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Annual Report, 2006/2007

Public Water Supply District #1 of Franklin County

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**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI**

ANNUAL REPORT

DECEMBER 31, 2007 AND 2006

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**PUBLIC WATER SUPPLY DISTRICT NO. 1 OF
FRANKLIN COUNTY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

As management of Public Water Supply District No. 1 of Franklin County, Missouri (the District), we offer readers of the District's audited financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2007.

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

The financial statements presented in this report consist of the *statements of net assets*, the *statements of revenues, expenses and changes in net assets*, and the *statements of cash flows*. The statement of net assets 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 District. The current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement reports the revenues and expenses during the time period indicated and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges. The primary purpose of the statement of cash flows is to provide information about the District'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, and investing.

STATEMENT OF NET ASSETS

The District's total net assets increased in 2007 by \$462,705 or 16.2% which consisted of a \$193,592 increase in total assets and a \$269,113 decrease in total liabilities. The increase in total assets was primarily from increases in current assets (primarily cash) and property and equipment. The decrease in total liabilities is primarily a result of the District's principal payments on debt made in 2007.

As of December 31, 2007, the District had total net assets of \$3,311,222.

A summary of financial position follows:

**PUBLIC WATER SUPPLY DISTRICT NO. 1 OF
FRANKLIN COUNTY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>For The Years Ended December 31</u>			<u>2007</u>	
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percent Change</u>
Assets:					
Current assets	\$ 632,206	\$ 588,623	\$ 630,442	\$ 43,583	7.4%
Restricted assets	327,938	325,682	290,138	2,256	0.7
Property and equipment	4,306,819	4,155,075	3,853,498	151,744	3.7
Other assets	39,163	43,154	47,144	(3,991)	(9.2)
Total assets	<u>5,306,126</u>	<u>5,112,534</u>	<u>4,821,222</u>	<u>193,592</u>	3.8
Liabilities:					
Current liabilities	121,350	176,700	175,497	(55,350)	(31.3)
Other liabilities-customer deposits	45,415	42,365	38,940	3,050	7.2
Long term debt	1,828,139	2,044,952	2,299,579	(216,813)	(10.6)
Total liabilities	<u>1,994,904</u>	<u>2,264,017</u>	<u>2,514,016</u>	<u>(269,113)</u>	(11.9)
Net Assets:					
Invested in capital assets, net of related debt	2,436,843	2,072,277	1,600,063	364,566	17.6
Restricted	259,064	258,813	251,199	251	0.1
Unrestricted	615,315	517,427	455,944	97,888	18.9
Total net assets	<u>\$ 3,311,222</u>	<u>\$ 2,848,517</u>	<u>\$ 2,307,206</u>	<u>\$ 462,705</u>	16.2%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues for the year ended December 31, 2007 were \$695,163 which is an increase of \$26,471 or 4.0% over the prior year. Water revenue increased by \$31,174 or 8.3% and sewer revenue increased by \$15,377 or 9.4%, primarily due to continued growth in District customers and due to rate increases in water and sewer rates in mid year 2007. Water connection fees decreased from the prior year by \$22,739 or 26.7%.

Total operating expenses increased by \$50,482 or 14.5% which includes an increase in depreciation expense of \$7,500. The \$42,982 non-depreciation operating expense increase is primarily due to increased operation expenses related to the continued growth of the District in customers and facilities. Additional increases were found in professional management and operations (increase in staff time and gasoline costs), professional fees, system utilities, and primacy fees due to system improvements and additional customer base.

Net operating income was \$297,338 in 2007, a decrease of \$24,011 or 7.5%.

**PUBLIC WATER SUPPLY DISTRICT NO. 1 OF
FRANKLIN COUNTY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Non-operating income (expense) decreased in 2007 by \$54,595, primarily due to a decrease in capital contributions (developer donated assets) of \$65,000.

A summary statement of revenues, expenses and changes in net assets follows:

	<u>For The Years Ended December 31</u>			<u>2007</u>	
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percent Change</u>
Operating Revenues:					
Water sales	\$ 407,429	\$ 376,255	\$ 384,067	\$ 31,174	8.3%
Sewer charges	179,372	163,995	157,031	15,377	9.4
Connection fees-water	62,468	85,207	51,480	(22,739)	(26.7)
Connection fees-sewer	27,000	25,500	25,000	1,500	5.9
Late fees and other fees	15,645	17,593	14,543	(1,948)	(11.1)
Misc income	3,249	142	263	3,107	2188.0
Total operating revenues	<u>695,163</u>	<u>668,692</u>	<u>632,384</u>	<u>26,471</u>	<u>4.0</u>
Operating Expenses:					
Operating expenses	298,767	255,785	236,959	42,982	16.8
Depreciation	99,058	91,558	85,470	7,500	8.2
Total operating expenses	<u>397,825</u>	<u>347,343</u>	<u>322,429</u>	<u>50,482</u>	<u>14.5</u>
Net Operating Income	<u>297,338</u>	<u>321,349</u>	<u>309,955</u>	<u>(24,011)</u>	<u>(7.5)</u>
Nonoperating Income (Expense).					
Interest income	32,876	28,408	19,422	4,468	15.7
Interest income-state reserve funds	47,402	50,228	52,750	(2,826)	(5.6)
Interest expense	(103,236)	(111,992)	(120,940)	8,756	(7.8)
Bond fees	(7,685)	(7,692)	(9,130)	7	(0.1)
Amortization-bond issue costs	(3,990)	(3,990)	(3,990)	-	0.0
Gain (loss) discontinued swr proj	-	-	(58,635)	-	n/a
Capital contributions	200,000	265,000	20,000	(65,000)	(24.5)
Total other income (expense)	<u>165,367</u>	<u>219,962</u>	<u>(100,523)</u>	<u>(54,595)</u>	<u>(24.8)</u>
Change in net assets	462,705	541,311	209,432	(78,606)	(14.5)
Net Assets, January 1	<u>2,848,517</u>	<u>2,307,206</u>	<u>2,097,774</u>	<u>541,311</u>	<u>23.5</u>
Net Assets, December 31	<u>\$ 3,311,222</u>	<u>\$ 2,848,517</u>	<u>\$ 2,307,206</u>	<u>\$ 462,705</u>	<u>16.2%</u>

**PUBLIC WATER SUPPLY DISTRICT NO. 1 OF
FRANKLIN COUNTY, MISSOURI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

STATEMENT OF CASH FLOWS

The District's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. The District successfully accomplished that objective during 2007. The net cash provided by operating activities was used primarily for purchase of capital assets and debt service payments

RESTRICTED ASSETS

Restricted assets were \$327,938 in 2007 compared to \$325,682 in 2006. The District's debt covenants specify the manner in which monies on deposit in the various restricted funds must be used. Restricted assets consist of various accounts for customer meter deposits, construction, principal and interest, bond reserves, and bond rebate.

PROPERTY AND EQUIPMENT

Property and equipment, net of accumulated depreciation were \$4,306,819 at December 31, 2007 compared to \$4,155,075 at December 31, 2006 which represents an increase of \$151,744 or 3.7%. System improvements primarily consist of radio read meters for the meter replacement program and donated assets from developers.

LONG-TERM DEBT

The District paid principal payments of \$275,000 in 2007 which included a \$50,000 final payment on the note payable-Baumker. As of December 31, 2007, the District had total long-term debt outstanding before unamortized discount/premium/deferred charge of \$1,925,000 of which \$80,000 is due in the next year.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2007 improved as shown by the net assets increase of \$462,705.

REQUEST FOR INFORMATION

This report is designed to provide our customers, debt holders, and other interested parties with a general overview of the financial position of the District and to indicate accountability for the revenues received. Questions about this report or requests for additional information should be directed to the District Clerk (636-239-2808) at the District's office, 3021 Hwy A, Suite 101, Washington, MO 63090.

INDEPENDENT AUDITOR'S REPORT

April 24, 2008

The Board of Directors
Public Water Supply District #1
Franklin County, Missouri

We have audited the accompanying statements of net assets of Public Water Supply District #1 of Franklin County, Missouri, as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Public Water Supply District #1 of Franklin County, Missouri at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2008, on our consideration of Public Water Supply District #1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Public Water Supply District #1. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Smith Patrick LLC, CPA's
Smith Patrick LLC, CPA's

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Public Water Supply District #1
Franklin County, Missouri

We have audited the accompany financial statements of Public Water Supply District #1 of Franklin County, Missouri as of and for the year ended December 31, 2007, and have issued our report thereon dated April 24, 2008. 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.

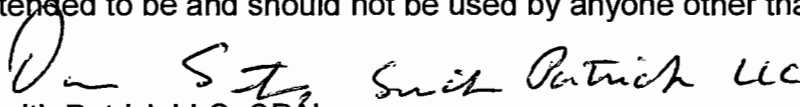
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Water Supply District #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such as opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the board of directors, management, the state of Missouri and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Smith Patrick LLC, CPA's
April 24, 2008

**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI
STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006**

	2007	2006
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Checking-operating	\$ 150,145.55	\$ 134,751.04
Savings-surplus	11,398.55	72,891.01
Certificates of deposit-surplus	399,068.43	317,812.63
Savings-debt service account	16,672.18	15,217.60
Total Cash and Cash Equivalents-Current	577,284.71	540,672.28
Accounts receivable	49,837.79	43,688.78
Accrued interest receivable	2,869.00	2,081.99
Prepaid expenses	2,214.62	2,180.03
Total Current Assets	632,206.12	588,623.08
Restricted Assets:		
Customer meter deposits-cash & certificates	45,415.00	42,365.00
2004 bond reserve-certificates	1,000.00	1,000.00
Total Cash and Cash Equivalents-Restricted	46,415.00	43,365.00
Investments:		
2004 bond reserve-Fed Home Loan Mtg Corp	115,000.00	115,000.00
2000 bond construction-Trinity Plus Funding Co.	57,939.58	58,056.77
2000 bond principal-Trinity Plus Funding Co.	46,666.80	46,666.76
2000 bond interest-Trinity Plus Funding Co.	11,582.36	12,362.42
2000 bond rebate-Trinity Plus Funding Co.	26,874.62	25,727.41
Accrued interest receivable	23,459.85	24,504.03
Total Restricted Assets	327,938.21	325,682.39
Property and Equipment:		
Land and right of way-water	50,949.24	50,949.24
Land and right of way-sewer	402,001.94	402,001.94
Building	13,788.99	13,788.99
Machinery and equipment	99,082.90	99,082.90
Water storage tanks	235,448.93	235,448.93
Water mains	1,046,120.37	996,956.84
Sewerage system	2,392,661.38	2,388,500.53
Contributed water/sewer system	1,176,015.00	976,015.00
	5,416,068.75	5,162,744.37
Less: accumulated depreciation	(1,112,952.81)	(1,013,894.72)
	4,303,115.94	4,148,849.65
Construction in progress	3,702.25	6,225.06
Total Property and Equipment	4,306,818.19	4,155,074.71
Other Assets:		
Lease security deposit	1,000.00	1,000.00
Deferred charge-bond issuance costs-2000	31,976.69	34,419.89
Deferred charge-bond issuance costs-2004	6,186.97	7,733.65
Total Other Assets	39,163.66	43,153.54
TOTAL ASSETS	\$ 5,306,126.18	\$ 5,112,533.72

See notes to financial statements.

**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI
STATEMENTS NET ASSETS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Sales tax payable	\$ 255.22	\$ 324.46
Accounts payable	6,506.33	9,986.74
Accrued interest payable	34,589.38	36,389.38
Revenue bonds payable-2000-current portion	80,000.00	80,000.00
Note payable-Baumker-current portion	-	50,000.00
Total Current Liabilities	<u>121,350.93</u>	<u>176,700.58</u>
Other Liabilities:		
Customer meter deposits	<u>45,415.00</u>	<u>42,365.00</u>
Long-Term Debt:		
Revenue bonds payable-2000	1,305,000.00	1,385,000.00
Plus premium on 2000 bonds payable	7,333.19	8,545.19
Less current portion of revenue bonds-above	(80,000.00)	(80,000.00)
Revenue bonds payable-2004	620,000.00	765,000.00
Less discount on 2004 bonds payable	(2,176.00)	(3,476.00)
Less deferred loss on early retirement of bonds	(22,018.62)	(30,117.62)
Total Long-Term Debt	<u>1,828,138.57</u>	<u>2,044,951.57</u>
Total Liabilities	<u>1,994,904.50</u>	<u>2,264,017.15</u>
Net Assets:		
Invested in capital assets, net of related debt	2,436,843.28	2,072,276.68
Restricted:		
Construction accounts	143,063.36	142,813.36
Debt service (bond reserves)	116,000.00	116,000.00
Unrestricted	615,315.04	517,426.53
Total Net Assets	<u>3,311,221.68</u>	<u>2,848,516.57</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,306,126.18</u>	<u>\$ 5,112,533.72</u>

See notes to financial statements.

**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Water revenue	\$ 407,429.29	\$ 376,255.28
Sewer revenue	179,372.13	163,994.62
New connections-water	62,468.00	85,207.00
New connections-sewer	27,000.00	25,500.00
Penalties and other fees	15,644.81	17,593.38
Miscellaneous income	3,249.34	141.30
	<u>695,163.57</u>	<u>668,691.58</u>
Operating Expenses:		
Management & operations contract	170,001.00	144,476.00
Franklin County #3 services contract	23,350.00	22,750.00
Office expense	1,948.13	1,570.70
Professional fees	13,663.50	9,872.50
Repairs and maintenance-water system	3,219.00	5,972.55
Repairs and maintenance-sewer system	13,873.44	9,952.90
Missouri one call	688.80	717.60
Insurance	7,437.50	7,084.37
Utilities-water system	26,644.40	20,089.23
Utilities-sewer system	17,910.72	16,175.66
Directors expense	3,000.00	3,065.00
Engineering fees-water system	4,607.49	3,448.21
Engineering fees-sewer system	1,303.74	1,193.58
Miscellaneous expense	276.27	382.39
Dues, subscriptions and meetings	0.00	426.30
Election expense	76.78	66.83
Primacy fees	4,495.79	2,600.81
Permits	330.66	0.00
Rent	5,940.00	5,940.00
Depreciation	99,058.09	91,558.40
	<u>397,825.31</u>	<u>347,343.03</u>
Net Operating Income	<u>297,338.26</u>	<u>321,348.55</u>
Nonoperating Revenue (Expense):		
Interest income	32,875.83	28,407.99
Interest income-state reserve funds	47,401.45	50,227.77
Interest expense	(103,235.76)	(111,991.80)
Bond fees	(7,684.79)	(7,691.63)
Amortization of bond issuance costs	(3,989.88)	(3,989.88)
Total Nonoperating Revenues (Expenses)	<u>(34,633.15)</u>	<u>(45,037.55)</u>
Net Income Before Contributions	<u>262,705.11</u>	<u>276,311.00</u>
Capital contributions	200,000.00	265,000.00
Net Income	<u>462,705.11</u>	<u>541,311.00</u>
Net assets, January 1	<u>2,848,516.57</u>	<u>2,307,205.57</u>
Net Assets, December 31	<u>\$ 3,311,221.68</u>	<u>\$ 2,848,516.57</u>

See notes to financial statements.

**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	Increase (Decrease) in Cash and Cash Equivalents	
	2007	2006
Cash Flows From Operating Activities:		
Receipts from customers	\$ 689,014.56	\$ 669,374.73
Payments to suppliers and employees	(304,151.46)	(254,129.37)
Receipt of meter deposits	5,780.00	6,045.00
Refund of meter deposits	(2,730.00)	(2,620.00)
Decrease (increase) in 2000 bond escrow requirements	(250.00)	(7,614.92)
Net Cash Provided (Used) by Operating Activities	387,663.10	411,055.44
Cash Flows From Capital and Related Financing Activities:		
Principal payments on revenue bonds	(225,000.00)	(215,000.00)
Principal payment on note payable-Baumker	(50,000.00)	(50,000.00)
Payments for capital acquisitions	(50,801.57)	(124,674.69)
Payments for construction in progress	-	(3,460.31)
Bond fees paid	(7,684.79)	(7,691.63)
Interest paid on 2004 bonds	(24,070.00)	(27,040.00)
Interest paid on 2000 bonds	(70,978.76)	(74,578.76)
Net Cash Provided (Used) by Capital and Related Financing Activities	(428,535.12)	(502,445.39)
Cash Flows From Investing Activities:		
Interest income (including state reserve funds)	80,534.45	79,604.22
Net Cash Provided (Used) by Investing Activities	80,534.45	79,604.22
Net Increase (Decrease) in Cash and Cash Equivalents	39,662.43	(11,785.73)
Cash and cash equivalents, January 1	584,037.28	595,823.01
Cash and Cash Equivalents, December 31	\$ 623,699.71	\$ 584,037.28
Consists of: Current	\$ 577,284.71	\$ 540,672.28
Restricted	46,415.00	43,365.00

See notes to financial statements.

**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Supplemental Disclosures:		
Noncash Investing and Financing Transaction:		
Acquisition of sewer/water systems: Baucky View	50,000.00	
Cardinal Meadows	100,000.00	
Aholt subdivision	50,000.00	
Cedar Berry water line		100,000.00
Country Club Villas		125,000.00
Towerama		40,000.00
Contributed capital	(200,000.00)	(265,000.00)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 297,338.26	\$ 321,348.55
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	99,058.09	91,558.40
Changes in assets and liabilities:		
Accounts receivable	(6,149.01)	683.15
Prepaid expenses	(34.59)	452.51
Accounts payable	(3,480.41)	2,967.10
Accrued expenses	(1,800.00)	(1,800.00)
Sales tax withheld	(69.24)	35.65
Customer, meter and other deposits	3,050.00	3,425.00
2000 bond issue restricted investments	(250.00)	(7,614.92)
Net cash provided by operating activities	<u>\$ 387,663.10</u>	<u>\$ 411,055.44</u>

See notes to financial statements.

**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The District is a tax-exempt political subdivision in the State of Missouri, which operates waterworks and sewerage systems in Franklin County, Missouri. There are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the District's reporting entity.

Basis of Presentation

In 2004, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures* which changes note disclosure requirements for governmental entities. GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, district-wide financial statements, required supplementary information and the elimination of the effect of internal service activities and the use of account groups to the already required fund financial statements and notes.

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. The District is presented as a proprietary fund type. In the government-wide financial statements the District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

Property and Equipment

Property and equipment are capitalized at cost when purchased. The District records its investment in fixed assets purchased for \$200 or greater and provides for depreciation expense in the accompanying statements. Beginning with 2005 the purchase of customer water meters by District are being capitalized to conform with updated Rules and Regulations approved by the board. Items contributed to the District are recorded at the fair value determined at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the related assets.

Capitalized Interest

Interest costs are capitalized when incurred by the District on debt where proceeds are used to finance the construction of assets. Interest earned on proceeds of the bond issue is offset against interest costs in determining the amount to be capitalized. During 2006 and 2007 no interest has been capitalized.

Equity Classification

Equity is classified as net assets and displayed in three components: a) invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other

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borrowings that are attributable to the acquisition, construction, or improvements of those assets; b) restricted net assets consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation; and c) unrestricted net assets which are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Risk Management

The District manages its risk through insurance coverage consisting of multi-peril, workmens compensation, treasurers bond and directors & officer's liability insurance policies. See supplemental information for a summary of these policies. There were no significant reductions in insurance coverage from the prior year. Claims have not exceeded coverage for the current year or the three prior years.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Investments

It is the District's policy to purchase investments that provide safety of principal. Investments consist of money market mutual funds and Federal Home Loan Mortgage Company

Cash and Cash Equivalents

For purposes of the statement of cash flow, the District considers all highly liquid certificates with a maturity of twelve months or less when purchased to be cash equivalents, except all escrowed 2000 bond issue funds, which are not considered cash equivalents.

Accounts Receivable

Consists principally of December usage charges paid by customers in the following January. An allowance for doubtful accounts is not recorded as all accounts are considered collectible at year end.

NOTE 2: DEPOSITS AND INVESTMENTS

Cash is to be kept in banks fully covered by FDIC insurance and pledged assets, institutions as required by bond resolutions, or as determined appropriate by the board of directors.

The 2000 bond resolution and investment agreement specify that funds held by the trustee be invested in Trinity Investment. These funds consist of units invested at \$1.00 per share, so cost equals fair value. The trustee determines fair value. These funds are held in the name of the trustee and UMB Bank has pledged collateral of qualified investments. The FHLMC investment at UMB Bank is not covered by FDIC insurance or any pledged assets, and fair value

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

approximates cost. Deposits and investments are categorized to give an indication of the level of risk assumed by the District at year-end.

Cash deposits:

The carrying amount of the District's deposits with two financial institutions was \$623,700 and the bank balance was \$632,761.

The bank balance is categorized as follows:

Amount insured by FDIC or collateralized with securities held by the District in its name	\$ 200,000
Amount collateralized with securities held by the pledging financial institution's trust department in the district's name	<u>432,761</u>
Total bank balance	<u>\$ 632,761</u>

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. The categories are described as follows:

Category 1 – Insured, registered, or securities held by the District or its agent in the District's name

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the District's name

Investments, categorized by level of risk follow:

Type of Investments	Category			Fair Value/ Carrying Amt	Cost
	1	2	3		
Trinity Plus Funding Co, LLC:					
U.S. Govt securities pledged		\$ 143,063		\$ 143,063	\$ 143,063
UMB Bank, N.A.:					
Federal Home Loan Mtg Corp					
Mtn 4.10 FMNT 05-10		\$ 115,000		\$ 115,000	\$ 115,000
Subject to credit risk & unrated credit					

NOTE 3: RESTRICTED ASSETS / RESERVED RETAINED EARNINGS - BOND RESOLUTION

The 2000 bond resolution requires the following separate funds to be held by the Trustee: construction account and the capitalized interest subaccount within the construction account, reserve account, arbitrage rebate account, principal account and interest account. At December 31, 2007 the Reserve Fund was funded with \$907,652 of state funds. Interest at 5.163% is being earned on this account for use by the District. At December 31, 2007 the Arbitrage Rebate account had \$26,875. This account holds 17.5% of the interest earned on the escrowed construction fund account. A contingent liability reserve of \$0 is set up to represent the excess interest earned by the District, which may have to be paid back to the state. The net balance in the rebate fund represents amounts anticipated as belonging to the District, and is shown as \$26,875.

**PUBLIC WATER SUPPLY DISTRICT #1
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

The 2004 bond resolution requires a debt service reserve fund be set up and maintained by the District. This restricted account consists of an investment held by UMB bank and a certificate of deposit, and is being maintained as required by the bond resolution.

NOTE 4: BOND ISSUANCE COSTS

Consists of various costs incurred to issue the revenue bonds. The costs are being amortized (charged to amortization expense) over the life of the bond issue – as follows:

	<u>2000</u>	<u>2004</u>
Original Cost	\$ 50,288.59	\$ 12,244.80
Number of months	247	95
2006 Amortization	2,443.20	1,546.68
2007 Amortization	2,443.20	1,546.68

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment are depreciated as outlined in Note 1. A summary of follows:

<u>Description</u>	<u>Cost</u> <u>1/1/2007</u>	<u>Additions</u>	<u>Balance</u> <u>12/31/2007</u>	<u>2007</u> <u>Depreciation</u>	<u>Accum Deprec</u> <u>12/31/2007</u>
Land & right of way	\$ 452,951.18	\$ -	\$ 452,951.18		
Buildings	13,788.99	-	13,788.99	\$ 275.78	\$ 11,169.09
Machinery & equip	99,082.90		99,082.90	2,231.69	70,880.59
Water storage tanks	235,448.93		235,448.93	4,708.99	109,337.23
Water mains	996,956.84	49,163.53	1,046,120.37	23,109.72	448,707.47
Sewerage system	2,388,500.53	4,160.85	2,392,661.38	47,811.61	405,992.78
Contributed systems	976,015.00	200,000.00	1,176,015.00	20,920.30	66,865.65
	<u>\$ 5,162,744.37</u>	<u>\$ 253,324.38</u>	<u>\$ 5,416,068.75</u>	<u>\$ 99,058.09</u>	<u>\$ 1,112,952.81</u>

There were no sales or dispositions of capital assets during 2007. The District has construction contracts for \$3,702 on various subdivisions as of December 31, 2007. The contributed system includes the Cedar Berry, Country Club Villas and Towerama added in 2006 and Baucky View, Cardinal Meadows and Aholt subdivisions added in 2007.

NOTE 6: REVENUE BONDS PAYABLE

In February 2004 an advance refunding of the 1998 \$1,615,000 Revenue Bonds was accomplished by an in-substance defeasance through the issuance of \$1,160,000 Waterworks and Sewerage System Refunding Revenue Bonds Series 2004 dated February 10, 2004. These bonds bear annual interest of 1.4% to 3.65% with varying principal maturities from January 1, 2005 through January 1, 2012 in amounts ranging from \$125,000 to \$160,000 and are callable January 1, 2009. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$64,000. This difference, reported in the accompanying financial statements as a subtraction to bonds payable, is being charged to operations through the year 2011 using the effective interest method. The District completed the advance refunding to reduce its total debt service payments over the next eight years by \$102,000 and to obtain an

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

economic gain (difference between the present values of the old and new service payments) of \$82,000.

In November, 2000 the District issued \$1,700,000 Waterworks and Sewerage System Revenue Bonds (State Revolving Fund Program) Series 2000, dated November 1, 2000, bearing annual interest of 4.35% to 5.625% with varying principal maturities from July 1, 2002 to July 21, 2021 in amounts ranging from \$5,000 to \$105,000. The proceeds of the bond issue are being used to make extensions and improvements to the waterworks and sewerage system of the District. The District is participating in the Missouri Leveraged State Water Pollution Control Revolving Fund Program of the Missouri Department of Natural Resources (DNR) and the State Environmental Improvement and Energy Resources Authority (EI ERA). This program uses leveraged loan financing which reduces the interest paid by the District by approximately 70%. DNR issued a no-interest loan for 70% of the gross bond proceeds (\$1,200,733.91) from the Water & Wastewater Loan Fund, which is assigned to EI ERA. As the District pays for construction from the bond issue proceeds in the Construction Account held by the trustee bank, about 70% of that amount will be transferred to the Reserve Fund, also held by the trustee bank. The interest earned in the Reserve Fund will be used to pay a portion of the 2000 Bond Issue interest. The Reserve Fund does not belong to the District, and as the 2000 Bond Issue principal is paid by the District, the Reserve is reduced until all of it has been transferred back to DNR. The District pays an annual fee of .7143% of the balance in the Reserve Fund to DNR (approximately \$98,000 over the term of the bonds)

NOTE 7: DISCOUNT / PREMIUM ON REVENUE BONDS PAYABLE

Consists of discount on the 2004 revenue bonds and premium on the 2000 revenue bonds. The discount /premium is being amortized straight line based on the individual bond maturities, and is charged / credited to interest expense as follows:

Original Discount-2004	\$11,020.00	Original Premium-2000	(15,334.15)
2006 Amortization	1,740.00	2006 Amortization	(1,164.96)
2007 Amortization	1,300.00	2007 Amortization	(1,212.00)
Net balance at 12/31/06	3,476.00	Net balance at 12/31/06	(8,545.19)
Net balance at 12/31/07	2,176.00	Net balance at 12/31/07	(7,333.19)

**PUBLIC WATER SUPPLY DISTRICT #1
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007 AND 2006**

NOTE 8: LONG-TERM DEBT

As of December 31, 2007, the long-term debt consisted of the following:

• 2004 bond issue	620,000
• 2000 bond issue	<u>1,305,000</u>
Total Notes and Bonds Payable	<u>\$1,925,000</u>

The annual debt service requirements to maturity, including principal and interest of long-term debt, as of December 31, 2007, are as follows:

	Bond Issues			
	2004 Bond Issue		2000 Bond Issue	
	Principal	Interest	Principal	Interest
2008	155,000	20,373	80,000	69,179
2009	155,000	15,877	85,000	65,499
2010	160,000	10,995	85,000	61,568
2011	150,000	5,475	85,000	57,573
2012	-	-	85,000	52,898
2013-2017	-	-	470,000	191,894
2018-2022	-	-	415,000	57,270
2023-2027	-	-	-	-
	<u>\$ 620,000</u>	<u>\$ 52,720</u>	<u>1,305,000</u>	<u>\$ 555,881</u>

2004 bond issue activity:		2000 bond issue activity:	
Principal paid 2006	\$ 135,000	Principal paid 2006	\$80,000
Principal paid 2007	145,000	Principal paid 2007	80,000
Interest paid 2006	27,040	Interest paid 2006	76,379
Interest paid 2007	24,070	Interest paid 2007	72,779

The following is a summary of changes in long-term debt for the year ended December 31, 2007:

Type of Debt	Balance <u>1/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2007</u>	Amount Due <u>With 1 Year</u>
Note payable	\$ 50,000.00		\$ 50,000.00	\$ -	\$ -
2000 bond issue	1,385,000.00		80,000.00	1,305,000.00	80,000.00
2004 bond issue	765,000.00	-	145,000.00	620,000.00	-
	<u>\$ 2,200,000.00</u>	<u>\$ -</u>	<u>\$ 275,000.00</u>	<u>\$ 1,925,000.00</u>	<u>\$ 80,000.00</u>

**PUBLIC WATER SUPPLY DISTRICT #1
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NOTE 9: LEASE

The District entered into a four-year & ½ month lease, effective December 16, 2005 for the District office at 3021 Highway A, Suite 101. Monthly rent of \$495 is payable in advance. Minimum rental payments for 2008 and 2009 are \$5,940 annually.

NOTE 10: SERVICE AGREEMENTS

The District entered into two service agreements effective February 1, 2005. The first is with Alliance Water Resources who will provide management, operation and maintenance services for the District under a five-year contract renegotiated on an annual basis currently at \$171,684 from 2/1/07-1/31/08 with an \$8,000 repair limit, and increasing to \$178,161 annually from 2/1/08-1/31/09 with an \$8,550 repair limit.

The second service agreement is with Public Water Supply District No. 3 of Franklin County for supervisory and laboratory services under a five year contract renegotiated on an annual basis currently at \$23,400 from 2/1/07-1/31/08, and increasing to \$24,216 from 2/1/08-1/31/09.

**PUBLIC WATER SUPPLY DISTRICT #1
OF FRANKLIN COUNTY, MISSOURI
SCHEDULE OF SUPPLEMENTAL INFORMATION
DECEMBER 31, 2007**

1) Schedule of Insurance Coverage:

<u>Type/Insurer</u>	<u>Limits</u>	<u>Term</u>
Multi-peril package, including earthquake.	\$1,000,000 commercial and-auto liability \$4,000,000 excess/umbrella liability	1/1/07-08
Treasurers Bond	\$80,000	10/15/07-08
Directors & Officers Liability	\$1,000,000	11/2/07-08

- 2) Delinquent Accounts Receivable – Over 60 Days Old - \$ 1,455 water bills. Most delinquencies can be recovered from meter deposits, should the user fail to make payments.
- 3) The over-all system of internal control appears to be adequate in the circumstances, except that due to limited personnel, control over certain cash functions is limited.
- 4) The District maintains a complete double entry accounting system.
- 5) Physical control over assets appears to be adequate.
- 6) The District is in financial compliance at December 31, 2007 with bond resolutions and is maintaining proper reserve balances
- 7) The audit report agrees with the borrower's records.
- 8) All funds deposited are in institutions insured by the Federal Government. Depository institutions have pledged proper securities for all amounts over \$100,000.
- 9) The District is exempt from federal and state income taxes.
- 10) The District is in compliance with state sales tax and employee tax laws.
- 11) The number of water customers at January 1, 2007 was 1272 and at December 31, 2007 was 1307. There were 504 sewer customers at December 31, 2007.

See notes to financial statements.