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**JEFFERSON COUNTY  
WATER AUTHORITY**

**FINANCIAL REPORT**  
(Audited)

Year Ended September 30, 2012

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**JEFFERSON COUNTY WATER AUTHORITY**  
**FINANCIAL REPORT**

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

## INDEPENDENT AUDITORS' REPORT

May 7, 2013

The Board of Directors  
**JEFFERSON COUNTY WATER AUTHORITY**

We have audited the accompanying basic financial statements of the business-type activities of the **JEFFERSON COUNTY WATER AUTHORITY** (a nonprofit corporation) (the Authority) as of and for the year ended September 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. 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 U.S. generally accepted auditing standards. 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 the 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 respective financial position of the business-type activities as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles 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

- 16100 Chesterfield Parkway W., Suite 125, Chesterfield, Missouri 63017-4829, 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

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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 U.S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Hochschild, Bloom + Company LLP*  
**CERTIFIED PUBLIC ACCOUNTANTS**

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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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, 2012, 2011, and 2010.

**FINANCIAL HIGHLIGHTS AND UPCOMING PROJECTS**

The Authority closed on a 2012 Direct Loan with the Missouri Department of Natural Resources (DNR) on July 25, 2012 in the amount of \$751,000. Improvements to the facility are expected to be \$1,502,000 whereas, the Authority was awarded, from DNR, a grant in the amount of 50% of improvements to upgrade the aerator, replace both the high and low pump flow meters, replace filter media, upgrade the filter backwash system, cleaning of the sludge holding basins, converting one of the sludge holding basins to sludge drying beds, and adding an ammonia feed system to convert chlorine to chloramines. As of September 30, 2012, the Authority had only drawn \$20,506 from the loan and the project is expected to start during the year ending September 30, 2013.

**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 balance sheet; statement of revenues, expenses, and changes in net assets; and statement of cash flows. The balance sheet provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Authority. The revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement reports the revenues and expenses during the time 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, and investing.

**BALANCE SHEETS**

The Authority's net assets increased \$618,769 or 17%, which consisted of an \$808,713 decrease in total assets combined with a \$1,427,482 decrease in total liabilities. Net capital assets, which is discussed more in capital assets, decreased \$319,898 or 2%. Current assets decreased by \$33,598 or 4%.

As of September 30, 2012, the Authority had net assets of \$4,330,416.

A summary of financial position follows:

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	September 30			2012 Change	
	2012	2011	2010	Amount	Percent
<b>ASSETS</b>					
Current assets	\$ 749,071	782,669	1,236,716	(33,598)	(4) %
Noncurrent assets - restricted	7,870,662	8,119,540	7,984,098	(248,878)	(3)
Noncurrent assets - other	3,095,423	3,301,762	3,516,223	(206,339)	(6)
Net capital assets	13,373,730	13,693,628	14,049,460	(319,898)	(2)
Total Assets	<u>25,088,886</u>	<u>25,897,599</u>	<u>26,786,497</u>	<u>(808,713)</u>	(3)
<b>LIABILITIES</b>					
Current liabilities pay- able from current assets	36,187	50,794	61,089	(14,607)	(29)
Current liabilities pay- able from restricted assets	1,650,670	1,590,440	1,309,117	60,230	4
Long-term debt, less current maturities	19,071,613	20,544,718	21,966,020	(1,473,105)	(7)
Total Liabilities	<u>20,758,470</u>	<u>22,185,952</u>	<u>23,336,226</u>	<u>(1,427,482)</u>	(6)
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	(1,219,610)	(1,887,110)	(1,556,515)	667,500	35
Restricted	4,642,722	4,676,285	3,837,667	(33,563)	(1)
Unrestricted	907,304	922,472	1,169,119	(15,168)	(2)
Total Net Assets	<u>\$ 4,330,416</u>	<u>3,711,647</u>	<u>3,450,271</u>	<u>618,769</u>	17 %

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Operating revenues increased by \$162,153 or 8%. This increase was primarily due to the increase in wholesale water rate from \$3.36 to \$3.75 per gallon totaling an increase of \$224,913. However, the difference between the increase in the wholesale water rate and the overall increase in revenue is from the City of Herculaneum dropping their temporary contractual agreement from 560,000 gallons per day to 520,000 and then dropping to 480,000 gallons per day for the last three months of the year.

Operating expenses decreased by \$33,698 or 3%. This decrease was due to the cost of hiring an engineering firm to complete a collector well study in 2011.

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

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>For The Years Ended September 30</u>			<u>2012 Change</u>	
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Amount</u>	<u>Percent</u>
<b>OPERATING REVENUES</b>	\$ 2,209,650	2,047,497	1,878,290	162,153	8 %
<b>OPERATING EXPENSES</b>	<u>1,281,783</u>	<u>1,315,481</u>	<u>1,102,255</u>	<u>(33,698)</u>	(3)
<b>OPERATING INCOME</b>	927,867	732,016	776,035	195,851	27
<b>NONOPERATING EXPENSES, NET</b>	<u>309,098</u>	<u>470,640</u>	<u>368,667</u>	<u>(161,542)</u>	(34)
<b>CHANGE IN NET ASSETS</b>	618,769	261,376	407,368	357,393	137
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>3,711,647</u>	<u>3,450,271</u>	<u>3,042,903</u>	<u>261,376</u>	8
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 4,330,416</u>	<u>3,711,647</u>	<u>3,450,271</u>	<u>618,769</u>	17 %

**STATEMENTS OF CASH FLOWS**

The Authority's rate structure is designed to collect sufficient revenues to cover operating expenses. The Authority accomplished that objective during 2012. The net cash used in operating activities was used primarily for payment of debt reserves for future capital improvements and depreciation and replacement funding.

**CAPITAL ASSETS**

Net capital assets were \$13,373,730 at September 30, 2012 compared to \$13,693,628 at September 30, 2011, a decrease of \$319,898 or 2%. The Authority's capital assets consist primarily of the water plant. The decrease is largely due to the annual depreciation in the amount of (\$348,038) with offset of capital purchases in the amount of \$3,060 and increase in construction in progress in the amount of \$25,080.

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

**LONG-TERM DEBT**

The Authority's long-term liabilities of \$20,537,320 at September 30, 2012 decreased by \$1,400,795 from 2011. This decrease was principally 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 covenants and agrees that it will, prior to the close of each fiscal year, set rates and charges for the Authority such that the net revenues available for debt service of the Authority will not be less than 1.10 times debt service calculated with respect to the note, the outstanding parity obligations and any additional obligations for the fiscal year, provided that interest on the outstanding parity obligations and any additional

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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obligations will be reduced by subsidy payments, if any. If the net revenues available for debt service, as calculated at the end of any fiscal year, is less than the rate covenant requirement, the Authority covenants to retain a consultant to make recommendations to increase charges for water service for subsequent fiscal years such that the annual debt service coverage for subsequent fiscal years is at least the rate covenant requirement. The Authority agrees that it will follow the recommendations of the consultant. A copy of the consultant's report shall be delivered, at the expense of the Authority, to DNR.

Debt service ratio calculation is as follows:

	<b>For The Year Ended September 30 2012</b>
<b>REVENUE</b>	
Water sales	\$ 2,209,650
Investment income	238,457
Other income (Herculaneum reimbursement and debt)	257,115
Total Revenue	2,705,222
LESS - OPERATING EXPENSES	933,745
<b>NET REVENUES FOR DEBT COVERAGE</b>	\$ 1,771,477
<b>ANNUAL DEBT SERVICE</b>	\$ 1,597,809
<b>DEBT SERVICE COVERAGE RATIO</b>	110.9 %

**RESTRICTED ASSETS**

Total restricted assets were \$7,870,662 at September 30, 2012 compared to \$8,119,540 at September 30, 2011. 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 \$248,878 or 3% primarily due to a decrease in the SRF Reserve accounts.

**OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The Authority's overall financial position in 2012 increased 17% as shown by the net assets increase of \$618,769. The Authority continues to plan for future growth.

**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 Guidicy, at 636-937-4694.

# JEFFERSON COUNTY WATER AUTHORITY

BALANCE SHEET  
SEPTEMBER 30, 2012

## ASSETS

### Current Assets

Cash and cash equivalents	\$ 418,710
Investments	98,723
Receivables:	
Service charges	177,750
Prepaid insurance	37,366
Inventory	16,522
Total Current Assets	<u>749,071</u>

### Noncurrent Assets

Restricted assets:	
Cash and cash equivalents	732,387
Investments	7,063,546
Receivables:	
Interest receivable	74,729
Total Restricted Assets	<u>7,870,662</u>

### Other assets:

Bond issue costs, net of accumulated amortization of \$181,628	194,420
Due from City of Herculaneum	2,901,003
Total Other Assets	<u>3,095,423</u>

### Capital assets:

Land and construction in progress	445,404
Other capital assets, net of accumulated depreciation	12,928,326
Total Capital Assets	<u>13,373,730</u>
Total Noncurrent Assets	<u>24,339,815</u>

Total Assets	<u>\$ 25,088,886</u>
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# JEFFERSON COUNTY WATER AUTHORITY

BALANCE SHEET  
SEPTEMBER 30, 2012

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## LIABILITIES

### Current Liabilities

Accounts payable	\$ 23,032
Accrued payroll liabilities	13,155
Payable from restricted assets:	
Current maturities of long-term debt	1,465,707
Accrued interest payable	184,963
Total Current Liabilities	<u>1,686,857</u>

### Long-term Debt, less current maturities

Revenue bonds payable	13,552,834
Notes payable	5,514,273
Loan payable	4,506
Total Long-term Liabilities	<u>19,071,613</u>
Total Liabilities	<u>20,758,470</u>

### Net Assets

Invested in capital assets, net of related debt	(1,219,610)
Restricted for debt service	3,573,672
Restricted for depreciation and replacement	1,069,050
Unrestricted	907,304
Total Net Assets	<u>4,330,416</u>
Total Liabilities And Net Assets	<u>\$ 25,088,886</u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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<b>WATER SALES</b>	\$ 2,209,650
<b>OPERATING AND MAINTENANCE EXPENSES</b>	<u>(933,745)</u>
<b>OPERATING INCOME BEFORE DEPRECIATION EXPENSE</b>	1,275,905
<b>DEPRECIATION EXPENSE</b>	<u>(348,038)</u>
<b>OPERATING INCOME</b>	<u>927,867</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	238,457
Reimbursement and miscellaneous	46,953
Net amortization	11,221
Interest expense	<u>(605,729)</u>
Total Nonoperating Revenues (Expenses)	<u>(309,098)</u>
<b>CHANGE IN NET ASSETS</b>	618,769
<b>NET ASSETS, OCTOBER 1, 2011</b>	<u>3,711,647</u>
<b>NET ASSETS, SEPTEMBER 30, 2012</b>	<u><u>\$ 4,330,416</u></u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**Cash flows from operating activities:**

Cash received from customers	\$ 2,199,303
Cash payments to suppliers for goods and services	<u>(959,873)</u>
Net Cash Provided By Operating Activities	<u>1,239,430</u>

**Cash flows from noncapital financing activities:**

Decrease in due from City of Herculaneum	210,162
Reimbursements and miscellaneous	<u>46,953</u>
Net Cash Provided By Noncapital Financing Activities	<u>257,115</u>

**Cash flows from capital and related financing activities:**

Payments on notes payable	(413,397)
Payments on bonds payable	(980,000)
Interest paid on debt	(617,809)
Purchase of capital assets	<u>(28,140)</u>
Net Cash Used In Capital And Related Financing Activities	<u>(2,039,346)</u>

**Cash flows from investing activities:**

Increase in investments	1,017,590
Investment income	<u>245,459</u>
Net Cash Provided By Investing Activities	<u>1,263,049</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 720,248

**CASH AND CASH EQUIVALENTS, OCTOBER 1, 2011** 430,849

**CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2012** \$ 1,151,097

# JEFFERSON COUNTY WATER AUTHORITY

## STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2012

### RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

#### Cash flows from operating activities:

Operating income	\$ 927,867
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	348,038
(Increase) decrease in:	
Accounts receivable	(10,347)
Inventory	(6,899)
Prepaid insurance	(4,622)
Increase (decrease) in:	
Accounts payable	(17,058)
Accrued payroll liabilities	2,451
Total Adjustments	<u>311,563</u>
Net Cash Provided By Operating Activities	<u>\$ 1,239,430</u>

#### Supplemental disclosure of cash flow information:

##### Debt financing:

Loan payable issued	\$ 20,506
Issue costs paid	<u>(20,506)</u>
Net Cash Provided	<u>\$ -</u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**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 U.S. generally accepted accounting principles (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**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**6. Capital Assets**

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market 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	30
Water plant	50
Vehicles	4
Computer equipment and software	15
Audio visual equipment	6

Depreciation expense charged to operations for the year ended September 30, 2012, amounted to \$348,038.

Interest is capitalized on the 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.

**7. Bond Issue Costs**

Bond issue costs are amortized on the straight-line method over the terms of the bonds. Amortization of the bond issue costs for the year ending September 30, 2012, amounted to \$16,684.

**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, 2012, amounted to \$27,905.

**9. 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. The deferred bond issue charges are fully amortized as of September 30, 2012.

**JEFFERSON COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**10. Water Sales**

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

**11. 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.

**12. Income Taxes**

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

**13. 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 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.

**14. Restricted Assets**

Certain resources set aside for the repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants.

**15. Use of Estimates**

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

**NOTE B - CASH AND INVESTMENTS**

The Authority's bank deposits are required by state law to be secured by the deposit of certain securities specified at RSMo 30.270 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, 2012, 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.

**JEFFERSON COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE B - CASH AND INVESTMENTS (Continued)**

As of September 30, 2012, the Authority had the following investments:

<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>More Than 10 Years</u>	
Certificates of deposit	\$ 751,224	-	751,224	-	N/A
Guaranteed investment contract	6,411,045	-	-	6,411,045	Not rated
Money market funds	51	51	-	-	Not rated
Repurchase agreement	1,010,000	-	1,010,000	-	AAA
Total Investments	8,172,320	<u>51</u>	<u>1,761,224</u>	<u>6,411,045</u>	
Cash	141,046				
Total Cash And Investments	<u>\$ 8,313,366</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.

**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.

**JEFFERSON COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**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.

**NOTE E - CAPITAL ASSETS**

The following is a summary of changes in capital assets:

**For The Year Ended September 30, 2012**

	<u>Balance September 30 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30 2012</u>
Capital assets not being depreciated:				
Land	\$ 373,444	-	-	373,444
Construction in progress	46,880	25,080	-	71,960
Total Capital Assets Not Being Depre- ciated	<u>420,324</u>	<u>25,080</u>	<u>-</u>	<u>445,404</u>
Capital assets being depreciated:				
Land improvements	7,998	-	-	7,998
Water plant	15,944,959	3,060	-	15,948,019
Buildings and building improvements	18,657	-	-	18,657
Vehicles	15,276	-	-	15,276
Computer equipment and software	27,306	-	-	27,306
Audio visual equipment	9,327	-	-	9,327
Total Capital Assets Being Depreciated	<u>16,023,523</u>	<u>3,060</u>	<u>-</u>	<u>16,026,583</u>
Less - Accumulated depreciation for:				
Land improvements	1,155	400	-	1,555
Water plant	2,716,336	342,114	-	3,058,450
Buildings and building improve- ments	2,642	622	-	3,264
Vehicles	15,276	-	-	15,276
Computer equipment and software	8,583	4,343	-	12,926
Audio visual equipment	6,227	559	-	6,786
Total Accumulated Depreciation	<u>2,750,219</u>	<u>348,038</u>	<u>-</u>	<u>3,098,257</u>
Total Capital Assets Being Depreciated, Net	<u>13,273,304</u>	<u>(344,978)</u>	<u>-</u>	<u>12,928,326</u>
Capital Assets, Net	<u>\$ 13,693,628</u>	<u>(319,898)</u>	<u>-</u>	<u>13,373,730</u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE F - LONG-TERM DEBT**

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

	<u>For The Year Ended September 30, 2012</u>			<u>Balance</u> <u>September 30</u> <u>2012</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u>
	<u>Balance</u> <u>September 30</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>		
	Revenue bonds payable	\$ 15,255,000	-		
Notes payable	6,357,377	-	413,397	5,943,980	429,707
Loan payable	-	20,506	-	20,506	16,000
Total	<u>\$ 21,612,377</u>	<u>20,506</u>	<u>1,393,397</u>	<u>20,239,486</u>	<u>1,465,707</u>

Long-term debt consisted of the following:

	<u>September 30</u> <u>2012</u>
<b>Revenue Bonds Payable</b>	
\$10,435,000 revenue bonds, Series 2001C, due in annual installments through July 1, 2023, interest payable at 3% to 5.375%	\$ 8,180,000
\$8,230,000 revenue bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	<u>6,095,000</u>
Total	14,275,000
Less - Current maturities	(1,020,000)
Plus - Unamortized debt premiums, net	<u>297,834</u>
Total Revenue Bonds Payable	<u>\$13,552,834</u>
<b>Notes Payable</b>	
State Revolving Fund - 2001C, no interest	\$2,843,226
State Revolving Fund - 2002A, no interest	<u>3,100,754</u>
Total	5,943,980
Less - Current maturities	<u>(429,707)</u>
Total Notes Payable	<u>\$5,514,273</u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE F - LONG-TERM DEBT (Continued)**

	<u>September 30</u> <u>2012</u>
<b>Loan Payable</b>	
\$751,000 loan from the Missouri Department of Natural Resources, due in installments through July 1, 2032, interest payable at 1.36%. At September 30, 2012, the Authority had only drawn \$20,506 from the \$751,000 maximum.	\$20,506
Less - Current maturities	(16,000)
Total Loan Payable	\$ <u>4,506</u>

Annual debt service requirements to maturities are as follows:

<u>For The</u> <u>Years Ended</u> <u>September 30</u>	<u>Revenue Bonds</u>		<u>Notes Payable</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2013	\$ 1,020,000	730,663	429,707
2014	1,065,000	677,400	447,976
2015	1,120,000	619,484	470,172
2016	1,170,000	558,613	491,106
2017	1,230,000	494,919	515,827
2018 - 2022	7,060,000	1,429,778	2,931,223
2023	1,610,000	62,750	657,969
Total	\$ 14,275,000	4,573,607	5,943,980

In conjunction with SRF - 2001C and 2002A notes, a reserve account has been established with a non-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 33.3% 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:

**JEFFERSON COUNTY WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE F - LONG-TERM DEBT (Continued)**

2001C				
Bond Payable	City Of Herculaneum's Share	Subtotal	Less - Reimbursements	Total
\$ 10,345,000	3.382332106%	\$ 352,946	\$ 81,265	\$ 271,681

  

2002A				
Bond Payable	City Of Herculaneum's Share	Subtotal	Less - Reimbursements	Total
\$ 8,230,000	45.766344165%	\$ 3,766,570	\$ 1,137,248	\$ 2,629,322

**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 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, 2012 is \$7,118. The amount contributed by the Authority in 2012 was \$11,788.

**NOTE H - COMMITMENT**

At September 30, 2012, the Authority had a commitment for construction services in connection with the loan payable of \$751,000 at a cost of \$1,299,000.

**NOTE I - FUTURE ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, (GASB 63) establishes guidelines for the reporting of deferred outflows of resources, deferred inflows of resources, and net position in the financial statements. GASB 63 will be effective for the Authority for the year ending September 30, 2013.

**SUPPLEMENTAL INFORMATION SECTION**

**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES**  
**AND EXPENSES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>WATER SALES</b>	\$ 2,217,375	2,205,525	2,209,650	4,125
<b>SOURCE OF SUPPLY AND PUMPING EXPENSES</b>				
Chemicals	104,777	103,777	96,340	(7,437)
Engineering fees	5,000	2,500	-	(2,500)
Payroll expenses	340,393	345,193	330,631	(14,562)
Repairs and maintenance	33,800	201,500	202,513	1,013
Supplies	14,600	18,100	17,063	(1,037)
Total Source Of Supply And Pumping Expenses	<u>498,570</u>	<u>671,070</u>	<u>646,547</u>	<u>(24,523)</u>
<b>ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES</b>				
Bank fees	72,950	72,950	69,511	(3,439)
Dues and subscriptions	2,600	2,100	1,521	(579)
Insurance and bonds	42,187	44,000	44,086	86
Miscellaneous	1,250	250	273	23
Office supplies, postage, advertising, travel	4,050	4,050	3,661	(389)
Professional services	11,750	18,000	18,023	23
Utilities	169,100	169,100	150,123	(18,977)
Total Accounting, Collection, And Administrative Expenses	<u>303,887</u>	<u>310,450</u>	<u>287,198</u>	<u>(23,252)</u>
<b>OPERATING AND MAINTENANCE EXPENSES</b>	<u>802,457</u>	<u>981,520</u>	<u>933,745</u>	<u>(47,775)</u>

(Continued)

**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES**  
**AND EXPENSES - BUDGET AND ACTUAL (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>OPERATING INCOME BEFORE DEPRECIATION EXPENSE</b>	1,414,918	1,224,005	1,275,905	51,900
<b>DEPRECIATION EXPENSE</b>	-	-	(348,038)	(348,038)
<b>OPERATING INCOME</b>	<u>1,414,918</u>	<u>1,224,005</u>	<u>927,867</u>	<u>(296,138)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	296,447	296,447	238,457	(57,990)
Reimbursement and miscellaneous	341,569	341,569	46,953	(294,616)
Net amortization	7,594	11,392	11,221	(171)
Interest expense	(786,872)	(779,464)	(605,729)	(173,735)
Other capital outlay	(57,000)	(11,500)	-	(11,500)
Total Nonoperating Revenues (Expenses)	<u>(198,262)</u>	<u>(141,556)</u>	<u>(309,098)</u>	<u>167,542</u>
<b>CHANGES IN NET ASSETS</b>	<u>\$ 1,216,656</u>	<u>1,082,449</u>	<u>618,769</u>	<u>(463,680)</u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - RESTRICTED ASSETS BREAKDOWN**  
**SEPTEMBER 30, 2012**

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Accounts funded for specific debt within one-year:

2001C interest	\$ 79,600
2001C principal	150,000
2002A interest	43,859
2002A principal	315,000
2012 interest	<u>51</u>
Total	<u>\$588,510</u>

Reserve account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve	\$2,843,226
2002A State Revolving Fund Reserve	<u>3,100,754</u>
Total	<u>\$5,943,980</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	\$ 542,050
Replacement investment account balance	<u>527,000</u>
Total	<u>\$1,069,050</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	\$ 68,893
City of Herculaneum's reserve investment account	<u>125,500</u>
Total	<u>\$194,393</u>

Total Restricted Cash And Investments At September 30, 2012	<u>\$7,795,933</u>
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**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - BOARD OF**  
**DIRECTORS AND OFFICERS**  
**SEPTEMBER 30, 2012**

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<u>Name</u>	<u>Position</u>	<u>Term</u>
Jim Kasten, City of Herculaneum	President	Appointed
Brent Abrams, City of Festus	Vice President	Appointed
Mark Johnson, City of Herculaneum	Director	Appointed
Timothy Montgomery, City of Festus	Director	Appointed
Terry Thomas, City of Herculaneum	Director	Appointed
Gary Underwood, City of Festus	Director	Appointed
Michelle Guidicy, City of Festus	Treasurer	Appointed
Laurie Ferretti, City of Herculaneum	Secretary	Appointed



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

May 7, 2013

The Board of Directors  
**JEFFERSON COUNTY WATER AUTHORITY**

In planning and performing our audit of the financial statements of the **JEFFERSON COUNTY WATER AUTHORITY** (the Authority) as of and for the year ended September 30, 2012, in accordance with U.S. generally accepted auditing standards, we considered the internal control over financial reporting (internal control) 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control. Per our independent auditors' report, we applied limited procedures to the supplemental information.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

There were no significant changes to the accounting policies or estimate policies. In addition, these policies were discussed with management and were not a condition of our retention. There were no disagreements or difficulties encountered in performing the audit. There were no uncorrected misstatements aggregated by us during the audit that would be material individually or in the aggregate to the financial statements taken as a whole. Various adjusting entries had to be made adjusting balance sheet and revenue/expense accounts. We have requested certain representations from management.

This communication is intended solely for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the cooperation and courtesy extended to us by all personnel.

*Hochschild, Bloom & Company, LLP*  
**CERTIFIED PUBLIC ACCOUNTANTS**

- 16100 Chesterfield Parkway W., Suite 125, Chesterfield, Missouri 63017-4829, 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

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