 1996 Rural Utilities Service (RUS) bonds since the District pays required bond installments directly to Rural Utilities Service, on a monthly basis. At December 31, 2017, Mount Hermon Water District had made the required monthly installments. For the Series 2013 Water Revenue Bonds, bond covenants require the creation of a Water Revenue Bond and Interest Sinking Fund to pay promptly and fully the principal of and the interest on the Outstanding Parity Bonds by transferring from the Revenue Fund to the regularly designated fiscal agent bank of the District, monthly in advance on or before the 20th day each month of each year a sum equal to the debt service requirement schedule provided by DHH. Total sinking fund requirement at December 31, 2017 was \$18,628; therefore, the Sinking Fund was fully-funded at December 31, 2017, at \$21,618.

- c) Bond covenants of the Series 2013 Water Revenues require the establishment of the “Water Revenue Debt Reserve Fund” (the Reserve Fund) containing separate accounts designated for the 1996 Rural Utilities Service (RUS) Water Revenue Bonds and the Series 2013 Water Revenue Bonds, as follows:

See accountant’s compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

- 1) "Series 1996 Account", containing approximately \$44,424 of revenues, heretofore deposited with respect to the outstanding parity bonds and which may be used solely to secure and make payments on the outstanding parity bonds to which there would otherwise be default. This account was fully funded at December 31, 2017, with a balance accumulated of \$44,424.
 - 2) "Series 2013 Account" which shall secure the Bonds, and shall be funded in advance on or before the 20th day of each month of each year, commencing with the month following the delivery of the Bonds, with a sum at least equal to at least fifty percent (50%) of the amount to be paid into the Sinking Fund with respect to the Bonds, the payments in the Series 2013 Account to continue until there has been accumulated a sum equal to the Reserve Fund Requirement, if any, designated and established for such series of Additional Parity Bonds. The Reserve Fund Requirement is one-half of the maximum annual principal and interest requirements of the Bonds for any succeeding Bond Year. The requirement for the Reserve Fund for Series 2013 Water Revenue Bonds at December 31, 2017 was \$16,585. The Reserve Fund for Series 2013 was fully funded at December 31, 2017 at \$19,890.
- d) The 1996 Rural Utilities Service (RUS) bonds require the transfer from the Water Revenue Fund, the operating account of the District, monthly in advance on or before the 20th of each month the sum of \$191 per month. Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund. The District made all of the required deposits to the Depreciation and Contingency Fund for the 1996 Rural Utilities Service (RUS) bonds, maintaining a balance of \$60,653, at December 31, 2017.

The Series 2013 Water Revenue Bonds does not require the transfer of any funds to a Depreciation and Contingency Fund.

- e) The District, in the original bond resolution also obligated itself to abide by the following covenants:
- 1) The District will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within fifteen days from the date on which such charges became delinquent.
 - 2) A ten percent penalty will be charged on all delinquent accounts, and interest at a reasonable rate as established by the District, as well as payment of a reasonable reconnect charge for the resumption of services.
 - 3) The District agrees to maintain the System in first class repair and working order and condition.
 - 4) The District will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.
 - 5) The District will maintain separate and correct records and accounts, and will have the books audited no later than three months after the end of the fiscal year.

See accountant's compilation report.

Mount Hermon Water District
Notes to the Financial Statements
As of and for the Year Ended December 31, 2017
(with December 31, 2016 summarized comparative information)

- 6) The District will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the District may dispose of property that in its judgment is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
- 7) The District will not, except as provided by this bond resolution, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security therefore.
- 8) That, to the extent permitted by law, the District will not grant a franchise to any utility for operation within the boundaries of the District.
- 9) In operation of the System, the District will require all officers and employees in a position of authority or in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.

9. Restricted and Designated Net Position

At December 31, 2017, Mount Hermon Water District recorded \$146,586 in Restricted Net Position (Restricted for Capital Projects and Debt Service), representing the District's funds restricted by revenue bond debt covenants and contracts with customers for meter deposits. Restricted Net Position is recorded net of any liability relating to those assets. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

10. Water System Management

The water district is operated under a contract with an outside party. The contract management provides services for operation and maintenance of the system, including billing services for the water district.

11. Litigation and Claims

There is no outstanding litigation at December 31, 2017.

12. Subsequent Events

Subsequent events have been evaluated by management through April 20, 2018, the date the financial statements were available to be issued and these financial statements considered subsequent events through such date.

No events were noted that require recording or disclosure in the financial statements for the fiscal year ending December 31, 2017.

Other Supplemental Information

Mount Hermon Water District
Schedule of Revenues, Expenses, and Changes in Net Position - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2017
(With Comparative Amounts for the Year Ended December 31, 2016)

	2017	2017	Variance	2016
	Budget	Actual	Favorable	Actual
			(Unfavorable)	
Operating Revenues				
Water Sales	\$ 196,000	\$ 200,857	\$ 4,857	\$ 189,054
Installation Fees	6,000	6,755	755	3,340
Penalties	4,800	6,766	1,966	3,983
Other	1,850	1,695	(155)	999
Total Operating Revenues	208,650	216,073	7,423	197,376
Operating Expenses				
Bad Debts	600	3,061	(2,461)	1,171
Operations and Maintenance - Contract	64,000	63,222	778	57,910
Depreciation	62,200	62,140	60	62,140
Insurance	9,200	8,215	985	6,866
Mileage	6,000	5,700	300	6,000
Other	1,751	2,000	(249)	1,536
Professional Fees	6,000	5,500	500	5,400
Repairs and Maintenance	2,400	1,686	714	7,731
Supplies	300	-	300	-
Utilities	13,000	13,782	(782)	14,959
Total Operating Expenses	165,451	165,306	145	163,713
Operating Income (Loss)	43,199	50,767	7,568	33,663
Nonoperating Revenues (Expenses)				
Interest Income	200	1,899	1,699	883
Interest Expense	(40,300)	(40,007)	293	(41,509)
Total Nonoperating Revenues	(40,100)	(38,108)	1,992	(40,626)
Change in Net Position	3,099	12,659	9,560	(6,963)
Total Net Position, Beginning	774,625	774,625	-	781,588
Total Net Position, Ending	\$ 777,724	\$ 787,284	\$ 9,560	\$ 774,625

See accountant's compilation report.

**Mount Hermon Water District
Schedule of Insurance
For the year ended December 31, 2017**

<u>Insurance Company / Policy Number</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>	
Ohio Casualty - Policy # BKO57636803	General Aggregate Limit (other than Products / Completed Operations)	\$ 2,000,000	2/1/2017 to	2/1/2018
	Products / Completed Operations Aggregate Limit	2,000,000		
	Personal and Advertising Injury	1,000,000		
	Each Occurrence Limit	1,000,000		
	Damage to Rented Premises	100,000		
	Medical Expenses	5,000		
	Building Personal Property	11,542 1,156	2/1/2017 to	2/1/2018
Ohio Casualty Insurance- Policy # BKO57636803	Public Official Position Schedule Bond: President	500,000	1/2/2017 to	1/2/2018
	Secretary-Treasurer	500,000		
Liberty Mutual Insurance- Policy # IM8174357	Equipment Floater for Water Pump and Generator - as Scheduled	80,000	7/19/2017 to	7/19/2018
Ohio Casualty Insurance- Policy # BKO57636803	Director & Officers Liability	1,000,000	2/1/2017 to	2/1/2018

See accountant's compilation report.

Mount Hermon Water District
Schedule of Compensation Paid to Board of Commissioners
For the year ended December 31, 2017

<u>Name and Title / Contact Number</u>	<u>Address</u>	<u>Compensation Received</u>	<u>Term Expiration</u>
Bill Estes, President (985) 877-5933	38009 Bennie Morris Road Mount Hermon, LA 70450	\$ -	12/31/17
Avant Vernon, Vice President (985) 877-5824	27285 Mt. Pisgah Road Mount Hermon, LA 70450	-	12/31/19
Larry Miller, Secretary (985) 877-5866	29601 Holland Brock Road Mount Hermon, LA 70450	-	Deceased
Gary Fenner, Board Member (985) 877-5058	35483 Dock Butler Road Mount Hermon, LA 70450	-	12/31/19
Rochelle Brumfield, Board Member (985) 839-6144	37770 Thomas Coyer Road Mount Hermon, LA 70450	-	12/31/17
Robert Klerk, Board Member (985) 773-9954	37595 Hwy 1055 Mount Hermon, LA 70450	-	12/31/18

See accountant's compilation report.

Schedule 4

**Mount Hermon Water District
Schedule of Compensation, Benefits, and Other Payments to Agency Head
For the year ended December 31, 2017**

Agency Head Name: Bill Estes, President

Purpose	Compensation Received
Travel Allowance	\$ 1,200

See accountant's compilation report.

Mount Hermon Water District
Schedule of Water Rates
For the year ended December 31, 2017

Water	
Residential Rates	Commercial Rates
\$ 24.00 - First 2,000 Gallons	\$ 36.00 - First 5,000 Gallons
4.50 - Per 1,000 Gallons of Water over 2,000 Gallons	4.50 - Per 1,000 Gallons of Water over 5,000 Gallons

Mount Hermon Water District
Schedule of Water Customers
For the year ended December 31, 2017

	December 31, 2017	December 31, 2016	Increase (Decrease)
Customers			
Residential	364	364	-
Commercial	24	25	(1)
Total Customers	388	389	(1)

See accountant's compilation report.