

**Jackson County Utility Authority
Pascagoula, Mississippi**

**Financial Statements
September 30, 2012**

Jackson County Utility Authority
Financial Statements

September 30, 2012

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Independent Auditor's Report

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

We have audited the accompanying financial statements of the Jackson County Utility Authority as of and for the year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the activities of the Jackson County Utility Authority at September 30, 2012, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013, on our consideration of Jackson County Utility Authority's internal control over financial reporting and our test of its compliance with certain provision of laws, regulations, contracts, 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 reporting or on compliance and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson County Utility Authority's financial statements taken as a whole. The accompanying 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 financial statements of the Jackson County Utility Authority. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Heath and Gay, PLLC

Certified Public Accountants

Biloxi, Mississippi
June 25, 2013

Management's Discussion and Analysis

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended September 30, 2012

FINANCIAL SUMMARIES AND COMPARISONS

The following are summary presentations of the Statements of Net Assets and Statements of Revenues, Expenditures and Changes in Nets Assets for the years ended September 30, 2012 and 2011:

Statements of Net Assets

	<u>2012</u>	<u>2011</u>
Current assets	\$ 3,587,130	\$ 5,420,661
Restricted assets	4,413,955	4,311,788
Capital assets	<u>134,421,969</u>	<u>137,353,989</u>
Total assets	<u>142,423,054</u>	<u>147,086,438</u>
Current liabilities	3,658,642	7,437,149
Long-term liabilities	<u>8,440,779</u>	<u>7,750,836</u>
Total liabilities	<u>12,099,421</u>	<u>15,187,985</u>
Summary of net assets		
Invested in capital assets, net of related debt	123,825,715	124,472,231
Restricted	4,413,955	4,311,788
Unrestricted	<u>2,083,963</u>	<u>3,114,434</u>
Total net assets	<u>\$130,323,633</u>	<u>\$ 131,898,453</u>

The Authority's investment in capital assets accounted for 94 % of total net assets. Net assets totaling \$2,083,963 were considered unrestricted, the part of net assets used to finance everyday operations without constraints of legal requirements.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended September 30, 2012

(Continued)

Statements of Revenues, Expenditures & Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 8,876,819	\$ 8,254,091
Operating expenditures	(13,857,642)	(9,740,182)
Non-operating revenues	3,771	12,318
Non-operating expenditures	(271,612)	(392,460)
Capital contributions and grants	<u>3,673,844</u>	<u>16,269,162</u>
Increase (decrease) in net assets	\$(<u>1,574,820</u>)	\$ <u>14,402,929</u>

The Authority has substantially completed construction projects associated with Hurricane Katrina recovery and began to focus effort on increasing the customer base and placing the new in full service. Connection of customers and establishing systems operations required the Authority to increase staff to handle new tasks and generate new customer accounts. New operations, as well as increasingly stricter operating permits for legacy treatment operations impacted operating expenses ahead of projected revenue gains. The Authority has secured grant assistance to reduce the connection fees to the customers. These programs are reimbursement type programs that the Authority elected to fund from cash during the reimbursement process as borrowing rates, while low, are higher than return rates on deposits. The Authority will negotiate long term credit instruments for major construction efforts, as needed. The Authority completed the new testing laboratory that will allow the Authority to meet the demands of increasing stricter operating permits and reduce the compliance risks associated with outsourcing of critical tasks. Several major construction projects reached final planning stages. There is a joint USDA Rural Development and US Army Corps of Engineers design and construction project to connect more than 650 retail water and wastewater customers and upgrade several wetland treatment cells at our Seaman Road WWPT to ensure continued permit compliance. Another joint USDA Rural Development and US Army Corps of Engineers design and construction project to provide a new water supply line to the south central part of the county, serving both wholesale and retail customers. The initial recognition of revenue gains for this construction is projected in the 2014 budget plan.

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended September 30, 2012

(Continued)

Financial Highlights

- The Authority's net assets decreased approximately \$1.6 million below 2011 and are approximately \$130.3 million. Unrestricted assets decreased to \$2,083,963.
- Operating revenues were approximately \$8.9 million while operating expenses were approximately \$13.9 million, or approximately \$7.3 million excluding depreciation.
- The Authority increased long-term liability by approximately 0.69 million to \$8.4 million. (The Authority made the final payment on the Series 1999 Bond in FY 2012.)

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 \$6.5 million. The following table summarizes the final budget to actual comparative results.

Year 2012 Budget to Actual Comparison

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$ 8,954,450	\$ 8,876,819	\$(77,631)
Operating expenditures	6,128,659	6,539,606	(410,947)
Debt service	2,707,601	2,710,178	(2,577)
Depreciation	<u>600,000</u>	<u>6,539,606</u>	(<u>5,939,606</u>)
Excess (deficiency)	\$(<u>481,810</u>)	\$(<u>6,912,571</u>)	\$(<u>6,430,761</u>)

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended September 30, 2012

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2012, the Authority had approximately \$134 million invested in facilities, infrastructure and equipment. This amount represents a net decrease of approximately \$2.9 million, or about 2.2% below last year. The following table presents a summary of the Authority's capital assets for the fiscal year.

Capital Assets at September 30, 2012

	<u>2012</u>	<u>2011</u>
Land and construction in progress (CIP)	\$ 8,171,409	\$ 8,240,357
Other capital assets (Net of depreciation)	<u>126,250,560</u>	<u>129,113,632</u>
Total capital assets	<u>\$134,421,969</u>	<u>\$ 137,353,989</u>

Debt Administration – As of September 30, 2012, the Authority had \$8,973,323 in bonds and notes outstanding, noting the Series 1999 Revenue Bond debt was retired. The following table presents a summary of the Authority's debt for the fiscal year.

Bonds and Notes Outstanding

	<u>2012</u>	<u>2011</u>
Revenue bonds	\$ -0-	\$ 1,975,000
Line of Credit	54,669	-0-
State loans	<u>8,918,654</u>	<u>8,058,917</u>
Total Outstanding	<u>\$ 8,973,323</u>	<u>\$ 10,033,917</u>

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended September 30, 2012

(Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The Authority remains committed to our rate assessment system that ensures everyone in Jackson County has the benefit of the same rate for wastewater treatment. Using detailed records we can accurately project and reconcile wastewater treatment charges based on flow in million gallons per day at the same rate per thousand gallons for all customers. For fiscal year 2012 budget the Authority planned, and used, \$0.5 million in fund balance, cash in addition to operational income, to retire the Series 1999 Revenue Bond as legacy member agencies had established that reserve for the bond. Ongoing efforts to connect users to the utility and increasing costs associated with regulatory compliance, depreciation, and combined operational costs will require the Authority to closely monitor and adjust fees over the next three fiscal budget years. The enabling legislation for the agency avails the tools necessary for the staff and governing Board of Directors to respond to this need.

Most of the Authority's construction projects planned for the next five budget years rely on a healthy mix of grant and Authority funds, at a near exact match ratio once all costs are considered. The Authority has worked to reduce old debt over the past five years to ensure a healthy financial position in securing lending for Authority project funds.

The Authority anticipates Environmental Protection Agency (EPA) and Mississippi State Department of Health approval in FY – 2013 to begin construction of a \$10 million surface water treatment plant – becoming the first in south Mississippi to do so. This project will be funded in part by an (EPA) grant and match funds that the Authority has already received in the form of construction credits, and placed in trust with the Jackson County Board of Supervisors. The Authority does not anticipate requiring any new debt to complete this project which will supply much of the potable water in east central Jackson County.

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Year ended September 30, 2012
(Continued)*

Contacting the Authority's Management

This financial report is designed to provide the user with a general 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
1225 Jackson Avenue
Pascagoula, MS 39567

(228) 762-0119 (office)

(228) 762-3299 (fax)

email: tfairfield@jcua-ms.us

Contacts:

Edna Lott – Accounting Principal

Tommy Fairfield, Jr. – Executive Director

Basic Financial Statements

Jackson County Utility Authority
Statement of Net Assets
September 30, 2012

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,938,551
Receivables	
Accounts	477,056
Grants	1,035,623
Prepaid expenses and deposits	<u>135,900</u>
Total current assets	<u>3,587,130</u>
Restricted assets	
Cash, contingency reserve	<u>4,413,955</u>
Non-current assets	
Capital assets, net of accumulated depreciation	<u>134,421,969</u>
Total assets	<u>142,423,054</u>

LIABILITIES

Current liabilities	
Accounts payable	1,118,934
Retainage payable	1,615,090
Lines of credit, construction	54,669
State loans in aid of construction, current	477,875
Accrued payroll liabilities	384,233
Accrued interest payable	<u>7,841</u>
Total current liabilities	<u>3,658,642</u>
Non-current liabilities	
State loans in aid of construction	<u>8,440,779</u>
Total liabilities	<u>12,099,421</u>

NET ASSETS

Invested in capital assets, net of related debts	123,825,715
Restricted:	
Contingency reserves	4,413,955
Unrestricted	<u>2,083,963</u>
Total net assets	<u>\$130,323,633</u>

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

Jackson County Utility Authority
Statement of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2012

Operating Revenues

Utility revenue	\$ 8,679,387
Other income	<u>197,432</u>
Total operating revenues	<u>8,876,819</u>

Operating Expenses

Salaries and related expense	4,284,495
Outside services	437,042
Administrative services	54,462
Legal services	140,079
Chemicals and other supplies	485,237
Repairs and maintenance	335,559
Utilities and telephone	1,181,820
Vehicle expense	159,649
Insurance	144,071
Office and other expense	95,622
Depreciation	<u>6,539,606</u>
Total operating expenses	<u>13,857,642</u>

Operating loss (4,980,823)

Non-operating revenues (expenses)

Grant revenue	3,673,844
Interest and investment income	3,771
Interest expense	(<u>271,612</u>)

Total non-operating revenues 3,406,003

Change in net assets (1,574,820)

Net assets, beginning of year 131,898,453

Total net assets, end of year \$130,323,633

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

Jackson County Utility Authority
Statement of Cash Flows
Year Ended September 30, 2012

Cash flows from operating activities

Cash received from customers	\$ 9,053,961
Cash paid to suppliers for goods and services	(3,850,241)
Cash paid for employees and related expenses	(<u>4,257,896</u>)

Net cash provided by operating activities	<u>945,824</u>
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Cash flows from capital and related financing activities

Proceeds from federal and state grants	4,612,794
Purchases of capital assets	(4,690,957)
Proceeds received from new state loans	1,167,818
Net proceeds received from lines of credit	35,051
Principal paid on revenue bonds	(1,975,000)
Principal paid on state loans	(437,843)
Interest paid	(<u>297,335</u>)

Net cash used for capital and related financing activities	(<u>1,585,472</u>)
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Cash flows from investing activities

Increase in bond reserves	(102,167)
Proceeds from interest and investment income	<u>3,771</u>

Net cash used in investing activities	(<u>98,396</u>)
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Net decrease in cash and cash equivalents	(738,044)
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Cash and cash equivalents, beginning of year	<u>2,676,595</u>
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Cash and cash equivalents, end of year	\$ <u><u>1,938,551</u></u>
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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, 2012

Operating loss	\$(4,980,823)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	6,539,606
Changes in assets and liabilities	
Decrease in accounts receivable	177,142
Increase in prepaid expenses	(20,605)
Decrease operating payables	(796,095)
Increase in accrued payroll liabilities	<u>26,599</u>
Net cash provided by operating activities	\$ <u>945,824</u>

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies

A. 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.

Through the issuance of revenue bonds, the Authority has made significant improvements to the treatment systems. 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. 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.

B. Basis of Accounting and Fund Structure

The Authority is classified as an Enterprise fund for purposes of financial reporting. Enterprise funds are used to account for state and local government activities which are similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties or to other departments or agencies. In accordance with several of its bond covenants, the Authority maintains certain funds and account groups, each of which is considered a separate accounting unit. The Authority maintains Operating Funds, a Debt Service Fund and Bond Covenant Funds. All funds are reported on the accrual basis of accounting. Revenues are recognized when earned and Expenditures are recognized when incurred. The Authority complies with Generally Accepted Accounting Principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, and applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies (continued)

C. Financial Statement Amounts

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.

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 net assets are available.

Capital Contributions and Grants

Under the authority of the Mississippi Department of Environmental Quality, the Authority participates in U.S. Department of Housing and Urban Development Community Development Block Grants for its capital projects currently in process. These funds are restricted for capital acquisition or construction.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Vacation and Sick Leave

A full-time permanent employee accrues vacation leave based upon the following years of service schedule:

Personal/vacation leave is accrued for employees that regularly work eight (8) hour days as follows: CONTINUOUS SERVICE	ACCRUAL RATE	ACCRUAL RATE
	(MONTHLY)	(ANNUALLY)
1 month to 3 years	12 hours	18 days
37 months to 8 years	14 hours	21 days
97 months to 15 years	16 hours	24 days
Over 15 years	18 hours	27 days

Personal/vacation leave is accrued for employees that regularly work ten (10) hour days as follows:

CONTINUOUS SERVICE	ACCRUAL RATE	ACCRUAL RATE
	(MONTHLY)	(ANNUALLY)
1 month to 3 years	12.1 hours	14.5 days
37 months to 8 years	14.2 hours	17 days
97 months to 15 years	16.66 hours	20 days
Over 15 years	18.33 hours	22 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) . Also, upon termination an employee shall be paid for not more than 240 hours of accumulated personal leave. Unused personal leave in excess of thirty (30) days and all unused medical leave will be counted as creditable service for the purposes of the retirement system.

Budget Information

The Authority annually adopts a budget on the cash basis of accounting for the Operating and Debt Service Funds.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

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.

Note 2 - Cash on Hand and on Deposit

A. 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, 2012 the book balance of the Authority's cash and cash equivalents totaled \$1,938,551.

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, 2012.

B. Restricted Assets

At September 30, 2012, Jackson County Utility Authority had cash on deposit with a local bank totaling \$4,413,955, representing the Authority's contingency reserves as more fully described in Note 6. These deposits are collateralized as required by state statute as describe in Note 2(A), 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, 2012, the Authority had grants receivable totaling \$1,035,623.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	Beginning Balances 10/01/11	Additions	Dispositions and Transfers	Ending Balances 9/30/12
Land and construction in progress:				
Land and easements	\$ 5,018,729	\$ 39,226	\$ -0-	\$ 5,057,955
Construction in progress	<u>3,221,628</u>	<u>3,316,626</u>	<u>3,424,800</u>	<u>3,113,454</u>
Total land and construction in progress	<u>8,240,357</u>	<u>3,355,852</u>	<u>3,424,800</u>	<u>8,171,409</u>
Other capital assets:				
CDBG construction placed in service	92,245,301	2,036,846	-0-	94,282,147
CDBG equipment placed in service	406,600	39,865	-0-	446,465
Vancleave Laboratory Facility	-0-	1,271,486	-0-	1,271,486
Pascagoula-Moss Point plant	31,891,425	50,667	-0-	31,942,092
West Jackson County plant	23,750,164	-0-	-0-	23,750,164
Escatawpa plant	8,619,307	-0-	-0-	8,619,307
Gautier plant	2,163,946	-0-	-0-	2,163,946
Retail systems	925,573	-0-	-0-	925,573
Connection systems	13,169,072	41,311	-0-	13,210,383
Pumping stations	7,641,480	-0-	-0-	7,641,480
Equipment, operation and maintenance	966,172	-0-	-0-	966,172
Equipment, retail operations	284,353	82,995	-0-	367,348
Vehicles and transportation equipment	827,328	101,243	-0-	928,571
Jackson Avenue administration building	1,233,931	9,491	-0-	1,243,422
Office furniture and equipment	<u>127,009</u>	<u>42,630</u>	<u>-0-</u>	<u>169,639</u>
Total	184,251,661	3,676,534	-0-	187,928,195
Less: accumulated depreciation	<u>55,138,029</u>	<u>6,539,606</u>	<u>-0-</u>	<u>61,677,635</u>
Total other capital assets	<u>129,113,632</u>	<u>(2,863,072)</u>	<u>-0-</u>	<u>126,250,560</u>
Total capital assets, net	<u>\$ 137,353,989</u>	<u>\$ 492,780</u>	<u>\$ 3,424,800</u>	<u>\$ 134,421,969</u>

The CDBG assets and portions of the construction in progress represent assets acquired and constructed through a Disaster Recovery Community Development Block Grant in the amount of \$99,422,705, awarded the Authority for improvements to existing plant facilities and for the construction of new water and sewer facilities and transmission lines in various locations throughout Jackson County, Mississippi. As of September 30, 2012, the Authority had completed and placed in service \$94,728,612 in administrative, legal, conceptual engineering and design costs, construction costs and equipment acquisitions associated with these projects.

Depreciation expense reported for the year ended September 30, 2012, totaled \$6,539,606.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 5 - 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, 2012, the balance on the loan was \$311,376, with \$27,981 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, 2012, the balance on the loan was \$7,309,698, with \$420,724 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. Principal in the amount of \$29,170 is payable through the end of fiscal year 2013. As of September 30, 2012, a total of \$1,297,580 had been received by the Authority.

Changes in state loans in aid of construction for the year ended September 30, 2012 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
State loans in aid of construction	\$ <u>8,188,679</u>	\$ <u>1,167,817</u>	\$ <u>437,842</u>	\$ <u>8,918,654</u>	\$ <u>477,875</u>

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

<u>SRF-C280878-01</u>			
<u>Year Ended September 30.</u>		<u>Principal</u>	<u>Interest</u>
	2013	\$ 27,981	\$ 5,225
	2014	28,474	4,732
	2015	28,977	4,229
	2016	29,488	3,718
	2017	30,008	3,198
	2018-2022	158,170	7,860
	2023	<u>8,278</u>	<u>24</u>
	Totals	\$ <u>311,376</u>	\$ <u>28,986</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 5 - State Loans in Aid of Construction (continued)

SRF-C280878-02			
Year Ended September 30,		Principal	Interest
	2013	\$ 420,724	\$ 177,945
	2014	431,364	167,305
	2015	442,272	156,397
	2016	453,456	145,213
	2017	464,924	133,745
	2018-2022	2,507,037	486,310
	2023-2027	<u>2,589,921</u>	<u>153,980</u>
		<u>\$ 7,309,698</u>	<u>\$ 1,420,895</u>
	Totals		

SRF-C280878-03			
Year Ended September 30,		Principal	Interest
	2013	\$ 29,170	\$ 11,763
	2014	59,110	22,757
	2015	60,153	21,714
	2016	61,214	20,653
	2017	62,294	19,573
	2018-2022	328,348	80,986
	2023-2027	358,350	50,984
	2028-2032	<u>338,941</u>	<u>17,672</u>
		<u>\$ 1,297,580</u>	<u>\$ 246,102</u>
	Totals		

Note 6 - Wastewater Treatment Facilities Revenue Bonds

During the year ended September 30, 2012 the authority made the final payment on the 1999 revenue bond issue in the amount of \$1,975,000. The final interest rate was 5.1%, and interest paid on the bond during the year ended September 30, 2012, totaled \$100,725.

Changes in revenue bonds payable for the year ended September 30, 2012 are summarized as follows:

	Balance			Balance	Due
	10/01/11	Additions	Reductions	9/30/12	Within
					One Year
Series 1999 Revenue Bonds	\$ <u>1,975,000</u>	\$ <u>-0-</u>	\$ <u>1,975,000</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 7 – Line of Credit

At September 30, 2012, the Authority had a line of credit established at a local bank in the amount of \$1,000,000. The credit line bears interest at 4.5% and is secured by the Authority's cash deposits in various accounts with the bank. At September 30, 2012, the outstanding balance on the credit line totaled \$54,669.

Note 8 – Pension Plan

Plan Description – The Jackson County Utility 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. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and requires supplementary information. The information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy – PERS' members are required to contribute 9.00% of their annual covered salary and the Jackson County Utility Authority is required to contribute at an actuarially determined rate. The current rate is 14.26% of annual covered payroll. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The Jackson County Utility Authority's contributions to PERS for the year ending September 30, 2012, totaled \$395,563, equal to the required contributions for the year.

Note 9 – 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 will be financed in part through a grant from the U.S. Environmental Protection Agency awarded to Jackson County. The Authority will oversee all project activities, and once all of the responsibilities of the grant agreement are fulfilled, 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.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2012

Note 9 – Commitments and Contingencies (continued)

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 10 - Concentration of Revenue

The Authority currently receives the majority of its operating revenue from four local municipalities and one local utility district.

Supplementary Information

Jackson County Utility Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency Award Number	Amount
<i>U.S Department of the Army</i>			
ARRA - Mississippi Environmental Infrastructure	12.124	W807PM93345097 * \$	33,130
<i>U.S. Department of Housing and Urban Development</i>			
<i>Passed through Mississippi Department of Environmental Quality:</i>			
Community Development Block Grants	14.219 14.228	JCUA-01, JCUA-02	2,185,245
<i>U. S. Department of the Interior</i>			
<i>Passed through the Mississippi Department of Marine Resources:</i>			
Coastal Impact Assistance Program	15.426	MS.30.713	179,077
<i>U.S. Environmental Protection Agency</i>			
<i>Passed through Mississippi Department of Environmental Quality:</i>			
ARRA - Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	SRF-C280878-03 *	279,680
<i>U.S. Department of Homeland Security</i>			
<i>Passed through Mississippi Emergency Management Agency</i>			
Disaster Grants - Public Assistance	97.036	FEMA-4081-DR-MS 059-04C2C-00	<u>15,256</u>
Total expenditures of federal awards			<u>\$ 2,692,388</u>

* Denotes ARRA funds expended

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, 2012

Notes to Schedule of Federal Expenditures:

- The accompanying Schedule of Expenditures of Federal Awards includes the federal grant 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 sub recipients 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 the financial statements of the Jackson County Utility Authority as of and for the year ended September 30, 2012, and have issued our report thereon dated June 25, 2013. 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; and *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Jackson County Utility Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Utility Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Utility Authority's internal control over financial reporting.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of Jackson County Utility Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should be used by anyone other than these specified parties.

Flath and Company, PLLC
Certified Public Accountants

Biloxi, Mississippi
June 25, 2013

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

Compliance

We have audited the compliance of the Jackson County Utility Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Jackson County Utility Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 the 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. Our audit does not provide a legal determination of the Jackson County Utility Authority's compliance with those requirements.

In our opinion, the Jackson County Utility Authority complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

Management of Jackson County Utility Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Jackson County Utility Authority's internal control over compliance with requirements that could have direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Flath and Company, PLLC

Certified Public Accountants

Biloxi, Mississippi
June 25, 2013

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unqualified
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: unqualified
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>
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, 2012

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, 2012

There were no prior audit findings.