
**JEFFERSON COUNTY
WATER AUTHORITY**

**FINANCIAL REPORT
(Audited)**

Year Ended September 30, 2013

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 28, 2014

The Board of Directors
JEFFERSON COUNTY WATER AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of the **JEFFERSON COUNTY WATER AUTHORITY** (the Authority) a nonprofit corporation, as of and for the years ended September 30, 2013, 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.

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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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental 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 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 28, 2014 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

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, 2013, 2012, and 2011.

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, 2013, the Authority has completed all of the above-mentioned improvements except for one of the filter medias. Total construction cost, including cost of issuance, came in below the projected amount of \$1,502,000 (\$1,421,296).

On June 20, 2013, the Authority executed a contract with Utility Service Co., Inc. for ice pigging services not to exceed \$120,000. As of February 6, 2014, this project has not started due to prep work to job site and weather conditions and has been postponed until completion of the feasibility study.

The Authority executed a contract with Bennett and Williams on October 17, 2013 for engineering services to perform a feasibility study relating to the existing collector well and alternatives to provide a consistent raw water supply. Projected cost of the feasibility study is \$67,011 with 90% (\$60,310) to be funded through the Drinking Water State Revolving Fund Set-Aside Funds/2011. The Authority is responsible for the remaining 10% (\$6,701).

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, and investing.

STATEMENT OF NET POSITION

The Authority's net position increased \$1,426,748 or 34%, which consisted of a \$626,552 increase in total assets combined with an \$800,196 decrease in total liabilities. Net capital assets, which is discussed more in capital assets, increased \$826,282 or 6%. Current assets increased by \$275,568 or 37%.

As of September 30, 2013, the Authority had net position of \$5,562,744.

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A summary of financial position follows:

	September 30			2013 Change	
	2013	2012	2011	Amount	Percent
ASSETS					
Current assets	\$ 1,024,639	749,071	782,669	275,568	37 %
Noncurrent assets - restricted	7,614,953	7,870,662	8,119,540	(255,709)	(3)
Noncurrent assets - other	2,681,414	2,901,003	3,111,165	(219,589)	(8)
Net capital assets	14,200,012	13,373,730	13,693,628	826,282	6
Total Assets	<u>25,521,018</u>	<u>24,894,466</u>	<u>25,707,002</u>	<u>626,552</u>	3
LIABILITIES					
Current liabilities pay- able from current assets	92,553	36,187	50,794	56,366	156
Current liabilities pay- able from restricted assets	1,719,003	1,650,670	1,590,440	68,333	4
Long-term debt, less current maturities	18,146,718	19,071,613	20,544,718	(924,895)	(5)
Total Liabilities	<u>19,958,274</u>	<u>20,758,470</u>	<u>22,185,952</u>	<u>(800,196)</u>	(4)
NET POSITION					
Net investment in capital assets	144,640	(1,219,610)	(1,887,110)	1,364,250	112
Restricted	4,608,067	4,642,722	4,676,285	(34,655)	(1)
Unrestricted	810,037	712,884	731,875	97,153	14
Total Net Position	<u>\$ 5,562,744</u>	<u>4,135,996</u>	<u>3,521,050</u>	<u>1,426,748</u>	34 %

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Operating revenues increased by \$39,480 or 2%. This increase was due to the increase in wholesale water rate from \$3.75 to \$3.90.

Operating expenses decreased by \$89,694 or 7%. This decrease was largely due to the cleaning of laterals last year and not this year which was then offset by the purchase of two river pumps hit by lightning this summer. The Authority also had some personnel changes that decreased the expenses.

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

	For The Years Ended September 30			2013 Change	
	2013	2012	2011	Amount	Percent
OPERATING REVENUES	\$ 2,249,130	2,209,650	2,047,497	39,480	2 %
OPERATING EXPENSES	<u>1,192,089</u>	<u>1,281,783</u>	<u>1,315,481</u>	<u>(89,694)</u>	(7)
OPERATING INCOME	1,057,041	927,867	732,016	129,174	14
NONOPERATING (REVENUES) EXPENSES, NET	<u>(369,707)</u>	<u>312,921</u>	<u>454,127</u>	<u>(682,628)</u>	(218)
CHANGE IN NET POSITION	1,426,748	614,946	277,889	811,802	132
NET POSITION, BEGINNING OF YEAR	<u>4,135,996</u>	<u>3,521,050</u>	<u>3,243,161</u>	<u>614,946</u>	17
NET POSITION, END OF YEAR	<u>\$ 5,562,744</u>	<u>4,135,996</u>	<u>3,521,050</u>	<u>1,426,748</u>	34 %

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 2013. 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 \$14,200,012 at September 30, 2013 compared to \$13,373,730, an increase of \$826,282 or 6%. The Authority's capital assets consist primarily of the water plant. The increase is due to the plant improvements in the amount of \$1,244,803, which was offset by annual depreciation in the amount of \$391,194 and loss on disposal of assets in the amount of \$27,327.

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 \$19,691,694 at September 30, 2013 decreased by \$845,626 from 2012. This decrease was principally due to scheduled principal payments on the debt, which was offset by the new 2012 direct loan payable.

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

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 2013
REVENUE	
Water sales	\$ 2,249,130
Investment income	222,715
Other income (Herculaneum reimbursement and debt)	<u>265,900</u>
Total Revenue	<u>2,737,745</u>
LESS - OPERATING EXPENSES	<u>800,895</u>
NET REVENUES FOR DEBT COVERAGE	<u><u>\$ 1,936,850</u></u>
ANNUAL DEBT SERVICE	<u><u>\$ 1,615,323</u></u>
DEBT SERVICE COVERAGE RATIO	<u><u>119.9 %</u></u>

RESTRICTED ASSETS

Total restricted assets were \$7,614,953 at September 30, 2013 compared to \$7,870,662 at September 30, 2012. 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 \$255,709 or 3% primarily due to the increase to the depreciation and replacement account in the amount of \$125,001, increase to Herculaneum's 10% reserve in the amount of \$30,558, and a decrease in the SRF Reserve accounts (debt service payments) in the amount of \$429,707.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Authority's overall financial position in 2013 increased 34% as shown by the net position increase of \$1,426,748. 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

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

ASSETS

Current Assets

Cash and cash equivalents	\$ 444,080
Investments	98,723
Receivables:	
Service charges	184,860
Other receivable	244,845
Prepaid insurance	39,120
Inventory	13,011
Total Current Assets	<u>1,024,639</u>

Noncurrent Assets

Restricted assets:

Cash and cash equivalents	275,834
Investments	7,266,808
Receivables:	
Interest receivable	<u>72,311</u>
Total Restricted Assets	<u>7,614,953</u>

Other assets:

Due from City of Herculanum	<u>2,681,414</u>
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Capital assets:

Land and construction in progress	432,643
Other capital assets, net of accumulated depreciation	<u>13,767,369</u>
Total Capital Assets	<u>14,200,012</u>
Total Noncurrent Assets	<u>24,496,379</u>
Total Assets	<u>25,521,018</u>

JEFFERSON COUNTY WATER AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

LIABILITIES

Current Liabilities

Accounts payable	79,173
Accrued payroll liabilities	13,380
Payable from restricted assets:	
Current maturities of long-term debt	1,544,976
Accrued interest payable	174,027
Total Current Liabilities	<u>1,811,556</u>

Long-term Debt, less current maturities

Revenue bonds payable	12,459,930
Notes payable	5,066,297
Loan payable	620,491
Total Long-term Liabilities	<u>18,146,718</u>
Total Liabilities	<u>19,958,274</u>

NET POSITION

Net investment in capital assets	144,640
Restricted for debt service	3,414,016
Restricted for depreciation and replacement	1,194,051
Unrestricted	810,037
Total Net Position	<u>\$ 5,562,744</u>

JEFFERSON COUNTY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013

WATER SALES	\$ 2,249,130
OPERATING AND MAINTENANCE EXPENSES	<u>(800,895)</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,448,235
DEPRECIATION EXPENSE	<u>(391,194)</u>
OPERATING INCOME	<u>1,057,041</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	668,491
Investment income	222,715
Reimbursement and miscellaneous	46,311
Net amortization	27,904
Loss on disposal	(27,327)
Interest expense	<u>(568,387)</u>
Total Nonoperating Revenues (Expenses)	<u>369,707</u>
CHANGE IN NET POSITION	1,426,748
NET POSITION, OCTOBER 1, 2012	<u>4,135,996</u>
NET POSITION, SEPTEMBER 30, 2013	<u><u>\$ 5,562,744</u></u>

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Cash received from customers	\$ 2,242,020
Cash payments to suppliers for goods and services	(742,772)
Net Cash Provided By Operating Activities	<u>1,499,248</u>

Cash flows from noncapital financing activities:

Intergovernmental	545,695
Decrease in due from City of Herculaneum	219,589
Reimbursements and miscellaneous	46,311
Net Cash Provided By Noncapital Financing Activities	<u>811,595</u>

Cash flows from capital and related financing activities:

Issuance of loan payable	525,936
Payments on notes payable	(429,707)
Payments on loan payable	(16,000)
Payments on bonds payable	(1,020,000)
Interest paid on debt	(579,323)
Purchase of capital assets	(1,244,803)
Net Cash Used In Capital And Related Financing Activities	<u>(2,763,897)</u>

Cash flows from investing activities:

Increase in investments	(203,262)
Investment income	225,133
Net Cash Provided By Investing Activities	<u>21,871</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (431,183)

CASH AND CASH EQUIVALENTS, OCTOBER 1, 2012 1,151,097

CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2013 \$ 719,914

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Cash flows from operating activities:

Operating income	<u>\$ 1,057,041</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	391,194
(Increase) decrease in:	
Accounts receivable	(7,110)
Inventory	3,511
Prepaid insurance	(1,754)
Increase (decrease) in:	
Accounts payable	56,141
Accrued payroll liabilities	225
Total Adjustments	<u>442,207</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,499,248</u></u>

Supplemental disclosure of cash flow information:

Noncash financing activities:

Loan payable issued	\$ 647,985
Portion of loan included in receivables	<u>(122,049)</u>
Net Cash Provided For Loan Payable	<u><u>\$ 525,936</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. 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, 2013, amounted to \$391,194.

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority does not currently have any deferred outflows.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not currently have any deferred inflows.

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, 2013, amounted to \$27,904.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013.

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 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.

14. 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.

15. 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.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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, 2013, 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.

As of September 30, 2013, 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	\$ 1,251,223	-	1,251,223	-	N/A
Guaranteed investment contract	6,114,308	-	-	6,114,308	Not rated
Money market funds	9,332	9,332	-	-	Not rated
Repurchase agreement	660,000	-	660,000	-	AAA
Total Investments	<u>8,034,863</u>	<u>9,332</u>	<u>1,911,223</u>	<u>6,114,308</u>	
Cash	<u>50,582</u>				
Total Cash And Investments	<u>\$ 8,085,445</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, 2013			
	Balance September 30 2012	Transfers And Additions	Transfers And Deletions	Balance September 30 2013
Capital assets not being depreciated:				
Land	\$ 373,444	-	-	373,444
Construction in progress	71,960	1,243,355	1,256,116	59,199
Total Capital Assets Not Being Depre- ciated	445,404	1,243,355	1,256,116	432,643
Capital assets being depreciated:				
Land improvements	7,998	-	-	7,998
Water plant	15,948,019	1,257,564	30,898	17,174,685
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	16,026,583	1,257,564	30,898	17,253,249
Less - Accumulated depreciation for:				
Land improvements	1,555	400	-	1,955
Water plant	3,058,450	385,270	3,571	3,440,149
Buildings and building improve- ments	3,264	622	-	3,886
Vehicles	15,276	-	-	15,276
Computer equipment and software	12,926	4,343	-	17,269
Audio visual equipment	6,786	559	-	7,345
Total Accumulated Depreciation	3,098,257	391,194	3,571	3,485,880
Total Capital Assets Being Depreciated, Net	12,928,326	866,370	27,327	13,767,369
Total Capital Assets, Net	\$ 13,373,730	2,109,725	1,283,443	14,200,012

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, 2013</u>			<u>Amounts Due Within One Year</u>	
	<u>Balance September 30 2012</u>	<u>Additions</u>	<u>Reductions</u>		<u>Balance September 30 2013</u>
Revenue bonds payable	\$ 14,275,000	-	1,020,000	13,255,000	1,065,000
Notes payable	5,943,980	-	429,707	5,514,273	447,976
Loan payable	20,506	647,985	16,000	652,491	32,000
Total	<u>\$ 20,239,486</u>	<u>647,985</u>	<u>1,465,707</u>	<u>19,421,764</u>	<u>1,544,976</u>

Long-term debt consisted of the following:

	<u>September 30 2013</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%.	\$ 7,580,000
\$8,230,000 revenue bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	<u>5,675,000</u>
Total	13,255,000
Less - Current maturities	(1,065,000)
Plus - Unamortized debt premiums, net	<u>269,930</u>
Total Revenue Bonds Payable	<u>\$12,459,930</u>
Notes Payable	
State Revolving Fund - 2001C, no interest	\$2,623,519
State Revolving Fund - 2002A, no interest	<u>2,890,754</u>
Total	5,514,273
Less - Current maturities	<u>(447,976)</u>
Total Notes Payable	<u>\$5,066,297</u>

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE F - LONG-TERM DEBT (Continued)

	<u>September 30</u> <u>2013</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%. At September 30, 2013, the Authority had only drawn \$668,491 from the \$751,000 maximum.	\$652,491
Less - Current maturities	<u>(32,000)</u>
Total Loan Payable	<u>\$620,491</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>Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,065,000	677,400	447,976	32,000	9,887
2015	1,120,000	619,484	470,172	33,000	9,452
2016	1,170,000	558,613	491,106	34,000	8,996
2017	1,230,000	494,919	515,827	34,000	8,534
2018	1,285,000	428,134	538,578	35,000	8,072
2019 - 2023	7,385,000	1,064,394	3,050,614	185,000	33,080
2024 - 2028	-	-	-	204,000	19,815
2029 - 2032	-	-	-	95,491	5,052
Total	<u>\$ 13,255,000</u>	<u>3,842,944</u>	<u>5,514,273</u>	<u>652,491</u>	<u>102,888</u>

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.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE F - LONG-TERM DEBT (Continued)

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
\$ 10,345,000	3.382332106%	\$ 352,946	\$ 101,770	\$ 251,176

2002A				
Bond Payable	City Of Herculaneum's Share	Subtotal	Less - Reimbursements	Total
\$ 8,230,000	45.766344165%	\$ 3,766,570	\$ 1,336,332	\$ 2,430,238

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, 2013 is \$4,379. The amount contributed by the Authority in 2013 was \$14,190.

NOTE H - COMMITMENT

At September 30, 2013, the Authority had a commitment to purchase engineering services for \$67,011 of which 90% will be reimbursed by the Missouri Department of Natural Resources. The Authority also had a commitment to purchase construction services for \$120,000.

NOTE I - RETROACTIVE RESTATEMENT OF NET POSITION

The previously stated net position has been retroactively restated to implement GASB Statement No. 63 as follows:

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE I - RETROACTIVE RESTATEMENT OF NET POSITION (Continued)

	<u>Business-type Activities</u>
Net position, September 30, 2012, as previously reported	\$4,330,416
Restatement for:	
Bond issue costs	(370,050)
Accumulated amortization	<u>175,630</u>
Net Position, September 30, 2012, As Restated	<u>\$4,135,996</u>

SUPPLEMENTAL INFORMATION SECTION

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
WATER SALES	\$ 2,249,130	2,249,130	2,249,130	-
SOURCE OF SUPPLY AND PUMPING EXPENSES				
Chemicals	113,500	113,500	98,509	(14,991)
Engineering fees	2,500	2,500	2,100	(400)
Payroll expenses	332,106	332,106	322,257	(9,849)
Repairs and maintenance	74,300	110,220	66,084	(44,136)
Supplies	20,285	20,285	18,154	(2,131)
Total Source Of Supply And Pumping Expenses	<u>542,691</u>	<u>578,611</u>	<u>507,104</u>	<u>(71,507)</u>
ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES				
Bank fees	65,851	65,851	66,927	1,076
Dues and subscriptions	1,800	1,800	855	(945)
Insurance and bonds	49,700	53,920	54,512	592
Miscellaneous	1,000	1,000	902	(98)
Office supplies, postage, advertising, travel	4,020	4,020	3,349	(671)
Professional services	15,700	15,700	11,631	(4,069)
Utilities	183,400	183,400	155,615	(27,785)
Total Accounting, Collection, And Administrative Expenses	<u>321,471</u>	<u>325,691</u>	<u>293,791</u>	<u>(31,900)</u>
OPERATING AND MAINTENANCE EXPENSES	<u>864,162</u>	<u>904,302</u>	<u>800,895</u>	<u>(103,407)</u>

(Continued)

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,384,968	1,344,828	1,448,235	103,407
DEPRECIATION EXPENSE	-	-	(391,194)	391,194
OPERATING INCOME	<u>1,384,968</u>	<u>1,344,828</u>	<u>1,057,041</u>	<u>(287,787)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	751,000	668,491	(82,509)
Investment income	273,975	273,975	222,715	(51,260)
Reimbursement and miscellaneous	344,071	344,071	46,311	(297,760)
Net amortization	11,392	10,367	27,904	17,537
Loss on disposal	-	-	(27,327)	(27,327)
Interest expense	(740,196)	(740,196)	(568,387)	(171,809)
Total Nonoperating Revenues (Expenses)	<u>(110,758)</u>	<u>639,217</u>	<u>369,707</u>	<u>(269,510)</u>
CHANGE IN NET POSITION	<u>\$ 1,274,210</u>	<u>1,984,045</u>	<u>1,426,748</u>	<u>(557,297)</u>

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - RESTRICTED ASSETS BREAKDOWN
SEPTEMBER 30, 2013

Accounts funded for specific debt within one-year:

2001C interest	\$ 73,047
2001C principal	156,250
2002A interest	40,738
2002A principal	330,000
2012 principal	8,000
2012 interest	<u>1,332</u>
Total	<u>\$609,367</u>

Reserve account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve	\$2,623,519
2002A State Revolving Fund Reserve	<u>2,890,754</u>
Total	<u>\$5,514,273</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	\$ 167,051
Replacement investment account balance	<u>1,027,000</u>
Total	<u>\$1,194,051</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	\$ 99,451
City of Herculaneum's reserve investment account	<u>125,500</u>
Total	<u>\$224,951</u>

Total Restricted Cash And Investments At September 30, 2013	<u>\$7,542,642</u>
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JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - BOARD OF
DIRECTORS AND OFFICERS
SEPTEMBER 30, 2013

<u>Name</u>	<u>Position</u>	<u>Term</u>
Timothy Montgomery, City of Festus	President	Appointed
Mark Johnson, City of Herculaneum	Vice President	Appointed
Jim Kasten, City of Herculaneum	Director	Appointed
Brent Adams, 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