

JEFFERSON COUNTY WATER AUTHORITY
FESTUS MISSOURI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2005

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Jefferson County Water Authority

We have audited the accompanying financial statements of Jefferson County Water Authority (the Authority) of Jefferson County, Missouri as of September 30, 2005, and the related statements of revenues, expenses, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 from 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 addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Water Authority of Jefferson County, Missouri as of September 30, 2005, and the changes in financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying required supplementary information, budgetary comparisons on page 18 are not required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued an opinion dated January 17, 2006 on our consideration of the Jefferson County Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The opinion is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read on page 19 with this report in considering the results of our audit.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the U.S. generally accepted accounting principles. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Jefferson County Water Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Daniel Jones & Associates

DANIEL JONES & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS, P.C

January 17, 2006

JEFFERSON COUNTY WATER AUTHORITY
 FESTUS, MISSOURI
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDING SEPTEMBER 30, 2005

As management of the Jefferson County Water Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ending September 30, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented in this report consist of the Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows. The Balance Sheet provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Authority. This year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement reports the revenues and expenses during the time periods indicated, and can be used to determine whether the Authority has successfully recovered all of its costs through user fees and other charges. The primary purpose of the Statement of Cash Flows is to provide information about the Authority's cash receipts and cash payments. This statement reports cash receipts, cash payments and net changes in cash resulting from activities related to operations, non-capital financing and capital and related financing.

BALANCE SHEET

The Authority's net assets increased in 2005 by \$344,898 or 23.4%, which consisted of \$36,370 decrease in total assets offset by \$381,268 decrease in total liabilities. The principal impact came from \$125,000 increase to the depreciation/replacement account (required per bond documents), additional revenue from the increase of water purchased from Festus, \$65,000 increase to the water reserve account for future capital outlay, and a restatement of \$146,292 plus an additional \$31,267 increase for Herculaneum's share of Long-Term Liabilities on 2002A Series. Net capital assets, which are discussed more in capital assets, decreased by \$232,281 due to current year depreciation expense of \$316,352, which is offset by the CIP and additions to the water treatment plant in the amount of \$84,071.

As of September 30, 2005, the Authority had net assets of \$1,819,837.

A summary of financial position follows:

	<u>September 30</u>		<u>Increase (Decrease)</u>	
	<u>2005</u>	<u>2004</u>	<u>Amount</u>	<u>Percent</u>
<u>ASSETS</u>				
Net Capital Assets	\$15,058,674	15,290,955	(232,282)	(1.5%)
Current Assets	435,253	293,555	141,698	48%
Restricted Assets	8,781,626	8,679,837	101,789	1.2%
Other Assets	<u>4,403,329</u>	<u>4,450,904</u>	<u>(47,575)</u>	(1.1%)
Total Assets	<u>28,678,882</u>	<u>28,715,252</u>	<u>(36,370)</u>	(-.1%)

JEFFERSON COUNTY WATER AUTHORITY
 FESTUS, MISSOURI
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDING SEPTEMBER 30, 2005

BALANCE SHEET (Continued)

	<u>September 30</u>		<u>Increase (Decrease)</u>	
	<u>2005</u>	<u>2004</u>	<u>Amount</u>	<u>Percent</u>
LIABILITIES				
Current Liabilities	629,635	642,958	(13,323)	(2.1%)
Long-Term Liabilities	<u>26,229,410</u>	<u>26,597,355</u>	<u>(367,945)</u>	(1.4%)
Total Liabilities	<u>26,859,045</u>	<u>27,240,313</u>	<u>(381,268)</u>	(1.4%)
NET ASSETS				
Invested in Capital Assets	(3,043,922)	440,869	(3,484,791)	(790.4%)
Restricted for Debt Service	4,385,088	533,396	3,851,692	722.10%
Unrestricted	<u>478,671</u>	<u>500,674</u>	<u>(22,003)</u>	(4.4%)
Net Assets	<u>\$ 1,819,837</u>	<u>1,474,939</u>	<u>344,898</u>	23.4%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Water sales increased by \$221,791 or 14.6% and expenses increased by \$129,844 or 23.1% compared to the prior year ending September 30, 2004. The increase in water sales is due to the increase in gallons purchased from the City of Festus who then supplied wholesale water to the City of Crystal City for a period of approximately one month. The significant increase for the operating expenses is largely due to the increase of \$43,354 or 234.3% compared to the prior year in repairs and maintenance due to storm damage, which is partly offset by insurance claims and refunds. The plant also had an increase of \$29,829 or 49.1% compared to the prior year in chemicals due to the extra costs to increase the chlorine level and lower the lime level to reduce corrosiveness of the water.

	<u>September 30</u>		<u>Increase (Decrease)</u>	
	<u>2005</u>	<u>2004</u>	<u>Amount</u>	<u>Percent</u>
Operating Revenues	\$ 1,738,556	1,516,765	221,791	14.6%
Operating Expenses	<u>692,433</u>	<u>562,589</u>	<u>129,844</u>	23.1%
Operating Income Before Depreciation Expense	1,046,123	954,176	91,947	9.6%

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2005

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (continued)

	<u>September 30</u>		<u>Increase (Decrease)</u>	
	<u>2005</u>	<u>2004</u>	<u>Amount</u>	<u>Percent</u>
Depreciation Expense	316,352	310,828	5,524	1.8%
Operating Income (Loss)	729,771	643,348	86,423	13.4%
Non Operating Revenues (Expenses)	(384,873)	(256,740)	(128,133)	49.9%
Income Before Capital Contributions	344,898	386,608	(41,710)	(10.8%)
Capital Contributions	0.00	0.00	0.00	0%
Change in Net Assets	344,898	386,608	(41,710)	(10.8%)
Net Assets, October 1 (restated)	1,474,939	1,088,331	386,608	35.5%
Net Assets, September 30	\$ 1,819,837	1,474,939	344,898	23.4%

STATEMENT OF CASH FLOWS

The Authority's rate structure is designed to collect sufficient revenues to cover the operating and maintenance expenses along with a 110% debt service coverage that is required by bond documents. The rate structure is also designed to collect sufficient funds to deposit 1/12 of the "Annual Depreciation and Replacement Requirement" that will reach its maximum requirement within a six-year period. The Authority has successfully accomplished that objective during 2005. The net cash provided by operating activities was used primarily for normal operating items and to fund a reserve account for future capital improvements.

CAPITAL ASSETS

Total capital assets were \$15,058,674 at September 30, 2005 compared to \$15,290,955 at September 30, 2004 or a decrease of \$232,281. Additions to the capital assets included \$64,965 for additional engineering services reallocated to the final cost of the construction of the Water Treatment Plant, which was removed from Herculaneum's share of debt service. Another addition to the capital assets was the purchase of surveillance equipment in the amount of \$5,976. The construction in progress account at September 30, 2005 amounted to \$13,130 for the purchase of new meters to be installed in fiscal year 05/06. The decrease in capital assets is offset by current year depreciation in the amount of \$316,352. Additional information on the Jefferson County Water Authority capital assets can be found in Note VI of the financial statements.

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2005

RESTRICTED ASSETS

Total restricted assets were \$8,781,626 at September 30, 2005 compared to \$8,679,837 at September 30, 2004 with an increase of \$101,789 or 1.2%. The restricted assets mainly consisted of investment accounts related to the bond closings of the 2000 Series, 2001C SRF and the 2002A SRF Series. Other restricted assets consisted of the depreciation/replacement account required by bond documents and a reserve account setup for future capital improvements by the Authority. The increase in restricted assets primarily came from an additional \$125,000 deposited into the depreciation/replacement account and \$65,000 added to the reserve account, which was offset by a decrease of \$67,333 in capitalized interest released.

LONG-TERM DEBT

Long-term debt consisted of the following:

Revenue Bonds Payable

\$10,435,000 Revenue Bonds, Series 2001C, due in annual installments through July 1, 2023, interest payable at 3% to 5.375%. Revenue Bonds decreased in the amount of \$150,000 with a balance of \$10,140,000 at the end of September 30, 2005. The Revenue Bonds are in the name of the Jefferson County Water Authority. However, Herculaneum is responsible for 3.38% of the 2001C debt service payments. This percentage was determined on the amount of construction funds released from the investment account for the Herculaneum projects. All construction fund proceeds have been disbursed as of September 30, 2005.

\$8,230,000 Revenue Bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%. Revenue Bonds decreased in the amount of \$125,000 with a balance of \$8,100,000 at the end of September 30, 2005. The Revenue Bonds are in the name of the Jefferson County Water Authority. However, Herculaneum is tentatively responsible for 46.437% of the 2002A debt service payments. This percentage was determined on the amount of construction funds released from the investment account on the Herculaneum projects at September 30, 2005. However, there is a balance of funds still available in the investment account that could overall change the percentage due from Herculaneum, which could ultimately increase Jefferson County Water Authority's share.

\$490,000 Revenue Bonds, Series 2003, due in annual installments through July 2010, interest payable at 3.036%. Bonds decreased in the amount of \$65,000 with a balance of \$365,000 at the end of September 30, 2005. The Revenue Bonds are in the name of the City of Festus. However, the Authority is using the debt proceeds of construction costs and intends to pay the future debt service payments. Therefore, the debt has been recorded on the books of the Authority.

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING SEPTEMBER 30, 2005

Revenue Bonds Payable (Continued)

Notes Payable

State Revolving Fund – 2001C, no interest, amounted to \$3,542,950 at September 30, 2005.
State Revolving Fund – 2002A, no interest, amounted to \$3,958,295 at September 30, 2005.

The State Revolving Fund Notes are a reserve account that has been established with a no-interest loan funded with capitalization grants and matching funds from the State of Missouri. When fully funded, this loan (reserve account) will be funded in an amount equal to 33.33% for the Series 2001C and 50% for the Series 2002A of the outstanding principal amount of such bonds. The reserve account is held in trust. As the principal amount of such bonds is repaid, the amounts held in the reserve account will be reduced such that the reserve account will equal 33.33% and 50%, respectively, of the remaining principal balance of such bonds. Additional information can be found in VII of the financial statements.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Authority's overall financial position in 2005 improved as shown by the net assets increase of \$344,898

SUMMARY

This report is intended to provide our customers and other interested parties with a general overview of the financial position of the Authority and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the Authority's Treasurer, 636-937-4694 Ext. 328, or to our office located at 711 West Main Street, Festus, MO 63028.

FINANCIAL STATEMENTS

JEFFERSON COUNTY WATER AUTHORITY
 FESTUS, MISSOURI
 BALANCE SHEET
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	255,484
Receivables:		
Service charges		132,720
Prepaid Insurance		38,671
Inventory		8,378
Total Current Assets		435,253

NONCURRENT ASSETS

Capital assets not being depreciated:		
Land		298,083
Construction in process		13,130
Total Capital Assets Not Being Depreciated		311,213
Capital assets being depreciated:		
Water Plant		15,494,708
Vehicles		15,276
Software		10,549
Audio Visual Equipment		5,976
Total Capital Assets Being Depreciated		15,526,509
Less - Accumulated depreciation		(779,048)
Total Capital Assets Being Depreciated Net		14,747,461
Capital Assets, Net		15,058,674
Restricted assets:		
Cash and investments		8,687,641
Interest receivable		93,985
Total Restricted Assets		8,781,626
Other assets:		
Bond issue costs, net of accumulated amortization of \$90,707		352,445
Due from City of Herculaneum		4,050,884
Total Other Assets		4,403,329
Total Noncurrent Assets		28,243,629
TOTAL ASSETS	\$	28,678,882

The notes to the financial statements are an integral part of this statement.

JEFFERSON COUNTY WATER AUTHORITY
 FESTUS, MISSOURI
 BALANCE SHEET (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

LIABILITIES AND NET ASSETS

LONG-TERM DEBT

Revenue bonds payable, less current maturities	\$	18,728,165
Notes payable		7,501,245
Total Long-Term Debt		<u>26,229,410</u>

CURRENT LIABILITIES

Accounts payable		27,810
Payable from restricted assets:		
Current maturities of long-term debt		370,000
Accrued interest payable		231,825
Total Current Liabilities		<u>629,635</u>
Total Liabilities		<u>26,859,045</u>

NET ASSETS

Invested in capital assets, net of related debt		(3,043,922)
Restricted for debt service		4,385,088
Unrestricted		478,671
Total Net Assets		<u>1,819,837</u>

TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>28,678,882</u></u>
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The notes to the financial statements are an integral part of this statement.

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,729,076
Payments to Suppliers for Goods and Services	<u>(669,034)</u>
Net Cash Flows from Operating Activities	1,060,042
Cash Flows from Non-Capital Financing Activities:	
Decrease in due to City of Festus	(51,016)
Decrease in due from City of Herculaneum	88,966
Reimbursements	<u>36,700</u>
Net Cash Used by Non-Capital Financing Activities	74,650
Cash Flows from Capital and Related Financing Activities:	
Payments on Notes Payable	(41,159)
Payments on Bonds Payable	(340,000)
Interest Paid on Debt	(700,330)
Amortization (Net)	(1,824)
Purchase of Capital Assets	<u>(84,070)</u>
Net Cash Used by Capital and Related Financing Activities	(1,167,383)
Cash Flows from Investing Activities:	
Interest on Investments	269,945
Insurance Claims and Refunds	<u>10,636</u>
Net Cash Earned From Investing Activities	280,581
Net increase in Cash and Cash Equivalents	247,890
Cash and Cash Equivalents at October 1, 2004	<u>8,695,235</u>
Cash and Cash Equivalents at September 30, 2005	<u><u>\$ 8,943,125</u></u>
Reconciliation of Operating Profit to Net Cash Provided by Operating Activities:	
Operating Profit	\$ 729,771
Adjustments	
Depreciation Expense	316,352
Amortization (Net)	1,824
(Increase) Decrease in Assets and Liabilities:	
Service Charges Receivable	(9,480)
Other Receivables	9,857
Interest Receivable	(625)
Prepaid Insurance	1,304
Inventory	3,346
Increase (decrease) in:	
Accounts Payable	10,265
Accrued Interest Payable	<u>(2,572)</u>
Total Adjustments	<u>330,271</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,060,042</u></u>

The notes to the financial statements are an integral part of this statement

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

JEFFERSON COUNTY WATER AUTHORITY (the Authority) is a nonprofit corporation organized in order to promote the health and general welfare of the inhabitants residing within those municipalities and public water supply districts (collectively, the "Governmental Entities") who subscribe to the membership of the Authority, by taking appropriate action to acquire by purchase, develop, acquire, and sell potable water supply to sponsoring municipalities. The Jefferson County Water Authority was incorporated in January 2000 and began its activities in November 2001. The Jefferson County Water Authority began delivery of water to customers in September 2003.

The financial statements of the Jefferson County Water Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Jefferson County Water Authority's accounting policies are described below:

A. Reporting Entity – Related Party

In evaluating how to define the Jefferson County Water Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only- criterion for including a potential component unit within the reporting entity is the governing body's ability to impose its will over the component unit or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. Based upon the application of these criteria, the Jefferson County Water Authority is not a component unit and has been excluded from the primary's government's (City of Festus and City of Herculaneum) financial reporting.

B. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenues and expenses are categorized as either operating or nonoperating. Operating revenues and expenses include charges that are assessed to the beneficiaries of the service and the cost of providing the service. Nonoperating and other activities primarily include investment income, interest expense, and capital contributions.

JEFFERSON COUNTY WATER AUTHORITY
 FESTUS, MISSOURI
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting (Continued)

As permitted by U.S. generally accepted accounting principles, the Jefferson County Water Authority has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations.

C. Capital Assets

Capital assets are stated at cost and are defined as assets with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value. All capital assets are depreciated except for land and construction work-in-progress. Depreciation is computed on the straight-line method, using asset lives as follows:

<u>Asset</u>	<u>Years</u>
Water Plant	50
Vehicles	4
Software	15

Depreciation expense charged to operations for the year ended September 30, 2005 amounted to \$316,352.

Interest is capitalized on the Jefferson County Water Authority's assets acquired with debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

D. Accounts Receivable

In the opinion of management, all receivables are collectible in full; therefore, no allowance for doubtful accounts is provided.

E. Debt Premiums

Net premiums on debt issues are presented as an addition to the face amount and are amortized on the straight-line method over the terms of the debt. Amortization of premiums recognized in operations for the year ending September 30, 2005 amounted to \$27,904.

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Bond Issue Costs

Bond issue costs are amortized on the straight-line method over the term of the bonds. Amortization of the bond issue costs for the year ending September 30, 2005, amounted to \$17,359.

G. Deferred Bond Issue Charge

Deferred bond issue charges have resulted due to the advance refunding of the bond issues. The unamortized portion is presented as a reduction in the face amount of bonds payable and is being amortized on the straight-line method. Amortization of the deferred bond issue charge for the year ended September 30, 2005 amounted to \$12,369.

H. Water Sales

Water revenue is recorded when earned. Billings are rendered on a monthly basis.

I. Marketable Securities

Investments are reported at cost which approximates fair value.

J. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Jefferson County Water Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

K. Budgets and Budgetary Accounting

The annual budget is adopted on a basis that is substantially consistent with U.S. generally accepted accounting principles. Budgeted amounts lapse at fiscal year-end.

The Jefferson County Water Authority is required to adopt an annual budget prior to the beginning of each fiscal year. Budgetary control is at the fund level. Management may exceed budgeted amounts on a line-item basis with Board approval. All amendments to fund totals must be approved by the Board.

There were no budget amendments during the year.

L. Inventory

Inventory is valued at cost (first-in, first-out) and the expense is recognized when inventories are consumed in operations.

JEFFERSON COUNTY WATER AUTHORITY
 FESTUS, MISSOURI
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005

II. BANK DEPOSITS AND INVESTMENTS

As of September 30, 2005, the Jefferson County Water Authority's bank deposits with a book value of \$1,175,114 were fully insured or collateralized with securities held by the Authority or its agent in the Authority's name.

The Jefferson County Water Authority's investments are categorized below to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered with securities by the Authority or by its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty in its trust department or agent, but not in the Authority's name.

	September 30, 2005			
	Categories			Carrying
	1	2	3	Value/Fair Value
Repurchase agreement	\$ -	-	-	-
Guaranteed investments contracts				7,658,432
				7,659,432

III. RESTRICTED ASSETS

Certain amounts are classified as restricted assets on the balance sheet because their use is limited by the revenue bond agreements

IV. CONCENTRATION

The Jefferson County Water Authority entered into a water rate agreement to provide water to the City of Festus and the City of Herculaneum.

V. RISK MANAGEMENT

The Jefferson County Water Authority carries commercial insurance for its risks of loss, including property, general umbrella, and public officials liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

VI. CAPITAL ASSETS

Capital assets activity was as follows:

	<u>For The Year Ended September 30, 2005</u>			
	Balance September 30, 2004	Additions	Deletions	Balance September 30, 2005
Capital assets not being depreciated:				
Land	\$ 298,083	\$ -	\$ -	\$ 298,083
Construction in process	-	13,130	-	13,130
Total Capital Assets Not Being Depreciated	298,083	13,130	-	311,213
Capital assets being depreciated:				
Water plant	15,429,743	64,965	-	15,494,708
Vehicles	15,276	-	-	15,276
Software	10,549	-	-	10,549
Audio Visual Equipment	-	5,976	-	5,976
Total Capital Assets Being Depreciated	15,455,568	70,941	-	15,526,509
Less-Accumulated depreciation for:				
Water plant	(455,913)	(310,833)	-	(766,746)
Vehicles	(5,728)	(3,820)	-	(9,548)
Software	(1,055)	(703)	-	(1,758)
Audio Visual Equipment	-	(996)	-	(996)
Total Accumulated Depreciation	(462,696)	(316,352)	-	(779,048)
Total Capital Assets Being Depreciated, Net	14,992,872	(245,411)	-	14,747,461
 Total Capital Assets, Net	 \$ 15,290,955	 \$ (232,281)	 \$ -	 \$ 15,058,674

VII. LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>September 30 2005</u>
Revenue Bonds Payable	
\$10,435,000 Revenue Bonds, Series 2001 C, due in annual installments through July 1, 2023, interest payable at 3% to 5.375%.	\$ 10,140,000
\$8,230,000 Revenue Bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	8,100,000

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

VII. LONG-TERM DEBT (CONTINUED)

Long-term debt consisted of the following:

	September 30 2005
Revenue Bonds Payable (continued)	
\$490,000 Revenue Bonds, Series 2003, due in annual installments through July 2010, interest payable at 3.036%.	365,000
Total	\$ 18,605,000
Less – Current maturities	(370,000)
Plus – Unamortized debt premiums, net	493,165
	\$ 18,728,165
Notes Payable	
State Revolving Fund – 2001C, no interest	\$ 3,542,950
State Revolving Fund – 2002A, no interest	3,958,295
	\$ 7,501,245

Aggregate maturities (principal and interest) required on long-term debt are as follows:

For The Years Ended September 30	Revenue Bonds Payable						Total	
	Series 2001C		Series 2002A		Series 2003		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	150,000	521,456	150,000	392,326	70,000	11,081	370,000	924,863
2007	165,000	513,956	200,000	386,339	70,000	8,956	435,000	909,251
2008	190,000	505,706	250,000	378,101	75,000	6,831	515,000	890,638
2009	225,000	496,206	295,000	367,661	75,000	4,554	595,000	868,421
2010	260,000	484,394	320,000	355,509	75,000	2,277	655,000	842,180
2011-2015	2,850,000	2,099,706	2,115,000	1,519,216	-	-	4,965,000	3,618,922
2016-2021	3,700,000	1,236,201	2,745,000	891,235	-	-	6,445,000	2,127,436
2022-2023	2,600,000	263,250	2,025,000	155,375	-	-	4,625,000	418,625
	10,140,000	6,120,875	8,100,000	4,445,762	365,000	33,699	18,605,000	10,600,336

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

VII. LONG-TERM DEBT (CONTINUED)

The series 2003 Revenue Bonds are in the name of the City of Festus. The Jefferson County Water Authority is using debt proceeds for construction costs and intends to pay the future debt service payments. Therefore, the debt has been recorded on the books of the Jefferson County Water Authority.

In conjunction with SRF – 2001C and 2002A notes, a reserve account has been established with a no-interest loan funded with federal capitalization grants and matching funds from the State of Missouri.

When fully funded, this loan (reserve account) will be funded in an amount equal to 33.33% for the Series 2001C and 50% for the Series 2002A of the outstanding principal amount of such bonds. The reserve account is held in trust. As the principal amount of such bonds is repaid, the amounts held in the reserve account will be reduced such that the reserve account will equal 33.33% and 50%, respectively, of the remaining principal balance of such bonds.

Herculaneum is responsible for the 2001C and 2002A debt service payments for the amount of construction funds released from the investment account.

VIII. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments have been made in the financial statements, which are reported as an adjustment to the beginning balance of net assets:

Net Assets, September 30, 2004, as previously reported	\$1,329,139
Decrease due to additional depreciation	(492)
Increase due to Herculaneum Accounts Receivable	<u>146,292</u>
Net Assets, September 30, 2004, As Restated	<u>\$1,474,939</u>

REQUIRED SUPPLEMENTAL INFORMATION SECTION

JEFFERSON COUNTY WATER AUTHORITY
 FESTUS, MISSOURI
 OTHER SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES AND EXPENSES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>Original And Final Budgeted Amounts</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
WATER SALES	\$ 1,629,600	\$ 1,738,556	\$ 108,956
SOURCE OF SUPPLY AND PUMPING EXPENSES			
Chemicals	63,645	90,584	26,939
Engineering fees	20,000	19,899	(101)
Operation and management services	270,984	277,072	6,088
Repairs and maintenance	20,814	61,857	41,043
Supplies	600	619	19
Total Source of Supply and Pumping Expenses	<u>376,043</u>	<u>450,031</u>	<u>73,988</u>
ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES			
Bank fees	80,969	81,437	468
Dues and subscriptions	50	15	(35)
Insurance and bonds	45,859	44,375	(1,484)
Miscellaneous	5,000	2,500	(2,500)
Office supplies and postage	750	100	(650)
Professional services	18,225	9,228	(8,997)
Utilities	144,000	104,747	(39,253)
Total Accounting, Collection, and Administrative Expenses	<u>294,853</u>	<u>242,402</u>	<u>(52,451)</u>
OPERATING AND MAINTENANCE EXPENSES	<u>670,896</u>	<u>692,433</u>	<u>21,537</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	958,704	1,046,123	87,419
DEPRECIATION EXPENSE	<u>0</u>	<u>(316,352)</u>	<u>(316,352)</u>
OPERATING INCOME	958,704	729,771	(228,933)
NONOPERATING REVENUES (EXPENSES)			
Investment income	358,944	269,945	(88,999)
Interest expense	(935,681)	(700,330)	235,351
Net amortization	486	(1,824)	(2,310)
Insurance Claims & Refunds	0	10,636	10,636
Reimbursement	207,753	36,700	(171,053)
Total Nonoperating Revenues (Expenses)	<u>(368,498)</u>	<u>(384,873)</u>	<u>(16,375)</u>
CHANGE IN NET ASSETS	<u>\$ 590,206</u>	<u>\$ 344,898</u>	<u>\$ (245,308)</u>

FEDERAL COMPLIANCE SECTION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Jefferson County Water Authority

We have audited the financial statements of Jefferson County Water Authority, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements and have issued our basic report thereon dated January 17, 2006. We did not express an opinion on supplementary information required by the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jefferson County Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jefferson County Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We noted no matters involving these tests that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Daniel Jones & Associates

DANIEL JONES & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

January 17, 2006

SUPPLEMENTAL INFORMATION SECTION

JEFFERSON COUNTY WATER AUTHORITY
FESTUS, MISSOURI
SUPPLEMENTAL INFORMATION
BOARD OF DIRECTORS AND OFFICERS

<u>Name</u>	<u>Position</u>	<u>Term</u>
Earl Cook, City of Festus	President	Appointed
Jerry Martin, City of Herculaneum	Vice-president	Appointed
Steve Stoll, City of Festus	Director	Appointed
Jim Sweet, City of Herculaneum	Director	Appointed
Bill Gray, City of Festus	Director	Appointed
Mike Abram, City of Herculaneum	Director	Appointed
Michelle Guidicy, City of Festus	Treasurer	Appointed
Laurie Ferretti, City of Herculaneum	Secretary	Appointed