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**JEFFERSON COUNTY  
WATER AUTHORITY**

**FINANCIAL REPORT**  
(Audited)

Year Ended September 30, 2017

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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 AUDITOR'S REPORT

February 12, 2018

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the **JEFFERSON COUNTY WATER AUTHORITY** (the Authority) a nonprofit corporation, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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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, 2017, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplemental Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2018 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, 2017**

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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, 2017, 2016, and 2015.

#### **FINANCIAL HIGHLIGHTS AND UPCOMING PROJECTS**

On September 23, 2014, the Authority executed a contract with Utility Service Co., Inc. for collector well rehabilitation and maintenance services. This will be the 3<sup>rd</sup> year for this service with bi-annual cleanings on each lateral every six months. The collector well laterals were cleaned in December 2016 and again in June 2017. An improvement in overall water quality resulted from these cleanings. Since the river levels stayed above normal levels, it is difficult to determine the increased flow after the cleanings. Starting in 2018, the collector well maintenance services will be done annually instead of bi-annually. For fiscal year 2017-2018 the cost of the well maintenance is estimated to be \$126,423.

During the fiscal year 2016-2017, several items were budgeted for replacement and/or capital improvements and were funded through either the depreciation/replacement account or the reserve account:

#### **Depreciation/Replacement Account Items Replaced (cost \$204,598):**

- Raw water pump #1 & #2 VFD's
- Electric panels for both VFD's
- Cabling & the check valves for each raw water pump motor #1 & #2
- High service pump No. 1 was replaced with a new pump (less motor). The old pump had been rebuilt on numerous occasions, which over time caused the shaft to develop a crack
- Fluoride pump was replaced and the entire chemical feed room plumbing and control wiring upgraded. A wall mounted heater was installed to heat the room
- Flow control valve in Herculaneum meter vault #2 was replaced with a new design that mounts the controls up higher and out of water
- Lime slurry feed pinch valve and flow meter were purchased but not installed until fiscal year 2017-2018 during the shut-down of the lateral cleaning

#### **Reserve and/or Operating Account for Capital Improvements (\$10,384):**

- JCWA received permit from DNR to rehab the existing chlorine building. However, at the end of fiscal year 2016-2017 only the engineering and concrete work had been completed. This project has been re-budgeted for fiscal year 2017-2018 and is to be completed by JCWA personnel.

Jefferson County Water Authority has applied for a beneficial use plan that will allow lime sludge generated from the water plants treatment process to be applied on sight at a designated spot within the treatment plant compound. If given approval, this will be a tremendous savings for Jefferson County Water Authority. As of September 30, 2017, no approval has been granted.

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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**Upcoming Budget Year 2017 - 2018:**

The Authority has several replacement items and capital improvements that were not completed this past fiscal year that have been re-budgeted for the current fiscal year along with additional replacement items as per the replacement schedule, which include the following: These items total \$109,000 for replacement items and \$102,500 for capital improvements.

- Complete construction of the chlorine storage shed
- Electronic gate at the entrance of the plant
- Stairs to collector well
- Secure gutters inside the plant
- New truck
- Meter vault flow control valves and radio cabinets
- Clair-cone sludge valve and isolation valve
- Raw water air relief valve
- Lab equipment turbidimeter
- Lime silo dust collector fan/motor
- CO2 compressor/evaporator, auto-controller/injector, vapor heater
- CL2 Robo controls
- Backwash blower and motor

**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 \$754,654 or 10%, which consisted of a \$1,201,262 decrease in total assets combined with a \$1,955,916 decrease in total liabilities. Net capital assets, which is discussed more in capital assets, decreased \$455,521, or 3%. Current assets increased by \$11,585 or 1%. As of September 30, 2017, the Authority had net position of \$8,551,407.

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A summary of financial position follows:

	<b>September 30</b>			<b>2017 Change</b>	
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Amount</b>	<b>Percent</b>
<b>ASSETS</b>					
Current assets	\$ 1,215,478	1,203,893	1,120,658	11,585	1 %
Noncurrent assets - restricted	6,168,568	6,655,060	7,031,458	(486,492)	(7)
Noncurrent assets - other	1,677,667	1,948,501	2,206,307	(270,834)	(14)
Net capital assets	12,672,333	13,127,854	13,535,539	(455,521)	(3)
Total Assets	<u>21,734,046</u>	<u>22,935,308</u>	<u>23,893,962</u>	<u>(1,201,262)</u>	<u>(5)</u>
<b>LIABILITIES</b>					
Current liabilities pay- able from current assets	84,307	217,854	113,911	(133,547)	(61)
Current liabilities pay- able from restricted assets	1,969,205	1,907,091	1,838,201	62,114	3
Long-term debt, less current maturities	11,129,127	13,013,610	14,819,340	(1,884,483)	(14)
Total Liabilities	<u>13,182,639</u>	<u>15,138,555</u>	<u>16,771,452</u>	<u>(1,955,916)</u>	<u>(13)</u>
<b>NET POSITION</b>					
Net investment in capital assets	3,275,821	2,441,437	1,619,218	834,384	34
Restricted	4,144,415	4,369,277	4,496,545	(224,862)	(5)
Unrestricted	1,131,171	986,039	1,006,747	145,132	15
Total Net Position	<u>\$ 8,551,407</u>	<u>7,796,753</u>	<u>7,122,510</u>	<u>754,654</u>	<u>10 %</u>

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**

Operating revenues increased by \$39,532 or 2%. This increase was due to the increase in wholesale water rate from \$4.18 to \$4.26.

Operating expenses increased by \$31,297 or 2%. This increase is largely due from contractual fees associated with the well rehabilitation and maintenance project.

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

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>For The Years Ended September 30</u>			<u>2017 Change</u>	
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Amount</u>	<u>Percent</u>
<b>OPERATING REVENUES</b>	\$ 2,456,742	2,417,210	2,324,101	39,532	2 %
OPERATING EXPENSES	<u>1,622,909</u>	<u>1,591,612</u>	<u>1,385,724</u>	<u>31,297</u>	2
<b>OPERATING INCOME</b>	833,833	825,598	938,377	8,235	1
NONOPERATING (REVENUES) EXPENSES, NET	<u>141,441</u>	<u>169,239</u>	<u>215,939</u>	<u>(27,798)</u>	(16)
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	692,392	656,359	722,438	36,033	5
CAPITAL CONTRIBUTIONS	<u>62,262</u>	<u>17,884</u>	<u>-</u>	<u>44,378</u>	248
<b>CHANGE IN NET POSITION</b>	754,654	674,243	722,438	80,411	12
NET POSITION, BEGINNING OF YEAR	<u>7,796,753</u>	<u>7,122,510</u>	<u>6,400,072</u>	<u>674,243</u>	9
<b>NET POSITION, END OF YEAR</b>	<u>\$ 8,551,407</u>	<u>7,796,753</u>	<u>7,122,510</u>	<u>754,654</u>	10 %

**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 2017. The net cash used in operating activities was used primarily for payment of debt, and capital improvements.

**CAPITAL ASSETS**

Net capital assets were \$12,672,333 at September 30, 2017 compared to \$13,127,854, a decrease of \$455,521, or 3%. The Authority's capital assets consist primarily of the water plant. The decrease is due to the plant improvements in the amount of \$10,384, which was offset by annual depreciation in the amount of \$451,171 and loss on disposal of assets in the amount of \$14,734.

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 \$12,985,705 at September 30, 2017 decreased by \$1,805,732 from 2016. This decrease was primarily due to scheduled principal payments on the debt.

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

**JEFFERSON COUNTY WATER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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**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). Because the net revenues fell below the 1.10 rate covenant requirement, the Authority received a waiver from DNR of any penalties for noncompliance because the calculation includes replacement items totaling \$204,598 that was paid from the existing depreciation/replacement account to cover these expenses.

Debt service ratio calculation is as follows:

	<b>For The Year Ended September 30 2017</b>
<b>REVENUE</b>	
Water sales	\$ 2,456,742
Investment income	186,073
Other income (Herculaneum reimbursement and debt)	314,423
Total Revenue	<u>2,957,238</u>
LESS - OPERATING EXPENSES	<u>1,171,738</u>
<b>NET REVENUES FOR DEBT COVERAGE</b>	<u>\$ 1,785,500</u>
<b>ANNUAL DEBT SERVICE</b>	<u>\$ 1,663,391</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<u>107.3 %</u>

**RESTRICTED ASSETS**

Total restricted assets were \$6,168,568 at September 30, 2017 compared to \$6,655,060 at September 30, 2016. 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 \$486,492 or 7% primarily due to the decrease in the SRF Reserve accounts (debt service payments) in the amount of \$515,827.

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

The Authority's overall financial position in 2017 increased 10% as shown by the net position increase of \$754,654. 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, 2017

### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 558,172
Investments	349,000
Receivables:	
Service charges	201,924
Other	24,287
Prepaid insurance	41,523
Inventory	40,572
Total Current Assets	<u>1,215,478</u>

#### Noncurrent Assets

##### Restricted assets:

Cash and cash equivalents	137,459
Investments	5,979,720
Receivables:	
Interest receivable	51,389
Total Restricted Assets	<u>6,168,568</u>

##### Other assets:

Due from City of Herculaneum	<u>1,677,667</u>
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##### Capital assets:

Land and construction in progress	384,483
Other capital assets, net of accumulated depreciation	12,287,850
Total Capital Assets	<u>12,672,333</u>
Total Noncurrent Assets	<u>20,518,568</u>
Total Assets	<u>21,734,046</u>

# JEFFERSON COUNTY WATER AUTHORITY

## STATEMENT OF NET POSITION (Continued)

SEPTEMBER 30, 2017

### LIABILITIES

#### Current Liabilities

Accounts payable	66,034
Accrued payroll liabilities	18,273
Payable from restricted assets:	
Current maturities of long-term debt	1,856,578
Accrued interest payable	112,627
Total Current Liabilities	<u>2,053,512</u>

#### Long-term Debt, less current maturities

Revenue bonds payable	7,543,312
Notes payable	3,050,615
Loan payable	535,200
Total Long-term Liabilities	<u>11,129,127</u>
Total Liabilities	<u>13,182,639</u>

### NET POSITION

Net investment in capital assets	3,275,821
Restricted for debt service	2,657,618
Restricted for depreciation and replacement	1,486,797
Unrestricted	1,131,171
Total Net Position	<u>\$ 8,551,407</u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGE IN NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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<b>WATER SALES</b>	\$ 2,456,742
<b>OPERATING AND MAINTENANCE EXPENSES</b>	<u>(1,171,738)</u>
<b>OPERATING INCOME BEFORE DEPRECIATION EXPENSE</b>	1,285,004
<b>DEPRECIATION EXPENSE</b>	<u>(451,171)</u>
<b>OPERATING INCOME</b>	<u>833,833</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	186,073
Reimbursement and miscellaneous	44,068
Net amortization	27,905
Loss on disposal	(14,734)
Interest expense	<u>(384,753)</u>
Total Nonoperating Revenues (Expenses)	<u>(141,441)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	692,392
<b>CAPITAL CONTRIBUTIONS</b>	<u>62,262</u>
<b>CHANGE IN NET POSITION</b>	754,654
<b>NET POSITION, OCTOBER 1</b>	<u>7,796,753</u>
<b>NET POSITION, SEPTEMBER 30</b>	<u><u>\$ 8,551,407</u></u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

**Cash flows from operating activities:**

Cash received from customers	\$ 2,452,950
Cash payments to suppliers for goods and services	(1,274,068)
Net Cash Provided By Operating Activities	1,178,882

**Cash flows from noncapital financing activities:**

Decrease in due from City of Herculaneum	270,834
Reimbursements and miscellaneous	44,068
Net Cash Provided By Noncapital Financing Activities	314,902

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

Payments on notes payable	(515,827)
Payments on loan payable	(32,000)
Payments on bonds payable	(1,230,000)
Interest paid on debt	(401,390)
Purchase of capital assets	(10,384)
Net Cash Used In Capital And Related Financing Activities	(2,189,601)

**Cash flows from investing activities:**

Decrease in investments	326,665
Investment income	190,458
Net Cash Provided By Investing Activities	517,123

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (178,694)

**CASH AND CASH EQUIVALENTS, OCTOBER 1** 874,325

**CASH AND CASH EQUIVALENTS, SEPTEMBER 30** \$ 695,631

# JEFFERSON COUNTY WATER AUTHORITY

## STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

#### Cash flows from operating activities:

Operating income	\$ 833,833
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	451,171
(Increase) decrease in:	
Accounts receivable	(28,079)
Inventory	(5,657)
Prepaid insurance	(1,101)
Increase (decrease) in:	
Accounts payable	(72,145)
Accrued payroll liabilities	860
Total Adjustments	<u>345,049</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,178,882</u></u>

#### Supplemental disclosure of cash flow information:

##### Noncash capital and related financing activities:

Contributed capital assets	<u><u>\$ 62,262</u></u>
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**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 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**

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

**6. Prepaid Insurance**

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

**7. Capital Assets**

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 for machinery & equipment, \$25,000 for buildings and building improvements, 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 value at the date of contribution.

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

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

Depreciation expense charged to operations for the year ended September 30, 2017 amounted to \$451,171.

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.

**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, 2017, amounted to \$27,905.

**9. Water Sales**

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

**10. Statement of Cash Flows**

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

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

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

**11. Income Taxes**

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

**12. Budgets and Budgetary Accounting**

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

**13. Restricted Assets**

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

**14. Use of Estimates**

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

**NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**1. Deposits**

The Authority's bank deposits are secured by the deposit of certain securities with the Authority or trustee institution. The value of the securities must amount to the total of the Authority's cash not insured by the Federal Deposit Insurance Corporation. As of September 30, 2017, the Authority's bank balances were entirely secured or collateralized with securities held by the Authority or by its agent in the Authority's name.

**2. Investments**

As of September 30, 2017, the Authority had the following investments:

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

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

**2. Investments (Continued)**

Investments	Fair Value	Maturities				Credit Risk
		No Maturity	Less Than One Year	1 - 5 Years	6 - 10 Years	
Certificates of deposit	\$ 2,068,000	-	650,000	1,418,000	-	N/A
Guaranteed investment contract	4,260,720	-	-	-	4,260,720	Not rated
Money market funds	9,937	9,937	-	-	-	Not rated
Total Investments	6,338,657	9,937	650,000	1,418,000	4,260,720	
Cash and cash equivalents	685,694					
Total Cash, Cash Equivalents, And Investments	<u>\$ 7,024,351</u>					

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

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

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

Concentration of credit risk is required to be disclosed by the Authority for investments in any one issuer that represent 5% or more of total investments (investments issued by or explicitly guaranteed by the United States Government, investments in mutual funds, investments in external investment pools, and investments in other pooled investments are exempt). At September 30, 2017, the Authority had the following investment concentrations:

Investments	Fair Value	Percent Of Total Investments
Certificates of deposit - certain banks greater than 5%	\$ 1,270,000	20.04 %
Guaranteed investment contracts	4,260,720	67.22

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

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

**3. Fair Value Measurements**

The Authority classifies its fair value measurements within the fair value hierarchy established by accounting principles generally in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The inputs and methodologies used for valuing investment securities are not necessarily an indication of risk associated with investing in those securities. The Authority has the following recurring fair value measurements as of September 30, 2017:

- Money market funds of \$9,937 are not subject to fair value level classification
- Guaranteed investment contracts of \$4,260,720 are not subject to fair value level classification
- Certificates of deposit of \$2,068,000 are not subject to fair value level classification

**NOTE C - CONCENTRATION**

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

On March 26, 2001, the City of Herculaneum entered into a contract with the Authority to purchase 480,000 gallons of water per day. On August 16, 2011, the City of Herculaneum Board of Alderman approved amending the water usage obligation to 520,000 gallons of water per day as of October 1, 2011 with the understanding that should the largest consumer of water from the City of Herculaneum reduce its water usage significantly, or should the City of Herculaneum's usage decrease for any unforeseen reason by 20% over a consecutive three month period, then it would revert back to its original contract of 480,000 gallons per day. As of July 1, 2012, the City of Herculaneum reverted to the original 480,000 gallons per day.

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

**NOTE D - RISK MANAGEMENT**

The Authority carries commercial insurance for its risks of loss, including workers' compensation, property, general umbrella, and public officials' liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

**NOTE E - CAPITAL ASSETS**

The following is a summary of changes in capital assets:

	<b>For The Year Ended September 30, 2017</b>			
	<b>Balance September 30 2016</b>	<b>Increases</b>	<b>Decreases</b>	
Capital assets not being depreciated:				
Land	\$ 373,444	-	-	373,444
Construction in progress	655	10,384	-	11,039
Total Capital Assets Not Being Depreciated	<u>374,099</u>	<u>10,384</u>	<u>-</u>	<u>384,483</u>
Capital assets being depreciated:				
Land improvements	7,998	-	-	7,998
Water plant	17,405,204	-	43,682	17,361,522
Buildings and building improvements	18,657	-	-	18,657
Vehicles	15,276	-	-	15,276
Computer equipment and software	42,650	-	3,500	39,150
Total Capital Assets Being Depreciated	<u>17,489,785</u>	<u>-</u>	<u>47,182</u>	<u>17,442,603</u>
Less - Accumulated depreciation for:				
Land improvements	3,155	400	-	3,555
Water plant	4,683,437	447,643	28,948	5,102,132
Buildings and building improve- ments	5,752	622	-	6,374
Vehicles	15,276	-	-	15,276
Computer equipment and software	28,410	2,506	3,500	27,416
Total Accumulated Depreciation	<u>4,736,030</u>	<u>451,171</u>	<u>32,448</u>	<u>5,154,753</u>
Total Capital Assets Being Depreciated, Net	<u>12,753,755</u>	<u>(451,171)</u>	<u>14,734</u>	<u>12,287,850</u>
Total Capital Assets, Net	<u>\$ 13,127,854</u>	<u>(440,787)</u>	<u>14,734</u>	<u>12,672,333</u>

**NOTE F - LONG-TERM DEBT**

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

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

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

	For The Year Ended September 30, 2017			Balance September 30 2017	Amounts Due Within One Year
	Balance September 30 2016	Additions	Reductions		
Revenue bonds payable	\$ 9,900,000	-	1,230,000	8,670,000	1,285,000
Notes payable	4,105,020	-	515,827	3,589,193	538,578
Loan payable	600,200	-	32,000	568,200	33,000
Total	\$ 14,605,220	-	1,777,827	12,827,393	1,856,578

Long-term debt consisted of the following:

	September 30 2017
<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%.	\$ 4,910,000
\$8,230,000 revenue bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	3,760,000
Total	8,670,000
Less - Current maturities	1,285,000
Plus - Unamortized debt premiums, net	158,312
Total Revenue Bonds Payable	\$ 7,543,312
<b>Notes Payable</b>	
State Revolving Fund - 2001C, no interest	\$ 1,655,939
State Revolving Fund - 2002A, no interest	1,933,254
Total	3,589,193
Less - Current maturities	538,578
Total Notes Payable	\$ 3,050,615
<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%.	\$ 568,200
Less - Current maturities	33,000
Total Loan Payable	\$ 535,200

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

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

Annual debt service requirements to maturities are as follows:

<b>For The Years Ending September 30</b>	<b>Revenue Bonds</b>		<b>Notes Payable</b>	<b>Loan Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Principal</b>	<b>Interest</b>
2018	\$ 1,285,000	428,134	538,578	33,000	7,619
2019	1,350,000	358,125	546,641	34,000	7,163
2020	1,410,000	287,644	624,894	34,000	6,700
2021	1,475,000	215,250	598,306	34,900	6,238
2022	1,540,000	140,625	625,804	35,800	5,758
2023 - 2027	1,610,000	62,750	654,970	188,800	21,289
2028 - 2032	-	-	-	207,700	7,903
Total	<u>\$ 8,670,000</u>	<u>1,492,528</u>	<u>3,589,193</u>	<u>568,200</u>	<u>62,670</u>

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

This loan (reserve account) was funded in an amount equal to 33.3% for the 2001C and 50% for the Series 2002A of the outstanding principal amount of such bonds. The reserve account is held in trust. As the principal amount of such bonds is repaid, the amounts held in the reserve account will be reduced such that the reserve account will equal 33.33% and 50%, respectively, of the remaining principal balance of such bonds.

The Authority's rate covenant requirement is 1.10%, however for the year ended September 30, 2017 the rate covenant is 107.3%.

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

<b>2001C</b>				
<b>Bond Payable</b>	<b>City Of Herculaneum's Share</b>	<b>Subtotal</b>	<b>Less - Reimbursements</b>	<b>Total</b>
\$ 10,345,000	3.382332106%	\$ 352,946	\$ 193,051	\$ 159,895
<b>2002A</b>				
<b>Bond Payable</b>	<b>City Of Herculaneum's Share</b>	<b>Subtotal</b>	<b>Less - Reimbursements</b>	<b>Total</b>
\$ 8,230,000	45.766344165%	\$ 3,766,570	\$ 2,248,798	\$ 1,517,772

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

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**NOTE G - EMPLOYEES' PROFIT SHARING PLAN**

The Authority contributes to a 401(k) Profit Sharing Plan, which is monitored by Nationwide Retirement Solutions. Employees are eligible to participate in the deferral compensation program at the end of six months of service. The Authority will match 50% of the participant's elective deferral percentage up to 3%. The Authority may also make discretionary contributions throughout the year which are allocated among all employees even if they are not a participant in the profit sharing plan. The amounts withheld from each paycheck and submitted by the Authority directly to Nationwide on behalf of the employees for the year ended September 30, 2017 is \$0. The amount contributed by the Authority in 2017 was \$17,500. The Authority uses forfeitures from nonvested employees to offset contributions related to the plan. In 2017, forfeitures used to offset contributions totaled \$0.

**NOTE H - COMMITMENTS**

At September 30, 2017, the Authority had two commitments for collector well rehabilitation and maintenance services totaling \$799,576 and building improvements totaling \$17,433.

In 2014, the Authority entered into a multi-year agreement with a company to provide improvements and maintenance of certain capital assets of the Authority. Total amounts expected to be paid under the contract will be \$144,703 for the year ended September 30, 2018.

**SUPPLEMENTAL INFORMATION SECTION**

**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES**  
**AND EXPENSES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>WATER SALES</b>	\$ 2,456,742	2,456,742	2,456,742	-
<b>SOURCE OF SUPPLY AND PUMPING EXPENSES</b>				
Chemicals	120,000	115,000	111,882	(3,118)
Engineering fees	2,000	2,000	-	(2,000)
Payroll expenses	396,292	383,250	367,518	(15,732)
Repairs and maintenance	441,685	503,236	387,636	(115,600)
Supplies	23,000	25,000	21,036	(3,964)
Total Source Of Supply And Pumping Expenses	<u>982,977</u>	<u>1,028,486</u>	<u>888,072</u>	<u>(140,414)</u>
<b>ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES</b>				
Bank fees	49,015	49,015	49,086	71
Dues and subscriptions	2,600	2,600	1,503	(1,097)
Insurance and bonds	55,000	57,500	54,670	(2,830)
Miscellaneous	1,000	1,000	209	(791)
Office supplies, postage, advertising, travel	10,150	10,650	6,432	(4,218)
Professional services	14,400	14,400	13,461	(939)
Utilities	187,460	167,660	158,305	(9,355)
Total Accounting, Collection, And Administrative Expenses	<u>319,625</u>	<u>302,825</u>	<u>283,666</u>	<u>(19,159)</u>
<b>OPERATING AND MAINTENANCE EXPENSES</b>	<u>1,302,602</u>	<u>1,331,311</u>	<u>1,171,738</u>	<u>(159,573)</u>

(Continued)

**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES**  
**AND EXPENSES - BUDGET AND ACTUAL (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>OPERATING INCOME BEFORE DEPRECIATION EXPENSE</b>	1,154,140	1,125,431	1,285,004	159,573
<b>DEPRECIATION EXPENSE</b>	-	-	(451,171)	451,171
<b>OPERATING INCOME</b>	<u>1,154,140</u>	<u>1,125,431</u>	<u>833,833</u>	<u>(291,598)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	200,569	200,569	186,073	(14,496)
Reimbursement and miscellaneous	363,889	363,889	44,068	(319,821)
Net amortization	27,905	27,905	27,905	-
Loss on sale of assets	-	-	(14,734)	14,734
Interest expense	(502,973)	(502,973)	(384,753)	(118,220)
Total Nonoperating Revenues (Expenses)	<u>89,390</u>	<u>89,390</u>	<u>(141,441)</u>	<u>230,831</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	1,243,530	1,214,821	692,392	(522,429)
<b>CAPITAL CONTRIBUTIONS</b>	-	63,000	62,262	(738)
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,243,530</u>	<u>1,277,821</u>	<u>754,654</u>	<u>(523,167)</u>

**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - RESTRICTED ASSETS BREAKDOWN**  
**SEPTEMBER 30, 2017**

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Accounts funded for specific debt within one-year:

2001C interest	\$ 49,975
2001C principal	185,000
2002A interest	27,802
2002A principal	408,750
2012 interest	1,932
2012 principal	<u>8,003</u>
Total	<u>\$ 681,462</u>

Reserve account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve	\$ 1,655,939
2002A State Revolving Fund Reserve	<u>1,933,254</u>
Total	<u>\$ 3,589,193</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	\$ 117,797
Replacement investment account balance	<u>1,369,000</u>
Total	<u>\$ 1,486,797</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	\$ 9,727
City of Herculaneum's reserve investment account	<u>350,000</u>
Total	<u>\$ 359,727</u>

Total Restricted Cash, Cash Equivalents, And Investments At September 30, 2017	<u>\$ 6,117,179</u>
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**JEFFERSON COUNTY WATER AUTHORITY**  
**SUPPLEMENTAL INFORMATION - BOARD OF**  
**DIRECTORS AND OFFICERS**  
**SEPTEMBER 30, 2017**

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<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
Matt Clemens, 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
Kerry Patek, City of Festus	Secretary	Appointed