
**JEFFERSON COUNTY
WATER AUTHORITY**

**FINANCIAL REPORT
(Audited)**

Year Ended September 30, 2019

JEFFERSON COUNTY WATER AUTHORITY
FINANCIAL REPORT

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Hochschild, Bloom & Company LLP
Certified Public Accountants
Consultants and Advisors

INDEPENDENT AUDITOR'S REPORT

February 7, 2020

The Board of Directors
JEFFERSON COUNTY WATER AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the **JEFFERSON COUNTY WATER AUTHORITY** (the Authority) a nonprofit corporation, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- 15450 South Outer Forty Road, Suite 135, Chesterfield, Missouri 63017-2066, 636-532-9525, Fax 636-532-9055
- 1000 Washington Square, P. O. Box 1457, Washington, Missouri 63090-8457, 636-239-4785, Fax 636-239-5448

In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2019, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information, as listed in the table of contents of the financial report, 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 and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2020 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Hochschild, Bloom + Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

Washington, Missouri

JEFFERSON COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

As management of the Jefferson County Water Authority (the 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 years ended September 30, 2019, 2018, and 2017.

FINANCIAL HIGHLIGHTS AND UPCOMING PROJECTS

On September 23, 2014, the Authority executed a contract with Utility Service Co., Inc. for collector well rehabilitation and maintenance services. This will be the 5th year for this service. The collector well laterals were cleaned in October of 2019 for its now annual cleaning. An improvement in overall water quality resulted from these cleanings along with an increase in pumping level inside of the caisson. For fiscal year 2018 - 2019, the cost of the collector well cleaning was \$129,480.

During the fiscal year 2018 - 2019, several items were budgeted for replacement and/or capital improvements and were funded through either the depreciation/replacement account or the reserve account:

Depreciation/Replacement Account Items Replaced (Cost):

- Replacement of Lime Silo Dust Collector (see notes below for more detail)
- Replacement of Lime Silo Drain (see notes below for more detail)
- Replacement of Manual Sludge Valve
- Repairs to Roof Drain
- New Gas Feed System in Cl2 Building
- Chlorine Building is not 100% complete and is still construction in progress at September 30, 2019. This project will be completed next fiscal year (see notes below for more detail)

Sludge Removal and Lagoon Rehab:

Jefferson County Water Authority applied last year for a beneficial use permit through the Department of Natural Resources. This has allowed lime sludge generated from the water plants treatment process to be applied on sight at a designated area within the treatment plant property. JCWA has contracted K.A. Pazdera Hauling & Excavation to remove sludge from our existing lagoons to the new approved site. JCWA has expended approximately \$58,000 this fiscal year and the current site has been nearly filled, there is still some room at the beneficial use site for further sludge addition but with current estimates that will not last long considering the amount of sludge that is generated. The proposed area will eventually be able to build upon adding more useable property. By being able to use an existing site that the Jefferson County Water Authority owns, this is an extreme cost savings versus what was done in the past. We are using K.A. Pazdera Hauling & Excavation because they are a local company that works very well with the water authority and of course being of great cost savings. The existing side with inside the lagoons had deteriorated over time with vegetation and sludge deposits, both lagoon sides were restored with new rock.

Lime Silo Dust Collector:

This project was originally supposed to be a replacement of the blower and motor. However, upon further investigation it was discovered that the original system was undersized for our requirements, which cost the plant a great deal of issues when receiving loads of lime. When lime was received, the lime silo would spew out large amounts of lime dust, coating a great deal of items outside. We also had safety concerns when performing maintenance. With the new dust collector this has solved both our dust problem and safety concerns.

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Lime Silo Drain:

During the annual cleaning of the lime silo slacker a problem developed with the floor drain. The drain was overwhelmed and proceeded to break underground. The old drain was only a 2 inch drain that was inadequate for the requirements of the silo, which drained from the silo into the treatment plant building through a series of plumbing and then back out of the treatment plant into an existing manhole, which caused problems with clogging. By replacing the 2 inch drain to a 6 inch drain line and shorting the flow run it has eliminated the clogging issue.

Cl2 Building:

The chlorine building has been an ongoing project to attempt to finish as time permits. This project has been a large undertaking for the facility considering most of the work has been preformed in house. There are still a few things that will need to be finished, for example guttering will need to be installed, signage and identification of equipment, installing of eyewash station, sealing of all crack's gaps, etc. As time went on with this project we have ran across unexpected issues and other equipment that has needed to be added or replaced. It is proposed that the project will be finished in the 2019 - 2020 fiscal year.

Bathymetric Survey of Riverbed:

During 2019 the Jefferson County Water Authority experienced a failure of #5 lateral. To figure out possible ideas of the cause of failure, a Bathymetric Survey of the riverbed was performed in late September that crossed into the following fiscal year in the amount of \$16,000 with Prairie Engineers, P.C. With the survey it has given the facility an idea of where there could be possible damage. This study shows us the profile of the riverbed and approximately how much river material is covering the laterals. The material provides the laterals with natural filtration and without a certain amount of material coverage the treatment facility is unable to properly treat water that contains too many contaminates being introduced into the treatment processes. During this time the Jefferson County Water Authority is continuing its investigation and possible solutions. There has also been an insurance claim filed to see if the repair to replace riverbed material to cover the exposed lateral would be covered under insurance. As of today, this has not been determined if it could be covered under JCWA's insurance.

Upcoming Budget Year 2019 - 2020:

The Authority has several replacement items and capital improvements that were not completed this past fiscal year that have been re-budgeted for the current fiscal year along with additional replacement items as per the replacement schedule, which include the following:

- Complete construction of the chlorine building - finish guttering and misc. items - DNR to approve completion
- Stairs to collector well
- Clari-Cone Cleaning Inside and Out
- Replace Clari-Cone Grit Valve
- Replace Meter Vaults Radio Cabinets
- Replace CO2 Compressor and Evaporator
- Replace CO2 Auto-Controller and Injector
- Replace CO2 Vapor Heater
- Replace SCADA System Upgrade (includes servers and software update)
- Engineering Fees for Bathymetric Survey of Riverbed

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements presented in this report consist of the statement of net position; statement of revenues, expenses, and change in net position; and statement of cash flows. The statement of net position 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. The revenues and expenses are accounted for in the statement of revenues, expenses, and change in net position. This statement reports the revenues and expenses during the time period 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, capital and related financing, noncapital and related financing activities, and investing activities.

STATEMENT OF NET POSITION

The Authority's net position increased \$1,269,094 or 13%, which consisted of a \$667,600 decrease in total assets combined with a \$1,936,694 decrease in total liabilities. Net capital assets, which is discussed more in capital assets, decreased \$337,334, or 3%. Current assets increased by \$298,755 or 22%. As of September 30, 2019, the Authority had net position of \$10,994,193.

A summary of financial position follows:

	September 30			2019 Change	
	2019	2018	2017	Amount	Percent
ASSETS					
Current assets	\$ 1,667,855	1,369,100	1,215,478	298,755	22 %
Noncurrent assets - restricted	5,475,062	5,802,043	6,168,568	(326,981)	(6)
Noncurrent assets - other	1,088,903	1,390,943	1,677,667	(302,040)	(22)
Net capital assets	12,078,372	12,415,706	12,672,333	(337,334)	(3)
Total Assets	<u>20,310,192</u>	<u>20,977,792</u>	<u>21,734,046</u>	<u>(667,600)</u>	<u>(3)</u>
LIABILITIES					
Current liabilities payable from current assets	95,609	56,222	84,307	39,387	70
Current liabilities payable from restricted assets	2,146,607	2,025,889	1,969,205	120,718	6
Long-term debt, less current maturities	7,073,783	9,170,582	11,129,127	(2,096,799)	(23)
Total Liabilities	<u>9,315,999</u>	<u>11,252,693</u>	<u>13,182,639</u>	<u>(1,936,694)</u>	<u>(17)</u>
NET POSITION					
Net investment in capital assets	5,439,669	4,365,098	3,275,821	1,074,571	25
Restricted	3,982,278	4,047,123	4,144,415	(64,845)	(2)
Unrestricted	1,572,246	1,312,878	1,131,171	259,368	20
Total Net Position	<u>\$ 10,994,193</u>	<u>9,725,099</u>	<u>8,551,407</u>	<u>1,269,094</u>	<u>13 %</u>

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Operating revenues increased by \$57,670 or 2%. This increase was due to the increase in the wholesale water rate from \$4.50 to \$4.60.

Operating expenses decreased by \$18,944 or 1%. This decrease is largely due to lower needed maintenance and repairs.

A condensed version of the statements of revenues, expenses, and change in net position is as follows:

	For The Years Ended September 30			2019 Change	
	2019	2018	2017	Amount	Percent
OPERATING REVENUES	\$ 2,652,820	2,595,150	2,456,742	57,670	2 %
OPERATING EXPENSES	<u>1,370,373</u>	<u>1,389,317</u>	<u>1,622,909</u>	<u>(18,944)</u>	(1)
OPERATING INCOME	1,282,447	1,205,833	833,833	76,614	6
NONOPERATING (REVENUES) EXPENSES, NET	<u>13,353</u>	<u>155,451</u>	<u>141,441</u>	<u>(142,098)</u>	(91)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,269,094	1,050,382	692,392	218,712	21
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>123,310</u>	<u>62,262</u>	<u>(123,310)</u>	(100)
CHANGE IN NET POSITION	1,269,094	1,173,692	754,654	95,402	8
NET POSITION, BEGINNING OF YEAR	<u>9,725,099</u>	<u>8,551,407</u>	<u>7,796,753</u>	<u>1,173,692</u>	14
NET POSITION, END OF YEAR	<u><u>\$ 10,994,193</u></u>	<u><u>9,725,099</u></u>	<u><u>8,551,407</u></u>	<u><u>1,269,094</u></u>	13 %

STATEMENT OF CASH FLOWS

The Authority's rate structure is designed to collect sufficient revenues to cover operating expenses. The Authority accomplished that objective during 2019. The net cash provided by operating activities was used primarily for payment of debt, and capital improvements.

CAPITAL ASSETS

Net capital assets were \$12,078,372 at September 30, 2019 compared to \$12,415,706, a decrease of \$337,334, or 3%. The Authority's capital assets consist primarily of the water plant. The decrease is due to the plant improvements in the amount of \$101,600, which was offset by annual depreciation in the amount of \$431,760 and loss on disposal of assets in the amount of \$7,174.

Additional information on the Authority's capital assets can be found in Note E in the notes to financial statements.

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

LONG-TERM DEBT

The Authority's long-term liabilities of \$9,142,677 at September 30, 2019 decreased by \$1,958,546 from 2018. This decrease was primarily due to scheduled principal payments on the debt.

Additional information on the Authority's long-term debt can be found in Note F in the notes to financial statements.

DEBT SERVICE COVERAGE

Pursuant to Section 5A.8 of the Loan Agreement, the Authority is required to set the rates and charges at a level such that the net revenues available for debt service shall not be less than 1.10 times maximum annual debt service calculated with respect to the Series 2001C Note, and any outstanding parity obligations (Series 2002A and 2012 Direct Loan). If the net revenues fall below the 1.10 rate covenant requirement, the Authority agrees to retain a consultant to make recommendations to increase the annual debt service coverage.

Debt service ratio calculation is as follows:

	For The Year Ended September 30 2019
REVENUE	
Water sales	\$ 2,652,820
Investment income	199,734
Other income (Herculaneum reimbursement and debt)	344,203
Total Revenue	3,196,757
 LESS - OPERATING EXPENSES	 938,613
 NET REVENUES FOR DEBT COVERAGE	 \$ 2,258,144
 ANNUAL DEBT SERVICE	 \$ 1,677,651
 DEBT SERVICE COVERAGE RATIO	 134.6 %

RESTRICTED ASSETS

Total restricted assets were \$5,475,062 at September 30, 2019 compared to \$5,802,043 at September 30, 2018. The Authority's debt covenants specify the manner in which monies on deposit in the various funds must be used. The depreciation and replacement account is used only for paying the cost of extensions, enlargements, replacements, or additions to the capital assets of the Authority. Restricted assets decreased \$326,981 or 6% primarily due to the decrease in the SRF Reserve accounts (debt service payments) in the amount of \$546,641.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Authority's overall financial position in 2019 increased 13% as shown by the net position increase of \$1,269,094. The Authority continues to plan for future growth.

**JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

REQUEST FOR INFORMATION

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 Treasurer, Michelle Vaughn, at 636-937-4694.

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF NET POSITION

SEPTEMBER 30, 2019

ASSETS

Current Assets

Cash and cash equivalents	\$ 784,772
Investments	588,500
Receivables:	
Service charges	218,040
Other	3,004
Prepaid insurance	44,666
Inventory	28,873
Total Current Assets	<u>1,667,855</u>

Noncurrent Assets

Restricted assets:	
Cash and cash equivalents	284,735
Investments	5,143,348
Receivables:	
Interest receivable	46,979
Total Restricted Assets	<u>5,475,062</u>

Other assets:

Due from City of Herculanum	<u>1,088,903</u>
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Capital assets:

Land and construction in progress	487,519
Other capital assets, net of accumulated depreciation	11,590,853
Total Capital Assets	<u>12,078,372</u>
Total Noncurrent Assets	<u>18,642,337</u>
Total Assets	<u>20,310,192</u>

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF NET POSITION (Continued)

SEPTEMBER 30, 2019

LIABILITIES

Current Liabilities

Accounts payable	74,067
Accrued payroll liabilities	21,542
Payable from restricted assets:	
Current maturities of long-term debt	2,068,894
Accrued interest payable	77,713
Total Current Liabilities	<u>2,242,216</u>

Long-term Debt, less current maturities

Revenue bonds payable	4,727,503
Notes payable	1,879,080
Loan payable	467,200
Total Long-term Liabilities	<u>7,073,783</u>
Total Liabilities	<u>9,315,999</u>

NET POSITION

Net investment in capital assets	5,439,669
Restricted for debt service	2,222,249
Restricted for depreciation and replacement	1,760,029
Unrestricted	1,572,246
Total Net Position	<u>\$ 10,994,193</u>

JEFFERSON COUNTY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2019

WATER SALES	\$ 2,652,820
OPERATING AND MAINTENANCE EXPENSES	<u>(938,613)</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,714,207
DEPRECIATION EXPENSE	<u>(431,760)</u>
OPERATING INCOME	<u>1,282,447</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	199,734
Reimbursement and miscellaneous	42,298
Net amortization	27,905
Loss on disposal	(7,174)
Interest expense	<u>(276,116)</u>
Total Nonoperating Revenues (Expenses)	<u>(13,353)</u>
CHANGE IN NET POSITION	1,269,094
NET POSITION, OCTOBER 1	<u>9,725,099</u>
NET POSITION, SEPTEMBER 30	<u><u>\$ 10,994,193</u></u>

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Cash received from customers	\$ 2,648,080
Cash payments to suppliers for goods and services	(899,254)
Net Cash Provided By Operating Activities	<u>1,748,826</u>

Cash flows from noncapital financing activities:

Decrease in due from City of Herculaneum	302,040
Reimbursements and miscellaneous	42,298
Net Cash Provided By Noncapital Financing Activities	<u>344,338</u>

Cash flows from capital and related financing activities:

Payments on notes payable	(546,641)
Payments on loan payable	(34,000)
Payments on bonds payable	(1,350,000)
Interest paid on debt	(293,651)
Purchase of capital assets	(101,600)
Net Cash Used In Capital And Related Financing Activities	<u>(2,325,892)</u>

Cash flows from investing activities:

Decrease in investments	206,094
Investment income	202,152
Net Cash Provided By Investing Activities	<u>408,246</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 175,518

CASH AND CASH EQUIVALENTS, OCTOBER 1 893,989

CASH AND CASH EQUIVALENTS, SEPTEMBER 30 \$ 1,069,507

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2019

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Cash flows from operating activities:

Operating income	<u>\$ 1,282,447</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	431,760
(Increase) decrease in:	
Accounts receivable	1,316
Inventory	(4,917)
Prepaid insurance	(1,167)
Increase (decrease) in:	
Accounts payable	43,129
Accrued payroll liabilities	(3,742)
Total Adjustments	<u>466,379</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,748,826</u></u>

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

JEFFERSON COUNTY WATER AUTHORITY (the Authority) is a nonprofit corporation organized in order to promote 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, and sell potable water supply to sponsoring municipalities. The Authority was incorporated in January 2000 and began its activities in November 2001. The Authority began delivery of water to customers in September 2003. The more significant accounting policies consistently applied by the Authority in the preparation of the accompanying financial statements are summarized below:

1. Reporting Entity

The financial statements of the Authority include the financial activities of the Authority and any component units, entities which are financially accountable to the Authority. The Authority does not currently have any component units.

2. Basis of Accounting

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). 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.

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

3. Investments

Investments are reported at cost which approximates fair value.

4. Accounts Receivable

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

5. 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 FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Prepaid Insurance

Prepaid insurance consist of payments that will benefit periods beyond the fiscal year-end.

7. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 for machinery and equipment, \$25,000 for buildings and building improvements, and an estimated useful life greater than one year. Such assets are recorded at historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair value at the date of contribution.

Depreciation is being computed on the straight-line method, using assets lives as follows:

Assets	Years
Land improvements	20
Buildings and building improvements	30
Water plant and equipment	7 - 50
Vehicles	5 - 10
Computer equipment and software	3 - 15

Depreciation expense charged to operations for the year ended September 30, 2019 amounted to \$431,760.

8. 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, 2019, amounted to \$27,905.

9. Water Sales

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

10. Statement of Cash Flows

For the purpose of the statement of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

11. Income Taxes

The Authority is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Budgets and Budgetary Accounting

The annual budget is adopted on a basis that is substantially consistent with accounting principles generally accepted in the United States of America. Budgeted amounts lapse at fiscal year-end. The 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 not exceed budgeted amounts on a line-item basis without Board approval. All amendments to fund totals must be approved by the Board.

13. Restricted Assets

Certain resources set aside for the repayment of debt and depreciation and replacement accounts are classified as restricted assets on the statement of net position because their use is limited by applicable debt covenants.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS

1. Deposits

The Authority's bank deposits are secured by the deposit of certain securities with the Authority or trustee institution. The value of the securities must amount to the total of the Authority's cash not insured by the Federal Deposit Insurance Corporation. As of September 30, 2019, the Authority's bank balances were entirely secured or collateralized with securities held by the Authority or by its agent in the Authority's name.

2. Investments

As of September 30, 2019, the Authority had the following investments:

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

2. Investments (Continued)

<u>Investments</u>	<u>Fair Value</u>	<u>Maturities</u>			<u>Credit Risk</u>
		<u>No Maturity</u>	<u>Less Than One Year</u>	<u>1 - 5 Years</u>	
Certificates of deposit	\$ 2,515,000	-	1,843,000	672,000	N/A
Guaranteed investment contract	3,216,848	-	-	3,216,848	Not rated
Money market funds	10,237	-	10,237	-	Not rated
Total Investments	<u>5,742,085</u>	<u>-</u>	<u>1,853,237</u>	<u>3,888,848</u>	
Cash and cash equivalents	<u>1,059,270</u>				
Total Cash, Cash Equivalents, And Investments	<u>\$ 6,801,355</u>				

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority does not have a written investment policy covering credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Authority does not have a written investment policy covering interest rate risk.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority does not have a written investment policy covering concentration of credit risk.

Concentration of credit risk is required to be disclosed by the Authority for investments in any one issuer that represent 5% or more of total investments (investments issued by or explicitly guaranteed by the United States Government, investments in mutual funds, investments in external investment pools, and investments in other pooled investments are exempt). At September 30, 2019, the Authority had the following investment concentrations:

<u>Investments</u>	<u>Fair Value</u>	<u>Percent Of Total Investments</u>
Certificates of deposit - certain banks greater than 5%	\$ 2,515,000	43.80 %
Guaranteed investment contracts	3,216,848	56.02

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

3. Fair Value Measurements

The Authority classifies its fair value measurements within the fair value hierarchy established by accounting principles generally in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are prices quoted in active markets for those securities; Level 2 inputs are significant other observable inputs using a matrix pricing technique; Level 3 inputs are significant unobservable inputs. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The inputs and methodologies used for valuing investment securities are not necessarily an indication of risk associated with investing in those securities.

The Authority has the following recurring fair value measurements as of September 30, 2019:

- Money market funds of \$10,237 are not subject to fair value level classification
- Guaranteed investment contracts of \$3,216,848 are not subject to fair value level classification
- Certificates of deposit of \$2,515,000 are not subject to fair value level classification

NOTE C - CONCENTRATION

The Authority entered into a water rate agreement to provide water to the City of Festus and the City of Herculaneum. The Board of Directors and officers of the Authority are made up of individuals associated with the two noted cities, thus making them related parties. The agreements are as follows:

On March 26, 2001, the City of Herculaneum entered into a contract with the Authority to purchase 480,000 gallons of water per day. On August 16, 2011, the City of Herculaneum Board of Alderman approved amending the water usage obligation to 520,000 gallons of water per day as of October 1, 2011 with the understanding that should the largest consumer of water from the City of Herculaneum reduce its water usage significantly, or should the City of 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. As of July 1, 2012, the City of Herculaneum reverted to the original 480,000 gallons per day.

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

NOTE D - RISK MANAGEMENT

The Authority carries commercial insurance for its risks of loss, including workers' 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 FINANCIAL STATEMENTS

NOTE E - CAPITAL ASSETS

The following is a summary of changes in capital assets:

	For The Year Ended September 30, 2019			
	Balance September 30 2018	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 373,444	-	-	373,444
Construction in progress	61,165	52,910	-	114,075
Total Capital Assets Not Being Depreciated	<u>434,609</u>	<u>52,910</u>	<u>-</u>	<u>487,519</u>
Capital assets being depreciated:				
Land improvements	44,063	-	-	44,063
Water plant	17,374,867	48,690	354,788	17,068,769
Buildings and building improvements	51,157	-	-	51,157
Vehicles	47,211	-	-	47,211
Computer equipment and software	37,028	-	-	37,028
Total Capital Assets Being Depreciated	<u>17,554,326</u>	<u>48,690</u>	<u>354,788</u>	<u>17,248,228</u>
Less - Accumulated depreciation for:				
Land improvements	5,758	4,006	-	9,764
Water plant	5,516,041	419,110	347,614	5,587,537
Buildings and building improve- ments	6,996	3,872	-	10,868
Vehicles	16,873	3,194	-	20,067
Computer equipment and software	27,561	1,578	-	29,139
Total Accumulated Depreciation	<u>5,573,229</u>	<u>431,760</u>	<u>347,614</u>	<u>5,657,375</u>
Total Capital Assets Being Depreciated, Net	<u>11,981,097</u>	<u>(383,070)</u>	<u>7,174</u>	<u>11,590,853</u>
Total Capital Assets, Net	<u>\$ 12,415,706</u>	<u>(330,160)</u>	<u>7,174</u>	<u>12,078,372</u>

NOTE F - LONG-TERM DEBT

A summary of changes in long-term debt is as follows:

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE F - LONG-TERM DEBT (Continued)

	For The Year Ended September 30, 2019			Amounts Due Within One Year
	Balance September 30 2018	Additions	Reductions	
Revenue bonds payable	\$ 7,385,000	-	1,350,000	6,035,000
Notes payable	3,050,615	-	546,641	2,503,974
Loan payable	535,200	-	34,000	501,200
Total	\$ 10,970,815	-	1,930,641	9,040,174

Long-term debt consisted of the following:

	<u>September 30 2019</u>
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%.	\$ 3,400,000
\$8,230,000 revenue bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	<u>2,635,000</u>
Total	6,035,000
Less - Current maturities	1,410,000
Plus - Unamortized debt premiums, net	<u>102,503</u>
Total Long-term Revenue Bonds Payable	<u>\$ 4,727,503</u>
Notes Payable	
State Revolving Fund - 2001C, no interest	\$ 1,133,220
State Revolving Fund - 2002A, no interest	<u>1,370,754</u>
Total	2,503,974
Less - Current maturities	<u>624,894</u>
Total Long-term Notes Payable	<u>\$ 1,879,080</u>
Loan Payable	
\$751,000 loan from the Missouri Department of Natural Resources, due in installments through July 1, 2032, interest payable at 1.36%.	\$ 501,200
Less - Current maturities	<u>34,000</u>
Total Long-term Loan Payable	<u>\$ 467,200</u>

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE F - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturities are as follows:

For The Years Ending September 30	Revenue Bonds		Notes Payable	Loan Payable	
	Principal	Interest	Principal	Principal	Interest
2020	\$ 1,410,000	287,644	624,894	34,000	6,700
2021	1,475,000	215,250	598,306	34,900	6,238
2022	1,540,000	140,625	625,804	35,800	5,758
2023	1,610,000	62,750	654,970	35,800	5,271
2024	-	-	-	37,800	4,777
2025 - 2029	-	-	-	195,400	16,082
2030 - 2032	-	-	-	127,500	3,062
Total	\$ 6,035,000	706,269	2,503,974	501,200	47,888

In conjunction with SRF - 2001C and 2002A notes, a reserve account has been established with a noninterest loan funded with federal capitalization grants and matching funds from the State of Missouri.

This loan (reserve account) was funded in an amount equal to 33.3% for the 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.

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

2001C				
Bond Payable	City Of Herculaneum's Share	Subtotal	Less - Reimbursements	Total
\$ 10,435,000	3.382332106%	\$ 352,946	\$ 244,632	\$ 108,314
2002A				
Bond Payable	City Of Herculaneum's Share	Subtotal	Less - Reimbursements	Total
\$ 8,230,000	45.766344165%	\$ 3,766,570	\$ 2,785,981	\$ 980,589

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE G - EMPLOYEES' PROFIT SHARING PLAN

The Authority contributes to a 401(k) Profit Sharing Plan, which is monitored by Nationwide Retirement Solutions. Employees are eligible to participate in the deferral compensation program at the end of six months of service. The Authority will match 50% of the participant's elective deferral percentage up to 3%. 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, 2019 is \$1,932. The amount contributed by the Authority in 2019 was \$15,966. The Authority uses forfeitures from nonvested employees to offset contributions related to the plan. In 2018, forfeitures used to offset contributions totaled \$9,065.

NOTE H - COMMITMENTS

At September 30, 2019, the Authority has a commitment for hydrographic survey totaling \$16,000.

In 2014, the Authority entered into a multi-year agreement with a company to provide improvements and maintenance of certain capital assets of the Authority. Total amounts expected to be paid under the contract will be \$159,535 for the year ended September 30, 2020.

SUPPLEMENTAL INFORMATION SECTION

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
WATER SALES	\$ 2,652,820	2,652,820	2,652,820	-
SOURCE OF SUPPLY AND PUMPING EXPENSES				
Chemicals	116,000	116,000	113,735	(2,265)
Engineering fees	2,000	20,000	3,400	(16,600)
Payroll expenses	387,510	334,905	272,111	(62,794)
Repairs and maintenance	438,853	309,667	262,012	(47,655)
Supplies	23,000	23,000	20,748	(2,252)
Total Source Of Supply And Pumping Expenses	<u>967,363</u>	<u>803,572</u>	<u>672,006</u>	<u>(131,566)</u>
ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES				
Bank fees	37,185	37,185	36,748	(437)
Dues and subscriptions	2,050	2,200	1,358	(842)
Insurance and bonds	58,702	58,702	54,503	(4,199)
Miscellaneous	1,000	1,000	1,116	116
Office supplies, postage, advertising, travel	11,350	13,600	9,993	(3,607)
Professional services	17,300	17,300	15,650	(1,650)
Utilities	174,850	167,850	147,239	(20,611)
Total Accounting, Collection, And Administrative Expenses	<u>302,437</u>	<u>297,837</u>	<u>266,607</u>	<u>(31,230)</u>
OPERATING AND MAINTENANCE EXPENSES	<u>1,269,800</u>	<u>1,101,409</u>	<u>938,613</u>	<u>(162,796)</u>

(Continued)

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,383,020	1,551,411	1,714,207	162,796
DEPRECIATION EXPENSE	-	-	(431,760)	431,760
OPERATING INCOME	1,383,020	1,551,411	1,282,447	(268,964)
NONOPERATING REVENUES (EXPENSES)				
Investment income	167,103	167,103	199,734	32,631
Reimbursement and miscellaneous	373,879	373,879	42,298	(331,581)
Net amortization	27,905	27,905	27,905	-
Loss on sale of assets	-	-	(7,174)	7,174
Interest expense	(365,288)	(365,288)	(276,116)	(89,172)
Total Nonoperating Revenues (Expenses)	203,599	203,599	(13,353)	216,952
CHANGE IN NET POSITION	<u>\$ 1,586,619</u>	<u>1,755,010</u>	<u>1,269,094</u>	<u>(485,916)</u>

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - RESTRICTED ASSETS BREAKDOWN
SEPTEMBER 30, 2019

Accounts funded for specific debt within one-year:

2001C interest	\$ 36,319
2001C principal	200,000
2002A interest	19,055
2002A principal	457,500
2012 interest	1,717
2012 principal	<u>8,520</u>
Total	<u>\$ 723,111</u>

Reserve account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve	\$ 1,133,220
2002A State Revolving Fund Reserve	<u>1,370,754</u>
Total	<u>\$ 2,503,974</u>

Annual depreciation and replacement account requirement:

Pursuant to the outstanding parity obligation documents, beginning January 1, 2004 the Authority needs to deposit \$6,300 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 \$4,117 is required for the 2001C Series until the maximum requirement is met of \$1,034,700 which allows the maximum requirement to be spread over a six-year period.

Replacement account balance	\$ 268,529
Replacement investment account balance	<u>1,491,500</u>
Total	<u>\$ 1,760,029</u>

The City of Herculaneum's 110% Debt Coverage Ratio:

The City of 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 the Authority 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.

City of Herculaneum's reserve account	\$ 5,969
City of Herculaneum's reserve investment account	<u>435,000</u>
Total	<u>\$ 440,969</u>

Total Restricted Cash, Cash Equivalents, And Investments At September 30, 2019	<u>\$ 5,428,083</u>
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JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - BOARD OF
DIRECTORS AND OFFICERS
SEPTEMBER 30, 2019

<u>Name</u>	<u>Position</u>	<u>Term</u>
Jim Kasten, City of Herculaneum	President	Appointed
Greg Camp, City of Festus	Vice President	Appointed
Mark Johnson, City of Herculaneum	Director	Appointed
Matt Clemens, City of Festus	Director	Appointed
Terry Thomas, City of Herculaneum	Director	Appointed
Gary Underwood, City of Festus	Director	Appointed
Michelle Vaughn, City of Festus	Treasurer	Appointed
Morgan Maupin, City of Festus	Secretary	Appointed