

JEFFERSON COUNTY WATER AUTHORITY
(A NOT-FOR-PROFIT CORPORATION)
JEFFERSON COUNTY, MISSOURI
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

JEFFERSON COUNTY WATER AUTHORITY
JEFFERSON COUNTY, MISSOURI
TABLE OF CONTENTS

	PAGE
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1-2
<u>FINANCIAL STATEMENTS</u>	
Statement of Financial Position	3-4
Statement of Activities	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-15
Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	16-17
Schedule of Current and Prior Year Findings	18
<u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues and Expenses – Budget and Actual	19
Restricted Assets Breakdown at September 30, 2008	20
Board of Directors and Officers	21

FINANCIAL SECTION



**Daniel Jones
& Associates**
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF
MISSOURI SOCIETY OF CPA'S
AMERICAN INSTITUTE OF CPA'S

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Jefferson County Water Authority

We have audited the accompanying statement of financial position of Jefferson County Water Authority (a Not-for-Profit Corporation) ("the Authority") of Jefferson County, Missouri as of September 30, 2008, and the related statements of activities 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Jefferson County Water Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Water Authority as of September 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2009 on our consideration of Jefferson County Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The supplemental information presented on pages 18 through 19 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Daniel Jones & Associates

DANIEL JONES & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 17, 2009

FINANCIAL STATEMENTS

JEFFERSON COUNTY WATER AUTHORITY
JEFFERSON COUNTY, MISSOURI
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2008

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 301,980
Investments	508,956
Receivables:	
Service charges	145,320
Other	411
Prepaid Insurance	62,445
Inventory	13,957
Total Current Assets	<u>1,033,069</u>

NONCURRENT ASSETS

Capital assets not being depreciated:	
Land	370,986
Construction in process	-
Total Capital Assets Not Being Depreciated	<u>370,986</u>
Capital assets being depreciated:	
Buildings	13,350
Water Plant	15,799,598
Vehicles	15,276
Computer Equipment & Software	12,106
Audio Visual Equipment	5,976
Total Capital Assets Being Depreciated	<u>15,846,306</u>
Less - Accumulated depreciation	<u>(1,737,467)</u>
Total Capital Assets Being Depreciated Net	<u>14,108,839</u>
Capital Assets, Net	14,479,825
Restricted assets:	
Cash and Cash Equivalents	176,036
Investments	8,147,849
Receivables:	
Interest receivable	95,342
Total Restricted Assets	<u>8,419,227</u>
Other assets:	
Bond issue costs, net of accumulated amortization of \$179,891	263,261
Due from City of Herculaneum	3,638,676
Total Other Assets	<u>3,901,937</u>
Total Noncurrent Assets	<u>26,800,990</u>
TOTAL ASSETS	\$ <u>27,834,058</u>

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

JEFFERSON COUNTY WATER AUTHORITY
JEFFERSON COUNTY, MISSOURI
STATEMENT OF FINANCIAL POSITION (CONCLUDED)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	30,845
Accrued payroll liabilities		19,039
Payable from restricted assets:		
Current maturities of long-term debt		824,242
Accrued interest payable		218,544
Total Current Liabilities		1,092,670

LONG-TERM DEBT

Revenue bonds payable, less current maturities		17,099,452
Notes payable		6,936,226
Total Long-Term Debt		24,035,678
Total Liabilities		25,128,348

NET ASSETS

Invested in capital assets, net of related debt		(2,227,978)
Restricted for debt service		4,121,865
Unrestricted		811,823
Total Net Assets		2,705,710

TOTAL LIABILITIES AND NET ASSETS	\$	27,834,058
---	-----------	-------------------

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

JEFFERSON COUNTY WATER AUTHORITY
JEFFERSON COUNTY, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

WATER SALES	1,781,380
OPERATING AND MAINTENANCE EXPENSES	<u>(705,396)</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,075,984
DEPRECIATION EXPENSE	<u>(322,523)</u>
OPERATING INCOME	753,461
NONOPERATING REVENUE (EXPENSES)	
Investment income	307,139
Reimbursement	42,823
Interest expense	(696,356)
Net amortization	(1,823)
Insurance claims and refunds	-
Total Nonoperating Revenues (Expenses)	<u>(348,218)</u>
CHANGE IN NET ASSETS	405,243
NET ASSETS (RESTATED), OCTOBER 1, 2007*	<u>2,300,467</u>
NET ASSETS, SEPTEMBER 30, 2008	<u><u>2,705,710</u></u>

*For (restated) item please see note VIII.

JEFFERSON COUNTY WATER AUTHORITY
JEFFERSON COUNTY, MISSOURI
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Receipts from Customers	\$ 1,768,780	
Payments to Suppliers for Goods and Services	(725,524)	
Net Cash Provided by Operating Activities	1,043,256	

Cash Flows from Non-Capital Financing Activities:

Decrease in due to City of Festus	-	
Decrease in due from City of Herculaneum	136,584	
Reimbursements	42,823	
Net Cash Provided by Non-Capital Financing Activities	179,407	

Cash Flows from Capital and Related Financing Activities:

Payments on Notes Payable	(154,577)	
Payments on Bonds Payable	(515,000)	
Interest Paid on Debt	(696,356)	
Amortization (Net)	(1,823)	
Sale of Capital Assets	181,541	
Purchase of Capital Assets	(427,387)	
Net Cash Used by Capital and Related Financing Activities	(1,613,601)	

Cash Flows from Investing Activities:

Transfer from Investments	(155,124)	
Interest on Investments	307,139	
Insurance Claims and Refunds	-	
Net Cash Provided by Investing Activities	152,015	

Net increase (decrease) in Cash and Cash Equivalents

(238,923)

Prior Period Adjustment

72,903

Cash and Cash Equivalents at October 1, 2007

644,036

Cash and Cash Equivalents at September 30, 2008

\$ 478,016

Reconciliation of Operating Profit to Net Cash
Provided by Operating Activities:

Operating Profit	\$ 753,461	
Adjustments		
Depreciation Expense	322,523	
Amortization (Net)	1,823	
(Increase) Decrease in Assets and Liabilities:		
Service Charges Receivable	(12,600)	
Other Receivables	(411)	
Interest Receivable	4,419	
Prepaid Insurance	24	
Inventory	(5,506)	
Increase (decrease) in:		
Accounts Payable	(19,632)	
Accrued Interest Payable	(5,288)	
Other Accrued Liabilities	4,444	
Total Adjustments	289,795	
Net Cash Provided by Operating Activities	\$ 1,043,256	

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

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

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 Financial Accounting Standards Board (FASB) 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. One of the criteria for including a potential component unit within a reporting entity is if the organizations are "financially interrelated." To be "financially interrelated" both of the following characteristics are present in the relationship between the organizations:

1. One has the ability to influence the operating and financial decisions of the other. For example: (1) they are affiliates, (2) one has considerable representation on the governing board of the other.
2. One has an ongoing economic interest in the net asset of the other.

Based upon the application of these criteria, the Jefferson County Water Authority is a component unit of the City of Festus and has been excluded from the primary government's 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 statement of financial position. 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.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting (Concluded)

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.

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
Computer Equipment & Software	15

Depreciation expense charged to operations for the year ended September 30, 2008 amounted to \$322,523.

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, 2008 amounted to \$27,904.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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, 2008, 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, 2008 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 was one budget amendment during the year approved at the August 28, 2008 regular meeting of the Board of Directors.

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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

II. DEPOSITS AND INVESTMENTS

SUMMARY OF CARRYING VALUES

The carrying values of deposits and investments shown below are included in the financial statements at September 30, 2008, as follows:

Included in the following fund financial statement captions:

<u>Balance Sheet</u>	
Cash & Cash Equivalents	\$ 478,016
Unrestricted Investments	508,956
Restricted Investments	8,147,848
Total Deposits & Investments as of September 30, 2008	\$ 9,134,820

As of September 30, 2008, the Authority's investments were as follows:

Investments 2008			
<u>Fund</u>	<u>Type</u>	<u>Maturities</u>	<u>Cost</u>
Unrestricted	FNMA Discount Note	1/07/09	508,956
	Total Unrestricted Investments		\$ 508,956
Restricted	FNMA Discount Note	1/07/09	537,800
Restricted	FNMA Discount Note	1/07/09	71,156
Restricted	Guaranteed Investment Contract	12/30/2022	3,803,254
Restricted	Guaranteed Investment Contract	12/30/2022	196,667
Restricted	Guaranteed Investment Contract	12/30/2022	33,717
Restricted	Guaranteed Investment Contract	6/30/2023	86,790
Restricted	Guaranteed Investment Contract	6/30/2023	3,362,214
Restricted	Guaranteed Investment Contract	6/30/2023	56,250
	Total Restricted Investments		\$ 8,147,848
	Total Investments		8,656,804

Custodial Credit Risk – Deposits

For a deposit, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's investment policy does not include custodial credit risk requirements. The Authority's deposits were not exposed to custodial credit risk for the fiscal year ended September 30, 2008.

Custodial Credit Risk – Investments

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by the party who sold the security to the Authority or its agent but

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

II. DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk – Investments (concluded)

not in the government's name. The Authority does not have a policy for custodial credit risk relating to investments.

All investments, evidenced by individual securities, are registered in the name of the Authority or of a type that are not exposed to custodial credit risk.

Investment Interest Rate Risk

Investment interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Investment Credit Risk

Concentration of credit risk is required to be disclosed by the County for any single investment that represents 5% or more of total investments (excluding investments issued by or explicitly guaranteed by the U.S. Government, investments in mutual funds, investments in external investment pools and investments in other pooled investments). The Authority has no policy in place to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of securities. Authority deposits of \$ 8,041,039 were exposed to concentration of investment credit risk for the fiscal year ended September 30, 2008.

III. 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. The agreements are as follows:

On March 26, 2001, City of Herculaneum entered into a contract with Jefferson County Water Authority to purchase 480,000 gallons of water per day. On January 14, 2008, the Herculaneum Board of Alderman approved amending the water usage obligation to 630,000 gallons of water per day with the understanding that should the largest consumer of water from Herculaneum reduce its water usage significantly or should Herculaneum's usage decrease for any unforeseen reason by 20% over a consecutive three month period then it would revert back to its original contract of 480,000 gallons per day.

On March 28, 2001, City of Festus entered into the same contract with Jefferson County Water Authority to purchase 1,100,000 gallons of water per day.

IV. RISK MANAGEMENT

The Jefferson County Water Authority carries commercial insurance for its risks of loss, including workman's compensation, 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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

V. CAPITAL ASSETS

Capital assets activity was as follows:

	<u>For The Year Ended September 30, 2008</u>			
	Balance September 30, 2007	Additions	Deletions	Balance September 30, 2008
Non-Depreciable Capital Assets:				
Land	\$ 298,083	\$ 72,903	\$ -	\$ 370,986
Construction in Process	25,674	155,869	(181,543)	-
Total Non-Depreciable Capital Assets	323,757	228,772	(181,543)	370,986
Depreciable Capital Assets:				
Water Plant	15,600,984	198,615	-	15,799,599
Buildings & Building Improvements	13,350	-	-	13,350
Vehicles	15,276	-	-	15,276
Computer Equipment & Software	12,106	-	-	12,106
Audio Visual Equipment	5,976	-	-	5,976
Total Depreciable Capital Assets	15,647,692	198,615	-	15,846,307
Less-Accumulated Depreciation for:				
Water Plant	(1,392,536)	(320,067)	156	(1,712,447)
Buildings & Building Improvements	(668)	(445)	-	(1,113)
Vehicles	(15,277)	-	-	(15,277)
Computer Equipment & Software	(3,476)	(1,171)	-	(4,647)
Audio Visual Equipment	(2,987)	(996)	-	(3,983)
Total Accumulated Depreciation	(1,414,944)	(322,679)	156	(1,737,467)
Total Depreciable Capital Assets, Net	14,232,748	(124,064)	156	14,108,840
Total Capital Assets, Net	\$ 14,556,505	\$ 104,708	\$ (181,387)	\$ 14,479,826

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

VI. LONG-TERM DEBT

Long-term debt consisted of the following:

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%. \$ 9,635,000

\$8,230,000 Revenue Bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%. 7,500,000

\$490,000 Revenue Bonds, Series 2003, due in annual installments through July 2010, interest payable at 3.036%. 150,000

Subtotal \$ 17,285,000

Less – Current maturities (595,000)

Plus – Unamortized debt premiums, net 409,452

Total \$ 17,099,452

Notes Payable

State Revolving Fund – 2001C, no interest \$ 3,362,214

State Revolving Fund – 2002A, no interest 3,803,254

Subtotal \$ 7,165,468

Less – Current maturities (229,242)

Total \$ 6,936,226

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

For The Years Ended September 30	Revenue Bonds Payable						SRF Loans Payable				Total	
	Series 2001C		Series 2002A		Series 2003		Series 2001C		Series 2002A			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	225,000	496,206	295,000	367,663	75,000	4,554	81,743	-	147,500	-	824,243	868,423
2010	260,000	484,394	320,000	355,509	75,000	2,277	94,694	-	160,000	-	909,694	842,180
2011	395,000	470,744	385,000	341,168	-	-	131,654	-	192,500	-	1,104,154	811,912
2012	575,000	454,944	405,000	324,520	-	-	210,897	-	202,500	-	1,393,397	779,464
2013	600,000	424,038	420,000	306,625	-	-	219,707	-	210,000	-	1,449,707	730,663
2014-2018	3,410,000	1,607,681	2,460,000	1,170,869	-	-	1,233,658	-	1,230,000	-	8,333,658	2,778,550
2019-2023	4,170,000	641,750	3,215,000	422,644	-	-	1,389,861	-	1,660,754	-	10,435,615	1,064,394
	9,635,000	4,579,757	7,500,000	3,288,998	150,000	6,831	3,362,214	-	3,803,254	-	24,450,468	7,875,586

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

VI. LONG-TERM DEBT (CONCLUDED)

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 01C 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.

Herculaneum's share of long-term debt is as follows:

2001C				
Bond Payable	Herculaneum's Share	Subtotal	Less: Reimbursements	Total
\$ 10,345,000	03.382332106%	\$ 352,946	(29,515)	\$ 323,341
2002A				
Bond Payable	Herculaneum's Share	Subtotal	Less: Reimbursements	Total
\$ 8,230,000	45.766344165%	\$ 3,766,570	(451,325)	\$ 3,315,245
			Grand Total	\$ 3,638,676

VII. INCOME TAXES

The Jefferson County Water Authority is a non-for-profit corporation exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3), except on net income derived from unrelated business activities.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING SEPTEMBER 30, 2008

VIII. RESTATEMENT OF FUND BALANCE

The beginning net assets has been restated as follows:

Net Assets September 30, 2007 as Previously Reported	\$ 2,227,564
Restatement For:	
Donation of land over three years	<u>72,903</u>
Net Assets September 30, 2007 as Restated	<u>\$ 2,300,467</u>

The September 30, 2007 financial statements have been restated to reflect the September 30, 2008 presentation.

IX. EMPLOYEES' PROFIT SHARING PLAN

The Authority contributes to a 401(K) Profit Sharing Plan, over which is monitored by Nationwide Retirement Solutions. Employees are eligible to participate in the Deferral Compensation program at the end of 6 months of service. The Authority will match 50% of the participant's elective deferral percentage up to 3%. Salary deferrals for each payroll period that exceed 6% will not be considered. The Authority may also make discretionary contributions throughout the year which are allocated among all employees even if they are not a participant in the profit sharing plan. The amounts withheld from each paycheck and submitted by the Authority directly to Nationwide on behalf of the employees for the year ended September 30, 2008 is \$5,329.60. The amount contributed by the Authority in 2008 is \$7,571.76.



**Daniel Jones
& Associates**
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF
MISSOURI SOCIETY OF CPA'S
AMERICAN INSTITUTE OF CPA'S

**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 (a not-for-profit organization) as of and for the year ended September 30, 2008, and have issued our report thereon dated February 17, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jefferson County Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, contracts, and grant agreements, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Jefferson County Water Authority in a separate letter dated February 17, 2009.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, other audit agencies and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Daniel Jones & Associates

DANIEL JONES & ASSOCIATES, P.C
CERTIFIED PUBLIC ACCOUNTANTS

February 17, 2009

JEFFERSON COUNTY WATER AUTHORITY
SUMMARY OF CURRENT AND PRIOR YEAR FINDINGS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND SEPTEMBER 20, 2007

1. FINANCIAL STATEMENT FINDINGS – CURRENT YEAR

There were no current year Financial Statement audit findings.

2. FINANCIAL STATEMENT FINDINGS – PRIOR YEAR

There were no prior year Financial Statement audit findings.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY WATER AUTHORITY
JEFFERSON COUNTY, MISSOURI
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Over/(Under) Actual vs. Final Budget</u>
WATER SALES	\$ 1,768,060	\$ 1,781,380	\$ 13,320
SOURCE OF SUPPLY AND PUMPING EXPENSES			
Chemicals	100,000	75,870	(24,130)
Engineering fees	10,000	0	(10,000)
Operation and management services	-	11,851	11,851
Payroll expenses	257,615	264,916	7,301
Repairs and maintenance	56,500	58,476	1,976
Supplies	14,350	12,642	(1,708)
Total Source of Supply and Pumping Expenses	<u>438,465</u>	<u>423,755</u>	<u>(14,710)</u>
ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES			
Bank fees	79,500	79,262	(238)
Dues and subscriptions	2,150	1,975	(175)
Insurance and bonds	69,000	73,663	4,663
Miscellaneous	2,500	2,275	(225)
Office supplies, postage, advertising, travel	9,190	5,173	(4,017)
Professional services	12,266	4,266	(8,000)
Utilities	121,708	115,026	(6,682)
Total Accounting, Collection, and Administrative Expenses	<u>296,314</u>	<u>281,641</u>	<u>(14,673)</u>
OPERATING AND MAINTENANCE EXPENSES	<u>734,779</u>	<u>705,396</u>	<u>(29,383)</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,033,281	1,075,984	42,703
DEPRECIATION EXPENSE	<u>-</u>	<u>(322,523)</u>	<u>(322,523)</u>
OPERATING INCOME	1,033,281	753,461	(279,820)
NONOPERATING REVENUES (EXPENSES)			
Investment income	388,529	307,139	(81,390)
Interest expense	(890,638)	(696,356)	194,282
Net amortization	(1,824)	(1,823)	1
Other Capital Outlay	(170,000)	-	170,000
Insurance Claims & Refunds	-	-	-
Reimbursement & Miscellaneous	238,901	42,823	(196,078)
Total Nonoperating Revenues (Expenses)	<u>(435,032)</u>	<u>(348,217)</u>	<u>86,815</u>
CHANGE IN NET ASSETS	<u>598,249</u>	<u>\$ 405,243</u>	<u>\$ (193,006)</u>

JEFFERSON COUNTY WATER AUTHORITY
 JEFFERSON COUNTY, MISSOURI
 RESTRICTED ASSETS BREAKDOWN AT SEPTEMBER 30, 2008

Breakdown of Restricted Assets at September 30, 2008:

Assets Scheduled for Specific Debt within one-year:

2003 Debt Services.....	\$ 98,304.00
2001C Interest.....	\$ 86,789.99
2001C Principal.....	\$ 56,250.00
2002A Interest.....	\$ 49,575.43
2002A Principal.....	\$ 221,249.99
 Total.....	 \$ 512,169.41

Reserve Account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve.....	\$3,362,213.67
2002A State Revolving Fund Reserve.....	\$3,803,254.03
 Total.....	 \$7,165,467.70

Annual Depreciation & Replacement Account Requirement:

Pursuant to the outstanding parity obligation documents, beginning January 1, 2004 JCWA needs to deposit \$6300 per month into a separate depreciation and replacement account requirement for the 2002A Series and then commencing on July 1, 2004 an additional monthly deposit of \$4,116.67 is required for the 2001C Series until the maximum requirement is met of \$776,000 which allows the maximum requirement to be spread over a six-year period.

Replacement Account Balance at September 30, 2008.....	\$ 569,050.17
--	---------------

Herculaneum's 110% Debt Coverage Ratio:

Herculaneum is responsible for covering the 110% Debt Service Ratio based on their share of debt service payments on the 2001C Series or 3.382332106% and debt service payments on the 2002A Series or 45.766344165% which was based on construction funds released from the investment account to cover their infrastructure projects. It was agreed that the additional 10% paid to JCWA would be deposited into a separate reserve account until their share of the bonds have been paid in full or applied to the final debt service payment.

Herculaneum's Reserve Account at September 30, 2008.....	\$ 77,197.13
--	--------------

Total Restricted Cash & Investments at 9/30/08.....	\$8,323,884.41
---	----------------

JEFFERSON COUNTY WATER AUTHORITY
JEFFERSON COUNTY, MISSOURI
BOARD OF DIRECTORS AND OFFICERS

<u>Name</u>	<u>Position</u>	<u>Term</u>
Stephen Stoll, City of Festus	President	Appointed
Mark Johnson, City of Herculaneum	Vice-president	Appointed
Earl Cook, City of Festus	Director	Appointed
Bill Gray, City of Festus	Director	Appointed
Jim Sweet, City of Herculaneum	Director	Appointed
Jim Kasten, City of Herculaneum	Director	Appointed
Michelle Guidicy, City of Festus	Treasurer	Appointed
Laurie Ferretti, City of Herculaneum	Secretary	Appointed