1-1-2009

Financial Report, 2008

Public Water Supply District #1 of Jefferson County

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

PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

FINANCIAL REPORT

(Audited)

Year Ended June 30, 2008

Member: POLARIS INTERNATIONAL

Contents

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INDEPENDENT AUDITORS' REPORT

October 3, 2008

The Board of Directors
PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

We have audited the accompanying financial statements of the business-type activities of the **PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI** (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and

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other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the District. 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.

Hochschild, Bloom + Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INTRODUCTION

The Public Water Supply District No. 1 of Jefferson County, Missouri (the District) is pleased to present the Annual Financial Report developed in compliance with Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* (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 U.S. generally accepted accounting principles.

The unqualified (i.e., clean) opinion of our independent external auditors, Hochschild, Bloom & Company LLP, is included in this report.

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 $14.8 million and exceeded liabilities in the amount of $12.6 million (i.e., net assets). Of the total net assets, $9.9 million has been classified as invested in capital assets, net of related debt; $1.2 million was classified as restricted for debt service; $0.3 million was classified as restricted for capital asset acquisition; and $1.2 million was classified as unrestricted and available for District operations.

- 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 2008, the District delivered 800 million gallons of water to 7,386 customers in the District.

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 No. 1 and declared the Public Water Supply District No. 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 thousand 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 thousand 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 thousand. The balance of the 1985 issue was refunded in 1997. In 1999 $2,000 thousand 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 0.9431 cents per 100 cubic feet ($1.2575 cents per 1,000 gallons) under a rate schedule recently approved by the Missouri Public Service Commission effective October 2007.

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.

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented in this report consist of a balance sheet; statement of revenues, expenses, and changes in net assets; and statement of cash flows. The balance sheet 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 periods indicated and can be used to determine whether the District has successfully recovered all of its costs through user fees and other charges. The primary purpose of the statement of cash flows is to provide information about the 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, noncapital financing, and capital and related financing.

BALANCE SHEET

The following comparative condensed financial statements and other selected information serve as key financial data and indicators for management monitoring and planning:

	June 30		2008 Change	
	2008	2007	Amount	Percent
ASSETS				
Current assets - other	$ 1,864,150	991,680	872,470	88%
Current assets - restricted	347,220	-	347,220	100
Net capital assets	11,080,372	10,467,773	612,599	6
Noncurrent assets - other	15,585	2,872,199	(2,856,614)	(99)
Noncurrent assets - restricted	1,529,612	-	1,529,612	100
Total Assets	14,836,939	14,331,652	505,287	4
LIABILITIES				
Current liabilities payable from current assets	333,626	838,897	(505,271)	(60)
Current liabilities payable from restricted assets	549,042	-	549,042	100
Long-term debt, less current maturities	1,293,494	1,454,648	(161,154)	(11)
Total Liabilities	2,176,162	2,293,545	(117,383)	(5)
NET ASSETS				
Invested in capital assets, net of related debt	9,930,818	8,418,439	1,512,379	18
Restricted for debt service	1,196,229	-	1,196,229	100
Restricted for capital asset acquisition	284,861	-	284,861	100
Unrestricted	1,248,869	3,619,668	(2,370,799)	(65)
Net Assets	$12,660,777	12,038,107	622,670	5%

FINANCIAL CONDITION

- Cash and investments decreased $140 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 $2.8 million at June 30, 2008.

- Capital assets including producing assets and construction in progress increased in total $613 thousand. The net change consisted of capital contributions of $666 thousand and District paid capital expenditures of $433 thousand. The annual depreciation charge was $486 thousand.

- There were $408 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:

	June 30	
	2008	**2007**
Accounts receivable	$102,140	128,138
Less - Allowance for doubtful accounts	(10,000)	(10,000)
Accrued interest receivable	48,522	21,861
Prepaid expenses	35,475	35,185
Inventories	87,543	74,718
Cost of issuance	15,585	18,009
	$279,265	267,911

- The accounts receivable decrease of $26 thousand reflects lower water sales due to wet weather conditions in the spring and early summer of 2008.

- The allowance for doubtful accounts was the same as the prior year which 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.

- Inventories have 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 $43 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.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For The Years Ended June 30		2008 Change	
	2008	2007	Amount	Percent
OPERATING REVENUES	$ 2,610,854	2,417,661	193,193	8%
OPERATING EXPENSES	2,726,934	2,484,330	242,604	10
OPERATING LOSS	(116,080)	(66,669)	(49,411)	(74)
NONOPERATING (INCOME) EXPENSES	(73,055)	(52,788)	20,267	38
LOSS BEFORE CAPITAL CONTRIBUTIONS	(43,025)	(13,881)	(29,144)	(210)
CAPITAL CONTRIBUTIONS - UTILITY LINES	665,695	371,259	294,436	79
CHANGES IN NET ASSETS	622,670	357,378	265,292	74
NET ASSETS, JULY 1	12,038,107	11,680,729	357,378	5
NET ASSETS, JUNE 30	$12,660,777	12,038,107	622,670	5%

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 revenues and commercial customers represent 29%.

- Operating revenues from water fees, late charges, tap fees, services hookups, and miscellaneous increased $193 thousand or 8% while total operating expenses increased $243 thousand. Total operating revenues were 2.8% above the budget projections. The revenue decrease was due in part to lower water sales and lower tap on fees.

- The District last adopted a rate increase in February 2008. The 2008 rate increase for a minimum billing reflected an average increase of 14%.

- Loss from operations for the year was $116 thousand including depreciation of $486 thousand. Operating income as budgeted was approximately $332 thousand without depreciation. Operating income without depreciation was approximately $370 thousand which represents an increase in the projected income of 11%.

- Operating expenses included field expenses, administrative expenses, and depreciation. Field expense increased by approximately $130 thousand and administrative expenses increased by approximately $88 thousand. Depreciation expense increased approximately $24 thousand due to the additional construction capitalized. Field expenses increased 10% due to the increase in field labor and water purchased. Water fee revenue increased by 9.3%. Administrative expenses increased 13%. The actual amounts were approximately 1.3% less than the budgeted amount.

- Variances in administrative expenses include a $4.8 thousand increase in retirement costs and a $34.3 thousand increase in health insurance costs. Wages increased 4.9% in 2008 which included a 4% 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.

STATEMENT OF CASH FLOWS

The District's rate structure is designed to collect sufficient revenues to pay debt service and to recover operating and maintenance expenses. The District accomplished that objective during 2008. The net cash provided by operating activities was used primarily for purchases of capital assets and normal operating items.

CAPITAL ASSETS

At the end of the year, the District had $11.1 million invested in capital assets net of depreciation. Transmission and distribution lines comprise the majority of the asset base with over $10.2 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):

Arnold Commons Feeder Roads	$166
Richardson Road/Jeffco Boulevard Main Relocation	89
Main Replacement Starling Road at Electra	31
	$286

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

Maxville Gardens	$275
Arnold Commons	272
Church Road Relocation	118
	$665

Additional information on the District's capital assets can be found in Note D.

LONG-TERM DEBT

At the end of the year, the District has $1,450,000 in bonds outstanding verses $1,620,000 last year. The 1999 revenue bonds of $1,620,000 will be paid through March 2015. The debt service amount including interest for 2008 was $256,568.

Additional information on the District's long-term debt can be found in Note E.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's overall financial position in 2008 changed as shown by the net assets increase of $622,670.

GENERAL TRENDS AND SIGNIFICANT EVENTS

Three new developer projects were piped during the year and another three developments are proposed. The projects piped included: Maxville Gardens, Arnold Commons, and Church Road.

Record rainfall amounts in the last six months of the fiscal year resulted in extremely low water sales; however, this period followed an extremely dry six-month period offsetting the extremely wet period.

The volume of water sold in fiscal year 2008 was approximately 800 million, an increase of 7.4% from fiscal year 2007.

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.

SUMMARY

This report is intended to provide our customers 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 Executive Director, 636-296-0659, or to our offices located at 2970 Schneider Drive, Arnold, MO 63010.

PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

BALANCE SHEET

JUNE 30, 2008

ASSETS	
Current Assets	
Cash and cash equivalents	$ 30,330
Investments	1,333,000
Accounts receivable, less allowance for doubtful accounts of $10,000 in 2008	89,672
Unbilled receivable	264,263
Miscellaneous receivable	21,399
Due from developer	2,468
Inventories	87,543
Prepaid expenses	35,475
	1,864,150
Cash and cash equivalents, restricted	347,220
Total Current Assets	2,211,370
Noncurrent Assets	
Restricted assets:	
Cash and cash equivalents	23,005
Investments	1,458,085
Accrued interest receivable	48,522
Total Restricted Assets	1,529,612
Cost of issuance, net of accumulated amortization	15,585
Capital assets:	
Land and construction in progress	495,566
Other capital assets, net of accumulated depreciation	10,584,806
Total Capital Assets	11,080,372
Total Noncurrent Assets	12,625,569
Total Assets	$ 14,836,939

See notes to financial statements

PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

BALANCE SHEET

JUNE 30, 2008

LIABILITIES	
Current Liabilities	
Payable from current assets:	
Accounts payable	$ 196,793
Retainage payable	14,979
Due to developers	60,484
Accrued payroll	8,161
Accrued vacation	33,000
Accrued sick pay	10,000
Accrued retirement contribution	4,114
Accrued and withheld taxes	6,095
	333,626
Payable from restricted assets:	
Customer deposits	347,220
Current maturities of long-term debt	175,000
Accrued interest payable	26,822
	549,042
Total Current Liabilities	882,668
Long-Term Debt, less current maturities	
Debt payable	1,275,000
Accrued expenses	18,494
Total Long-Term Liabilities	1,293,494
Total Liabilities	2,176,162
Net Assets	
Invested in capital assets, net of related debt	9,930,818
Restricted for debt service:	
Reserve Fund	360,000
Depreciation Fund	91,819
Surplus Fund	357,516
Bond Fund	386,894
Total Restricted For Debt Service	1,196,229
Restricted for capital asset acquisition	284,861
Total Restricted	1,481,090
Unrestricted	1,248,869
Total Net Assets	12,660,777
	$ 14,836,939

See notes to financial statements

PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Amount	Percent
OPERATING REVENUES	$ 2,610,854	100.00 %
OPERATING EXPENSES		
Cost of services expenses	1,453,281	
Operating and administrative expenses	787,906	
Depreciation	485,747	
Total Operating Expenses	2,726,934	104.45
OPERATING LOSS	(116,080)	(4.45)
NONOPERATING (INCOME) EXPENSES	(73,055)	(2.80)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(43,025)	(1.65)
CAPITAL CONTRIBUTIONS - UTILITY LINES	665,695	25.50
CHANGES IN NET ASSETS	622,670	23.85 %
NET ASSETS, JULY 1	12,038,107	
NET ASSETS, JUNE 30	$ 12,660,777	

See notes to financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash flows from operating activities:	
Cash received from customers	$ 2,580,580
Cash payments to suppliers for goods and services	(1,867,457)
Cash payments to employees	(377,323)
Net Cash Provided By Operating Activities	335,800
Cash flows from capital and related financing activities:	
Other income/expenses	20,316
Principal payment on bonds	(170,000)
Purchase/construction of utility plant	(312,171)
Purchase of furniture and equipment	(39,509)
Interest paid	(89,572)
Net Cash Used In Capital And Related Financing Activities	(590,936)
Cash flows from investing activities:	
Proceeds from sale of investments	2,400,000
Purchase of investments	(2,356,025)
Investment income	115,070
Net Cash Used In Investing Activities	159,045
NET DECREASE IN CASH AND CASH EQUIVALENTS	(96,091)
CASH AND CASH EQUIVALENTS, JULY 1	149,426
CASH AND CASH EQUIVALENTS, JUNE 30	$ 53,335

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Cash flows from operating activities:	
Operating loss	$ (116,080)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	485,747
(Increase) decrease in:	
Accounts receivable	4,598
Inventories	(12,825)
Prepaid expenses	(290)
Increase (decrease) in:	
Accounts payable	(6,556)
Accrued payroll and other	16,078
Customer deposits	(34,872)
Total Adjustments	451,880
Net Cash Provided By Operating Activities	$ 335,800

Supplemental disclosure of cash flow information:	
Schedule of noncash investing and financing activities:	
Contributed utility lines	$ 665,695
Purchase/construction of utility plant was financed through accounts payable	$ 80,972

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the **PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI** (the District), a grantor of credit to water customers within the District's boundaries, have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the District are described below:

1. Reporting Entity

The District was created in 1958 and operates under an elected Board of Directors form of government. The major operation is to provide water services to a specified area in Jefferson County, Missouri.

The District's financial statements include all funds, agencies, and boards for which the District is financially accountable. Under GASB Statement No. 14, the primary basis of determining whether outside agencies and organizations should be considered component units of the District and included in the District's financial statements is financial accountability. Financial accountability is defined as follows: A primary government has substantive authority to appoint a voting majority of a component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government; and the component unit is fiscally dependent on the primary government. Based on the application of the above criteria for a component unit and the criteria for defining joint ventures, there are no component units or joint ventures.

2. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheets. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of Accounting (Continued)

investment income, amortization of debt issue costs, interest expense, tap fees, bad debt expense, and capital contributions.

As permitted by U.S. generally accepted accounting principles, the District has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, in its accounting and reporting practices for its proprietary operations.

3. Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than $1,000 and an estimated useful life greater than one year. Such assets are stated at cost. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of contribution. All capital assets are depreciated except for land and construction in progress. Depreciation is being computed on the straight-line method, using asset lives as follows:

Asset	Years
Office building and improvements	10 - 50
Office furniture and equipment	7 - 10
Plant equipment and trucks	5 - 10
Transmission and distribution lines	20 - 40

Depreciation expense charged to operations for the year ending June 30, 2008 amounted to $485,747.

4. Inventories and Prepaid Items

Inventories consist of materials and supplies and are valued at the lower of cost or market. Cost as applied to the inventory valuation represents current purchase cost applied on the first-in, first-out method.

Prepaid items consist of payments made to vendors for services that will benefit periods beyond the fiscal year-end.

5. Debt Issue Costs

Issue costs for debt are amortized on the straight-line method over the terms of the debt. Amortization of debt issue costs charged to operations for the year ending June 30, 2008 amounted to $2,424.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Water Sales

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

7. Interest Expense

In accordance with FASB Statement No. 34, the District capitalizes interest expense on major construction while in progress. In 2008 total interest expense before amortization of discount was $86,568. There was no capitalized interest in the current year.

8. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Restricted cash and investments are set aside as equity and their use is limited, therefore, they are excluded from cash and cash equivalents as reported in the statement of cash flows.

9. Investments

State statutes authorize the District to invest in obligations of the U.S. Treasury, federal agencies, commercial paper, corporate bonds, and repurchase agreements.

Investments are reported at fair value.

10. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to allowance for doubtful accounts based on its assessment of the current status of individual accounts.

11. Budgets

The annual budget is adopted on a basis that is substantially consistent with GAAP. Budgeted amounts lapse at fiscal year-end. The District is required to adopt an annual budget prior to the beginning of each fiscal year. Budgetary control is at the fund level. Management may exceed budgeted amounts on a line-item basis without Board approval. All amendments to the fund totals must be approved by the Board. There were no budget amendments during the year.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Compensated Absences

District employees generally earn vacation yearly based upon their length of service to the District which must be taken within the following year. Upon termination, the employee will be paid for unused vacation earned through the date of separation. Sick leave is accumulated monthly and is available to provide compensation during periods of illness. Employees may also elect to be paid all or any part of the accrued sick pay on June 1 or December 1 of each calendar year upon the employee's written notice. Upon termination, the employee will be paid for unused sick pay earned through the date of separation.

13. Use of Estimates

The preparation of the District's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

14. Capital Contributions

Contributions are recognized in the statement of revenues, expenses, and changes in net assets when earned. Capital contributions consist of developer contributed utility systems.

NOTE B - CASH AND INVESTMENTS

1. Deposits

The District's bank deposits are required by state law to be secured by the deposit of certain securities specified at RSMo 30.270 with the District or trustee institution. The value of the securities must amount to the total of the District's cash not insured by the Federal Deposit Insurance Corporation.

As of June 30, 2008, the District's bank balances were entirely secured or collateralized with securities held by the District or by its agent in the District's name.

2. Investments

As of June 30, 2008, the District had the following investments:

NOTE B - CASH AND INVESTMENTS (Continued)

2. Investments (Continued)

Investments	Fair Market Value	No Maturity	Less Than One Year	1 - 5 Years	Credit Risk
Tennessee Valley Authority bonds	$ 403,888	-	403,888	-	AAA
Federal Home Loan Mortgage Corporation note	1,106,512	-	1,106,512	-	AAA
Federal National Mortgage Association notes	1,280,685	-	-	1,280,685	AAA
Money market funds	23,005	23,005	-	-	Not rated
Total Investments	$2,814,090	23,005	1,510,400	1,280,685	

Investments Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has adopted 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.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The 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 should generally not exceed five years from the date of purchase. At June 30, 2008, the District had a total of $1,510,400 in investments that will mature in less than one year, and $1,280,685 in investments that will mature in one to five years.

NOTE B - CASH AND INVESTMENTS (Continued)

2. Investments (Continued)

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District places its cash with major financial institutions, which at times may exceed the Federal Deposit Insurance Corporation's insured limits. The bank provides collateral by pledging federal securities to cover the amount in excess of federally insured limits.

At June 30, 2008, 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.

	Fair Value	Percent Of Investments
Federal National Mortgage Association	$1,280,685	
Federal Home Loan Mortgage Corporation	1,106,512	
	$2,387,197	86%

NOTE C - RESTRICTED ASSETS

Restricted assets of cash and investments consisted of the following:

	June 30 2008
Customer deposits	$ 347,220
Reserve Fund	360,000
Construction Fund	284,861
Depreciation Fund	91,819
Bond Fund	386,894
Surplus Fund	357,516
Total	$1,828,310

NOTE D - CAPITAL ASSETS

Capital asset activity was as follows:

NOTE D - CAPITAL ASSETS (Continued)

	For The Year Ended June 30, 2008			
	Balance June 30 2007	Additions	Transfers And Deletions	Balance June 30 2008
Governmental Activities				
Capital assets not being depreciated:				
Land and land rights	$ 87,848	-	-	87,848
Construction in progress	299,800	360,113	252,195	407,718
Total Capital Assets Not Being Depreciated	387,648	360,113	252,195	495,566
Capital assets being depreciated:				
Office building and improvements	456,865	-	-	456,865
Office furniture and equipment	20,780	-	-	20,780
Plant equipment and trucks	466,188	72,538	-	538,726
Transmission and distribution lines	17,987,177	917,890	-	18,905,067
Total Capital Assets Being Depreciated	18,931,010	990,428	-	19,921,438
Less - Accumulated depreciation for:				
Office building and improvements	169,067	11,175	-	180,242
Office furniture and equipment	1,014	2,969	-	3,983
Plant equipment and trucks	407,558	30,731	-	438,289
Transmission and distribution lines	8,273,246	440,872	-	8,714,118
Total Accumulated Depreciation	8,850,885	485,747	-	9,336,632
Total Capital Assets Being Depreciated, Net	10,080,125	504,681	-	10,584,806
Governmental Activities Capital Assets, Net	$10,467,773	864,794	252,195	11,080,372

NOTE E - LONG-TERM DEBT

Long-term debt consisted of the following:

	June 30 2008
$2,000,000 improvement revenue bonds, Series 1999, due in annual installments through March 1, 2015, interest payable at 5% to 5.7%.	$1,450,000
Less - Current maturities	175,000
	$1,275,000

NOTE E - LONG-TERM DEBT (Continued)

Long-term debt activity was as follows:

	For The Year Ended June 30, 2008				Amounts Due Within One Year
	Balance June 30 2007	Additions	Payments	Balance June 30 2008	
Vacation payable	$ 43,494	33,407	33,407	43,494	33,000
Sick pay payable	12,000	30,401	24,401	18,000	10,000
Improvement revenue bonds	1,620,000	-	170,000	1,450,000	175,000
	$1,675,494	63,808	227,808	1,511,494	218,000

The bond issues are payable solely from revenues of the District's waterworks system. Various reserve accounts are specified for bond retirement and system improvements. Allocations have been made as prescribed. Payments to these accounts are to be out of the first available net income of the District after providing for current operating expenses. Bond interest and principal payments are disbursed by the District as billed by the paying agents.

Annual debt service requirements to maturities are as follows:

For The Years Ended June 30	Principal	Interest	Total
2009	$ 175,000	80,563	255,563
2010	175,000	71,200	246,200
2011	200,000	61,663	261,663
2012	200,000	50,663	250,663
2013	225,000	39,563	264,563
2014 - 2015	475,000	41,213	516,213
	$1,450,000	344,865	1,794,865

Series 1999 Improvement Revenue Bonds are subject to redemption and payment prior to maturity, at the option of the District, on or after March 1, 2009, at par and accrued interest.

The District is authorized to issue an additional $1.5 million of Series 1999 Improvement Revenue Bonds.

NOTE F - EMPLOYEES' PENSION PLAN

1. Plan Description

The District participates in the Missouri Local Government Employees 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 state statute, Section RSMo 70.600 - 70.555. As such, it is LAGERS' responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under Internal Revenue Code Section 401a and it is tax exempt.

LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson District, MO 65102 or by calling 1-800-447-4334.

2. Funding Policy

The District's full-time employees contribute 4% of their gross pay to the pension plan. The District is required to contribute at an actuarially determined rate; the current rate is 4.5% of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the District. The contribution provisions of the District are established by state statute.

3. Annual Pension Cost

For the plan year ended June 30, 2008, the District's annual pension cost of $49,493 was equal to the required and actual contributions. The required contribution was determined as part of the February 28, 2006 and/or February 28, 2007 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% per year, compounded annually, attributable to inflation; c) additional projected salary increases ranging from 0% to 6% per year, depending on age and division, 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 actu-

NOTE F - EMPLOYEES' PENSION PLAN (Continued)

3. Annual Pension Cost (Continued)

arial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at February 28, 2008 was 15 years.

Three-year trend information follows:

For The Plan Years Ended June 30	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
2008	$49,493	100%	$ -
2007	41,658	100	-
2006	33,421	100	-

Schedule of funding progress follows:

For The Actuarial Valuation Years Ended February 29/28	Actuarial Value Of Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability (UAL)/Excess Assets
2008	$1,651,046	$1,528,140	($122,906)
2007	1,455,042	1,325,893	(129,149)
2006	1,281,904	1,146,056	(135,848)

For The Actuarial Valuation Years Ended February 29/28	Funded Ratio	Annual Covered Payroll	Excess Assets (UAL) As A Percentage Of Covered Payroll
2008	108%	$566,920	(22%)
2007	110	525,167	(25)
2006	112	505,285	(27)

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 February 28, 2006 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact LAGERS' office in Jefferson City, MO.

NOTE F - EMPLOYEES' PENSION PLAN (Continued)

3. 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 G - NONOPERATING (INCOME) EXPENSES

Included in Nonoperating (Income) Expenses are the following:

	For The Year Ended June 30 2008
Amortization - issuance costs	$ 2,424
Bad debts	2,224
Bond fees	870
Interest expense	86,568
Investment fees	10,274
Investment income	(141,731)
Other income	(33,684)
	($ 73,055)

NOTE H - COMMITMENTS

The District had commitments to purchase construction and engineering services and equipment in the amount of $171,258 at June 30, 2008.

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 25 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 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 single five-year period upon the same terms and conditions.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to natural disasters, errors and omissions, loss of assets, torts, etc. The District has chosen to cover such losses through the purchase of commercial insurance. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

NOTE J - PRIOR PERIOD ADJUSTMENT

The previously stated net assets have been adjusted as follows:

	Governmental Activities
Net assets, June 30, 2007, as previously reported	$11,817,338
Restatement for:	
Accounts receivable	264,263
Accrued vacation	(43,494)
Net Assets, June 30, 2007, as restated	$12,038,107

The previously stated amount of cash and cash equivalents for purposes of the statement of cash flows has been adjusted as follows:

Cash and cash equivalents, June 30, 2007, as previously reported	$477,516
Restatement for investments included	(328,090)
Cash And Cash Equivalents, June 30, 2007, As Previously Reported	$149,426

SUPPLEMENTAL INFORMATION SECTION

PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

SUPPLEMENTAL INFORMATION - SCHEDULE OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2008

	Original And Final Budget	Actual	Over (Under) Budget
OPERATING REVENUES			
Water sales	$ 2,497,000	2,532,052	35,052
Service hookup	-	38,050	38,050
Service charges	13,000	20,602	7,602
Tap on fees	30,000	20,150	(9,850)
Total Operating Revenues	$ 2,540,000	2,610,854	70,854
COST OF SERVICES EXPENSES			
Water purchased	1,106,000	1,133,893	27,893
Salaries and wages	190,000	205,914	15,914
Plant costs	63,900	67,567	3,667
Other expenses	49,500	45,907	(3,593)
	1,409,400	1,453,281	43,881
OPERATING AND ADMINISTRATIVE EXPENSES			
Salaries and wages	317,750	320,926	3,176
Employee health insurance	148,000	158,259	10,259
Insurance	57,000	50,616	(6,384)
Payroll taxes	46,000	46,893	893
Office supplies and postage	42,500	37,398	(5,102)
Utilities	40,000	37,223	(2,777)
Accounting and auditing	34,500	34,648	148
Public relations and advertising	30,600	29,465	(1,135)
Pension	25,000	25,582	582
Conventions and travel	18,000	22,842	4,842
Other expenses	21,000	13,658	(7,342)
Repairs and maintenance	12,000	7,141	(4,859)
Legal fees	6,500	3,255	(3,245)
	798,850	787,906	(10,944)
TOTAL OPERATING AND MAINTENANCE EXPENSES	2,208,250	2,241,187	32,937

(Continued)

PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

SUPPLEMENTAL INFORMATION - SCHEDULE OF OPERATIONS (Continued) FOR THE YEAR ENDED JUNE 30, 2008

	Original And Final Budget	Actual	Over (Under) Budget
OPERATING INCOME BEFORE DEPRECIATION EXPENSE	331,750	369,667	37,917
DEPRECIATION EXPENSE	-	485,747	485,747
OPERATING INCOME (LOSS)	331,750	(116,080)	(447,830)
NONOPERATING (INCOME) EXPENSES			
Amortization - issuance costs	2,424	2,424	-
Bad debts	-	2,224	2,224
Bond fees	500	870	370
Interest expense	89,572	86,568	(3,004)
Investment fees	11,500	10,274	(1,226)
Investment income	(150,000)	(141,731)	(8,269)
Other income	(10,000)	(33,684)	23,684
	(56,004)	(73,055)	17,051
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	387,754	(43,025)	(430,779)
CAPITAL CONTRIBUTIONS - UTILITY LINES	-	665,695	665,695
CHANGE IN NET ASSETS	$ 387,754	622,670	234,916

PUBLIC WATER SUPPLY DISTRICT NO. 1 OF JEFFERSON COUNTY, MISSOURI

SUPPLEMENTAL INFORMATION - OPERATING AND MAINTENANCE EXPENSES FOR THE YEAR ENDED JUNE 30, 2008

	Amount	Percent
COST OF SERVICES EXPENSES		
Water purchased	$ 1,133,893	
Salaries and wages	205,914	
Plant costs	67,567	
Other expenses	45,907	
	1,453,281	55.66 %
OPERATING AND ADMINISTRATIVE EXPENSES		
Salaries and wages	320,926	
Employee health insurance	158,259	
Insurance	50,616	
Payroll taxes	46,893	
Office supplies and postage	37,398	
Utilities	37,223	
Accounting and auditing	34,648	
Public relations and advertising	29,465	
Pension	25,582	
Conventions and travel	22,842	
Other expenses	13,658	
Legal fees	3,255	
Repairs and maintenance	7,141	
	787,906	30.18
	$ 2,241,187	85.84 %