
**JEFFERSON COUNTY
WATER AUTHORITY**

**FINANCIAL REPORT
(Audited)**

Year Ended September 30, 2018

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 6, 2019

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, 2018, 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, 2018, 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 consider 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. 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 6, 2019 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

Washington, Missouri

JEFFERSON COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

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, 2018, 2017, and 2016.

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 4th year for this service. The collector well laterals were cleaned in November of 2018 for its now annual cleaning. An improvement in overall water quality resulted from these cleanings along with an increase in pumping level inside of the caisson. For fiscal year 2017 - 2018, the cost of the collector well cleaning was \$126,423.

During the fiscal year 2017 - 2018, 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):

- Electronic Gate for plant security. The Board of Directors amended the budget for a change order to include security upgrades to the facilities' entry doors
- New Chevy 2500 HD Truck
- New raw water air relief valves have been ordered for both river pump #1 and #2 but have not been installed yet.
- New TL2300 Turbidity Meter for lab testing which replaced old outdated turbidity meter
- New lime silo dust collector. This was originally supposed to be only a fan and motor replacement. It was discovered that the existing system was inadequate and a hazard. It was then decided to replace the whole unit instead of just modifying the existing system. The process and the bidding was started in the 2017 - 2018 fiscal year but was not completed until November of 2018.
- New pinch valve was purchased in 2016 - 2017 fiscal year but was not installed until the 2017 - 2018 fiscal year.
- Chlorine Building project remains unfinished and continues to be construction in progress at September 30, 2018. This project will be completed next fiscal year.

Jefferson County Water Authority has applied for a beneficial use plan which will allow lime sludge generated from the water plants treatment process to be applied on sight at a designated area within the treatment plant property. Start of approval for this project has begun but is not completed. What will more than likely happen is there will be a requirement to install a clay liner within the containment area. The proposed area will eventually be able to build upon adding more useable property.

Upcoming Budget Year 2018 - 2019:

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

- Complete construction of the chlorine building
- Install river pump #1 and #2 air relief valves
- Stairs to collector well
- Secure gutters inside the plant
- Meter vault control valves for Festus and Herculaneum #1
- Meter vault radio cabinets
- Clair-cone sludge valve and isolation valve

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

- Control Room computers
- Lab equipment turbidimeter
- Lime silo dust collector fan/motor
- CO2 compressor/evaporator, auto-controller/injector, vapor heater
- Trailer for hauling of bobcat and etc.

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 activities, and investing activities.

STATEMENT OF NET POSITION

The Authority's net position increased \$1,173,692 or 14%, which consisted of a \$756,254 decrease in total assets combined with a \$1,929,946 decrease in total liabilities. Net capital assets, which is discussed more in capital assets, decreased \$256,627, or 2%. Current assets increased by \$153,622 or 13%. As of September 30, 2018, the Authority had net position of \$9,725,099.

A summary of financial position follows:

JEFFERSON COUNTY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	September 30			2018 Change	
	2018	2017	2016	Amount	Percent
ASSETS					
Current assets	\$ 1,369,100	1,215,478	1,203,893	153,622	13 %
Noncurrent assets - restricted	5,802,043	6,168,568	6,655,060	(366,525)	(6)
Noncurrent assets - other	1,390,943	1,677,667	1,948,501	(286,724)	(17)
Net capital assets	12,415,706	12,672,333	13,127,854	(256,627)	(2)
Total Assets	<u>20,977,792</u>	<u>21,734,046</u>	<u>22,935,308</u>	<u>(756,254)</u>	<u>(3)</u>
LIABILITIES					
Current liabilities payable from current assets	56,222	84,307	217,854	(28,085)	(33)
Current liabilities payable from restricted assets	2,025,889	1,969,205	1,907,091	56,684	3
Long-term debt, less current maturities	9,170,582	11,129,127	13,013,610	(1,958,545)	(18)
Total Liabilities	<u>11,252,693</u>	<u>13,182,639</u>	<u>15,138,555</u>	<u>(1,929,946)</u>	<u>(15)</u>
NET POSITION					
Net investment in capital assets	4,365,098	3,275,821	2,441,437	1,089,277	33
Restricted	4,047,123	4,144,415	4,369,277	(97,292)	(2)
Unrestricted	1,312,878	1,131,171	986,039	181,707	16
Total Net Position	<u>\$ 9,725,099</u>	<u>8,551,407</u>	<u>7,796,753</u>	<u>1,173,692</u>	<u>14 %</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Operating revenues increased by \$138,408 or 6%. This increase was due to the increase in the wholesale water rate from \$4.26 to \$4.50.

Operating expenses decreased by \$233,592 or 14%. This decrease is largely due to lower needed maintenance and repairs.

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, 2018

	For The Years Ended September 30			2018 Change	
	2018	2017	2016	Amount	Percent
OPERATING REVENUES	\$ 2,595,150	2,456,742	2,417,210	138,408	6 %
OPERATING EXPENSES	<u>1,389,317</u>	<u>1,622,909</u>	<u>1,591,612</u>	<u>(233,592)</u>	(14)
OPERATING INCOME	1,205,833	833,833	825,598	372,000	45
NONOPERATING (REVENUES) EXPENSES, NET	<u>155,451</u>	<u>141,441</u>	<u>169,239</u>	<u>14,010</u>	10
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,050,382	692,392	656,359	357,990	52
CAPITAL CONTRIBUTIONS	<u>123,310</u>	<u>62,262</u>	<u>17,884</u>	<u>61,048</u>	98
CHANGE IN NET POSITION	1,173,692	754,654	674,243	419,038	56
NET POSITION, BEGINNING OF YEAR	<u>8,551,407</u>	<u>7,796,753</u>	<u>7,122,510</u>	<u>754,654</u>	10
NET POSITION, END OF YEAR	<u><u>\$ 9,725,099</u></u>	<u><u>8,551,407</u></u>	<u><u>7,796,753</u></u>	<u><u>1,173,692</u></u>	14 %

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 2018. The net cash provided by operating activities was used primarily for payment of debt, and capital improvements.

CAPITAL ASSETS

Net capital assets were \$12,415,706 at September 30, 2018 compared to \$12,672,333, a decrease of \$256,627, or 2%. The Authority's capital assets consist primarily of the water plant. The decrease is due to the plant improvements in the amount of \$273,936, which was offset by annual depreciation in the amount of \$453,891 and loss on disposal of assets in the amount of \$76,672.

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 \$11,101,223 at September 30, 2018 decreased by \$1,884,482 from 2017. 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, 2018

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 2018
REVENUE	
Water sales	\$ 2,595,150
Investment income	180,723
Intergovernmental	839
Other income (Herculaneum reimbursement and debt)	329,684
Total Revenue	3,106,396
LESS - OPERATING EXPENSES	935,426
NET REVENUES FOR DEBT COVERAGE	\$ 2,170,970
ANNUAL DEBT SERVICE	\$ 1,666,729
DEBT SERVICE COVERAGE RATIO	130.3 %

RESTRICTED ASSETS

Total restricted assets were \$5,802,043 at September 30, 2018 compared to \$6,168,568 at September 30, 2017. 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 \$366,525 or 6% primarily due to the decrease in the SRF Reserve accounts (debt service payments) in the amount of \$538,578.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Authority's overall financial position in 2018 increased 14% as shown by the net position increase of \$1,173,692. 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, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 690,285
Investments	389,000
Receivables:	
Service charges	213,300
Other	9,060
Prepaid insurance	43,499
Inventory	23,956
Total Current Assets	<u>1,369,100</u>

Noncurrent Assets

Restricted assets:

Cash and cash equivalents	203,704
Investments	5,548,942
Receivables:	
Interest receivable	49,397
Total Restricted Assets	<u>5,802,043</u>

Other assets:

Due from City of Herculanum	<u>1,390,943</u>
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Capital assets:

Land and construction in progress	434,609
Other capital assets, net of accumulated depreciation	11,981,097
Total Capital Assets	<u>12,415,706</u>
Total Noncurrent Assets	<u>19,608,692</u>
Total Assets	<u>20,977,792</u>

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF NET POSITION (Continued)

SEPTEMBER 30, 2018

LIABILITIES

Current Liabilities

Accounts payable	30,938
Accrued payroll liabilities	25,284
Payable from restricted assets:	
Current maturities of long-term debt	1,930,641
Accrued interest payable	95,248
Total Current Liabilities	<u>2,082,111</u>

Long-term Debt, less current maturities

Revenue bonds payable	6,165,408
Notes payable	2,503,974
Loan payable	501,200
Total Long-term Liabilities	<u>9,170,582</u>
Total Liabilities	<u>11,252,693</u>

NET POSITION

Net investment in capital assets	4,365,098
Restricted for debt service	2,447,995
Restricted for depreciation and replacement	1,599,128
Unrestricted	1,312,878
Total Net Position	<u>\$ 9,725,099</u>

JEFFERSON COUNTY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

WATER SALES	\$ 2,595,150
OPERATING AND MAINTENANCE EXPENSES	<u>(935,426)</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,659,724
DEPRECIATION EXPENSE	<u>(453,891)</u>
OPERATING INCOME	<u>1,205,833</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	839
Investment income	180,723
Reimbursement and miscellaneous	43,105
Net amortization	27,904
Loss on disposal	(76,672)
Interest expense	<u>(331,350)</u>
Total Nonoperating Revenues (Expenses)	<u>(155,451)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,050,382
CAPITAL CONTRIBUTIONS	<u>123,310</u>
CHANGE IN NET POSITION	1,173,692
NET POSITION, OCTOBER 1	<u>8,551,407</u>
NET POSITION, SEPTEMBER 30	<u><u>\$ 9,725,099</u></u>

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities:

Cash received from customers	\$ 2,583,774
Cash payments to suppliers for goods and services	(933,644)
Net Cash Provided By Operating Activities	<u>1,650,130</u>

Cash flows from noncapital financing activities:

Intergovernmental	839
Decrease in due from City of Herculaneum	286,724
Reimbursements and miscellaneous	43,105
Net Cash Provided By Noncapital Financing Activities	<u>330,668</u>

Cash flows from capital and related financing activities:

Payments on notes payable	(538,578)
Payments on loan payable	(33,000)
Payments on bonds payable	(1,285,000)
Interest paid on debt	(348,729)
Purchase of capital assets	(150,626)
Net Cash Used In Capital And Related Financing Activities	<u>(2,355,933)</u>

Cash flows from investing activities:

Decrease in investments	390,778
Investment income	182,715
Net Cash Provided By Investing Activities	<u>573,493</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 198,358

CASH AND CASH EQUIVALENTS, OCTOBER 1 695,631

CASH AND CASH EQUIVALENTS, SEPTEMBER 30 \$ 893,989

JEFFERSON COUNTY WATER AUTHORITY

STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2018

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Cash flows from operating activities:

Operating income	<u>\$ 1,205,833</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	453,891
(Increase) decrease in:	
Accounts receivable	3,851
Inventory	16,616
Prepaid insurance	(1,976)
Increase (decrease) in:	
Accounts payable	(35,096)
Accrued payroll liabilities	7,011
Total Adjustments	<u>444,297</u>
 Net Cash Provided By Operating Activities	 <u><u>\$ 1,650,130</u></u>

Supplemental disclosure of cash flow information:

Noncash capital and related financing activities:

Contributed capital assets	<u><u>\$ 123,310</u></u>
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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 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 and building improvements	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, 2018 amounted to \$453,891.

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, 2018, amounted to \$27,904.

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, 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, 2018, 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, 2018, 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)

<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>1 - 5 Years</u>	
Certificates of deposit	\$ 2,193,000	-	1,818,000	375,000	N/A
Guaranteed investment contract	3,744,942	-	-	3,744,942	Not rated
Money market funds	10,340	-	10,340	-	Not rated
Total Investments	<u>5,937,942</u>	<u>-</u>	<u>1,828,340</u>	<u>4,119,942</u>	
Cash and cash equivalents	<u>893,989</u>				
Total Cash, Cash Equivalents, And Investments	<u>\$ 6,831,931</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, 2018, the Authority had the following investment concentrations:

<u>Investments</u>	<u>Fair Value</u>	<u>Percent Of Total Investments</u>
Certificates of deposit - certain banks greater than 5%	\$ 1,818,000	30.56 %
Guaranteed investment contracts	3,744,942	62.96

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 prices quoted in active markets for those securities; Level 2 inputs are significant other observable inputs using a matrix pricing technique; Level 3 inputs are significant unobservable inputs. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. 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, 2018:

- Money market funds of \$10,340 are not subject to fair value level classification
- Guaranteed investment contracts of \$3,744,942 are not subject to fair value level classification
- Certificates of deposit of \$2,193,000 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:

	For The Year Ended September 30, 2018			
	Balance September 30 2017	Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 373,444	-	-	373,444
Construction in progress	11,039	50,126	-	61,165
Total Capital Assets Not Being Depreciated	<u>384,483</u>	<u>50,126</u>	<u>-</u>	<u>434,609</u>
Capital assets being depreciated:				
Land improvements	7,998	36,065	-	44,063
Water plant	17,361,522	123,310	109,965	17,374,867
Buildings and building improvements	18,657	32,500	-	51,157
Vehicles	15,276	31,935	-	47,211
Computer equipment and software	39,150	-	2,122	37,028
Total Capital Assets Being Depreciated	<u>17,442,603</u>	<u>223,810</u>	<u>112,087</u>	<u>17,554,326</u>
Less - Accumulated depreciation for:				
Land improvements	3,555	2,203	-	5,758
Water plant	5,102,132	447,314	33,405	5,516,041
Buildings and building improve- ments	6,374	622	-	6,996
Vehicles	15,276	1,597	-	16,873
Computer equipment and software	27,416	2,155	2,010	27,561
Total Accumulated Depreciation	<u>5,154,753</u>	<u>453,891</u>	<u>35,415</u>	<u>5,573,229</u>
Total Capital Assets Being Depreciated, Net	<u>12,287,850</u>	<u>(230,081)</u>	<u>76,672</u>	<u>11,981,097</u>
Total Capital Assets, Net	<u>\$ 12,672,333</u>	<u>(179,955)</u>	<u>76,672</u>	<u>12,415,706</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, 2018			Balance September 30 2018	Amounts Due Within One Year
	Balance September 30 2017	Additions	Reductions		
Revenue bonds payable	\$ 8,670,000	-	1,285,000	7,385,000	1,350,000
Notes payable	3,589,193	-	538,578	3,050,615	546,641
Loan payable	568,200	-	33,000	535,200	34,000
Total	\$ 12,827,393	-	1,856,578	10,970,815	1,930,641

Long-term debt consisted of the following:

	September 30 2018
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%.	\$ 4,170,000
\$8,230,000 revenue bonds, Series 2002A, due in annual installments through January 2023, interest payable at 3% to 5.375%.	3,215,000
Total	7,385,000
Less - Current maturities	1,350,000
Plus - Unamortized debt premiums, net	130,408
Total Long-term Revenue Bonds Payable	\$ 6,165,408
Notes Payable	
State Revolving Fund - 2001C, no interest	\$ 1,389,861
State Revolving Fund - 2002A, no interest	1,660,754
Total	3,050,615
Less - Current maturities	546,641
Total Long-term Notes Payable	\$ 2,503,974
Loan Payable	
\$751,000 loan from the Missouri Department of Natural Resources, due in installments through July 1, 2032, interest payable at 1.36%.	\$ 535,200
Less - Current maturities	34,000
Total Long-term Loan Payable	\$ 501,200

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
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	1,610,000	62,750	654,970	35,800	5,271
2024 - 2028	-	-	-	192,600	18,708
2029 - 2032	-	-	-	168,100	5,213
Total	\$ 7,385,000	1,064,394	3,050,615	535,200	55,051

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 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	\$ 218,334	\$ 134,612
2002A				
Bond Payable	City Of Herculaneum's Share	Subtotal	Less - Reimbursements	Total
\$ 8,230,000	45.766344165%	\$ 3,766,570	\$ 2,510,239	\$ 1,256,331

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 Author-

JEFFERSON COUNTY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE G - EMPLOYEES' PROFIT SHARING PLAN (Continued)

ity 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, 2018 is \$1,790. The amount contributed by the Authority in 2018 was \$15,895. The Authority uses forfeitures from nonvested employees to offset contributions related to the plan. In 2018, forfeitures used to offset contributions totaled \$2,500.

NOTE H - COMMITMENTS

At September 30, 2018, the Authority had two commitments for collector well rehabilitation and maintenance services totaling \$654,873 and building improvements totaling \$40,545.

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 \$151,938 for the year ended September 30, 2019.

SUPPLEMENTAL INFORMATION SECTION

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
WATER SALES	\$ 2,595,150	2,595,150	2,595,150	-
SOURCE OF SUPPLY AND PUMPING EXPENSES				
Chemicals	116,000	116,000	112,664	(3,336)
Engineering fees	2,000	2,000	-	(2,000)
Payroll expenses	426,887	368,976	310,769	(58,207)
Repairs and maintenance	465,831	509,964	220,144	(289,820)
Supplies	24,000	24,000	17,340	(6,660)
Total Source Of Supply And Pumping Expenses	<u>1,034,718</u>	<u>1,020,940</u>	<u>660,917</u>	<u>(360,023)</u>
ACCOUNTING, COLLECTION, AND ADMINISTRATIVE EXPENSES				
Bank fees	42,590	42,590	42,968	378
Dues and subscriptions	2,400	2,600	1,507	(1,093)
Insurance and bonds	55,000	55,000	53,783	(1,217)
Miscellaneous	1,000	1,000	960	(40)
Office supplies, postage, advertising, travel	11,100	11,100	7,609	(3,491)
Professional services	15,500	15,500	13,300	(2,200)
Utilities	181,960	181,960	154,382	(27,578)
Total Accounting, Collection, And Administrative Expenses	<u>309,550</u>	<u>309,750</u>	<u>274,509</u>	<u>(35,241)</u>
OPERATING AND MAINTENANCE EXPENSES	<u>1,344,268</u>	<u>1,330,690</u>	<u>935,426</u>	<u>(395,264)</u>

(Continued)

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - SCHEDULE OF REVENUES
AND EXPENSES - BUDGET AND ACTUAL (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	1,250,882	1,264,460	1,659,724	395,264
DEPRECIATION EXPENSE	-	-	(453,891)	453,891
OPERATING INCOME	<u>1,250,882</u>	<u>1,264,460</u>	<u>1,205,833</u>	<u>(58,627)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	839	839
Investment income	176,468	176,468	180,723	4,255
Reimbursement and miscellaneous	367,015	367,015	43,105	(323,910)
Net amortization	27,905	27,905	27,904	(1)
Loss on sale of assets	-	-	(76,672)	76,672
Interest expense	(435,753)	(435,753)	(331,350)	(104,403)
Total Nonoperating Revenues (Expenses)	<u>135,635</u>	<u>135,635</u>	<u>(155,451)</u>	<u>291,086</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,386,517	1,400,095	1,050,382	(349,713)
CAPITAL CONTRIBUTIONS	-	-	123,310	(123,310)
CHANGE IN NET POSITION	<u>\$ 1,386,517</u>	<u>1,400,095</u>	<u>1,173,692</u>	<u>(226,403)</u>

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - RESTRICTED ASSETS BREAKDOWN
SEPTEMBER 30, 2018

Accounts funded for specific debt within one-year:

2001C interest	\$ 43,224
2001C principal	192,500
2002A interest	23,603
2002A principal	435,000
2012 interest	1,826
2012 principal	<u>8,514</u>
Total	<u>\$ 704,667</u>

Reserve account funded from State of Missouri (SRF):

2001C State Revolving Fund Reserve	\$ 1,389,861
2002A State Revolving Fund Reserve	<u>1,660,754</u>
Total	<u>\$ 3,050,615</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	\$ 180,128
Replacement investment account balance	<u>1,419,000</u>
Total	<u>\$ 1,599,128</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	\$ 13,236
City of Herculaneum's reserve investment account	<u>385,000</u>
Total	<u>\$ 398,236</u>
Total Restricted Cash, Cash Equivalents, And Investments At September 30, 2018	<u>\$ 5,752,646</u>

JEFFERSON COUNTY WATER AUTHORITY
SUPPLEMENTAL INFORMATION - BOARD OF
DIRECTORS AND OFFICERS
SEPTEMBER 30, 2018

<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
Morgan Maupin, City of Festus	Secretary	Appointed