

**JEFFERSON COUNTY WATER AUTHORITY  
(A NOT-FOR-PROFIT CORPORATION)  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)**

**JEFFERSON COUNTY, MISSOURI**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**JEFFERSON COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)**  
**JEFFERSON COUNTY, MISSOURI**  
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## **FINANCIAL SECTION**



**Daniel Jones  
& Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

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

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## INDEPENDENT AUDITOR'S REPORT

To the 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”), a component unit of the City of Festus, Missouri, of Jefferson County, Missouri, as of September 30, 2009, 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, 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, 2009, 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 January 26, 2010, 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 supplementary information presented on pages 19 through 21 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

January 26, 2010

## **FINANCIAL STATEMENTS**

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
JEFFERSON COUNTY, MISSOURI  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	465,608
Investments		486,830
Receivables:		
Service charges		142,800
Other		23,050
Prepaid Insurance		35,547
Inventory		15,270
Total Current Assets		1,169,105

**NONCURRENT ASSETS**

Capital assets not being depreciated:		
Land		373,444
Construction in process		-
Total Capital Assets Not Being Depreciated		373,444
Capital assets being depreciated:		
Land Improvements		7,998
Buildings		13,350
Water Plant		16,042,659
Vehicles		15,276
Computer Equipment & Software		12,106
Audio Visual Equipment		5,976
Total Capital Assets Being Depreciated		16,097,365
Less - Accumulated depreciation		(2,083,812)
Total Capital Assets Being Depreciated Net		14,013,553

Capital Assets, Net 14,386,997

Restricted assets:

Cash and Cash Equivalents		129,308
Investments		7,810,734
Receivables:		
Interest receivable		86,946
Total Restricted Assets		8,026,988

Other assets:

Bond issue costs, net of accumulated amortization of \$209,618		233,534
Due from City of Herculaneum		3,487,812
Total Other Assets		3,721,346

Total Noncurrent Assets 26,135,331

**TOTAL ASSETS** **\$ 27,304,436**

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

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
JEFFERSON COUNTY, MISSOURI  
STATEMENT OF FINANCIAL POSITION (CONCLUDED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	24,671
Accrued payroll liabilities		16,944
Payable from restricted assets:		
Current maturities of long-term debt		909,694
Accrued interest payable		212,145
Total Current Liabilities		1,163,454

**LONG-TERM DEBT**

Revenue bonds payable, less current maturities		16,416,548
Notes payable		6,681,531
Total Long-Term Debt		23,098,079
Total Liabilities		24,261,533

**NET ASSETS**

Invested in capital assets, net of related debt		(1,755,966)
Restricted for debt service		3,922,379
Unrestricted		876,490
Total Net Assets		3,042,903

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>27,304,436</b>
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The notes to the financial statements are an integral part of this statement.



JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
JEFFERSON COUNTY, MISSOURI  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,762,852
Payments to Suppliers for Goods and Services	<u>(731,401)</u>
Net Cash Provided by Operating Activities	1,031,451
Cash Flows from Non-Capital Financing Activities:	
Decrease in due to City of Festus	-
Decrease in due from City of Herculaneum	150,864
Reimbursements	<u>48,261</u>
Net Cash Provided by Non-Capital Financing Activities	199,125
Cash Flows from Capital and Related Financing Activities:	
Payments on Notes Payable	(229,242)
Payments on Bonds Payable	(595,000)
Interest Paid on Debt	(679,756)
Amortization (Net)	(1,823)
Sale of Capital Assets	241,259
Purchase of Capital Assets	<u>(494,775)</u>
Net Cash Used by Capital and Related Financing Activities	(1,759,337)
Cash Flows from Investing Activities:	
Transfer from Investments	359,238
Interest on Investments	280,078
Insurance Claims and Refunds	<u>6,345</u>
Net Cash Provided by Investing Activities	<u>645,661</u>
Net increase (decrease) in Cash and Cash Equivalents	116,900
Cash and Cash Equivalents at October 1, 2008	<u>478,016</u>
Cash and Cash Equivalents at September 30, 2009	<u><u>\$ 594,916</u></u>
Reconciliation of Operating Profit to Net Cash Provided by Operating Activities:	
Operating Profit	\$ 684,088
Adjustments	
Depreciation Expense	346,345
Amortization (Net)	1,823
(Increase) Decrease in Assets and Liabilities:	
Service Charges Receivable	2,520
Other Receivables	(22,639)
Interest Receivable	8,397
Prepaid Insurance	26,898
Inventory	(1,312)
Increase (decrease) in:	
Accounts Payable	(6,175)
Accrued Interest Payable	(6,399)
Other Accrued Liabilities	(2,095)
Total Adjustments	<u>347,363</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,031,451</u></u>

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

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**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  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**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, 2009, amounted to \$346,345.

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, 2009, amounted to \$27,904.

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**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, 2009, 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, 2009, 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.

**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  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**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, 2009, as follows:

Included in the following fund financial statement captions:

Statement of Financial Position

Cash & Cash Equivalents - Unrestricted	\$	465,608
Cash & Cash Equivalents - Restricted		129,308
Investments - Unrestricted		486,830
Investments - Restricted		7,810,734
<b>Total Deposits &amp; Investments as of September 30, 2009</b>	<b>\$</b>	<b><u>8,892,480</u></b>

As of September 30, 2009, the Authority's investments were as follows:

<b>Investments 2009</b>			
<u>Fund</u>	<u>Type</u>	<u>Maturities</u>	<u>Cost</u>
Unrestricted	FNMA Discount Note	01/07/2010	\$ 486,830
	<b>Total Unrestricted Investments</b>		<u>486,830</u>
Restricted	FNMA Discount Note	01/07/2010	391,262
Restricted	FNMA Discount Note	01/05/2010	94,417
Restricted	Fixed Income Securities	12/30/2022	3,655,754
Restricted	Fixed Income Securities	12/30/2022	240,000
Restricted	Fixed Income Securities	12/30/2022	48,512
Restricted	Fixed Income Securities	06/30/2023	56,985
Restricted	Fixed Income Securities	06/30/2023	3,280,471
Restricted	Fixed Income Securities	06/30/2023	43,333
	<b>Total Restricted Investments</b>		<u>7,810,734</u>
	<b>Total Investments</b>		<u>\$ 8,297,564</u>

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, 2009.

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  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**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 investment 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 Authority 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 \$ 9,505,547 were exposed to concentration of investment credit risk for the fiscal year ended September 30, 2009.

**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  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**V. CAPITAL ASSETS**

Capital assets activity was as follows:

	<b><u>For The Year Ended September 30, 2009</u></b>			<b>Balance September 30, 2009</b>
	<b>Balance September 30, 2008</b>	<b>Additions</b>	<b>Deletions</b>	
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 370,986	\$ 2,458	\$ -	\$ 373,444
Construction in Process	-	241,259	(241,259)	-
Total Non-Depreciable Capital Assets	370,986	243,717	(241,259)	373,444
<b>Depreciable Capital Assets:</b>				
Land Improvements	-	7,998	-	7,998
Water Plant	15,799,599	243,060	-	16,042,659
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	15,846,307	251,058	-	16,097,365
<b>Less-Accumulated Depreciation for:</b>				
Land Improvements	-	(355)	-	(355)
Water Plant	(1,712,447)	(343,534)	-	(2,055,982)
Buildings & Building Improvements	(1,113)	(445)	-	(1,557)
Vehicles	(15,277)	-	-	(15,276)
Computer Equipment & Software	(4,647)	(1,015)	-	(5,662)
Audio Visual Equipment	(3,983)	(996)	-	(4,980)
Total Accumulated Depreciation	(1,737,467)	(346,345)	-	(2,083,812)
Total Depreciable Capital Assets, Net	14,108,840	(95,287)	-	14,013,553
Total Capital Assets, Net	\$ 14,479,826	\$ 148,430	\$ (241,259)	\$ 14,386,997

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**VI. LONG-TERM DEBT**

Long-term debt consisted of the following:

**Revenue Bonds Payable**

	<u>September 30, 2009</u>
<b>\$10,435,000</b> Revenue Bonds, Series 2001 C, due in annual installments through July 1, 2023, interest payable at 3% to 5.375%.	\$ 9,410,000
<b>\$8,230,000</b> Revenue Bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	7,205,000
<b>\$490,000</b> Revenue Bonds, Series 2003, due in annual installments through July 2010, interest payable at 3.036%.	<u>75,000</u>
Subtotal	\$ 16,690,000
Less – Current maturities	(655,000)
Plus – Unamortized debt premiums, net (not included in schedule below)	<u>381,548</u>
Total	<u>\$ 16,416,548</u>

**Notes Payable**

State Revolving Fund – 2001C, no interest	\$ 3,280,471
State Revolving Fund – 2002A, no interest	<u>3,655,754</u>
Subtotal	\$ 6,936,225
Less – Current maturities	<u>(254,694)</u>
Total	<u>\$ 6,681,531</u>

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
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	625,000	391,788	440,000	285,613	-	-	227,976	-	220,000	-	1,512,976	677,400
2015-2019	3,555,000	1,424,394	2,600,000	1,034,881	-	-	1,281,420	-	1,300,000	-	8,736,420	2,459,275
2020-2023	3,400,000	433,250	2,635,000	273,019	-	-	1,114,124	-	1,370,754	-	8,519,878	706,269
	<u>9,410,000</u>	<u>4,083,550</u>	<u>7,205,000</u>	<u>2,921,334</u>	<u>75,000</u>	<u>2,277</u>	<u>3,280,471</u>	<u>-</u>	<u>3,655,754</u>	<u>-</u>	<u>23,626,225</u>	<u>7,007,161</u>

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**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 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.

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

<b>2001C</b>				
Bond Payable	Herculaneum’s Share	Subtotal	Less: Reimbursements	Total
\$ 10,345,000	03.382332106%	\$ 352,946	(36,787)	\$ 316,159
<b>2002A</b>				
Bond Payable	Herculaneum’s Share	Subtotal	Less: Reimbursements	Total
\$ 8,230,000	45.766344165%	\$ 3,766,570	(594,917)	\$ 3,171,653
			<b>Grand Total</b>	<b>\$ 3,487,812</b>

**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  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
NOTES TO THE FINANCIAL STATEMENTS  
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**VIII. 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 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, 2009 is \$3,794.73. The amount contributed by the Authority in 2009 is \$15,308.34.

**IX. SUBSEQUENT EVENTS**

Jefferson County Water Authority remitted an application and a facility plan to the State of Missouri for a loan and/or grant to aid in the construction of the following:

- Chloramine conversion instrumentations/SCADA and ammonia feed system;
- Installation of a backwash pump in the filter wash line to assure that an adequate hydraulic wash rate is provided for the filters;
- Replacement of the media and support gravel in both filters;
- Replacement of the current aerator with an induced air aerator;
- Installation of meters on the discharge headers for the transfer and high service pumps;
- Removal of approximately 3,000,000 gallons of lime sludge from storage lagoons and revision of the lime sludge storage lagoons into true drying beds.

Total amount of the loan request totaled \$1,270,608. However, Jefferson County Water Authority missed the State's 2010 Intended Use Plan (IUP) because it did not meet the "Readiness to Proceed" guideline. The application will be resubmitted for the 2011 intended Use Plan (IUP), which begins July 1, 2010.



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**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), a component unit of the City of Festus, Missouri, as of and for the year ended September 30, 2009, and have issued our report thereon dated January 26, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 authority'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 authority's financial statements that is more than inconsequential will not be prevented or detected by the authority's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting: 2009-01.

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 authority's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### 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 January 26, 2010.

Jefferson County Water Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Jefferson County Water Authority's response and, accordingly, we express no opinion on it.

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

January 26, 2010

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**I. FINANCIAL STATEMENT FINDINGS – CURRENT YEAR**

Finding:

**2009-01** **Criteria:** All cash and investments held by financial institutions must be secured through the Federal Deposit Insurance Corporation (FDIC) or securities pledged by the financial institution.

**Condition:** Jefferson County Water Authority holds a bank account with a financial institution that was under collateralized by \$1,000.12.

**Cause:** Adequate oversight was not in place to ensure all bank accounts were secured through the FDIC or other pledged securities.

**Effect:** There is a risk that Jefferson County Water Authority's under collateralized balance may not be returned to the Authority because the balance is not covered under FDIC or other pledged securities.

**Recommendation:** We recommend that the Jefferson County Water Authority periodically review all account balances to ensure they are fully secured.

**Management's Response:** This issue has been resolved by moving under collateralized funds to a new CD through another financial institution, which is covered by FDIC.

**II. FINANCIAL STATEMENT FINDINGS – PRIOR YEAR**

There were no prior year Financial Statement audit findings.

## **SUPPLEMENTARY INFORMATION**

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
JEFFERSON COUNTY, MISSOURI  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Over/(Under) Actual vs. Final Budget</u>
<b>WATER SALES</b>	\$ 1,768,060	\$ 1,760,332	\$ (7,728)
<b>SOURCE OF SUPPLY AND PUMPING EXPENSES</b>			
Chemicals	90,923	88,720	(2,203)
Engineering fees	2,500	-	(2,500)
Operation and management services	-	-	-
Payroll expenses	312,977	288,549	(24,428)
Repairs and maintenance	56,500	49,294	(7,207)
Supplies	16,850	13,519	(3,331)
Total Source of Supply and Pumping Expenses	<u>479,750</u>	<u>440,081</u>	<u>(39,669)</u>
<b>ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES</b>			
Bank fees	75,526	78,215	2,689
Dues and subscriptions	4,370	4,807	437
Insurance and bonds	74,000	68,198	(5,802)
Miscellaneous	2,500	1,780	(720)
Office supplies, postage, advertising, travel	10,032	6,390	(3,642)
Professional services	13,000	11,835	(1,165)
Utilities	136,345	118,593	(17,752)
Total Accounting, Collection, and Administrative Expenses	<u>315,773</u>	<u>289,818</u>	<u>(25,955)</u>
<b>OPERATING AND MAINTENANCE EXPENSES</b>	<u>795,523</u>	<u>729,899</u>	<u>(65,624)</u>
<b>OPERATING INCOME BEFORE DEPRECIATION EXPENSE</b>	972,537	1,030,433	57,896
<b>DEPRECIATION EXPENSE</b>	<u>-</u>	<u>(346,345)</u>	<u>(346,345)</u>
<b>OPERATING INCOME</b>	972,537	684,088	(288,449)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	361,581	280,078	(81,503)
Interest expense	(868,421)	(679,756)	188,665
Net amortization	(1,824)	(1,823)	1
Other Capital Outlay	(75,000)	-	75,000
Insurance Claims & Refunds	-	6,345	6,345
Reimbursement & Miscellaneous	286,024	48,261	(237,763)
Total Nonoperating Revenues (Expenses)	<u>(297,640)</u>	<u>(346,895)</u>	<u>(49,255)</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 674,897</u>	<u>\$ 337,193</u>	<u>\$ (337,704)</u>

JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
JEFFERSON COUNTY, MISSOURI  
RESTRICTED ASSETS BREAKDOWN AT SEPTEMBER 30, 2009

**Breakdown of Restricted Assets at September 30, 2009:**

Assets Scheduled for Specific Debt within one-year:

2003 Debt Services.....	\$ 19,319.25
2001C Interest.....	\$ 84,749.03
2001C Principal.....	\$ 65,000.01
2002A Interest.....	\$ 48,511.71
2002A Principal.....	\$ 240,000.03
 Total.....	 \$ 457,580.03

Reserve Account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve.....	\$ 3,280,471.29
2002A State Revolving Fund Reserve.....	\$ 3,655,754.03
 Total.....	 \$ 6,936,225.32

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, 2009.....	\$ 444,050.21
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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, 2009.....	\$ 102,186.09
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Total Restricted Cash & Investments at 9/30/09.....	\$ 7,940,041.65
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JEFFERSON COUNTY WATER AUTHORITY  
(A COMPONENT UNIT OF THE CITY OF FESTUS, MISSOURI)  
JEFFERSON COUNTY, MISSOURI  
BOARD OF DIRECTORS AND OFFICERS

<u>Name</u>	<u>Position</u>	<u>Term</u>
Jim Kasten, City of Herculaneum	President	Appointed
William Earl Cook, City of Festus	Vice-president	Appointed
William Gray, City of Festus	Director	Appointed
Gary Underwood, City of Festus	Director	Appointed
Mark Johnston, City of Herculaneum	Director	Appointed
Jim Sweet, City of Herculaneum	Director	Appointed
Michelle Guidicy, City of Festus	Treasurer	Appointed
Laurie Ferretti, City of Herculaneum	Secretary	Appointed