

**Jackson County Utility Authority
Pascagoula, Mississippi**

**Financial Statements
September 30, 2013**

Jackson County Utility Authority
Financial Statements

September 30, 2013

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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, 2013, 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, 2013, 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 3-8 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.

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 March 17, 2014, 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.

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

Biloxi, Mississippi
March 17, 2014

Management's Discussion and Analysis

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2013

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, 2013 and 2012:

Statements of Net Position

	<u>2013</u>	<u>2012</u>
Current assets	\$ 2,828,776	\$ 3,587,130
Restricted assets	3,124,829	4,413,955
Capital assets	<u>135,840,387</u>	<u>134,421,969</u>
 Total assets	 <u>141,793,992</u>	 <u>142,423,054</u>
 Current liabilities	 6,651,372	 3,658,642
Long-term liabilities	<u>8,268,820</u>	<u>8,440,779</u>
 Total liabilities	 <u>14,920,192</u>	 <u>12,099,421</u>
 Summary of net position		
Invested in capital assets, net of related debt	123,272,743	123,825,715
Restricted	3,124,829	4,413,955
Unrestricted	<u>476,228</u>	<u>2,083,963</u>
 Total net position	 <u>\$126,873,800</u>	 <u>\$130,323,633</u>

The Authority's investment in capital assets accounted for 96 % of total net position. Unrestricted net position used to finance everyday operations without constraints of legal requirements totaled \$476,228.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2013
(Continued)

Statements of Revenues, Expenditures & Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 9,212,044	\$ 8,876,819
Operating expenditures	(14,625,320)	(13,857,642)
Non-operating revenues	1,788	3,771
Non-operating expenditures	(241,999)	(271,612)
Capital contributions and grants	<u>2,203,654</u>	<u>3,673,844</u>
Change in net position	\$(<u>3,449,833</u>)	\$(<u>1,574,820</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. Several major construction projects reached final planning, or construction stages. The 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 entered the construction phase. 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 has entered to bidding process. The initial recognition of revenue gains for these projects has been delayed until the 2015 budget plan.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2013
(Continued)

Financial Highlights

- The Authority's net position decreased approximately \$3.5 million below 2012 and are approximately \$126.9 million. Unrestricted assets decreased to \$0.5 million.
- Operating revenues were approximately \$9.2 million while operating expenses were approximately \$14.6 million, or approximately \$8.5 million excluding depreciation.
- The Authority decreased long-term liabilities by approximately 0.1 million to 8.3 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 \$6.2 million. The following table summarizes the final budget to actual comparative results.

Year 2013 Budget to Actual Comparison

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$9,514,094	\$9,212,044	\$(302,050)
Operating expenditures	7,605,153	8,468,250	(863,097)
Debt service	1,158,941	789,017	369,924
Depreciation	<u>750,000</u>	<u>6,157,070</u>	<u>(5,407,070)</u>
Excess (deficiency)	\$ <u>0</u>	<u>\$(6,202,293)</u>	<u>\$(6,202,293)</u>

It should be noted that operating revenues shown in the budget to actual comparison do not include Grant revenues. However, operating expenditures do reflect certain expenses that are directly offset by a portion of the \$2.2 million grant revenue received. While, inclusion of the grant revenue in the comparison does result limiting deficient variance to depreciation, this circumstance is limited to certain Coastal Impact Assistance Program and Community Development Block Grant activities with eventual sunsets. Management elects to maintain a consistent definition in comparison areas from year to year.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2013
(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2013, the Authority had approximately \$135.8 million invested in facilities, infrastructure and equipment. This amount represents a net increase of approximately \$1.4 million, or about 1% above last year. The following table presents a summary of the Authority's capital assets for the fiscal year.

Capital Assets at September 30, 2013

	<u>2013</u>	<u>2012</u>
Land and construction in progress (CIP)	\$ 14,674,940	\$ 8,171,409
Other capital assets (Net of depreciation)	<u>121,165,447</u>	<u>126,250,560</u>
Total capital assets	<u>\$135,840,387</u>	<u>\$ 134,421,969</u>

Debt Administration – As of September 30, 2013, the Authority had \$11,108,928 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>2013</u>	<u>2012</u>
State SRF Loans	\$ 8,499,811	\$ 8,918,654
Bank financing, line of credit	2,293,090	54,669
Bank financing, term loans	<u>316,027</u>	<u>-0-</u>
Total outstanding	<u>\$ 11,108,928</u>	<u>\$ 8,973,323</u>

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2013
(Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The Authority remains committed to our operating cost assessment system that ensures everyone in Jackson County has the benefit of a uniform cost structure 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. 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 coming 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.

The Authority is engaged in several construction and planning projects with State, Federal, and Local partners. Projects where we have partnered with the US Army and the Environmental Protection Agency require the Authority to commit between 25% and 55% in non-Federal funds to participate. While this expense to the Authority may require additional borrowing, the resulting new asset is typically 45% to 75% greater in value than the actual impact on revenue. Additionally, most of the projects result in new revenue when completed.

The Authority received Environmental Protection Agency (EPA) and Mississippi State Department of Health approval 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.

The Authority continues to engage legislative and private partners to ensure actions taken continue to have a positive impact on the Authority.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2013
(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 Position
September 30, 2013

ASSETS

Current assets

Cash and cash equivalents	\$ 1,546,576
Accounts receivable	243,686
Grants receivable	909,710
Prepaid expenses and deposits	<u>128,804</u>
Total current assets	<u>2,828,776</u>

Restricted assets

Cash, contingency reserve	624,829
Certificates of deposit	<u>2,500,000</u>
Total restricted assets	<u>3,124,829</u>

Non-current assets

Capital assets, net of accumulated depreciation	<u>135,840,387</u>
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Total assets	<u>141,793,992</u>
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LIABILITIES

Current liabilities

Accounts payable	1,759,060
Retainage payable	1,458,716
Lines of credit, construction	2,293,090
Notes payable, current	28,069
State loans in aid of construction, current	518,949
Accrued payroll liabilities	580,142
Accrued interest payable	<u>13,346</u>
Total current liabilities	<u>6,651,372</u>

Non-current liabilities

Notes payable	287,958
State loans in aid of construction	<u>7,980,862</u>
Total non-current liabilities	<u>8,268,820</u>

Total liabilities	<u>14,920,192</u>
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NET POSITION

Invested in capital assets, net of related debts	123,272,743
Restricted assets	3,124,829
Unrestricted	<u>476,228</u>
Total net position	<u>\$126,873,800</u>

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, 2013

Operating Revenues	
Utility revenue	\$ 9,023,236
Other income	<u>188,808</u>
Total operating revenues	<u>9,212,044</u>
Operating Expenses	
Salaries and related expense	5,121,013
Outside services	565,960
Administrative services	40,367
Legal services	183,628
Chemicals and other supplies	393,632
Repairs and maintenance	488,129
Utilities and telephone	1,208,797
Vehicle expense	164,425
Insurance	186,629
Office and other expense	115,670
Depreciation	<u>6,157,070</u>
Total operating expenses	<u>14,625,320</u>
Operating loss	(<u>5,413,276</u>)
Non-operating revenues (expenses)	
Grant revenue	2,203,654
Interest and investment income	1,788
Interest expense	(<u>241,999</u>)
Total non-operating revenues	<u>1,963,443</u>
Change in net position	(3,449,833)
Net position, beginning of year	<u>130,323,633</u>
Net position, end of year	<u>\$126,873,800</u>

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

Jackson County Utility Authority
Statement of Cash Flows
Year Ended September 30, 2013

Cash flows from operating activities

Cash received from customers	\$ 9,445,414
Cash paid to suppliers for goods and services	(3,410,096)
Cash paid for employees and related expenses	(<u>4,925,104</u>)
Net cash provided by operating activities	<u>1,110,214</u>

Cash flows from capital and related financing activities

Proceeds from federal and state grants	2,329,567
Purchases of capital assets	(7,021,781)
Proceeds received from bank financing	338,115
Proceeds received from new state loans	44,141
Net proceeds received from lines of credit	2,238,421
Principal paid on bank loans	(22,088)
Principal paid on state loans	(462,984)
Interest paid	(<u>236,494</u>)
Net cash used for capital and related financing activities	(<u>2,793,103</u>)

Cash flows from investing activities

Investment in certificates of deposit	(2,500,000)
Decrease in contingency reserves	3,789,126
Proceeds from interest and investment income	<u>1,788</u>
Net cash used in investing activities	<u>1,290,914</u>
Net decrease in cash and cash equivalents	(391,975)
Cash and cash equivalents, beginning of year	<u>1,938,551</u>
Cash and cash equivalents, end of year	\$ <u><u>1,546,576</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, 2013

Operating loss	\$(5,413,276)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	6,157,070
Changes in assets and liabilities	
Decrease in accounts receivable	233,370
Increase in prepaid expenses	7,096
Decrease operating payables	(69,955)
Increase in accrued payroll liabilities	<u>195,909</u>
Net cash provided by operating activities	<u>\$ 1,110,214</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, 2013

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. The Authority reports on the accrual basis of accounting for financial reporting purposes. 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, 2013

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

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:	ACCRUAL RATE (MONTHLY)	ACCRUAL RATE (ANNUALLY)
CONTINUOUS SERVICE		
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 (MONTHLY)	ACCRUAL RATE (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, 2013

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, 2013 the book balance of the Authority's cash and cash equivalents totaled \$1,546,576.

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, 2013.

B. Restricted Assets

At September 30, 2013, Jackson County Utility Authority had cash on deposit with Bancorpsouth totaling \$624,829, 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. In addition, the Authority had on deposit with Bancorpsouth bank five (5) certificates of deposit in the amount of \$500,000 each, for a total of \$2,500,000. These certificates are pledged as security for the line of credit as described in Note 5. These deposits are collateralized as required by state statute as described in Note 2(A), above.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

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, 2013, the Authority had grants receivable totaling \$909,710.

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balances 10/01/12	Additions	Dispositions and Transfers	Ending Balances 9/30/13
Land and construction in progress:				
Land and easements	\$ 5,057,955	\$ 523,251	\$ -0-	\$ 5,581,206
Construction in progress	<u>3,113,454</u>	<u>6,355,775</u>	<u>375,495</u>	<u>9,093,734</u>
Total land and construction in progress	<u>8,171,409</u>	<u>6,879,026</u>	<u>375,495</u>	<u>14,674,940</u>
Other capital assets:				
CDBG construction placed in service	94,282,147	365,495	-0-	94,647,642
CDBG equipment placed in service	446,465	-0-	-0-	446,465
Vancleave Laboratory Facility	1,271,486	44,142	-0-	1,315,628
Pascagoula-Moss Point plant	31,942,092	-0-	-0-	31,942,092
West Jackson County plant	23,750,164	-0-	1,216	23,748,948
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	13,210,383	-0-	-0-	13,210,383
Pumping stations	7,641,480	-0-	-0-	7,641,480
Equipment, operation and maintenance	966,172	-0-	11,508	954,664
Equipment, retail operations	367,348	153,364	-0-	520,712
Vehicles and transportation equipment	928,571	481,168	25,536	1,384,203
Jackson Avenue administration building	1,243,422	-0-	-0-	1,243,422
Office furniture and equipment	<u>169,639</u>	<u>27,788</u>	<u>12,218</u>	<u>185,209</u>
Total	187,928,195	1,071,957	50,478	188,949,674
Less: accumulated depreciation	<u>61,677,635</u>	<u>6,157,070</u>	<u>50,478</u>	<u>67,784,227</u>
Total other capital assets	<u>126,250,560</u>	<u>(5,085,113)</u>	<u>-0-</u>	<u>121,165,447</u>
Total capital assets, net	<u>\$ 134,421,969</u>	<u>\$ 1,793,913</u>	<u>\$ 375,495</u>	<u>\$ 135,840,387</u>

Depreciation expense reported for assets placed in service totaled \$6,157,070 for the year ended September 30, 2013.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

Note 4 - Capital Assets (continued)

Construction in Progress - Capital Projects

CDBG Project - 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, 2013, the Authority had completed and placed in service \$95,094,107 in administrative, legal, conceptual engineering and design costs, construction costs and equipment acquisitions associated with these projects. At September 30, 2013, construction in progress totaled \$3,448,629. Retainage payable to contractors related to these projects totaled \$1,458,716 as of September 30, 2013.

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, 2013 totaled \$352,266.

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. During the year ended September 30, 2013, the Authority transferred \$3,611,544 to the Corps in support of the project, and incurred additional cost of \$15,785 associated with the project for total construction in progress of \$3,627,329 at September 30, 2013.

Big Hill Acres Water Distribution System and Wastewater Collection System Project - As a companion project to the Big Hill 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 has been approved for interim financing for the project through Bancorpsouth bank effective November 1, 2013. As of September 30, 2013, the Authority had incurred unreimbursed costs associated with the project totaling \$898,456.

Ocean Beach Estates and Shell Landing Wastewater Collection Systems Project - The Authority, through a Coastal Impact Assistance Program (CIAP) sub-grant passed through the County in the amount of \$4,533,685, 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, 2013, the Authority had incurred \$384,980 in construction costs associated with these tasks.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

Note 4 - Capital Assets (continued)

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 \$907,793, is providing connections to the Authority's wastewater treatment systems within the CDBG projects approved service area in Jackson County, Mississippi. As of September 30, 2013, the Authority had incurred \$132,138 in costs associated with this project.

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 \$249,936.

Construction in progress at September 30, 2013 for the above projects totaled \$9,093,734.

Note 5 - Line of Credit

During the year ended September 30, 2012, the Authority established a line of credit with a local bank in the amount of \$1,000,000 for the purpose of financing construction costs. Interest was payable monthly at an annual rate of 4.5%, 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. During the year ended September 30, 2013, this line of credit was paid and a new line of credit was established in the amount of \$2,500,000. The new credit line is secured by five (5) \$500,000 certificates of deposit with Bancorpsouth bank, and is payable monthly, interest only, at an annual rate of 2.75% through maturity on July 5, 2014. As of September 30, 2013, the Authority had drawn \$2,293,090 under this credit line.

Note 6 - Notes Payable, Bancorpsouth Bank

During the year ended September 30, 2013, the Authority secured financing for the purchase of a parcel of land north of Seaman Road in Jackson County, Mississippi 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, 2013, the balance of the note was \$316,027, with \$28,069 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>
\$ -0-	\$ 338,115	\$ 22,088	\$ 316,027	\$ 28,069

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

Note 6 - Notes Payable (continued)

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 28,069	\$ 15,012
2015	29,490	13,591
2016	30,984	12,097
2017	32,553	10,528
2018	34,201	8,880
2019-2023	<u>160,730</u>	<u>17,335</u>
Totals	\$ <u>316,027</u>	\$ <u>77,443</u>

Note 7 - 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, 2013, the balance on the loan was \$283,395, with \$28,475 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, 2013, the balance on the loan was \$6,889,042, with \$431,364 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, 2013, the balance on the loan was \$1,327,374, with \$59,110 due within one year.

Changes in state loans in aid of construction for the year ended September 30, 2013 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>8,918,654</u>	\$ <u>44,141</u>	\$ <u>462,984</u>	\$ <u>8,499,811</u>	\$ <u>518,949</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

Note 7 - State Loans in Aid of Construction (continued)

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>
2014	\$ 28,474	\$ 4,732
2015	28,977	4,229
2016	29,488	3,718
2017	30,008	3,198
2018	30,537	2,669
2019-2023	<u>135,911</u>	<u>5,216</u>
Totals	<u>\$ 283,395</u>	<u>\$ 23,762</u>

SRF-C280878-02		
<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 431,364	\$ 167,305
2015	442,272	156,397
2016	453,456	145,213
2017	464,924	133,745
2018	476,681	121,988
2019-2023	2,570,437	422,910
2024-2027	<u>2,049,908</u>	<u>95,325</u>
Totals	<u>\$ 6,889,042</u>	<u>\$ 1,242,883</u>

SRF-C280878-03		
<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 59,110	\$ 22,757
2015	60,153	21,714
2016	61,214	20,653
2017	62,294	19,573
2018	63,393	18,474
2019-2023	334,140	75,194
2024-2028	364,672	44,662
2029-2032	<u>322,398</u>	<u>11,890</u>
Totals	<u>\$ 1,327,374</u>	<u>\$ 234,917</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

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 15.75% of annual covered payroll, effective July 1, 2013. 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 years ending September 30, 2013, 2012 and 2011, totaled \$505,720, 395,563 and 281,285, respectively, equal to the required contributions for those years.

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 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 10 - 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 89.2% of total utility revenue recognized during the year ended September 30, 2013.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2013

Note 11 – 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 March 17, 2014, (the date the financial statements were available to be issued), and identified the following subsequent event:

On November 1, 2013, the Board of Directors adopted a resolution authorizing management to enter into a credit agreement with Bancorpsouth bank for interim financing for the Big Hill Acres Water Distribution System and Wastewater Collection System Project. The financing agreement provides for a loan in the amount of \$4,996,050 to fund construction of the project. The loan bears interest at 4.95% payable monthly, and matures November 5, 2015. The loan is to be repaid from the proceeds of a loan from the United States Department of Agriculture Rural Utility Service loan as described in Note 4 on page 18 of this report.

Supplementary Information

Jackson County Utility Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

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	\$ 86,583
<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	1,126,580
<i>U.S. Department of the Interior</i>			
<i>Passed through the Mississippi Department of Marine Resources</i>			
Coastal Impact Assistance Program	15.668	MS.R.771-3	132,138
<i>Passed through Jackson County Mississippi</i>			
Coastal Impact Assistance Program	15.668	MS.30.713	571,148
<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>17,244</u>
Total expenditures of federal awards			<u>\$ 1,933,693</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, 2013

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, 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 the business-type activities and the aggregate remaining fund information of Jackson County Utility Authority as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Jackson County Utility Authority's basic financial statements, and have issued our report thereon dated March 17, 2014.

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.

Hebl and Company, P.C.
Certified Public Accountants

Biloxi, Mississippi
March 17, 2014

**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, 2013. 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, 2013.

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.

Abtken and Company, PLLC.
Certified Public Accountants

Biloxi, Mississippi
March 17, 2014

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

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:

CFDA Number(s)

15.668

Name of Federal Program or Cluster

Coastal Impact Assistance Program

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, 2013

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, 2013

There were no prior audit findings.

November 11, 2013

To The Board of Directors
and Executive Director
Jackson County Utility Authority
1225 Jackson Avenue
Pascagoula, Mississippi 39567

We are pleased to confirm our understanding of the services we are to provide Jackson County Utility Authority for the year ended September 30, 2013. We will audit the financial statements of the business-type activities and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements, of Jackson County Utility Authority as of and for the year ended September 30, 2013. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Jackson County Utility Authority's 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. As part of our engagement, we will apply certain limited procedures to Jackson County Utility Authority's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding 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 will 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. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1) Management's Discussion and Analysis.

We have also been engaged to report on supplementary information other than RSI that accompanies Jackson County Utility Authority's financial statements. We will subject the following supplementary information to the auditing procedures applied in our 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

1) Schedule of expenditures of federal awards.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe (1) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (2) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (3) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements, schedule of expenditures of federal awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with

preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. You agree to assume all management responsibilities for any nonaudit services we provide; oversee the services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on March 27, 2014.

You are responsible for preparation of the schedule of expenditures of federal awards in conformity with OMB Circular A-133. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon. Your responsibilities include

acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (2) that you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly

planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Jackson County Utility Authority's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the

objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of Jackson County Utility Authority's major programs. The purpose of these procedures will be to express an opinion on Jackson County Utility Authority's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Engagement Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of Fletcher and Company, PLLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the United States Department of Housing and Urban Development or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Fletcher and Company, PLLC personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the the United States Department of Housing and Urban Development. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit on approximately November 18, 2013 and to issue our reports no later than March 31, 2014. Dean A. Fletcher, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. Our fee for these

services will be \$27,850. Our invoice for these fees will be rendered at the conclusion of the engagement and are payable on presentation.

We appreciate the opportunity to be of service to Jackson County Utility Authority and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

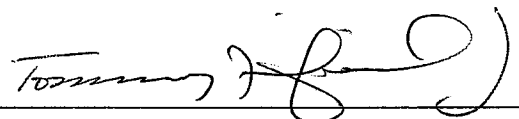
Very truly yours,



Fletcher and Company, PLLC

RESPONSE:

This letter correctly sets forth the understanding of Jackson County Utility Authority.

Signature: 

Title: EXECUTIVE DIRECTOR

Date: 11/11/2013