
**JEFFERSON COUNTY
WATER AUTHORITY**

FINANCIAL REPORT
(Audited)

Year Ended September 30, 2016

JEFFERSON COUNTY WATER AUTHORITY
FINANCIAL REPORT

	Page
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
Statement of Net Position	8
Statement of Revenues, Expenses, and Change in Net Position	10
Statement of Cash Flows	11
Notes to the Financial Statements	13
SUPPLEMENTAL INFORMATION	
Schedule of Revenues and Expenses - Budget and Actual	23
Restricted Assets Breakdown	25
Board of Directors and Officers	26



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

INDEPENDENT AUDITOR'S REPORT

February 22, 2017

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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2016, 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 22, 2017 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, 2016

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, 2016, 2015, and 2014.

FINANCIAL HIGHLIGHTS AND UPCOMING PROJECTS

On June 20, 2013, the Authority executed a contract with Utility Service Co., Inc. for ice pigging services not to exceed \$120,000. However, this project had previously been delayed due to flooding but was finally completed on September 21, 2016. The results from the ice pigging project were positive, resulting in an increase in flow from 2.0 MGD to 2.5 MGD.

Last year the Authority requested assistance from the Federal Emergency Management Agency (FEMA) in the amount of \$461,555 to build up the access road to the Collector Well due to recent flooding. However, FEMA claimed damages only to be \$8,600 and therefore approved and released only \$6,800. The Authority is in the process of appealing this amount and has applied for an improved project from FEMA. At this time, FEMA has not responded to the Authority's appeal.

The Authority has made several improvements in replacement items which consisted of (4) turbidity monitors, (2) river pump variable frequency drives, (2) dehumidifiers, (1) line dryer for the plants main air compressor and upgrades to the three meter vaults with PLC cabinet lighting, meter vault lighting with new energy efficient LED lights, telemetry upgrades, and sump pump replacements for each meter vault. In other capital improvements, engineering plans have been submitted to the Missouri Department of Natural Resources for a new chlorine building rehabilitation. Once a construction permit is issued, construction will proceed.

In upcoming fiscal year, the Authority plans to stay on a maintenance schedule to replace items to include a raw water check valve, Clari-Cone sludge pump, motor and valve replacement, backwash blower and motor, rebuild HS pump No. 1, rebuild HS motor No. 2, replace central room air conditioning, CL2 feed rate vacuum system, fluoride system pump, decant VFD No. 1 and No. 2, lime screw gear box, lime dosing valve/controller/meter, No. 2 meter vault valve replacement and secure gutters inside the main building. These replacement items expect to be around \$105,000. Other capital outlay includes an electronic security gate, stairs to collector well and the chlorine building rehabilitation totaling \$77,500. The annual well cleaning contract with Utility Service will cost \$130,799 this next year.

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 \$674,243 or 9%, which consisted of a \$958,654 decrease in total assets combined with a \$1,632,897 decrease in total liabilities. Net capital assets, which is discussed more in capital assets, decreased \$407,685, or 3%. Current assets increased by \$83,235 or 7%.

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

As of September 30, 2016, the Authority had net position of \$7,796,753.

A summary of financial position follows:

	September 30			2016 Change	
	2016	2015	2014	Amount	Percent
ASSETS					
Current assets	\$ 1,203,893	1,120,658	1,084,575	83,235	7 %
Noncurrent assets - restricted	6,655,060	7,031,458	7,337,258	(376,398)	(5)
Noncurrent assets - other	1,948,501	2,206,307	2,450,067	(257,806)	(12)
Net capital assets	13,127,854	13,535,539	13,900,002	(407,685)	(3)
Total Assets	<u>22,935,308</u>	<u>23,893,962</u>	<u>24,771,902</u>	<u>(958,654)</u>	<u>(4)</u>
LIABILITIES					
Current liabilities pay- able from current assets	217,854	113,911	49,956	103,943	91
Current liabilities pay- able from restricted assets	1,907,091	1,838,201	1,781,523	68,890	4
Long-term debt, less current maturities	13,013,610	14,819,340	16,540,351	(1,805,730)	(12)
Total Liabilities	<u>15,138,555</u>	<u>16,771,452</u>	<u>18,371,830</u>	<u>(1,632,897)</u>	<u>(10)</u>
NET POSITION					
Net investment in capital assets	2,441,437	1,619,218	804,676	822,219	51
Restricted	4,369,277	4,496,545	4,560,777	(127,268)	(3)
Unrestricted	986,039	1,006,747	1,034,619	(20,708)	(2)
Total Net Position	<u>\$ 7,796,753</u>	<u>7,122,510</u>	<u>6,400,072</u>	<u>674,243</u>	<u>9 %</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Operating revenues increased by \$93,109 or 4%. This increase was due to the increase in wholesale water rate from \$4.03 to \$4.18.

Operating expenses increased by \$205,888 or 15%. This increase is largely due from contractual fees associated with the ice piggig 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, 2016

	<u>For The Years Ended September 30</u>			<u>2016 Change</u>	
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Amount</u>	<u>Percent</u>
OPERATING REVENUES	\$ 2,417,210	2,324,101	2,283,732	93,109	4 %
OPERATING EXPENSES	<u>1,591,612</u>	<u>1,385,724</u>	<u>1,301,942</u>	<u>205,888</u>	15
OPERATING INCOME	825,598	938,377	981,790	(112,779)	(12)
NONOPERATING (REVENUES) EXPENSES, NET	<u>169,239</u>	<u>215,939</u>	<u>144,462</u>	<u>(46,700)</u>	(22)
INCOME BEFORE CAPITAL CONTRIBUTIONS	656,359	722,438	837,328	(66,079)	(9)
CAPITAL CONTRIBUTIONS	<u>17,884</u>	<u>-</u>	<u>-</u>	<u>17,884</u>	100
CHANGE IN NET POSITION	674,243	722,438	837,328	(48,195)	(7)
NET POSITION, BEGINNING OF YEAR	<u>7,122,510</u>	<u>6,400,072</u>	<u>5,562,744</u>	<u>722,438</u>	11
NET POSITION, END OF YEAR	<u>\$ 7,796,753</u>	<u>7,122,510</u>	<u>6,400,072</u>	<u>674,243</u>	9 %

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 2016. The net cash used in operating activities was used primarily for payment of debt, and capital improvements.

CAPITAL ASSETS

Net capital assets were \$13,127,854 at September 30, 2016 compared to \$13,535,539, a decrease of \$407,685, 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 \$41,366, which was offset by annual depreciation in the amount of \$441,633 and loss on disposal of assets in the amount of \$7,418.

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 \$14,791,437 at September 30, 2016 decreased by \$1,721,009 from 2015. 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, 2016**

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 is in the process of requesting a waiver from DNR because this calculation includes \$120,000 for an ice pigging project that was paid for by reserve funds.

Debt service ratio calculation is as follows:

	For The Year Ended September 30 2016
REVENUE	
Water sales	\$ 2,417,210
Investment income	195,273
Other income (Herculaneum reimbursement and debt)	308,368
Total Revenue	2,920,851
 LESS - OPERATING EXPENSES	 1,149,979
 NET REVENUES FOR DEBT COVERAGE	 \$ 1,770,872
 ANNUAL DEBT SERVICE	 \$ 1,653,663
 DEBT SERVICE COVERAGE RATIO	 107.1 %

RESTRICTED ASSETS

Total restricted assets were \$6,655,060 at September 30, 2016 compared to \$7,031,458 at September 30, 2015. 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 \$376,398 or 5% primarily due to the decrease in the SRF Reserve accounts (debt service payments) in the amount of \$491,105.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Authority's overall financial position in 2016 increased 9% as shown by the net position increase of \$674,243. 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, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 581,424
Investments	349,000
Receivables:	
Service charges	198,132
Prepaid insurance	40,422
Inventory	34,915
Total Current Assets	<u>1,203,893</u>

Noncurrent Assets

Restricted assets:	
Cash and cash equivalents	292,901
Investments	6,306,385
Receivables:	
Interest receivable	55,774
Total Restricted Assets	<u>6,655,060</u>

Other assets:

Due from City of Herculaneum	<u>1,948,501</u>
------------------------------	------------------

Capital assets:

Land and construction in progress	374,099
Other capital assets, net of accumulated depreciation	12,753,755
Total Capital Assets	<u>13,127,854</u>
Total Noncurrent Assets	<u>21,731,415</u>
Total Assets	<u>22,935,308</u>

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF NET POSITION (Continued)

SEPTEMBER 30, 2016

LIABILITIES

Current Liabilities

Accounts payable	200,441
Accrued payroll liabilities	17,413
Payable from restricted assets:	
Current maturities of long-term debt	1,777,827
Accrued interest payable	129,264
Total Current Liabilities	<u>2,124,945</u>

Long-term Debt, less current maturities

Revenue bonds payable	8,856,217
Notes payable	3,589,193
Loan payable	568,200
Total Long-term Liabilities	<u>13,013,610</u>
Total Liabilities	<u>15,138,555</u>

NET POSITION

Net investment in capital assets	2,441,437
Restricted for debt service	2,863,833
Restricted for depreciation and replacement	1,505,444
Unrestricted	986,039
Total Net Position	<u>\$ 7,796,753</u>

JEFFERSON COUNTY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

WATER SALES	\$ 2,417,210
OPERATING AND MAINTENANCE EXPENSES	<u>(1,149,979)</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,267,231
DEPRECIATION EXPENSE	<u>(441,633)</u>
OPERATING INCOME	<u>825,598</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	6,290
Investment income	195,273
Reimbursement and miscellaneous	44,543
Net amortization	27,905
Loss on disposal	(7,418)
Interest expense	<u>(435,832)</u>
Total Nonoperating Revenues (Expenses)	<u>(169,239)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	656,359
CAPITAL CONTRIBUTIONS	<u>17,884</u>
CHANGE IN NET POSITION	674,243
NET POSITION, OCTOBER 1	<u>7,122,510</u>
NET POSITION, SEPTEMBER 30	<u><u>\$ 7,796,753</u></u>

JEFFERSON COUNTY WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Cash received from customers	\$ 2,410,100
Cash payments to suppliers for goods and services	(1,040,887)
Net Cash Provided By Operating Activities	1,369,213

Cash flows from noncapital financing activities:

Intergovernmental	6,290
Decrease in due from City of Herculaneum	257,806
Reimbursements and miscellaneous	50,464
Net Cash Provided By Noncapital Financing Activities	314,560

Cash flows from capital and related financing activities:

Payments on notes payable	(491,105)
Payments on loan payable	(32,000)
Payments on bonds payable	(1,170,000)
Interest paid on debt	(451,663)
Purchase of capital assets	(41,366)
Net Cash Used In Capital And Related Financing Activities	(2,186,134)

Cash flows from investing activities:

Decrease in investments	367,694
Investment income	200,786
Net Cash Provided By Investing Activities	568,480

NET INCREASE IN CASH AND CASH EQUIVALENTS	66,119
--	---------------

CASH AND CASH EQUIVALENTS, OCTOBER 1	808,206
--------------------------------------	---------

CASH AND CASH EQUIVALENTS, SEPTEMBER 30	\$ 874,325
---	------------

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2016

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Cash flows from operating activities:

Operating income	\$ 825,598
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	441,633
(Increase) decrease in:	
Accounts receivable	(7,110)
Inventory	(14,957)
Prepaid insurance	2,221
Increase (decrease) in:	
Accounts payable	117,424
Accrued payroll liabilities	4,404
Total Adjustments	<u>543,615</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,369,213</u></u>

Supplemental disclosure of cash flow information:

Noncash capital and related financing activities:

Contributed capital assets	<u><u>\$ 17,884</u></u>
----------------------------	-------------------------

JEFFERSON COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

JEFFERSON COUNTY WATER AUTHORITY (the Authority) is a nonprofit corporation organized in order to promote health and general welfare of the inhabitants residing within those municipalities and public water supply districts (collectively, the “Governmental Entities”) who subscribe to the membership of the Authority, by taking appropriate action to acquire by purchase, develop, and sell potable water supply to sponsoring municipalities. The Authority was incorporated in January 2000 and began its activities in November 2001. The Authority began delivery of water to customers in September 2003. The more significant accounting policies consistently applied by the Authority in the preparation of the accompanying financial statements are summarized below:

1. Reporting Entity

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

2. Basis of Accounting

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenues and expenses are categorized as either operating or nonoperating. Operating revenues and expenses include charges that are assessed to the beneficiaries of the service and the cost of providing the service. Nonoperating and other activities primarily include investment income, interest expense, and capital contributions.

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

3. Investments

Investments are reported at cost which approximates fair value.

4. Accounts Receivable

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

5. Inventory

Inventory is valued at cost (first-in, first-out) and the expense is recognized when inventories are consumed in operations.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Prepaid Insurance

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

7. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 for machinery & 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:

Assets	Years
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, 2016 amounted to \$441,633.

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, 2016, 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

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 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, 2016, 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, 2016, the Authority had the following investments:

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE B - CASH 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	\$ 1,895,000	-	1,345,000	550,000	-	N/A
Guaranteed investment contract	4,760,385	-	-	-	4,760,385	Not rated
Money market funds	10,042	10,042	-	-	-	Not rated
Repurchase agreement	849,328	-	849,328	-	-	AAA
Total Investments	<u>7,514,755</u>	<u>10,042</u>	<u>2,194,328</u>	<u>550,000</u>	<u>4,760,385</u>	
Cash	<u>14,955</u>					
Total Cash And Investments	<u>\$ 7,529,710</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.

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, 2016:

- Money market funds of \$10,042 are valued using quoted market prices (Level 1 inputs)
- Guaranteed investment contracts of \$4,760,385 are not subject to fair value level classification.
- Certificates of deposit of \$1,895,000 are not subject to fair value level classification.

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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.

NOTE E - CAPITAL ASSETS

The following is a summary of changes in capital assets:

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE E - CAPITAL ASSETS (Continued)

	For The Year Ended September 30, 2016			Balance September 30 2016
	Balance September 30 2015	Increases	Decreases	
	Capital assets not being depreciated:			
Land	\$ 373,444	-	-	373,444
Construction in progress	-	655	-	655
Total Capital Assets Not Being Depreciated	373,444	655	-	374,099
Capital assets being depreciated:				
Land improvements	7,998	-	-	7,998
Water plant	17,385,814	40,711	21,321	17,405,204
Buildings and building improvements	18,657	-	-	18,657
Vehicles	15,276	-	-	15,276
Computer equipment and software	42,650	-	-	42,650
Total Capital Assets Being Depreciated	17,470,395	40,711	21,321	17,489,785
Less - Accumulated depreciation for:				
Land improvements	2,755	400	-	3,155
Water plant	4,260,759	436,581	13,903	4,683,437
Buildings and building improve- ments	5,130	622	-	5,752
Vehicles	15,276	-	-	15,276
Computer equipment and software	24,380	4,030	-	28,410
Total Accumulated Depreciation	4,308,300	441,633	13,903	4,736,030
Total Capital Assets Being Depreciated, Net	13,162,095	(400,922)	7,418	12,753,755
Total Capital Assets, Net	\$ 13,535,539	(400,267)	7,418	13,127,854

NOTE F - LONG-TERM DEBT

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

	For The Year Ended September 30, 2016			Balance September 30 2016	Amounts Due Within One Year
	Balance September 30 2015	Additions	Reductions		
	Revenue bonds payable	\$ 11,070,000	-		
Notes payable	4,596,125	-	491,105	4,105,020	515,827
Loan payable	632,200	-	32,000	600,200	32,000
Total	\$ 16,298,325	-	1,693,105	14,605,220	1,777,827

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE F - LONG-TERM DEBT (Continued)

Long-term debt consisted of the following:

	September 30 2016
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%.	\$ 5,620,000
\$8,230,000 revenue bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	<u>4,280,000</u>
Total	9,900,000
Less - Current maturities	1,230,000
Plus - Unamortized debt premiums, net	<u>186,217</u>
Total Revenue Bonds Payable	<u>\$ 8,856,217</u>
Notes Payable	
State Revolving Fund - 2001C, no interest	\$ 1,911,766
State Revolving Fund - 2002A, no interest	<u>2,193,254</u>
Total	4,105,020
Less - Current maturities	<u>515,827</u>
Total Notes Payable	<u>\$ 3,589,193</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%.	\$ 600,200
Less - Current maturities	<u>32,000</u>
Total Loan Payable	<u>\$ 568,200</u>

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE F - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturities are as follows:

For The Years Ending September 30	Revenue Bonds		Notes Payable	Loan Payable	
	Principal	Interest	Principal	Principal	Interest
2017	\$ 1,230,000	494,919	515,827	32,000	8,054
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 - 2026	3,150,000	203,375	1,280,774	185,000	23,818
2027 - 2031	-	-	-	203,900	10,690
2032	-	-	-	43,400	442
Total	\$ 9,900,000	1,987,447	4,105,020	600,200	70,724

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.

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 Authority's rate covenant requirement is 1.10%, however for the year ended September 30, 2016 the rate covenant is 107.1%.

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	\$ 168,783	\$ 184,163
2002A				
Bond Payable	City Of Herculaneum's Share	Subtotal	Less - Reimbursements	Total
\$ 8,230,000	45.766344165%	\$ 3,766,570	\$ 2,002,232	\$ 1,764,338

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE G - EMPLOYEES' PROFIT SHARING PLAN

The Authority contributes to a 401(k) Profit Sharing Plan, which is monitored by Nationwide Retirement Solutions. Employees are eligible to participate in the deferral compensation program at the end of six months of service. The Authority will match 50% of the participant's elective deferral percentage up to 3%. The Authority may also make discretionary contributions throughout the year which are allocated among all employees even if they are not a participant in the profit sharing plan. The amounts withheld from each paycheck and submitted by the Authority directly to Nationwide on behalf of the employees for the year ended September 30, 2016 is \$28. The amount contributed by the Authority in 2016 was \$7,830. The Authority uses forfeitures from nonvested employees to offset contributions related to the plan. In 2016, forfeitures used to offset contributions totaled \$5,184.

NOTE H - COMMITMENT

At September 30, 2016, the Authority had a commitment for collector well rehabilitation and maintenance services totaling \$937,389.

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 \$137,813 for the year ended September 30, 2017.

SUPPLEMENTAL INFORMATION SECTION

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
WATER SALES	\$ 2,410,606	2,410,606	2,417,210	6,604
SOURCE OF SUPPLY AND PUMPING EXPENSES				
Chemicals	120,000	120,000	104,174	(15,826)
Payroll expenses	365,689	360,401	346,160	(14,241)
Repairs and maintenance	569,630	541,870	379,369	(162,501)
Supplies	21,625	22,125	19,942	(2,183)
Total Source Of Supply And Pumping Expenses	<u>1,076,944</u>	<u>1,044,396</u>	<u>849,645</u>	<u>(194,751)</u>
ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES				
Bank fees	54,001	55,000	54,342	(658)
Dues and subscriptions	2,200	2,200	1,253	(947)
Insurance and bonds	48,820	53,000	52,466	(534)
Miscellaneous	1,000	1,000	533	(467)
Office supplies, postage, advertising, travel	8,600	9,300	8,254	(1,046)
Professional services	14,400	14,400	14,282	(118)
Utilities	187,840	176,100	169,204	(6,896)
Total Accounting, Collection, And Administrative Expenses	<u>316,861</u>	<u>311,000</u>	<u>300,334</u>	<u>(10,666)</u>
OPERATING AND MAINTENANCE EXPENSES	<u>1,393,805</u>	<u>1,355,396</u>	<u>1,149,979</u>	<u>(205,417)</u>

(Continued)

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,016,801	1,055,210	1,267,231	212,021
DEPRECIATION EXPENSE	-	-	(441,633)	441,633
OPERATING INCOME	<u>1,016,801</u>	<u>1,055,210</u>	<u>825,598</u>	<u>(229,612)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	6,290	6,290	-
Investment income	217,473	217,473	195,273	(22,200)
Reimbursement and miscellaneous	356,564	356,564	44,543	(312,021)
Net amortization	27,905	27,905	27,905	-
Loss on sale of assets	-	-	(7,418)	7,418
Interest expense	<u>(567,102)</u>	<u>(567,102)</u>	<u>(435,832)</u>	<u>(131,270)</u>
Total Nonoperating Revenues (Expenses)	<u>34,840</u>	<u>41,130</u>	<u>(169,239)</u>	<u>210,369</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,051,641	1,096,340	656,359	(439,981)
CAPITAL CONTRIBUTIONS	-	-	17,884	17,884
CHANGE IN NET POSITION	<u>\$ 1,051,641</u>	<u>1,096,340</u>	<u>674,243</u>	<u>(422,097)</u>

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - RESTRICTED ASSETS BREAKDOWN
SEPTEMBER 30, 2016

Accounts funded for specific debt within one-year:

2001C interest	\$ 56,291
2001C principal	177,500
2002A interest	31,574
2002A principal	390,000
2012 interest	2,041
2012 principal	<u>8,000</u>
Total	<u>\$ 665,406</u>

Reserve account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve	\$ 1,911,766
2002A State Revolving Fund Reserve	<u>2,193,254</u>
Total	<u>\$ 4,105,020</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	\$ 259,444
Replacement investment account balance	<u>1,246,000</u>
Total	<u>\$ 1,505,444</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	\$ 23,416
City of Herculaneum's reserve investment account	<u>300,000</u>
Total	<u>\$ 323,416</u>

Total Restricted Cash And Investments At September 30, 2016	<u>\$ 6,599,286</u>
---	---------------------

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - BOARD OF
DIRECTORS AND OFFICERS
SEPTEMBER 30, 2016

<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