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Annual Financial Report, 2006/2007

Public Water Supply District #1 of Jefferson County

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2007 AND 2006



Huber, Ring, Helm & Co., P.C.
CPAs • Advisors

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INTRODUCTION

The Public Water Supply District #1 of Jefferson County, Missouri, hereafter referred to as the "District" is pleased to present the Annual Financial Report developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments" (hereafter "GASB 34"), and related standards.

The District has prepared and is responsible for the financial statements and related information included in this report. A system of internal controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

Management believes that its policies and procedures provide guidance and reasonable assurance that the District's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the District in conformity with accounting principles generally accepted in the United States of America.

The unqualified (i.e. clean) opinion of our independent external auditor's, Huber, Ring, Helm & Co. P.C. is included in this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Public Water Supply District #1 of Jefferson County, Missouri's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the introduction on page 1, and the District's financial statements which begin on page 13.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its bond requirements and the policies and guidelines set by the Board and management. The following are key financial highlights:

- Total assets at year-end were **\$14.1 million** and exceeded liabilities in the amount of **\$11.8 million** (i.e. net assets). Of the total net assets, **\$8.4 million** has been classified as the accumulation of contributed capital from developers in the history of the District, and **\$3.4 million** was classified as unrestricted and available for District operations.
- Unrestricted net assets decreased **\$14 thousand** from the income from operations and non-operating revenue for the year. The net assets from contributed capital increased by approximately **\$371 thousand** due to the capital contributions from completed construction and development projects in the area during the year.
- For the current fiscal year, pursuant to the bond agreement, sufficient waterworks system revenue was generated to cover the bond service account, contributions to the depreciation, extension and enlargement account, contributions to the bond reserve account, contributions to the advance amortization sub-account, and the operations and maintenance account, leaving a positive increase in the surplus account.
- For fiscal year 2007, the District delivered 746 million gallons of water to 7,317 customers in the District.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplemental information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions, and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The *balance sheet* presents the financial position of the District on a full accrual historical cost basis. The balance sheet presents information on all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the District is improving or deteriorating.

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses and changes in net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery that are not addressed by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. *Supplemental information* comparing the budget to actual expenses as well as important debt coverage data, is provided.

The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

The District was created by a Decree of the Circuit Court of Jefferson County, Missouri dated June 3, 1958 which certified the results of the election held May 27, 1958 that district voters approved the creation of Public Water Supply District #1 and declared the Public Water Supply District #1 of Jefferson County, Missouri a corporation. The original waterworks system was started in 1959 and designed to acquire and distribute supplies of potable water for domestic and commercial purposes within its service area. The District is governed by a board that consists of five unpaid directors elected by the voters in the district for three-year terms.

The first construction phase was completed in 1960; it was financed by a combination of \$180 thousand general obligation bonds and \$180 thousand water revenue bonds, for a total of \$360 thousand. The dynamic growth of the area surpassed all forecasts. In 1963, the original bonds were retired in connection with the issuance of a new \$710 thousand bond issue which financed improvements and extensions, including storage facilities and new main installations. In 1966 and again in 1973, a total of \$1,500,000 in additional revenue bonds were sold to provide funds for an additional water supply connection, an aerial reservoir, additional pumping facilities, and extensions to serve developing areas. In 1979, a total of \$250,000 additional revenue bonds were sold for the construction of a new office building. Subsequently, a new 16" supply main, a new 10" and 16" arterial main, plus some line relocations were installed from funds derived through the 1985 issue of \$1,200,000. The balance of the 1985 issue was refunded in 1997. In 1999 \$2,000,000 of special obligation waterworks system improvement revenue bonds were issued for the replacement of existing 2" cast iron water mains with larger water mains including fire hydrants, main relocation, reservoir painting, and emergency generators.

The bonds are payable solely from the revenue to be derived from the operation of the waterworks system of the District, constituting a first lien on the net revenues after \$200 monthly depreciation. Operation and maintenance costs are funded from the remaining revenues. The acquisition and construction of capital assets are funded by capital contributions from developers, government agencies, and other revenues.

The District comprises an area of approximately 15 square miles in the northeastern corner of Jefferson County, just south of St. Louis County. The northern and eastern boundaries of the District are formed by the Meramec River, adjoining St. Louis County. The District is contained within the limits of the City of Arnold.

The present population of the District is approximately 20,000. Potable water is obtained from the Missouri American Water Company and no additional treatment is required. Delivery is made through three supply connections. The cost of water purchased is .8083 cents per 100 cubic feet (\$1.08 cents per 1,000 gallons) under a rate schedule recently approved by the Missouri Public Service Commission effective May 2001.

The District provides reliable, high quality supplies of water used for drinking, irrigation, fire protection, and other purposes. The aerial reservoir, two ground storage tanks, and a booster pump station are the District's primary facilities.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-actual variances follow the financial statements.

CONDENSED BALANCE SHEETS

	ASSETS		VARIANCE	
	JUNE 30,		DOLLARS	%
	2007	2006		
Cash and investments	\$ 3,331,706	\$ 3,493,483	\$ (161,777)	(4.6) %
Capital assets				
Producing assets	10,167,973	9,975,490	192,483	1.9 %
Construction in progress	299,800	137,242	162,558	118.4 %
Other current assets and bond costs	267,910	237,510	30,400	12.8 %
Total assets	<u>\$ 14,067,389</u>	<u>\$ 13,843,725</u>	<u>\$ 223,664</u>	1.6 %
LIABILITIES AND NET ASSETS				
Current liabilities	\$ 467,313	\$ 439,006	\$ 28,307	6.4 %
Customer deposits	328,090	315,074	13,016	4.1 %
Long-term liabilities	1,454,648	1,629,685	(175,037)	(10.7) %
Total liabilities	<u>2,250,051</u>	<u>2,383,765</u>	<u>(133,714)</u>	(5.6) %
Net assets				
Invested in capital assets	8,418,439	8,047,180	371,259	4.6 %
Unrestricted	3,398,899	3,412,780	(13,881)	(0.4) %
Total net assets	<u>11,817,338</u>	<u>11,459,960</u>	<u>357,378</u>	3.1 %
Total liabilities and net assets	<u>\$ 14,067,389</u>	<u>\$ 13,843,725</u>	<u>\$ 223,664</u>	1.6 %

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

YEARS ENDED JUNE 30,

	2007		Variance of 2007 Actual Data to Budget		2006		Variance of 2007 Actual Data to 2006 Actual	
	ACTUAL	BUDGET	DOLLARS	%	ACTUAL	DOLLARS	%	
			Favorable (Unfavorable)				Favorable (Unfavorable)	
OPERATING REVENUE								
Water service revenue	\$ 2,407,751	\$ 2,343,000	\$ 64,751	2.8 %	\$ 2,493,509	\$ (85,758)	(3.4) %	
Miscellaneous	9,910	9,000	910	10.1 %	8,294	1,616	19.5 %	
Total operating revenue	<u>2,417,661</u>	<u>2,352,000</u>	<u>65,661</u>	2.8 %	<u>2,501,803</u>	<u>(84,142)</u>	(3.4) %	
OPERATING EXPENSES								
Field expenses	1,322,698	1,279,700	(42,998)	(3.4) %	1,292,950	(29,748)	(2.3) %	
Administrative expenses	700,300	746,450	46,150	6.2 %	705,153	4,853	0.7 %	
Depreciation expense	461,332	459,000	(2,332)	(0.5) %	458,817	(2,515)	(0.5) %	
Total operating expenses	<u>2,484,330</u>	<u>2,485,150</u>	<u>820</u>	0.0 %	<u>2,456,920</u>	<u>(27,410)</u>	(1.1) %	
INCOME (LOSS) FROM OPERATIONS	(66,669)	(133,150)	66,481	49.9 %	44,883	(111,552)	(248.5) %	
NON-OPERATING REVENUE (EXPENSE) - NET	<u>52,788</u>	<u>18,454</u>	<u>34,334</u>	186.1 %	<u>(3,711)</u>	<u>56,499</u>	(1522.5) %	
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	(13,881)	(114,696)	100,815	87.9 %	41,172	(55,053)	(133.7) %	
Capital contributions								
Construction contributions	<u>371,259</u>		<u>371,259</u>	100.0 %	<u>97,821</u>	<u>273,438</u>	279.5 %	
INCREASE IN NET ASSETS	<u>\$ 357,378</u>	<u>\$ (114,696)</u>	<u>\$ 472,074</u>	(411.6) %	<u>\$ 138,993</u>	<u>\$ 218,385</u>	157.1 %	

OTHER SELECTED INFORMATION

	June 30,		Change	
	2007	2006	Amount	%
Selected data for analysis:				
Employees at year end	12	12	-	0.0 %
Average employees	12	12	-	0.0 %
Water customer accounts at year end	7,317	7,030	287	4.1 %
Water consumption (millions of gallons)	746	788	(42)	(5.3) %
Per average employee:				
Total operating revenues	\$ 201,472	\$ 208,484	(7,012)	(3.4) %
Total operating expenses	\$ 207,028	\$ 204,743	2,285	1.1 %
Per water customer accounts:				
Total operating revenues	\$ 330	\$ 356	(26)	(7.3) %
Total field expenses	\$ 181	\$ 184	(3)	(1.7) %
Per thousand gallons consumed:				
Water revenue	\$ 3.24	\$ 3.17	0.07	2.2 %
Water purchase	\$ 1.35	\$ 1.25	0.10	8.0 %
Total operating expenses	\$ 3.33	\$ 3.12	0.21	6.7 %
Operating expenses excluding depreciation	\$ 2.71	\$ 2.54	0.17	6.7 %
Field expenses	\$ 1.77	\$ 1.64	0.13	7.9 %
Administrative expenses	\$ 0.94	\$ 0.89	0.05	5.6 %
Ratio of operating revenue to:				
Operating expenses	0.97	1.02	(0.05)	(4.9) %
Operating expenses net of depreciation	1.20	1.25	(0.05)	(4.0) %
Total assets	0.17	0.18	(0.01)	(5.5) %
Net assets	0.20	0.22	(0.02)	(9.1) %
Debt related ratios				
Equity to long-term liabilities (Net assets over long-term liabilities)	8.12	7.03	1.09	15.4 %
Current ratio (Current assets/current liabilities less customer deposits)	1.56	1.45	0.11	7.6 %
Operating ratio (Operating income (loss)/operating expenses less depreciation)	(0.03)	0.02	(0.05)	(250.0) %
Debt service coverage (Net income plus depreciation/ annual principal payments)	2.63	3.33	(0.70)	(21.0) %

FINANCIAL CONDITION

- Cash and investments decreased **\$162 thousand**, primarily due to the decreased worth of investments.
- Investments are held at LPL Financial Services. LPL Financial Services is the advisor to the Board and management for investment decisions. Investments valued at market were **\$2.9 million** at June 30, 2007.
- Capital assets including producing assets and construction in progress increased in total **\$355 thousand**. The net change consisted of capital contributions of **\$371 thousand**, and District paid capital expenditures of **\$283 thousand**. The annual depreciation charge was **\$461 thousand**. There were **\$300 thousand** of construction costs capitalized at the end of the year that will be completed in the next year.
- Other current assets and bond costs consist of the following:

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Accounts receivable	\$128,138	\$ 83,964
Less allowance for doubtful accounts	(10,000)	(10,000)
Accrued interest receivable	21,861	32,936
Prepaid expenses	35,185	38,095
Inventory	74,718	72,082
Unamortized Bond Discount	18,009	20,433
	<u>\$267,911</u>	<u>\$237,510</u>

- The accounts receivable increase of **\$44 thousand** was primarily due to high water sales in May and June 2007 due to unusually dry weather conditions.
- The allowance for doubtful accounts was adjusted by the auditor's to reflect the amount of receivables in the final customer accounts aging that are not likely to be collected after the customer has moved from the area. The customer receivables are not written off by the District until all collection efforts have failed.
- Inventory has increased slightly due to the ongoing usage and procurement of supplies and material for the construction and system maintenance jobs in progress during the year.
- Current liabilities include the payment on the bond to be made, accounts payable, accrued expenses, and accrued interest payable. The increase of **\$21 thousand** was primarily due to the additional accrued expense of sick and vacation pay for the District's employees.
- Net assets increased by the operating income and the capital contributions for the year.

RESULTS OF OPERATIONS

- Revenues from operations fall into two general categories: water service, and ancillary charges. Ancillary charges include tap fees, account set-up, penalty fees, engineering and inspection services, and charges for other miscellaneous services. The District has two classes of water customers: commercial and residential. Residential customers represent 71% of water service revenue and commercial customers represent 29%.
- Operating revenue from water fees, late charges, tap fees, services hookups and miscellaneous decreased **\$84 thousand** or 3.4% while total operating expenses decreased **\$27 thousand**. Total operating revenues were 2.8% above the budget projections. The revenue decrease was due in part to lower water sales and late tap on fees..
- The District last adopted a rate increase in July 2001. The 2001 rate increase reflected an average increase of 4.31%.
- Loss from operations for the year was **\$67 thousand** including depreciation of **\$461 thousand**. Operating income as budgeted was approximately **\$326 thousand** without depreciation. Operating income without depreciation was approximately **\$395 thousand** which represents an increase in the projected income of 21%.
- Operating expenses included field expenses, administrative expenses, and depreciation. Field expense increased by approximately **\$30 thousand** and administrative expenses decreased by approximately **\$5 thousand**. Depreciation expense increased approximately **\$3 thousand** due to the additional construction capitalized. Field expenses increased 2% due to the increase in field labor and water purchased. Water fee revenue decreased by 3.4%. Administrative expenses decreased 0.7%. The actual amounts were approximately 6.2% less than the budgeted amounts. The administrative expenses are summarized in major categories as follows:

ADMINISTRATIVE EXPENSES

YEARS ENDED JUNE 30,

	2007		Variance of 2007 Actual Data to Budget		2006	Variance of 2007 Actual Data to 2006 Actual		
	ACTUAL	BUDGET	DOLLARS	%		ACTUAL	DOLLARS	%
			Favorable (Unfavorable)					Favorable (Unfavorable)
Accounting and audit fees	\$ 29,896	\$ 32,500	\$ 2,604	8.01 %	\$ 33,998	\$ 4,102	12.06 %	
Advertising	408	600	192	32.00 %	178	(230)	(129.21) %	
Bank charges and fees	915	6,000	5,085	84.75 %	3,651	2,736	74.93 %	
Collection fees		500	500	100.00 %				
Education expenses	932	1,200	268	22.33 %	759	(173)	(22.79) %	
Election costs	621	6,000	5,379	89.65 %	5,853	5,232	89.39 %	
Employee relations	5,310	6,500	1,190	18.30 %	5,602	292	5.21 %	
General office supplies and postage	37,267	49,000	11,733	23.94 %	46,329	9,062	19.56 %	
Group retirement	20,756	18,000	(2,756)	(15.31) %	14,036	(6,720)	(47.87) %	
Health insurance	123,905	137,500	13,595	9.88 %	130,985	7,080	5.40 %	
Insurance	55,474	55,000	(474)	(0.86) %	52,105	(3,369)	(6.46) %	
Legal fees	6,550	6,000	(550)	(9.16) %	4,820	(1,730)	(35.89) %	
Miscellaneous administrative	4,513	6,000	1,487	24.78 %	4,921	408	8.29 %	
Office repairs and maintenance	9,214	17,000	7,786	45.80 %	15,995	6,781	42.39 %	
Payroll taxes	24,615	22,000	(2,615)	(11.88) %	23,054	(1,561)	(6.77) %	
Public relations	29,365	27,500	(1,865)	(6.78) %	29,925	560	1.87 %	
Travel and convention expenses	11,191	15,000	3,809	25.39 %	16,197	5,006	30.90 %	
Utilities and telephone	33,330	34,800	1,470	4.22 %	35,116	1,786	5.09 %	
Wages	306,038	305,350	(688)	(0.22) %	281,629	(24,409)	(8.50) %	
	<u>\$ 700,300</u>	<u>\$ 746,450</u>	<u>\$ 46,150</u>	6.18 %	<u>\$ 705,153</u>	<u>\$ 4,853</u>	0.69 %	

- Variances in administrative expenses include a **\$6.7 thousand** increase in retirement costs and a **\$7.0 thousand** decrease in health insurance costs. Wages increased **9.6%** in 2007 which included a **4.2%** pay raise to employees.
- The District operates and maintains a potable water distribution system. Water is purchased from Missouri American Water Company at an average of **2 million** gallons per day. The District contractually can purchase up to 6.5 million gallons per day.

GENERAL TRENDS AND SIGNIFICANT EVENTS

Six new projects were piped during the year and another seven developments are proposed, including two large commercial developments within the District's boundary.

The new projects piped: J. K. Miller Industrial Park, Palmer Place, Jefferson College, Stone Creek, Bluffs of Rivercrest and Wethington Acres.

For the last two months of 2007, precipitation was less than normal resulting in more irrigation, one of the sources of water sales.

The volume of water sold in fiscal 2007 was approximately 746 million, a decrease of 5% from fiscal year 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the year, the District had **\$10.5 million** invested in capital assets net of depreciation. Transmission and distributions lines comprise the majority of the asset base with over **\$9 million** net. The remainder of the assets includes land, office buildings, furniture, vehicles and equipment.

This year's major additions paid by the District included (in thousands)

Maxville Lane Water Main Replacement	\$211
Office Remodeling	152
Office Roof Replacement	<u>11</u>
	\$374

This year's contributions from developers included the following projects:

J. K. Miller Industrial Park	\$ 24
Palmer Place	113
Jefferson College North (on site)	95
Stone Creek	107
Bluffs of Rivercrest	22
Wethington Acres	<u>11</u>
	\$372

Debt

At the end of the year, the District has \$1,620,000 in bonds outstanding verses \$1,770,000 last year. The 1999 revenue bonds of \$1,620,000 will be paid through March 2015. The debt service amount including interest for 2007 is \$245,718.

FINAL COMMENTS

Investments strategy conforms to all governmental and bond indenture requirements. Improvements continue from the 1999 Special Obligation Bond Program. Additional main replacements and installations at critical locations are slated for the future.



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Independent Auditor's Report

Board of Directors
Public Water Supply District #1
of Jefferson County, Missouri
Arnold, Missouri

We have audited the accompanying balance sheets of Public Water Supply District #1 of Jefferson County, Missouri (the "District") as of June 30, 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 audits 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 above present fairly, in all material respects, the financial position of Public Water Supply District #1 of Jefferson County, Missouri as of June 30, 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 August 23, 2007 on our consideration of the Public Water Supply District #1 of Jefferson County, Missouri's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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.

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

The management's discussion and analysis on pages 2 through 12 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit this information and express no opinion thereon.

Auler, Ring, Helm + Co., P.C.

St. Louis, Missouri
August 23, 2007

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

BALANCE SHEETS

JUNE 30, 2007 AND 2006

	ASSETS	
	2007	2006
CURRENT ASSETS		
Cash	\$ 477,516	\$ 420,406
Accounts receivable (net of allowance for doubtful accounts of \$10,000 in 2007 and 2006)	107,240	69,311
Due from developers	10,897	4,653
Accrued interest receivable	21,861	32,936
Prepaid expenses	35,185	38,095
Inventory	74,718	72,082
	727,417	637,483
PROPERTY AND EQUIPMENT		
Land and land rights	87,848	87,847
Office building and improvements	456,865	314,495
Office furniture and equipment	140,123	129,535
Plant equipment and trucks	346,845	346,394
Transmission and distribution lines	17,987,177	17,497,264
Construction in progress	299,800	137,242
	19,318,658	18,512,777
Less accumulated depreciation	8,850,885	8,400,045
	10,467,773	10,112,732
OTHER ASSETS		
Investments	2,854,190	3,073,077
Unamortized bond discount	18,009	20,433
	2,872,199	3,093,510
	\$ 14,067,389	\$ 13,843,725

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Current portion of bond issues outstanding	\$ 170,000	\$ 150,000
Accounts payable	247,195	246,603
Customer deposits	328,090	315,074
Accrued expenses	20,292	9,978
Accrued interest payable	29,826	32,425
	<u>795,403</u>	<u>754,080</u>
LONG-TERM LIABILITIES, less current maturities		
Bond issues outstanding	1,450,000	1,620,000
Refundable contract	4,648	9,685
	<u>1,454,648</u>	<u>1,629,685</u>
Total liabilities	2,250,051	2,383,765
NET ASSETS		
Contributed capital	8,418,439	8,047,180
Unrestricted	3,398,899	3,412,780
	<u>11,817,338</u>	<u>11,459,960</u>
	<u>\$ 14,067,389</u>	<u>\$ 13,843,725</u>

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

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUE		
Water fees	\$ 2,316,027	\$ 2,368,280
Late charges	15,459	17,279
Tap on fees	30,500	41,250
Service hookup fees	45,765	66,700
Miscellaneous	9,910	8,294
Total operating revenue	2,417,661	2,501,803
OPERATING EXPENSES		
Field expenses	1,322,698	1,292,950
Administrative expenses	700,300	705,153
Depreciation expense	461,332	458,817
Total operating expenses	2,484,330	2,456,920
INCOME (LOSS) FROM OPERATIONS	(66,669)	44,883
NON-OPERATING REVENUE (EXPENSE)		
Investment income, net	150,906	83,434
Lease income		18,214
Interest on bonds	(94,774)	(102,440)
Bond fees	(920)	(495)
Amortization of bond discount	(2,424)	(2,424)
Total non-operating revenue (expense)	52,788	(3,711)
INCREASE (DECREASE) IN NET ASSETS, BEFORE CAPITAL CONTRIBUTIONS	(13,881)	41,172
Capital contributions		
Construction contributions	371,259	97,821
INCREASE IN NET ASSETS	357,378	138,993
NET ASSETS BEGINNING OF YEAR	11,459,960	11,320,967
NET ASSETS END OF YEAR	\$11,817,338	\$11,459,960

The accompanying notes are an integral part of these financial statements.

PUBLIC WATER SUPPLY DISTRICT #1 OF JEFFERSON COUNTY, MISSOURI

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,386,503	\$ 2,647,068
Cash paid to suppliers and employees	<u>(2,016,855)</u>	<u>(2,006,217)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	369,648	640,851
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(445,113)	(234,119)
Lease income		18,214
Interest income	124,761	103,267
Purchase of investments	(3,657,593)	(1,299,023)
Proceeds from sale of investments	<u>3,913,700</u>	<u>1,150,438</u>
NET CASH USED IN INVESTING ACTIVITIES	(64,245)	(261,223)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid on bond issues	(97,373)	(105,023)
Bond fees	(920)	(495)
Principal payments on bond issues	<u>(150,000)</u>	<u>(150,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(248,293)</u>	<u>(255,518)</u>
INCREASE IN CASH	57,110	124,110
CASH BEGINNING OF YEAR	<u>420,406</u>	<u>296,296</u>
CASH END OF YEAR	<u><u>\$ 477,516</u></u>	<u><u>\$ 420,406</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (66,669)	\$ 44,883
Depreciation expense	461,332	458,817
Change in assets and liabilities		
(Increase) decrease in assets		
Accounts receivable	(44,174)	130,198
Inventory	(2,636)	(631)
Prepaid expenses	2,910	821
Increase (decrease) in liabilities		
Accounts payable	(27,011)	(8,533)
Accrued expenses	10,314	707
Customer deposits	40,620	19,723
Construction contracts refundable	<u>(5,038)</u>	<u>(5,134)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 369,648</u></u>	<u><u>\$ 640,851</u></u>
NON-CASH CAPITAL ACTIVITIES		
Developer contributions	<u><u>\$ 371,259</u></u>	<u><u>\$ 97,821</u></u>

The accompanying notes are an integral part of these financial statements.

PUBLIC WATER SUPPLY DISTRICT #1 OF JEFFERSON COUNTY, MISSOURI

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF ENTITY

Public Water Supply District #1 of Jefferson County, Missouri is a corporation chartered to provide retail water service to a designated area of Jefferson County, Missouri. It was organized in 1958 as a special purpose governmental entity engaged in business-type activities. The District is governed by five unpaid directors elected by the voters for three-year terms.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The District's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board ("GASB") pronouncements as well as Financial Accounting Standards Board ("FASB") statements and interpretations, and the Accounting Principles Board ("APB") of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has not adopted the provision of FASB No. 71, *Accounting for the Effects of Certain Types of Regulations*.

The financial transactions of the District are recorded in a single enterprise fund. An enterprise fund is a type of proprietary government fund which is normally used by water and other utility districts. An enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted for capital activity and debt service"; and "unrestricted" components.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist of amounts due from customers for water service billings and from developers for construction type activities through June 30, 2007 and 2006.

The District bases its allowance for doubtful accounts on past history and current economic conditions. Historically, the allowance for doubtful accounts has ranged from 4 – 5% of accounts receivable. The District writes off accounts receivable when collection enforcement efforts have failed to produce payments and additional efforts are not warranted.

The District charges 6% interest per month on all past due accounts (over 15 days old). At June 30, 2007 and 2006, accounts receivable past due and over 90 days old were \$10,035 and \$8,540, respectively. The District continues to accrue interest until the amounts are paid or water service is terminated.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line depreciation method over the estimated useful lives of the assets. The estimated useful lives range from five to fifty years. Expenditures for normal repairs and maintenance are charged to operations as incurred.

The District receives water distribution lines and related equipment as a contribution from unrelated parties. These assets are stated at acquisition cost, appraisal original cost, or fair market value at date of contribution.

Inventory

Inventory consists of materials and supplies used in operations. Inventory is stated at the lower of cost or market, computed by the first-in, first-out (“FIFO”) method.

Budget Information

The District annually adopts the Budget Resolution in order to comply with the budget guidelines for political subdivisions in the State of Missouri as provided in the Revised Missouri Statutes. Budget control is legally maintained by District management and the Board of Directors. Cash basis budget amounts are presented as part of the supplementary information strictly as a management tool for the use of the Board of Directors and District management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Income taxes are not recorded in the financial statements. The District is exempt from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code.

Revenue

The District's primary source of revenue is derived from the sale of water to individuals and business entities. The District also receives revenue from the collection of impact fees, installation fees, inspection fees, and transfer fees. These fees are generally assessed as new customers are added to the water distribution system. The revenue rate structure is designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves, and debt service coverage.

NOTE 3 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of cash and accounts receivable.

The District places its cash with major financial institutions, which at times may exceed the Federal Deposit Insurance Corporation ("FDIC") insured limits. The bank provides collateral by pledging federal securities to cover the amount in excess of federally insured limits.

At June 30, 2007 the District had the following concentrations, defined as investments (other than those issued or directly guaranteed by the U.S. Government) in any one organization that represents 5% or more of net assets.

	<u>Fair Value</u>	<u>Percent of Investments</u>
Federal National Mortgage Association	\$ 598,710	
Federal Home Loan Bank Bond	1,020,475	
	<u>\$ 1,619,185</u>	<u>57%</u>

NOTE 4 – CASH AND INVESTMENTS

The District complies with various restrictions on deposits and investments which are imposed by state statutes as follows:

Deposits

All deposits with financial institutions are collateralized in an amount at least equal to uninsured deposits.

Investments

As of June 30, 2007, the District's investments were as follows:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Fair Quality Rating</u>
Tenn Valley Auth Global	11/13/08	\$ 400,928	AAA
G.E. Commerical Paper	07/18/07	353,015	AAA
Federal Home Loan Bank Bond	12/17/09	371,220	AAA
Federal National Mortgage Association	11/20/08	349,510	AAA
Federal National Mortgage Association	01/22/10	249,200	AAA
Federal Home Loan Bank Bond	04/07/08	349,615	AAA
Federal Home Loan Bank Bond	03/19/09	299,640	AAA
U. S. Treasury Inflation Index Note	07/19/07	256,512	AAA
U. S. Treasury Note	08/15/07	224,550	AAA
		<u>\$ 2,854,190</u>	

As of June 30, 2006, the district's investments were as follows:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Fair Quality Rating</u>
Government Agency Securities	11/13/08	\$ 398,568	AAA
Federal Home Loan Bank Bond	12/17/09	372,694	AAA
Federal National Mortgage Association	04/15/07	399,040	AAA
Federal National Mortgage Association	09/20/06	398,200	AAA
Federal Home Loan Bank Bond	08/15/06	299,040	AAA
Federal Home Loan Bank Bond	04/07/06	348,040	AAA
U. S. Treasury Inflation Index Note	01/15/07	637,378	AAA
U. S. Treasury Note	08/15/07	220,117	AAA
		<u>\$ 3,073,077</u>	

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)*Interest Rate Risk*

The District follows the Model Investment Policy for Political Subdivisions of the State of Missouri. As such, the District structures its investments so that securities mature to meet cash requirements for ongoing operations. Maturities for investments generally should not exceed five years from the date of purchase. At June 30, 2007, the District had a total of \$1,183,692 in investments that will mature in less than one year, and \$1,670,498 in investments that will mature in one to five years.

Credit Risk

The District is specified by the Model Investment Policy for Political Subdivisions of the State of Missouri to diversify its investments to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. At a minimum, investment choices are limited to U. S. Treasuries, Collateralized Time and Demand Deposits, no more than 60% from U.S. Government agencies and government sponsored enterprises, 50% limit on Collateralized repurchase agreements, and 30% limit on U.S. Government agency callable securities, Commercial Paper and Banker's Acceptances.

The State policy limits investments to certain ratings issued by nationally recognized statistical rating organizations. As of June 30, 2007 and 2006, the District's investments were all rated AAA by Moody's Investors Service.

NOTE 5 – BONDS PAYABLE

Special obligation bonds payable at June 30 consist of:

	<u>2007</u>	<u>2006</u>
Improvement revenue bonds issued in 1999 totaling \$2,000,000. Payable in installments through March 1, 2015, interest rates from 5.00% to 5.70%.	\$ 1,620,000	\$ 1,770,000
Less current maturities	<u>170,000</u>	<u>150,000</u>
	<u><u>\$ 1,450,000</u></u>	<u><u>\$ 1,620,000</u></u>

NOTE 5 – BONDS PAYABLE (CONTINUED)

The annual requirements to amortize all debt outstanding as of June 30, 2007, including interest payments are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 170,000	\$ 89,572	\$ 259,572
2009	175,000	80,562	255,562
2010	175,000	71,200	246,200
2011	200,000	61,662	261,662
2012	200,000	50,662	250,662
2013-2015	700,000	80,774	780,774
Total	<u>\$ 1,620,000</u>	<u>\$ 434,432</u>	<u>\$ 2,054,432</u>

Bond discounts are amortized over the life of the associated bond issue. The bonds require that the District maintain certain fund balances each year to cover operations, depreciation, and bond costs from the waterworks revenue system. These funds are outlined in the supplemental information.

NOTE 6 – EMPLOYEES RETIREMENT PLAN*Plan Description*

Public Water Supply District #1 of Jefferson County, Missouri participates in the Missouri Local Government Retirement System (“LAGERS”), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri.

LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries. LAGERS was created and is governed by statute Section RSMo. 70.600-70.755. As such, it is the system’s responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and is tax-exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, Missouri 65102, or by calling 1-800-447-4334.

Funding Status

Public Water Supply District #1 of Jefferson County, Missouri’s full-time employees contribute 4% of their gross pay to the pension plan. The political subdivision is required to contribute at an actuarially determined rate; the rate for the years ended June 30, 2007 and 2006 was 3.8% and 2.9%, respectively, (general) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

NOTE 6 – EMPLOYEES RETIREMENT PLAN (CONTINUED)

Annual Pension Cost

For 2007 and 2006, the political subdivision's annual pension costs of \$41,658 and \$33,421, respectively, were equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2005 and/or February 28, 2006 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year, compounded annually, (b) projected salary increases of 4.0% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age, attributable to seniority/merit, (d) pre-retirement mortality based on the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women, and (e) post-retirement mortality based on the 1971 Group Annuity Mortality Table projected to 2000 set back one year for men and seven years for women.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at February 28, 2007 and 2006 was 15 years.

THREE-YEAR TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 21,591	100%	\$ 0
June 30, 2006	33,421	100%	0
June 30, 2007	41,658	100%	0

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress					
	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded Accrued Liability (UAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
2/28/2005	\$ 1,161,406	\$ 990,650	\$ (170,756)	117%	\$ 455,253
2/28/2006	1,281,904	1,146,056	(135,848)	112%	502,585
2/28/2007	1,455,042	1,325,893	(129,149)	110%	525,167

The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City, Missouri.

NOTE 6 – EMPLOYEES RETIREMENT PLAN (CONTINUED)*Annual Pension Cost (continued)*

The District also offers its employees the option to participate in a deferred compensation plan with Equivest provided by Equality Life Assurance Society of the United States. The plan is funded by employee payroll deductions. The District acts only as the agent of participation in withholding designated amounts from participant's salary and forwarding those amounts to Equivest for inclusion in the participant's plan. The District has no expense related to this plan.

NOTE 7 – COMMITMENTS

On March 7, 2007, the District entered into a revised contract with Missouri-American Water Company to furnish the water supply until March 7, 2032, unless the agreement is terminated in accordance with its terms. The contract shall be renewable for an additional twenty-five years at the option of the District upon reasonable notice to Missouri-American Water Company from the District prior to the expiration of the initial term, subject to all rates, rules, conditions, or requirements of the Public Service Commission ("PSC") and all then effective laws or regulations. In the event that renewal terms are not mutually agreed upon by the parties, then the agreement shall automatically renew for a single five year period upon the same terms and conditions.



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Independent Auditor's Report on Supplemental Information

Board of Directors
Public Water Supply District #1
of Jefferson County, Missouri
Arnold, Missouri

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of Public Water Supply District #1 of Jefferson County, Missouri as of and for the years ended June 30, 2007 and 2006, which appears on pages 13-14. The supplemental information on pages 27 to 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Huber, Ring, Helm & Co., P.C.

St. Louis, Missouri
August 23, 2007

PUBLIC WATER SUPPLY DISTRICT #1 OF JEFFERSON COUNTY, MISSOURI

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
FIELD EXPENSES		
Equipment maintenance and repairs	\$ 27,410	\$ 26,137
Other plant expenses	48,995	53,771
Payroll taxes	19,400	17,795
Uniforms	2,733	3,269
Wages - gross	<u>241,200</u>	<u>217,376</u>
	339,738	318,348
Less labor charges elsewhere	<u>28,957</u>	<u>15,880</u>
	310,781	302,468
Water analysis	6,338	5,244
Water purchased	<u>1,005,579</u>	<u>985,238</u>
Total field expenses	<u><u>\$ 1,322,698</u></u>	<u><u>\$ 1,292,950</u></u>
 ADMINISTRATIVE EXPENSES		
Accounting and audit fees	\$ 29,896	\$ 33,998
Advertising	408	178
Bank charges and fees	915	3,651
Education expenses	932	759
Election costs (refunds)	621	5,853
Employee relations	5,310	5,602
General office supplies and postage	37,267	46,329
Group retirement	20,756	14,036
Health insurance	123,905	130,985
Insurance	55,474	52,105
Legal fees	6,550	4,820
Miscellaneous administrative	4,513	4,921
Office repairs and maintenance	9,214	15,995
Payroll taxes	24,615	23,054
Public relations	29,365	29,925
Travel and convention expenses	11,191	16,197
Utilities and telephone	33,330	35,116
Wages - gross	<u>306,038</u>	<u>281,629</u>
	<u><u>\$ 700,300</u></u>	<u><u>\$ 705,153</u></u>

See independent auditor's report on supplemental information.

PUBLIC WATER SUPPLY DISTRICT #1 OF JEFFERSON COUNTY, MISSOURI

SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUE			
Water fees	\$ 2,300,000	\$ 2,316,027	\$ 16,027
Late charges	13,000	15,459	2,459
Tap on fees	30,000	30,500	500
Service hookup fees		45,765	45,765
Miscellaneous	9,000	9,910	910
Total operating revenue	<u>2,352,000</u>	<u>2,417,661</u>	<u>65,661</u>
FIELD EXPENSES			
Equipment maintenance and repairs	26,000	27,410	(1,410)
Engineering expense	5,000		5,000
Miscellaneous plant expense	55,000	48,995	6,005
Payroll taxes	17,000	19,400	(2,400)
Uniforms	2,900	2,733	167
Wages (less labor charges elsewhere)	168,000	212,243	(44,243)
Water analysis	5,800	6,338	(538)
Water purchased	1,000,000	1,005,579	(5,579)
Total field expenses	<u>1,279,700</u>	<u>1,322,698</u>	<u>(42,998)</u>
ADMINISTRATIVE EXPENSES			
Accounting and audit fees	32,500	29,896	2,604
Advertising	600	408	192
Bank charges and fees	6,000	915	5,085
Collection fees	500		500
Education expenses	1,200	932	268
Election costs	6,000	621	5,379
Employee relations	6,500	5,310	1,190
General office supplies and postage	49,000	37,267	11,733
Group retirement	18,000	20,756	(2,756)
Health insurance	137,500	123,905	13,595
Insurance	55,000	55,474	(474)
Legal fees	6,000	6,550	(550)
Miscellaneous administrative	6,000	4,513	1,487
Office repairs and maintenance	17,000	9,214	7,786
Payroll taxes	22,000	24,615	(2,615)
Public relations	27,500	29,365	(1,865)
Travel and convention expenses	15,000	11,191	3,809
Utilities and telephone	34,800	33,330	1,470
Wages	305,350	306,038	(688)
Total administrative expenses	<u>746,450</u>	<u>700,300</u>	<u>46,150</u>

See independent auditor's report on supplemental information.

PUBLIC WATER SUPPLY DISTRICT #1 OF JEFFERSON COUNTY, MISSOURI
SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL (CONTINUED)

YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE
NET OPERATING INCOME	\$ 325,850	\$ 394,663	\$ 68,813
NON-OPERATING REVENUE (EXPENSES)			
Investment income	118,750	150,906	32,156
Lease income			
Interest on bonds	(97,372)	(94,774)	2,598
Bond fees	(500)	(920)	(420)
Amortization of bond discount	(2,424)	(2,424)	
Total non-operating revenue	18,454	52,788	34,334
INCREASE IN NET ASSETS AS BUDGETED	344,304	447,451	103,147
NON-BUDGETED REVENUE (EXPENSES)			
Construction contributions		371,259	371,259
Depreciation	(2,400)	(461,332)	(458,932)
INCREASE IN NET ASSETS	\$ 341,904	\$ 357,378	\$ 15,474

See independent auditor's report on supplemental information.

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

SCHEDULES OF WATERWORKS SYSTEM REVENUE FUND

YEARS ENDED JUNE 30, 2007 AND 2006

CLEARING ACCOUNT

	<u>2007</u>	<u>2006</u>
FUND BALANCE, BEGINNING OF YEAR	\$ -	\$ -
REVENUES		
Sales of water	2,316,027	2,368,280
Late charges	15,459	17,279
Tap on fees	30,500	41,250
Service hookup fees	45,765	66,700
Lease income		18,214
Miscellaneous	9,910	8,294
	<u>2,417,661</u>	<u>2,520,017</u>
TRANSFERS TO		
Operation and maintenance account	2,022,998	1,998,103
Depreciation, extension and enlargement account	2,400	2,400
Bond account	248,118	255,359
Surplus account	136,938	250,947
Advance amortization sub-account	7,207	13,208
	<u>2,417,661</u>	<u>2,520,017</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See independent auditor's report on supplemental information.

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

SCHEDULES OF WATERWORKS SYSTEM REVENUE FUND (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

OPERATION AND MAINTENANCE ACCOUNT

	<u>2007</u>	<u>2006</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 1,882,970	\$ 1,552,513
INCREASES		
Transfers from		
Waterworks system revenue fund	2,022,998	1,998,103
Non-expense items added back		
Bond principal	150,000	150,000
Capital expenditures	282,555	180,457
	<u>2,455,553</u>	<u>2,328,560</u>
DECREASES		
Operating and maintenance		
Accounting and auditing	29,896	33,998
Advertising	408	178
Bank charges and fees	915	3,651
Education expenses	932	759
Election expenses (refunds)	621	5,853
Employee relations	5,310	5,602
Field expenses	310,781	302,468
General office supplies and postage	37,267	46,329
Group retirement	20,756	14,036
Health insurance	123,905	130,985
Insurance	55,474	52,105
Legal fees	6,550	4,820
Miscellaneous administrative	4,513	4,921
Office repairs and maintenance	9,214	15,995
Payroll taxes	24,615	23,054
Public relations	29,365	29,925
Travel and convention expenses	11,191	16,197
Utilities and telephone	33,330	35,116
Wages - gross	306,038	281,629
Water purchases and analysis	1,011,917	990,482
	<u>2,022,998</u>	<u>1,998,103</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,315,525</u></u>	<u><u>\$ 1,882,970</u></u>

See independent auditor's report on supplemental information.

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

SCHEDULES OF WATERWORKS SYSTEM REVENUE FUND (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

DEPRECIATION, EXTENSION, AND ENLARGEMENT ACCOUNT

	<u>2007</u>	<u>2006</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 87,019	\$ 84,619
INCREASES		
Transfers from		
Waterworks system revenue fund	2,400	2,400
Surplus fund	<u>461,332</u>	<u>458,817</u>
	463,732	461,217
DECREASES		
Depreciation expense	<u>461,332</u>	<u>458,817</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 89,419</u></u>	<u><u>\$ 87,019</u></u>

BOND ACCOUNT

FUND BALANCE, BEGINNING OF YEAR	\$ -	\$ -
INCREASES		
Transfers from		
Waterworks system revenue fund	<u>248,118</u>	<u>255,359</u>
	248,118	255,359
DECREASES		
Bond principal	150,000	150,000
Bond interest	94,774	102,440
Fiscal agent's fees	920	495
Bond amortization	<u>2,424</u>	<u>2,424</u>
	<u>248,118</u>	<u>255,359</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See independent auditor's report on supplemental information.

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

SCHEDULES OF WATERWORKS SYSTEM REVENUE FUND (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

BOND RESERVE ACCOUNT

	<u>2007</u>	<u>2006</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 360,000	\$ 360,000
INCREASES		
Transfers from		
Waterworks system revenue fund	<u>-</u>	<u>-</u>
	-	-
DECREASES		
Default in debt service	<u>-</u>	<u>-</u>
	-	-
FUND BALANCE, END OF YEAR	<u><u>\$ 360,000</u></u>	<u><u>\$ 360,000</u></u>

SURPLUS ACCOUNT

FUND BALANCE, BEGINNING OF YEAR	\$ 726,626	\$ 1,031,519
INCREASES		
Transfers from		
Waterworks system revenue fund	136,938	250,947
Investment income	<u>150,906</u>	<u>83,434</u>
	287,844	334,381
DECREASES		
Transfers to Depreciation Fund	461,332	458,817
Transfers to Construction Fund	<u>282,555</u>	<u>180,457</u>
	743,887	639,274
FUND BALANCE, END OF YEAR	<u><u>\$ 270,583</u></u>	<u><u>\$ 726,626</u></u>

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

SCHEDULES OF WATERWORKS SYSTEM REVENUE FUND (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006

ADVANCE AMORTIZATION SUB-ACCOUNT

	<u>2007</u>	<u>2006</u>
FUND BALANCE, BEGINNING OF YEAR	\$ 356,165	\$ 342,957
INCREASES		
Transfers from		
Waterworks system revenue fund	<u>7,207</u>	<u>13,208</u>
	7,207	13,208
DECREASES		
Prior redemption of bonds		
FUND BALANCE, END OF YEAR	<u><u>\$ 363,372</u></u>	<u><u>\$ 356,165</u></u>

CAPITAL ACCOUNT

FUND BALANCE, BEGINNING OF YEAR	\$ 8,047,180	\$ 7,949,359
INCREASES		
Transfers from		
Surplus Account	282,555	180,457
Contributions in aid of construction	<u>371,259</u>	<u>97,821</u>
	653,814	278,278
DECREASES		
Transmission and distribution lines	118,654	176,207
Trucks and equipment	<u>163,901</u>	<u>4,250</u>
	282,555	180,457
FUND BALANCE, END OF YEAR	<u><u>\$ 8,418,439</u></u>	<u><u>\$ 8,047,180</u></u>

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**Independent Certified Public Accountant's Report on Compliance and on Internal
Control Over Financial Reporting Based on an Audit of Financial Statements
Performed In Accordance with *Government Auditing Standards***

Public Water Supply District #1 of
Jefferson County, Missouri
Arnold, Missouri

We have audited the financial statements of Public Water Supply District #1 of Jefferson County, Missouri as of and for the year ended June 30, 2007, and have issued our report thereon dated August 23, 2007. 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.

Compliance

As part of obtaining reasonable assurance about whether Public Water Supply District #1 of Jefferson County, Missouri's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered Public Water Supply District #1 of Jefferson County, Missouri's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 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 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.

This report is intended solely for the information and use of the Board of Directors, management, and others within Public Water Supply District #1 of Jefferson County, Missouri, and is not intended to be and should not be used by anyone other than these specified parties.

Hulsh, Rung, Green + Co., P.C.

St. Louis, Missouri
August 23, 2007