

**Jackson County Utility Authority
Pascagoula, Mississippi**

**Financial Statements
September 30, 2015**

Jackson County Utility Authority
Financial Statements

September 30, 2015

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Independent Auditor's Report

**FLETCHER
& COMPANY, PLLC**
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Jackson County Utility Authority as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Jackson County Utility Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the activities of Jackson County Utility Authority as of September 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson County Utility Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016, on our consideration of the Jackson County Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jackson County Utility Authority's internal control over financial reporting and compliance.

Altman and Company, PLLC.
Certified Public Accountants

D'Iberville, Mississippi
June 27, 2016

Management's Discussion and Analysis

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
*Year ended September 30, 2015***

Introduction

This discussion and analysis of the Jackson County Utility Authority (the Authority's) financial performance provides an overall narrative review of the Authority's financial activities for the year ended September 30, 2015. The intent of this discussion and analysis is to look at the Authority's performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the Authority's financial performance. Information contained in this section should be considered in conjunction with that presented in the Authority's financial statements, notes to financial statements and any accompanying schedules.

Financial Highlights

- The Authority's net position decreased \$8.3 million over 2014, primarily as a result of GASB 68 implementation; and is approximately \$118.8 million. Unrestricted net assets decreased to \$2.1 million, excluding pension liabilities.
- Operating revenues were approximately \$12.2 million while operating expenses were approximately \$17.9 million, or approximately \$11.5 million excluding depreciation.
- The Authority increased long-term liabilities by approximately \$1.9 million to \$10.8 million and recorded a net pension liability of approximately \$10.1 million.

Budgetary Highlights

Throughout the year the Authority reviews capital projects and presents budget amendments to the Board of Directors to accommodate economic conditions that adversely affect operating expenses. Generally, non-urgent capital projects can be delayed, if necessary, to prevent any changes in fee contributions from participating agencies. Depreciation expenses are noted specifically at approximately \$6.4 million. The following table summarizes the final budget to actual comparative results.

Year 2015 Budget to Actual Comparison

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$ 13,902,404	\$ 13,891,790	\$(10,614)
Operating expenditures	11,377,459	9,572,508	1,804,951
Debt service	724,945	720,765	4,180
Depreciation	<u>1,800,000</u>	<u>6,397,179</u>	<u>(4,597,179)</u>
Excess (deficiency)	\$ <u>-0-</u>	\$(<u>2,798,662</u>)	\$(<u>2,798,662</u>)

It should be noted that operating revenues and expenses shown in the budget to actual comparison do include certain Grants as a significant portion of projects described in this fiscal year are executed directly by the Authority. Therefore, certain grant expenses and revenues are represented in the values disclosed.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2015
(Continued)

Overview of the Financial Statements

This report includes Management's Discussion and Analysis, the Independent Auditor's report, the basic financial statements, notes to the financial statements and other information in addition to the basic statements themselves.

Basic Financial Statements - The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting with accounting principles generally accepted in the United States of America (GAAP). Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of the related cash flows. These statements offer short and long-term information about the Authority's activities.

The *Statement of Net Position* presents information on all the Authority's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Authority's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement provides a measurement of the Authority's operation over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its rates and other charges and to also analyze profitability and credit worthiness.

The *Statement of Cash Flows* provides relevant information about the Authority's cash receipts and disbursements, resulting from operating, non-capital financing, capital and related financing and investing activities. The changes in cash balances are an important indicator of the Authority's liquidity and financial position.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 14-33 of this report.

The *Required Supplementary Information* section presents the Schedule of the Authority's Proportionate Share of the Net Pension Liability and the Schedule of the Authority's Contributions; and the related notes to these schedules.

The *Supplementary Information* section presents the Schedule of Expenditures of Federal Awards and the Notes to the Schedule of Expenditures of Federal Awards

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2015
(Continued)

Financial Summaries and Comparisons

The following are summary presentations of the Statements of Net Position and Statements of Revenues, Expenditures and Changes in Net Position for the years ended September 30, 2015 and 2014: GASB 68 was implemented during fiscal year 2015 and the prior year amounts were not restated to reflect the implementation of GASB 68.

Statements of Net Position

	<u>2015</u>	<u>2014</u>
Current assets	\$ 2,380,509	\$ 4,444,069
Restricted assets	3,023,861	3,131,142
Capital assets	<u>142,277,431</u>	<u>138,365,712</u>
 Total assets	 <u>147,681,801</u>	 <u>145,940,923</u>
 Deferred outflows of resources	 <u>2,072,713</u>	 <u>-0-</u>
 Current liabilities	9,801,739	10,716,647
Long-term liabilities	<u>20,869,572</u>	<u>8,144,387</u>
 Total liabilities	 <u>30,671,311</u>	 <u>18,861,034</u>
 Deferred inflows of resources	 <u>269,758</u>	 <u>-0-</u>
 Summary of net position		
Invested in capital assets, net of related debt	123,734,390	120,961,211
Restricted	3,023,861	3,131,142
Unrestricted	<u>(7,944,806)</u>	<u>2,987,536</u>
 Total net position	 <u>\$ 118,813,445</u>	 <u>\$ 127,079,889</u>

The Authority's investment in capital assets accounted for 96% of total net position. It should be noted the total assets and total net position are calculated using capital asset values as depreciated and exclude value for real property and facilities held throughout Jackson County. The total net position has been adjusted to reflect the net pension liability and deferred inflows and outflows as a result of the implementation of GASB 68.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2015
(Continued)

Statements of Revenues, Expenditures and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 12,223,572	\$ 10,472,040
Operating expenditures	(17,857,177)	(15,828,504)
Non-operating revenues	32,395	7,135
Non-operating expenditures	(340,273)	(274,380)
Capital contributions and grants	<u>5,624,610</u>	<u>5,829,798</u>
Change in net position	\$(<u>316,873</u>)	\$ <u>206,089</u>

The Authority has now achieved substantial completion of the Hurricane Katrina Recovery Community Development Block Grant Program. As the “backbone” for a viable regional utility, the Authority continued to focus on projects that ensure future utilization, service, and revenue as required by the grant agreements. Construction efforts continued with projects that include the grant programs that require Authority to match funding from 25% on US Army Corps of Engineers construction projects to 55% on Environmental Protection Agency (EPA) Projects. Additionally, the Authority continued efforts to connect new wastewater customers and the abandonment of failing systems with the Coastal Impact Assistance Program (CIAP) Projects as fully reimbursable (grant) activities. Significant progress was made on all projects under construction that will lead to substantial completion of all current US Army Corps of Engineers, United States Department of Agriculture – Rural Development, EPA, and CIAP projects. As with many construction projects intended to develop new services, the connection of customers is the final step which results in final stage revenue recognition. To Authority continued to execute many of CIAP project tasks using direct staffing and supply chain providers, recognized as grant revenue, to ensure proper staffing levels when transitioning from construction phase to operational phase.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2015
(Continued)

Capital Assets and Debt Administration

Capital Assets – As of September 30, 2015, the Authority had approximately \$142.3 million invested in facilities, infrastructure and equipment. This amount represents a net increase of approximately \$3.9 million, or about 2.8% above last year. The following table presents a summary of the Authority's capital assets for the fiscal year.

Capital Assets at September 30, 2015

	<u>2015</u>	<u>2014</u>
Land and construction in progress (CIP)	\$ 25,759,258	\$ 17,953,325
Other capital assets (Net of depreciation)	<u>116,518,173</u>	<u>120,412,387</u>
Total capital assets	<u>\$ 142,277,431</u>	<u>\$ 138,365,712</u>

Debt Administration – As of September 30, 2015, the Authority had \$15.6 million in credit lines and notes outstanding. The following table presents a summary of the Authority's debt as of the end of the fiscal year.

Bonds and Notes Outstanding

	<u>2015</u>	<u>2014</u>
State SRF Loans	\$ 7,695,461	\$ 7,980,863
USDA Revenue Bonds	3,155,841	-0-
Bank financing, line of credit	4,030,394	4,995,818
Bank financing, term loans	<u>695,337</u>	<u>775,110</u>
Total outstanding	<u>\$ 15,577,033</u>	<u>\$ 13,751,791</u>

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2015
(Continued)

Economic Factors and Next Year's Budget Rates

The Authority continued to develop our tri-enterprise business system in FY 2015 to ensure beneficiaries of each enterprise recognize expense burdens equal to benefits received. The wastewater treatment and transportation enterprise is, and will remain, the largest enterprise for the foreseeable future. The many large grant projects recognized over the past ten years afforded the Authority and its members a revenue source for capital investment exclusive of user rates. This provided our members significant relief during the hurricane recovery period and economic challenges. Beginning with FY 2016, the Authority will begin restoring the revenue for capital needs within the user fees. The Authority will continue to exercise a combination of fee and lending adjustments to satisfy capital needs.

The Authority's retail enterprise is preparing to connect more than 500 new customers in FY 2016 as revenue for the enterprise will exceed \$1.0 million in sales for the first time. Growth within this sector has the potential to climb between 10% and 50% each of the next three years and the Authority takes the necessary steps to compliment the backbone projects executed in the Hurricane Katrina Community Development Block Grant program with retail customers.

The Authority's third enterprise, water supply, was developed under the Gulf Region Plan's assertion that consolidation of local utilities will include a significant number of wholesale water purchasers. The Authority will continue to offer this opportunity in our region. However, several of the potential wholesale customers have expressed a greater interest in complete consolidation in lieu of consolidation of specific efforts. Negotiations will continue to find common ground and mutually beneficial consolidation plans.

It is anticipated retail and water supply rates will remain stable to even with inflation for the coming fiscal year while wastewater treatment and transportation rates will increase to offset expiring capital grant sources with a continuing need to make capital investments in our infrastructure.

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2015
(Continued)**

Contacting the Authority's Management

This financial report is designed to provide the user with an executive overview of the Authority's finances and to show accountability for the money it receives. If you have any questions about this report, or need additional information, please use the contact information provided below.

Jackson County Utility Authority
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Contacts:
Julie Christian, CPA – Chief Financial Officer
Edna Lott – Accounting Principal
Tommy Fairfield, Jr. – Executive Director

Basic Financial Statements

Jackson County Utility Authority
Statement of Net Position
September 30, 2015

Assets

Current assets

Cash and cash equivalents	\$ 1,287,832
Accounts receivable	395,100
Grants receivable	531,601
Prepaid expenses and deposits	<u>165,976</u>
Total current assets	<u>2,380,509</u>

Restricted assets

Cash, contingency reserve	509,611
Cash, bond reserves	8,000
Certificates of deposit	<u>2,506,250</u>
Total restricted assets	<u>3,023,861</u>

Non-current assets

Capital assets, net	<u>142,277,431</u>
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Total assets

147,681,801

Deferred outflows of resources

Deferred outflows related to pensions	<u>2,072,713</u>
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Liabilities

Current liabilities

Accounts payable	1,390,056
Retainage payable	317,699
Accrued payroll liabilities	660,532
Accrued interest payable	33,983
Lines of credit	6,678,704
Current maturities of long-term debt	<u>720,765</u>
Total current liabilities	<u>9,801,739</u>

Non-current liabilities

Long-term debt	10,825,873
Net pension liability	<u>10,043,699</u>
Total non-current liabilities	<u>20,869,572</u>

Total liabilities

30,671,311

Deferred inflows of resources

Deferred inflows related to pensions	<u>269,758</u>
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Net position

Invested in capital assets, net of related debts	123,734,390
Restricted assets	3,023,861
Unrestricted	(<u>7,944,806</u>)

Total net position

\$ 118,813,445

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

Jackson County Utility Authority
Statement of Revenues, Expenditures and Changes in Net Position
Year Ended September 30, 2015

Operating Revenues	
Utility revenue	\$ 11,986,123
Other revenue	<u>237,449</u>
Total operating revenues	<u>12,223,572</u>
Operating Expenses	
Administrative services	58,043
Chemicals and other supplies	601,264
Depreciation	6,397,179
Insurance	224,427
Legal services	154,191
Office and other expense	137,455
Outside services	1,245,622
Repairs and maintenance	1,252,065
Salaries and related expense	6,242,460
Utilities and telephone	1,373,670
Vehicle expense	<u>170,801</u>
Total operating expenses	<u>17,857,177</u>
Operating loss	(<u>5,633,605</u>)
Non-operating revenues (expenses)	
Grant revenue	5,624,610
Interest income	7,192
Gain on disposition of assets	25,203
Interest expense	(<u>340,273</u>)
Total non-operating revenues	<u>5,316,732</u>
Change in net position	(<u>316,873</u>)
Net position, beginning of year as previously reported	127,079,889
Prior period adjustment	(<u>7,949,571</u>)
Net position, beginning of year as restated	<u>119,130,318</u>
Net position, end of year	<u>\$118,813,445</u>

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

Jackson County Utility Authority
Statement of Cash Flows
Year Ended September 30, 2015

Cash flows from operating activities

Cash received from customers	\$ 12,310,611
Cash paid to suppliers for goods and services	(7,724,598)
Cash paid for employees and related expenses	(<u>6,217,035</u>)
Net cash used in operating activities	(<u>1,631,022</u>)

Cash flows from capital and related financing activities

Proceeds from federal and state grants	7,737,490
Acquisition of capital assets	(10,249,974)
Proceeds from sales of assets	35,018
Proceeds received from state revolving loans	246,000
Proceeds received from USDA revenue bonds	3,162,431
Net proceeds received from lines of credit	1,682,886
Principal paid on bank loans	(79,773)
Principal paid on state revolving loans	(531,402)
Principal paid on USDA revenue bonds	(6,590)
Interest paid	(<u>327,868</u>)
Net cash provided by capital and related financing activities	<u>1,668,218</u>

Cash flows from investing activities

Decrease in contingency reserves	121,531
Increase in bond reserves	(8,000)
Increase in certificates of deposit	(6,250)
Proceeds from interest income	<u>7,192</u>
Net cash provided by investing activities	<u>114,473</u>
Net increase in cash and cash equivalents	151,669
Cash and cash equivalents, beginning of year	<u>1,136,163</u>
Cash and cash equivalents, end of year	\$ <u><u>1,287,832</u></u>

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

Jackson County Utility Authority
Reconciliation of Operating Income to Net Cash
Provided by Operating Activities
Year Ended September 30, 2015

Operating loss	\$(5,633,605)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,397,179
Changes in assets and liabilities	
Decrease in accounts receivable	87,039
Decrease in prepaid expenses	15,310
Decrease operating payables	(2,522,370)
Decrease in accrued payroll liabilities	(265,747)
Increase in deferred outflows	(1,799,719)
Decrease in deferred inflows	(771,260)
Increase in net pension liability	<u>2,862,151</u>
Net cash used in operating activities	\$(<u>1,631,022</u>)

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

Notes to Financial Statements

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting purposes.

Financial Reporting Entity

Under the "Mississippi Gulf Coast Region Utility Act" enacted by the Mississippi Legislature, on May 15, 2006, Mississippi Gulf Coast Regional Wastewater Authority merged with Jackson County Utility Authority and now operates under said name. The legislature felt that there was a need to plan, acquire, construct, maintain, operate and coordinate water and wastewater systems in order to insure the delivery of water and wastewater services to the citizens in Jackson County. On November 16, 1981, the Authority assumed the operations and maintenance of the wastewater treatment plants for the Cities of Pascagoula and Moss Point, Mississippi and on December 1, 1981, the plant for the City of Ocean Springs, Mississippi. During fiscal years 1986 and 1988, the Authority assumed operations and maintenance of treatment plants for the West Jackson County and the City of Gautier, Mississippi, respectively.

The significant operating revenues of the Authority are the result of subscription agreements entered into with each of the above governing bodies and utility districts and call for monthly revenue payments from each, based upon budgeted costs of operations and debt service requirements allocated to each, based upon actual flow data. In addition, the Authority is generating revenue from new services being provided as a result of newly constructed utility facilities financed through federal and state grants and loans. The reporting entity consists of and includes all funds that are covered by the oversight responsibility of the Authority. There are no funds excluded from the reporting entity which are under the control of the Authority. The reporting entity is not a component unit of another entity, nor does the reporting entity include any component units. The reporting entity is a joint venture of all the above named primary governments.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority is classified as an Enterprise fund for purposes of financial reporting. The Authority's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenditures are recognized when incurred, regardless of the timing of related cash flows.

The revenues and expenses of the Authority are classified as operating or non-operating. Operating revenues and expenses generally result from providing water and sewer collection and treatment services in connection with the Authority's primary operations. All other revenues and expenses are reported as non-operating.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciation is recorded using the straight line method over the estimated useful lives of the assets (treatment system 25 years and other property and equipment 5-10 years). Repairs and maintenance, which do not substantially increase capacity or operational efficiency, are expensed as incurred.

Capitalized Interest

Interest costs on outstanding debt are capitalized as incurred during the construction period of the asset.

Net Position

Net Position as presented in the Statement of Net Position includes:

Investment in capital assets, net of related debt - The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted - The component of net position that reports the funds that are restricted for contingencies and pledged as collateral for a line of credit.

Unrestricted - The difference between the assets and liabilities that is not reported in the components of Net Position detailed above.

Operating and Non-operating Revenues and Expenditures

Operating revenues of the Authority include all revenues generated by exchange transactions entered into with the four local municipalities and any other entity (whether public or private) utilizing the Authority's wastewater treatment services, and revenues from retail water and sewer customers. Operating expenditures included all of the expenditures necessary to operate, maintain and manage the water and wastewater treatment systems as well as depreciation. Non-operating revenues include interest and investment income. Non-operating expenditures include interest expense. Capital contributions and grants include capital financing grants from the federal and state governments. Restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

Capital Contributions and Grants

The Authority currently has several major construction projects in process that are funded all or in part by direct and pass-through grants from the United States Department of Housing and Urban Development, the United States Army Corps of Engineers, the United States Department of the Interior

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Contributions and Grants (Continued)

and the United States Environmental Protection Agency. These grant funds are restricted for capital acquisition or construction.

Paid Time Off

An employee with a ten-hour workday schedule earns paid time off according to the following schedule:

CONTINUOUS SERVICE	ACCRUAL RATE	ACCRUAL RATE
	(MONTHLY)	(ANNUALLY)
1 month to 5 years	15.33 hours	18 days
61 months to 15 years	18.67 hours	22 days
Over 15 years	22 hours	26 days

All other eligible, full-time employees earn paid time off according to the following schedule:

CONTINUOUS SERVICE	ACCRUAL RATE	ACCRUAL RATE
	(MONTHLY)	(ANNUALLY)
1 month to 5 years	15.33 hours	23 days
61 months to 15 years	18.67 hours	28 days
Over 15 years	22 hours	33 days

Upon termination of employment, all ten (10) hour per day employees will first have accumulated service time converted into eight (8) hour days (for example one ten hour day will equal one and one-quarter eight hour day) . When an employee leaves the employment of the JCUA after ninety (90) days of continuous service, he or she will be paid for earned but unused PTO up to a maximum of 240 hours. Unused PTO in excess of 240 hours will be counted as creditable service for the purposes of the retirement system. The employee may, however, elect to have all earned but unused PTO credited to State Retirement.

Employees resigning prior to completing ninety (90) consecutive working days of service will not be paid for earned but unused PTO.

Budget Information

The Authority annually adopts a budget on the cash basis of accounting for its operating and debt service activities.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 1 - Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

New Pronouncements

In June 2012, the GASB issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, note disclosure and required supplementary information requirements about pensions also are addressed. This Statement is effective for fiscal years beginning after June 15, 2014.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 2 - Cash on Hand and on Deposit

Cash and Cash Equivalents

Cash and Cash Equivalents consist of demand deposit checking and money market accounts with no withdrawal restrictions, and petty cash balances. As of September 30, 2015 the book balance of the Authority's cash and cash equivalents totaled \$1,287,832.

The collateral for public entities' deposit in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. The Authority's deposits were fully insured or collateralized as required by State statutes as of September 30, 2015.

Restricted Assets

At September 30, 2015, Jackson County Utility Authority had cash on deposit with Bancorpsouth totaling \$509,611, representing the Authority's contingency reserve. This reserve is restricted by the board and may only be used for purposes determined by the board through a majority vote. At September 30, 2015, the Authority had bond reserves established as required for the USDA revenue bond issues totaling \$8,000. In addition, the Authority had on deposit with Bancorpsouth bank five (5) certificates of deposit in the amount of \$500,000 each, plus accrued interest for a total of \$2,506,250. These certificates are pledged as security for the line of credit as described in Note 7. These deposits are collateralized as required by state statute as described above.

Note 3 – Grants Receivable

Grants receivable consists of grant proceeds due from grantors for grant-related expenditures incurred but not reimbursed as of the end of the fiscal year. At September 30, 2015, the Authority had grants receivable totaling \$531,601.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balances 10/01/14	Additions	Dispositions and Transfers	Ending Balances 9/30/15
Land and construction in progress:				
Land and easements	\$ 5,656,193	\$ 79,905	\$ -0-	\$ 5,736,098
Construction in progress	<u>12,297,132</u>	<u>9,545,101</u>	<u>1,819,073</u>	<u>20,023,160</u>
Total land and construction in progress	<u>17,953,325</u>	<u>9,625,006</u>	<u>1,819,073</u>	<u>25,759,258</u>
Other capital assets:				
CDBG program constructed assets	99,343,004	1,126,169	-0-	100,469,173
CDBG program equipment	446,465	-0-	5,600	440,865
CIAP State wastewater project assets	-0-	692,904	-0-	692,904
Vancleave laboratory facility	1,315,628	-0-	-0-	1,315,628
Pascagoula-Moss Point plant	31,942,092	-0-	9,815	31,932,277
West Jackson County plant	23,748,948	-0-	-0-	23,748,948
Escatawpa plant	8,619,307	15,305	-0-	8,634,612
Gautier plant	2,163,946	-0-	-0-	2,163,946
Retail systems, Ocean Beach Estates	925,573	-0-	-0-	925,573
Connection systems	13,210,383	397,703	-0-	13,608,086
Pumping stations	7,824,821	-0-	-0-	7,824,821
Equipment, operation and maintenance	1,496,116	2,634	137,415	1,361,335
Equipment, retail operations	585,159	163,718	-0-	748,877
Vehicles and transportation equipment	1,384,203	106,058	12,848	1,477,413
Jackson Avenue administration building	1,243,422	-0-	-0-	1,243,422
Office furniture and equipment	<u>203,543</u>	<u>9,969</u>	<u>-0-</u>	<u>213,512</u>
Total	194,452,610	2,514,460	165,678	196,801,392
Less: accumulated depreciation	<u>74,040,223</u>	<u>6,397,179</u>	<u>154,183</u>	<u>80,283,219</u>
Total other capital assets	<u>120,412,387</u>	<u>(3,882,719)</u>	<u>11,495</u>	<u>116,518,173</u>
Total capital assets, net	<u>\$ 138,365,712</u>	<u>\$ 5,742,287</u>	<u>\$ 1,830,568</u>	<u>\$ 142,277,431</u>

Depreciation expense reported for assets placed in service totaled \$6,397,179 for the year ended September 30, 2015. Construction period interest charged to construction in progress for the year ended September 30, 2015, totaled \$223,672.

Construction in Progress - Capital Projects

CDBG Project - The CDBG program constructed assets and CDBG program equipment amounts presented above represent capital assets acquired and constructed through a Disaster Recovery Community Development Block Grant in the amount of \$102,291,785, awarded the Authority for improvements to existing plant facilities and for the construction of new water and sewer facilities and transmission lines in

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 4 - Capital Assets (continued)

CDBG Project (Continued) - various locations throughout Jackson County, Mississippi. As of September 30, 2015, the Authority had completed and placed in service \$100,910,038 in administrative, legal, conceptual engineering and design costs, construction costs and equipment acquisitions associated with these projects; with \$71,286 in costs remaining in construction in progress. Retainage payable to contractors related to these projects totaled \$317,699 as of September 30, 2015.

Southern Waterline Extension Project – The Authority is currently in the process of constructing an extension of the potable drinking water supply system to supply water to the unincorporated coastal section of Jackson County, Mississippi. The construction is funded in part through a grant from the United States Army Corps of Engineers, Vicksburg District, in the amount of \$5,311,628. Costs incurred with this project as of September 30, 2015, totaled \$4,564,105.

Southern Waterline Elevated Storage Tank and Water Well Projects – In addition to the southern waterline extension project described above, the Authority is constructing an elevated storage tank and water well to supply the waterline extension. The project is being funded through two loans from the United States Department of Agriculture Rural Utility Service program in the amounts of \$2,881,029 and \$954,259, respectively. Costs incurred with these projects as of September 30, 2015, totaled \$3,195,438.

Big Hill Acres Water and Sewer Systems Project – Jackson County, Mississippi (the County) through a project partnership agreement with the United States Army Corps of Engineers – Mobile (Corps), has been awarded a grant in the amount of \$11,812,710 for the construction of water and sewer systems in the Big Hill Acres area of Jackson County, Mississippi. The total project is budgeted at \$15,750,280, with the remaining costs being funded by the Authority through a combination of cash and real estate contributions. Through a memorandum of understanding between the Authority and the County, the Authority will provide coordination of project activities and the non-federal match portion of funding of the project. The County has agreed to transfer ownership of the systems to the Authority upon completion of the project. As of September 30, 2015, the Authority has transferred \$3,611,544 to the Corps in support of the project, and incurred additional cost totaling \$161,316 associated with the project for total construction in progress of \$3,772,860 at September 30, 2015.

Big Hill Acres Water Distribution System and Wastewater Collection System Project – As a companion project to the Big Hills Acres Water and Sewer Systems project, the Authority, through a loan from the United States Department of Agriculture Rural Utility Service program in the amount of \$4,996,050, is constructing utility systems and connections in the Big Hill Acres area. The Authority is financing construction of the project through an interim construction loan with Bancorpsouth bank. As of September 30, 2015, the Authority had incurred costs associated with the project totaling \$4,214,010.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 4 - Capital Assets (continued)

Ocean Beach Estates and Shell Landing Wastewater Collection Systems Project – The Authority, through a Coastal Impact Assistance Program (CIAP) sub-grant passed through Jackson County in the amount of \$3,500,000, is providing connections to the Authority's wastewater collection system for residents of the Ocean Beach Estates and Shell Landing areas of Jackson County, Mississippi, and other system upgrades as provided for under the grant agreement. As of September 30, 2015, the Authority had incurred \$1,490,142 in construction costs and \$337,774 in equipment costs for a total of \$1,827,916 in total costs associated with the project.

Mississippi Gulf Region Waste Water Plan Complementary Project - The Authority, through a Coastal Impact Assistance Program (CIAP) sub-grant passed through the Mississippi Department of Marine Resources in the amount of \$1,706,038, is providing connections to the Authority's wastewater treatment systems within the CDBG projects approved service area in Jackson County, Mississippi. In addition, as part of the project, the Authority is working with the Jackson County School District through a memorandum of understanding (MOU), to connect the Vancleave High School to the Authority's sewer collection system. The Jackson County School District is in the process of improving pump stations and providing the necessary infrastructure to connect to the Authority's system. Under the terms of the MOU, the Jackson County School District will donate the completed infrastructure to the Authority upon completion of the connections to the sewer collection system. As of September 30, 2015, the Authority had incurred \$745,104 in costs associated with this project; of which, \$692,904 in completed construction has been placed in service and \$52,200 in costs are construction in progress.

Mississippi Department of Transportation Utility Relocation Project – The Authority has been awarded a grant from the Mississippi Department of Transportation (MDOT) for the relocation and improvement of water and sewer lines along Highway 57 from Humphrey Road to Vancleave. The grant provides for \$2,000,000 for water line relocation and improvement and \$4,500,000 for sewer line relocation and improvement for a total award of \$6,500,000. As of September 30, 2015, the Authority had incurred \$677,958 in costs associated with this project.

Wastewater Force Main System Project – The Authority has been awarded a loan in the amount of \$4,900,000 from the Water Pollution Control Revolving Loan Fund through the Mississippi Department of Environmental Quality, for the installation of a new wastewater force main system along Highway 63 in Moss Point, including upgrades to pumps and controls in an existing pump station and installation of three additional new pump stations. The Authority had incurred \$330,000 in engineering costs associated with this project as of September 30, 2015.

Water System Facilities Plan – The Authority has been awarded a loan in the amount of \$6,295,862 from the Drinking Water Systems Improvements Revolving Loan Fund through the Mississippi State Department of Health, for the installation of 60,000 linear feet of 12" force mains with appurtenances along Old Fort Bayou and Humphrey Road, Woodlake Lane, Ocean Springs and Vancleave Road; and interconnection with the existing water mains on Highway 57 and Highway 90. The Authority had incurred \$81,800 in engineering costs associated with this project as of September 30, 2015.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 4 - Capital Assets (continued)

Other Construction Projects and Activity – In addition to the major construction projects undertaken by the Authority as described above, the Authority has incurred construction and design costs associated with various other projects within the Authority's service area. Costs associated with these projects totaled \$1,573,361 as of September 30, 2015.

Construction in progress for the above projects totaled \$20,023,160 as of September 30, 2015.

Note 5 – Defined Benefit Pension Plan

Plan Description. The Authority contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the Authority is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The Authority's contributions to PERS for the fiscal years ending September 30, 2015, 2014 and 2013 were \$664,312, \$580,319, and \$505,720, respectively, which equaled the required contributions for each year.

Pensions Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the Authority reported a liability of \$10,043,699 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2015, the Authority's proportion was 0.064974 percent.

For the year ended September 30, 2015, the Authority recognized pension expense of \$955,484. At September 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 233,341	\$
Net difference between projected and actual earnings on pension plan investments		269,758
Changes in assumptions	865,231	
Changes in proportion and differences between entity contributions and proportionate share of contributions	974,141	
Entity contributions subsequent to the measurement date	<u>160,965</u>	<u> </u>
Totals	<u>\$ 2,233,678</u>	<u>\$ 269,758</u>

Deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date totaling \$160,965 will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended September 30:	
2016	\$ 651,992
2017	633,622
2018	370,426
2019	<u>146,915</u>
Total	<u>\$ 1,802,955</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

Pensions Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75 – 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34.00%	5.20%
International Equity	19.00	5.00
Emerging Markets Equity	8.00	5.45
Fixed Income	20.00	0.25
Real Assets	10.00	4.00
Private Equity	8.00	6.15
Cash	<u>1.00</u>	(0.50)
Total	<u>100.00%</u>	

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 5 – Defined Benefit Pension Plan (Continued)

Pensions Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate. The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Authority's proportionate share of the net pension liability	\$ 13,238,440	\$ 10,043,699	\$ 7,392,557

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 6 - Prior Period Adjustments

A summary of the prior period adjustment to net position due to the implementation of GASB 68 and GASB 71 is as follows:

	<u>Amount</u>
Net pension liability (measurement date)	\$ 7,181,548
Deferred inflow/Deferred outflow adjustments	<u>768,023</u>
Total prior period adjustment related to GASB 68 and 71	\$ <u>7,949,571</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 7 – Lines of Credit

At September 30, 2015, the Authority had a line of credit established with Bancorpsouth Bank in the amount of \$5,500,000, secured by five (5) \$500,000 certificates of deposit, receivables, contract rights, general intangibles and chattel paper; payable monthly, interest only, at an annual rate of 3.25% through maturity on November 5, 2015. As of September 30, 2015, the Authority had drawn \$2,648,310 under this credit line. A second line of credit with Bancorpsouth is in the amount of \$4,996,050, established as interim financing for the Big Hill Acres Water Distribution System and Wastewater Collection System Project. The line is payable monthly, interest only at 4.95%, secured by receivables, contract rights, general intangibles and chattel paper maturing November 5, 2015. As of September 30, 2015, the Authority had drawn \$3,646,079 under this credit line.

At September 30, 2015 the Authority had a line of credit established with Trustmark National Bank in the amount of \$600,000, to fund repairs to the Authority's Hurley wastewater treatment facility. The note is secured by a deed of trust on the facility; payable principal and interest quarterly, at an annual rate of 3.25%. The note is renewed quarterly at the discretion of the lender. As of September 30, 2015, the authority had drawn \$384,315 under this credit line.

Note 8 - Notes Payable

On November 13, 2012, the Authority secured financing for the purchase of a parcel of land north of Seaman Road in Jackson County from Bancorpsouth Bank. The loan was in the amount of \$338,115 bearing interest at 4.95%, payable in monthly installments of \$3,590 through November, 2017. Management expects to refinance the remaining balance at that time over five years, based on the original amortization period of ten years. At September 30, 2015, the balance of the note was \$258,867, with \$30,964 due within one year. Current year activity under the loan may be stated as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>288,164</u>	\$ <u>-0-</u>	\$ <u>29,297</u>	\$ <u>258,867</u>	\$ <u>30,964</u>

Principal and interest payments required under the loan are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 30,964	\$ 12,118
2017	32,532	10,550
2018	<u>195,371</u>	<u>1,600</u>
Totals	\$ <u>258,867</u>	\$ <u>24,268</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 8 - Notes Payable (Continued)

On December 31, 2013, the Authority secured financing for the purchase of machinery and equipment from Trustmark Bank. The loan was in the amount of \$486,946 bearing interest at 4.32%, payable in monthly installments of \$6,742 for a period of eighty-four months, with the first payment due December 5, 2014. Current year activity under the loan may be stated as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>486,946</u>	\$ <u>-0-</u>	\$ <u>50,476</u>	\$ <u>436,470</u>	\$ <u>63,289</u>

Principal and interest payments required under the loan are as follows

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 63,289	\$ 17,612
2017	66,078	14,823
2018	68,990	11,911
2019	72,030	8,871
2020	75,204	5,697
2021-2025	<u>90,879</u>	<u>2,448</u>
Totals	\$ <u>436,470</u>	\$ <u>61,362</u>

Note 9 - State Loans in Aid of Construction

Mississippi State Revolving Loan Fund: SRF-C280878-01, payable in monthly installments of \$2,767, bearing interest at 1.75%, through December, 2023. As of September 30, 2015, the balance on the loan was \$225,944, with \$29,488 due in one year.

Mississippi State Revolving Loan Fund: SRF-C280878-02, payable in monthly installments of \$49,889, bearing interest at 2.5%, through April, 2027. As of September 30, 2015, the balance on the loan was \$6,015,406, with \$453,457 due in one year.

Mississippi State Revolving Loan Fund: SRF-C280878-03, the Authority was originally approved for a loan in the amount of \$1,526,351 for the construction of a wastewater compliance testing laboratory. Construction was completed during the fiscal year ended September 30, 2012, at a lower anticipated cost resulting in a reduction in the final amount of the loan. The loan was closed in January, 2013, at a total principal amount of \$1,356,544, with monthly payments of \$6,822 beginning in April, 2013. The loan bears interest at 1.75% with a term of 235 months. As of September 30, 2015, the balance on the loan was \$1,208,111, with \$61,214 due within one year.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 9 - State Loans in Aid of Construction (Continued)

Mississippi State Revolving Loan Fund: SRF-C280878-04, the Authority is approved for a loan in the amount of \$4,900,000 for the installation of a new wastewater force main system, including upgrades to pumps and controls in an existing pump station and installation of three additional new pump stations. As of September 30, 2015, \$246,000 had been drawn on the loan. The loan is expected to close in April, 2017, payable monthly with payments of \$24,468 for a period of 237 months, bearing interest at 1.75%. Amortization of the outstanding balance as presented is based on this expected closing date and payment terms.

Changes in state loans in aid of construction for the year ended September 30, 2015, are summarized as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>7,980,863</u>	\$ <u>246,000</u>	\$ <u>531,402</u>	\$ <u>7,695,461</u>	\$ <u>544,159</u>

Principal and interest payments required under the loans are as follows:

SRF-C280878-01			
<u>Year Ended September 30,</u>		<u>Principal</u>	<u>Interest</u>
	2016	\$ 29,488	\$ 3,718
	2017	30,008	3,198
	2018	30,537	2,669
	2019	31,076	2,130
	2020	31,624	1,582
	2021-2025	<u>73,211</u>	<u>1,504</u>
	Totals	\$ <u>225,944</u>	\$ <u>14,801</u>

SRF-C280878-02			
<u>Year Ended September 30,</u>		<u>Principal</u>	<u>Interest</u>
	2016	\$ 453,457	\$ 145,213
	2017	464,924	133,746
	2018	476,681	121,988
	2019	488,736	109,934
	2020	501,095	97,574
	2021-2025	<u>2,702,085</u>	<u>291,261</u>
	2026-2030	<u>928,428</u>	<u>19,464</u>
	Totals	\$ <u>6,015,406</u>	\$ <u>919,180</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 9 - State Loans in Aid of Construction (continued)

SRF-C280878-03			
<u>Year Ended September 30,</u>		<u>Principal</u>	<u>Interest</u>
2016		\$ 61,214	\$ 20,653
2017		62,294	19,573
2018		63,393	18,474
2019		64,511	17,355
2020		65,649	16,217
2021-2025		346,033	63,301
2026-2030		377,651	31,683
2031-2035		167,366	3,190
Totals		<u>\$ 1,208,111</u>	<u>\$ 190,446</u>

SRF-C280878-04			
<u>Year Ended September 30,</u>		<u>Principal</u>	<u>Interest</u>
2016		\$ -0-	\$ -0-
2017		86,866	35,476
2018		159,134	62,703
Totals		<u>\$ 246,000</u>	<u>\$ 98,179</u>

Note 10 – USDA Revenue Bonds

USDA Revenue Bond 28-030-640652582-002, the Authority received financing from USDA for the construction of an elevated storage tank and water well to supply the southern waterline extension. The loan is approved in the amount of \$2,881,029. At September 30, 2015, the balance of the loan totaled \$2,202,690. The loan bears interest at 3.625%, payable in monthly installments of \$12,218.

USDA Revenue Bond 28-030-640652582-003, the Authority received financing from USDA for the completion of construction of the elevated storage tank and water well to supply the southern waterline extension. The loan was approved in the amount of \$954,259. At September 30, 2015, the balance of the loan totaled \$953,151. The loan bears interest at 3.625%, payable in monthly installments of \$4,046.

Changes in USDA revenue bonds for the year ended September 30, 2015, are summarized as follows:

<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
\$ <u>-0-</u>	\$ <u>3,162,431</u>	\$ <u>6,590</u>	\$ <u>3,155,841</u>	\$ <u>82,353</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 10 – USDA Revenue Bonds (Continued)

Revenue Bond-002		
<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 68,118	\$ 78,498
2017	70,400	76,216
2018	72,995	73,621
2019	75,685	70,931
2020	78,475	68,141
2021-2025	437,952	295,128
2026-2030	524,837	208,243
2031-2035	628,958	104,122
2036-2040	245,270	8,138
Totals	<u>\$ 2,202,690</u>	<u>\$ 983,038</u>

Revenue Bond-003		
<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 14,235	\$ 34,317
2017	14,760	33,792
2018	15,304	33,248
2019	15,868	32,684
2020	16,453	32,099
2021-2025	91,821	150,939
2026-2030	110,037	132,723
2031-2035	131,866	110,894
2036-2040	158,027	84,733
2041-2045	189,378	53,382
2046-2050	195,402	16,132
Totals	<u>\$ 953,151</u>	<u>\$ 714,943</u>

Note 11 – Sixteenth Section Leases

On July 22, 2014, the Authority entered into five separate lease agreements with the Jackson County Board of Education for the lease of a portion of sixteenth section land for use as utility line easements. The leases provide for a term of forty years with total annual minimum rental of \$2,610 for the first ten-year period of the lease, based on a 5% appraised fee simple value of the land. The leases provide for a rent increase each ten-year anniversary date of 10% above that charged during the immediately preceding ten-year period for the term of the lease. Lease expense relative to these leases for the year ended September 30, 2015 totaled \$2,610. On October 13, 2014, the Authority entered into a lease agreement for a utility easement along Highway 57 identified as the Library parcel and the Café parcels. The lease provides for a term of forty years with annual rental of \$1,265 for the first ten-year period of the lease. Lease expense for the year ended September 30, 2015 totaled \$1,265. The lease provides for reappraisal and adjustment each ten-year anniversary date. Future minimum payments under these leases may be stated as follows:

<u>Year Ended</u>	<u>Future Minimum</u>
<u>September 30,</u>	<u>Rentals</u>
2016	\$ 3,875
2017	3,875
2018	3,875
2019	3,875

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 11 – Sixteenth Section Lease (Continued)

<u>Year Ended</u> <u>September 30,</u>	<u>Future Minimum</u> <u>Rentals</u>
2020	3,875
2021-2025	19,897
2026-2030	20,680
2031-2035	21,254
2036-2040	22,115
2041-2045	22,745
2046-2050	23,690
2051-2054	<u>15,479</u>
Totals	\$ <u>165,235</u>

Note 12 – Commitments and Contingencies

On October 17, 2011, the Authority and the Jackson County Board of Supervisors signed a memorandum of understanding and agreement for the construction of a surface water treatment plant. The project, known as the Jackson County Treatment Facility Project, is expected to cost approximately ten million dollars and is financed in part through a grant from the U.S. Environmental Protection Agency awarded to Jackson County. The Authority has oversight of all project activities, and upon fulfillment of all responsibilities under the grant agreement, ownership of the facility will be transferred to the Authority.

Self-Insured Worker's Compensation – The Authority participates in a self-insured worker's compensation pool (Mississippi Public Entity's Worker's Compensation Trust) approved by the Mississippi Worker's Compensation Commission. Participants are jointly and severally liable only for liabilities incurred under the provisions of the Mississippi Worker's Compensation Act. Management is of the opinion that the possibility of liability resulting from the indemnity is remote.

The Authority is involved in various legal matters arising during the normal course of business activities. Management, after consulting legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material effect on the financial condition of the Authority.

Note 13 - Concentration of Revenue

The Authority currently receives the majority of its operating revenue from four local municipalities and one local utility district. Revenues from these entities constituted 89.38% of total utility revenue recognized during the year ended September 30, 2015.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 14 – Subsequent Events

Events that occur after the statement of financial position date, but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management of Jackson County Utility Authority evaluated the activity of the Authority through June 27, 2016, (the date the financial statements were issued), and identified the following subsequent events:

On October 8, 2015, the Bancorpsouth credit line authorized in the amount of \$4,996,050 for interim financing of the engineering and construction costs of connections to the Big Hill Acres water and sewer system was paid off with the proceeds of a USDA Rural Development revenue bond issued in the amount of \$4,996,050. The payoff amount totaled \$3,662,709, with the remaining loan balance to be used for the completion of construction. The bond bears interest at 3.25% and is to be repaid over a period of thirty-five (35) years; the first two years will consist of interest only payments in the amount of \$162,372, payable October 8, 2016 and October 8, 2017. Payments for the remaining thirty-three (33) years, payable monthly in three hundred ninety-six (396) installments of \$20,755.

On October 27, 2015, the Authority entered into a Drinking Water Systems Improvements Revolving Loan Fund loan agreement authorized in the amount of \$6,295,862 for the installation of 60,000 linear feet of 12" force mains with appurtenances along Old Fort Bayou and Humphrey Road, Woodlake Lane, Ocean Springs and Vancleave Road; and interconnection with the existing water mains on Highway 57 and Highway 90. The loan bears interest at 1.95% and is to be repaid over a period of two hundred thirty-seven months at \$31,955 monthly beginning May 1, 2018.

On January 27, 2016, the Authority closed on the Jackson County Utility Authority Water and Wastewater Treatment System Revenue Bond, Series 2016; par value \$30,440,000 with net proceeds of \$33,363,063. The bonds were issued for the purpose of financing the construction, enlargement, improvement, repair and/or extension of the Authority's water and wastewater systems, funding a debt service reserve fund for the bond issue, refunding a line of credit, funding capitalized interest on the bond issue through September 1, 2016; and paying the cost of issuance for the bond issue. The bonds bear interest at rates between 2% and 5%; first interest payment date is March 1, 2016; first principal payment date is September 1, 2017; and final maturity date is September 1, 2040.

On February 8, 2016, the Authority awarded the contract for the construction of the new sewer force main along Highway 63 to Necaise Brothers Construction Company, Inc. in the amount of \$5,394,479.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2015

Note 14 – Subsequent Events (Continued)

On February 22, 2016, the Authority entered into a contract for the purchase of the assets of St. Andrews Water and Sewer System, Inc. in the amount of \$3,400,000.

On March 11, 2016, the Authority established a line of credit with Bancorpsouth Bank for working capital purposes in the amount of \$1,000,000. The credit line is secured by two (2) \$500,000 certificates of deposit, and bears interest payable monthly at 3.5%. The credit line matures March 5, 2017.

On May 9, 2016 the Authority's Board of Directors passed a resolution for the purchase of 338 acres in the amount of \$1,760,000. The property is located north of Lake Forest Subdivision, east of Jordan Road, in West Jackson County, Mississippi and is adjacent to the Authority's West Jackson County Treatment Facility.

Required Supplementary Information

Jackson County Utility Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability
PERS
Last 10 Fiscal Years*

	<u>2014</u>	<u>2015</u>
Authority's proportion of the net pension liability	\$ 7,181,548	\$ 10,043,699
Authority's proportionate share of the net pension liability	.059165%	.064974%
Authority's covered – employee payroll	3,452,093	3,836,602
Authority's proportionate share of the net pension liability as a percentage of its covered – employee payroll	208.03%	261.79%
Ratio of fiduciary net position to total pension liability	67.21%	61.70%

The notes to the required supplementary information are an integral part of this schedule.

*The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year of the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and until a full 10-year trend is compiled, the Authority has only presented information for the years in which information is available.

Jackson County Utility Authority
Schedule of the Authority's Employer Contributions
PERS
Last 10 Fiscal Years

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 569,144	\$ 639,321
Contributions in relation to the contractually required contribution	<u>569,144</u>	<u>639,321</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>
Authority's covered – employee payroll	3,613,613	4,059,181
Contributions as a percentage of covered – employee payroll	15.75%	15.75%

The notes to the required supplementary information are an integral part of this schedule.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and until a full 10-year trend is compiled, the Authority has only presented information for the years in which information is available.

Jackson County Utility Authority
Notes to the Required Supplementary Information
For the Year Ended September 30, 2015

Pension Schedules

- (1) Changes of benefit terms

None

- (2) Changes of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

- (3) Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (2015 Employer contributions are developed from 2013 valuation). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	32.2 years
Asset valuation method	5-year smoothed market
Price inflation	3.50 percent
Salary increase	4.25 percent to 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Supplementary Information

Jackson County Utility Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency Award Number	Amount
<u>U.S. Department of Agriculture</u>			
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-001	\$ 1,157,868
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-002	1,983,100
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-003	954,259
Total U.S. Department of Agriculture			<u>4,095,227</u>
<u>U.S. Department of the Army</u>			
ARRA - Mississippi Environmental Infrastructure	12.124	W807PM93345097	<u>3,054,811</u>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through Mississippi Department of Environmental Quality:</i>			
Community Development Block Grants	14.219 14.228	JCUA-01, JCUA-02	<u>1,197,455</u>
<u>U. S. Department of the Interior</u>			
<i>Passed through the Mississippi Department of Marine Resources</i>			
Coastal Impact Assistance Program	15.426	MS.R.771-3	155,631
<i>Passed through Jackson County Mississippi</i>			
Coastal Impact Assistance Program	15.426	MS.30.713	<u>568,966</u>
Total U.S. Department of the Interior			<u>724,597</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through the Mississippi Department of Transportation</i>			
Highway Planning and Construction	20.205	STP-0066-01	<u>243,727</u>
<u>U.S. Environmental Protection Agency</u>			
<i>Passed through the Mississippi Department of Environmental Quality Water Pollution Control Revolving Loan Fund</i>			
Capitalization Grants for State Clean Water Revolving Fund	66.458		<u>184,167</u>
<u>U.S. Department of Homeland Security</u>			
<i>Passed through Mississippi Emergency Management Agency</i>			
Disaster Grants - Public Assistance	97.036	FEMA-4081-DR-MS 059-04C2C-00	<u>466,378</u>
Total expenditures of federal awards			<u>\$ 9,966,362</u>

The accompanying notes are an integral part of this schedule

Jackson County Utility Authority
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

Notes to Schedule of Federal Expenditures:

- The accompanying Schedule of Expenditures of Federal Awards includes the federal grant and loan activity of the Authority and is presented on the accrual basis of accounting, which was used in the preparation of the Authority's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- The Authority did not have any non-cash awards or subrecipients during the fiscal year.

Reports on Compliance and Internal Control

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

We have audited, in accordance with the 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, the financial statements of Jackson County Utility Authority as of and for the year ended September 30, 2015, which comprise the statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and the related notes to the financial statements, and have issued our report thereon dated June 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Jackson County Utility Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jackson County Utility Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Jackson County Utility Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Altier and Company, P.C.C.
Certified Public Accountants

D'Iberville, Mississippi
June 27, 2016

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133**

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Jackson County Utility Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Jackson County Utility Authority's major federal programs for the year ended September 30, 2015. Jackson County Utility Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Jackson County Utility Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jackson County Utility Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Jackson County Utility Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Jackson County Utility Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of Jackson County Utility Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Jackson County Utility Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Jackson County Utility Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Altika and Company, P.L.L.C.
Certified Public Accountants

D'Iberville, Mississippi
June 27, 2016

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(s) identified that are
not considered to be material weakness(es)? yes X no

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(s) identified that are
not considered to be material weakness(es)? yes X none reported

Type of auditor’s report issued on compliance
for major programs: unmodified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a)
of *Circular A-133* yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities
14.219 and 14.228	Disaster Recovery Community Development Block Grant

Dollar threshold used to distinguish between
type A and type B programs \$300,000

Auditee qualified as low-risk auditee? X yes no

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section II – Financial Statement Findings

There were no findings or questioned costs relative to the financial statements.

Section III – Federal Awards Findings

There were no findings or questioned costs for federal awards.

**Jackson County Utility Authority
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2015**

There were no prior audit findings.