

**Jackson County Utility Authority
Pascagoula, Mississippi**

**Financial Statements
September 30, 2016**

Jackson County Utility Authority
Financial Statements

September 30, 2016

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Independent Auditor's Report

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

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Independent Auditor's Report

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Jackson County Utility Authority as of and for the year ended September 30, 2016, 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, 2016, 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.

Members:

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the Authority's Proportionate Share of the Net Pension Liability, and the Schedule of the Authority's Employer Contributions on pages 3-8 and 31-32, respectively, 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, 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.

Slater and Company, P.C.
Certified Public Accountants

D'Iberville, Mississippi
June 28, 2017

Management's Discussion and Analysis

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2016

Introduction

This discussion and analysis of the Jackson County Utility Authority (the Authority's) financial performance provides an overall narrative review of the Authority's financial activities for the year ended September 30, 2016. The intent of this discussion and analysis is to look at the Authority's performance as a whole; readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the Authority's financial performance. Information contained in this section should be considered in conjunction with that presented in the Authority's financial statements, notes to financial statements and any accompanying schedules.

Financial Highlights

- The Authority's net position decreased approximately \$2.6 million over 2015; and is approximately \$116.2 million. Unrestricted net position remained at approximately \$(7.9) million; restricted net position increased by approximately \$2.1 million to approximately \$5.1 million; and net position invested in capital assets net of related debt decreased approximately \$4.7 million to \$119,021,699.
- Operating revenues were approximately \$15.5 million while operating expenses were approximately \$19.3 million, or approximately \$12.5 million excluding depreciation.
- The Authority increased long-term liabilities by approximately \$39.7 million to \$60.6 million and reported a net pension liability of approximately \$12.3 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 \$6.7 million. The following table summarizes the final budget, excluding certain Grant and Bond activities, to actual comparative results.

Year 2016 Budget to Actual Comparison

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$ 16,576,365	\$ 15,458,591	\$(1,117,774)
Operating expenditures	(14,028,663)	(12,548,419)	1,480,244
Debt service	(1,247,702)	(1,729,303)	(481,601)
Depreciation	(1,300,000)	(6,733,118)	(5,433,118)
Excess (deficiency)	\$ <u>-0-</u>	\$(<u>5,552,249</u>)	\$(<u>5,552,249</u>)

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2016
(Continued)

Overview of the Financial Statements

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

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

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

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

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

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 13-30 of this report.

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

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

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2016
(Continued)

Financial Summaries and Comparisons

The following are summary presentations of the Statements of Net Position and Statements of Revenues, Expenditures and Changes in Net Position for the years ended September 30, 2016 and 2015:

Statements of Net Position

	<u>2016</u>	<u>2015</u>
Current assets	\$ 4,961,364	\$ 2,380,509
Restricted assets	29,323,459	3,023,861
Capital assets	<u>146,570,377</u>	<u>142,277,431</u>
Total assets	<u>180,855,200</u>	<u>147,681,801</u>
Deferred outflows of resources	<u>3,233,605</u>	<u>2,072,713</u>
Current liabilities	7,274,005	9,801,739
Long-term liabilities	<u>60,575,100</u>	<u>20,869,572</u>
Total liabilities	<u>67,849,105</u>	<u>30,671,311</u>
Deferred inflows of resources	<u>32,586</u>	<u>269,758</u>
Summary of net position		
Invested in capital assets, net of related debt	119,021,699	123,734,390
Restricted	5,131,808	3,023,861
Unrestricted	<u>(7,946,393)</u>	<u>(7,944,806)</u>
Total net position	<u>\$ 116,207,114</u>	<u>\$ 118,813,445</u>

The Authority's investment in capital assets accounted for 102.4% of total net position. It should be noted the total assets and total net position are calculated using capital asset values as depreciated and do not reflect fair market value of real property and facilities held throughout Jackson County.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2016
(Continued)

Statements of Revenues, Expenditures and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 15,458,591	\$ 12,223,572
Operating expenditures	(19,281,537)	(17,857,177)
Non-operating revenues	677,873	32,395
Non-operating expenditures	(2,175,701)	(340,273)
Capital contributions and grants	<u>2,714,443</u>	<u>5,624,610</u>
Change in net position	\$(<u>2,606,331</u>)	\$(<u>316,873</u>)

In FY 2016 the Authority issued a Water and Wastewater Treatment System Bond with a par value of \$30.4 million. This action was taken to accomplish several objectives. Approximately 66%, or \$20.0 million of the proceeds from bond sales is to complete major life cycle extensions at wastewater treatment plants, transmission pipeline upgrades, information technology improvement and match funding for our next generation wastewater reclamation project assisted by the U. S. Army Corps of Engineers. Over the past ten years capital investment in wastewater operations was almost exclusively limited to repair and recovery projects with significant federal aid. Additionally, approximately 34%, or \$10.0 million of the proceeds from the bond sale are for investment in the water and retail operations to ensure the Authority is successful meeting the service requirements established for all Disaster Recovery Community Block Grant recipients.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2016
(Continued)

Capital Assets and Debt Administration

Capital Assets – As of September 30, 2016, the Authority had approximately \$146.6 million invested in facilities, infrastructure and equipment. This amount represents a net increase of approximately \$4.3 million, or about 3.0% above last year. The following table presents a summary of the Authority's capital assets for the fiscal year.

Capital Assets at September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Land and construction in progress (CIP)	\$ 25,687,900	\$ 25,759,258
Other capital assets (Net of depreciation)	<u>120,882,477</u>	<u>116,518,173</u>
Total capital assets	<u>\$ 146,570,377</u>	<u>\$ 142,277,431</u>

Debt Administration – As of September 30, 2016, the Authority had \$47.4 million in credit lines, notes and bonds 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>2016</u>	<u>2015</u>
State SRF Loans	\$ 8,525,883	\$ 7,695,461
USDA revenue bonds	7,276,638	3,155,841
Bank financing, line of credit	553,024	4,030,394
Bank financing, term loans	601,580	695,337
Series 2016 revenue bonds	<u>30,440,000</u>	<u>-0-</u>
Total outstanding	<u>\$ 47,397,125</u>	<u>\$ 15,577,033</u>

Economic Factors and Next Year's Budget Rates

The Authority will focus efforts on executing the activities defined in the 2016 Series Bond and integration of the new asset management and process control systems recently acquired. This new system will permit operations to focus on managing from a material and labor (planning) perspective in future years. The system will assist administration in succeeding on long term goals in maximizing labor and equipment utilization and improving our customer experience. As the debt service and revenue impacts the 2016 Series Bond were already considered in the rate structure, and no other significant financial challenges were forecast for FY 2017 the customer rates remained stable.

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**
Year ended September 30, 2016
(Continued)

Contacting the Authority's Management

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

Jackson County Utility Authority
1225 Jackson Avenue
Pascagoula, MS 39567

(228) 266-2225 (office)
(228) 762-3299 (fax)
email: elott@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, 2016

Assets

Current assets

Cash and cash equivalents	\$ 2,332,233
Accounts receivable	530,640
Grants receivable	1,794,310
Prepaid expenses and deposits	<u>304,181</u>
Total current assets	<u>4,961,364</u>

Restricted assets

Cash and cash equivalents	14,347,659
Investments	<u>14,975,800</u>
Total restricted assets	<u>29,323,459</u>

Non-current assets

Capital assets, net	<u>146,570,377</u>
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Total assets	<u>180,855,200</u>
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Deferred outflows of resources

Deferred outflows related to pensions	<u>3,233,605</u>
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Liabilities

Current liabilities

Accounts payable	3,969,440
Retainage payable	2,031
Accrued payroll liabilities	609,727
Accrued interest payable	250,408
Lines of credit	553,024
Bonds and notes payable	<u>1,889,375</u>
Total current liabilities	<u>7,274,005</u>

Non-current liabilities

Bonds and notes payable	48,312,317
Net pension liability	<u>12,262,783</u>
Total non-current liabilities	<u>60,575,100</u>

Total liabilities	<u>67,849,105</u>
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Deferred inflows of resources

Deferred inflows related to pensions	<u>32,586</u>
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Net position

Invested in capital assets, net of related debts	119,021,699
Restricted assets	5,131,808
Unrestricted	(<u>7,946,393</u>)

Total net position	<u>\$ 116,207,114</u>
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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, 2016

Operating Revenues	
Utility revenue	\$ 15,087,574
Other revenue	<u>371,017</u>
Total operating revenues	<u>15,458,591</u>
Operating Expenses	
Administrative services	60,013
Chemicals and other supplies	737,247
Depreciation	6,733,118
Insurance	228,635
Legal services	215,253
Office and other expense	137,158
Outside services	1,419,731
Repairs and maintenance	960,093
Salaries and related expense	7,203,089
Utilities and telephone	1,426,956
Vehicle expense	<u>160,244</u>
Total operating expenses	<u>19,281,537</u>
Operating loss	(<u>3,822,946</u>)
Non-operating revenues (expenses)	
Grant revenue	2,714,443
Grant program income, net	648,581
Interest and investment income	29,292
Interest expense	(1,225,904)
Bond issuance costs	(<u>949,797</u>)
Total non-operating revenues	<u>1,216,615</u>
Change in net position	(<u>2,606,331</u>)
Net position, beginning of year	<u>118,813,445</u>
Net position, end of year	<u>\$116,207,114</u>

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

Jackson County Utility Authority
Statement of Cash Flows
Year Ended September 30, 2016

Cash flows from operating activities

Cash received from customers	\$ 15,323,051
Cash paid to suppliers for goods and services	(6,122,073)
Cash paid for employees and related expenses	(<u>6,432,874</u>)
Net cash provided by operating activities	<u>2,768,104</u>

Cash flows from capital and related financing activities

Proceeds from federal and state grants	2,100,315
Acquisition of capital assets	(8,118,836)
Proceeds received from issuance of bonds	33,926,203
Proceeds received from state revolving loans	1,374,581
Proceeds received from USDA revenue bonds	4,202,705
Net repayments on lines of credit	(6,125,680)
Principal paid on bank loans	(93,757)
Principal paid on state revolving loans	(544,159)
Principal paid on USDA revenue bonds	(81,908)
Bond issuance costs paid	(1,083,382)
Interest paid	(<u>1,009,479</u>)
Net cash provided by capital and related financing activities	<u>24,546,603</u>

Cash flows from investing activities

Increase in bond debt reserve	(3,469,163)
Increase in USDA RUS bond reserves	(140,021)
Decrease in certificates of deposit	1,501,237
Increase in 2016 revenue bond reserves	(24,191,651)
Proceeds from interest income	<u>29,292</u>
Net cash used in investing activities	(<u>26,270,306</u>)
Net increase in cash and cash equivalents	1,044,401
Cash and cash equivalents, beginning of year	<u>1,287,832</u>
Cash and cash equivalents, end of year	\$ <u>2,332,233</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, 2016

Operating loss	\$(3,822,946)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,733,188
Changes in assets and liabilities	
Increase in accounts receivable	(135,540)
Increase in prepaid expenses	(138,205)
Decrease operating payables	(638,608)
Decrease in accrued payroll liabilities	(50,805)
Increase in deferred outflows	(1,160,892)
Decrease in deferred inflows	(237,172)
Increase in net pension liability	<u>2,219,084</u>
Net cash provided by operating activities	\$ <u>2,768,104</u>

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

Notes to Financial Statements

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

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

Financial Reporting Entity

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

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

Capitalized Interest

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

Net Position

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

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

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

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

Operating and Non-operating Revenues and Expenditures

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

Capital Contributions and Grants

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Contributions and Grants (Continued)

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

Paid Time Off

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

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

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

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

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

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

Budget Information

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

Use of Estimates

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 2 - Cash on Hand and on Deposit

Cash and Cash Equivalents

Cash and Cash Equivalents consist of demand deposit checking and money market accounts with no withdrawal restrictions, and petty cash balances. As of September 30, 2016 the book balance of the Authority's unrestricted cash and cash equivalents totaled \$2,332,233.

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, 2016.

Restricted Assets

At September 30, 2016, the Authority had the following restricted assets:

<u>Description</u>	<u>Amount</u>
Bancorpsouth Bank - Bond Debt Reserve	\$ 3,978,774
Bancorpsouth Bank - USDA RUS Bond Reserves	148,021
Bancorpsouth Bank - Certificates of Deposit, Pledged	1,005,013
Trustmark Bank – 2016 Revenue Bond Reserve Cash	7,126,176
Trustmark Bank – 2016 Revenue Bond Prefunded Payment	2,089,675
Trustmark Bank – 2016 Revenue Bond Reserve Investments	<u>14,975,800</u>
 Total Restricted Assets	 <u>\$ 29,323,459</u>

Restricted cash balances totaling \$14,347,659 are collateralized as stated above. Restricted investments totaling 14,975,800 consist of United States Treasury Bills backed by the full faith and credit of the U.S. Government.

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, 2016, the Authority had grants receivable totaling \$1,794,310.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balances 10/01/15	Additions	Dispositions and Transfers	Ending Balances 9/30/16
Land and construction in progress:				
Land and easements	\$ 5,736,098	\$ 1,772,825	\$ -0-	\$ 7,508,923
Construction in progress	<u>20,023,160</u>	<u>8,572,736</u>	<u>10,416,919</u>	<u>18,178,977</u>
Total land and construction in progress	<u>25,759,258</u>	<u>10,345,561</u>	<u>10,416,919</u>	<u>25,687,900</u>
Other capital assets:				
CDBG program constructed assets	100,469,173	228,663	-0-	100,697,836
CDBG program equipment	440,865	-0-	-0-	440,865
CIAP State wastewater project assets	692,904	-0-	-0-	692,904
Vancleave laboratory facility	1,315,628	-0-	-0-	1,315,628
Pascagoula-Moss Point plant	31,932,277	61,659	-0-	31,993,936
West Jackson County plant	23,748,948	-0-	-0-	23,748,948
Escatawpa plant	8,634,612	70,536	-0-	8,705,148
Gautier plant	2,163,946	49,208	-0-	2,213,154
Retail systems, Ocean Beach Estates	925,573	-0-	-0-	925,573
Ramsey/Seaman road water supply well	-0-	1,120,852	-0-	1,120,852
Big Hill Acres water and sewer systems	-0-	8,713,209	-0-	8,713,209
Connection systems	13,608,086	354,196	-0-	13,962,282
Pumping stations	7,824,821	224,277	-0-	8,049,098
Equipment, operation and maintenance	1,361,335	-0-	-0-	1,361,335
Equipment, retail operations	748,877	174,983	-0-	923,860
Vehicles and transportation equipment	1,477,413	62,080	18,036	1,521,457
Jackson Avenue administration building	1,243,422	-0-	-0-	1,243,422
Office furniture and equipment	<u>213,512</u>	<u>37,759</u>	<u>-0-</u>	<u>251,271</u>
Total	196,801,392	11,097,422	18,036	207,880,778
Less: accumulated depreciation	<u>80,283,219</u>	<u>6,733,118</u>	<u>18,036</u>	<u>86,998,301</u>
Total other capital assets	<u>116,518,173</u>	<u>4,364,304</u>	<u>-0-</u>	<u>120,882,477</u>
Total capital assets, net	<u>\$ 142,277,431</u>	<u>\$ 14,709,865</u>	<u>\$ 10,416,919</u>	<u>\$ 146,570,377</u>

Depreciation expense reported for assets placed in service totaled \$6,733,118 for the year ended September 30, 2016.

Capital Projects

CDBG Project - The CDBG program constructed assets and CDBG program equipment amounts presented above represent capital assets acquired and constructed through a Disaster Recovery Community Development Block Grant in the amount of \$101,147,359, awarded the Authority for improvements to existing plant facilities and for the construction of new water and sewer facilities and transmission lines in

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 4 - Capital Assets (continued)

CDBG Project (Continued) - various locations throughout Jackson County, Mississippi. As of September 30, 2016, the Authority had completed the project and executed the project closeout agreement in January, 2017. At September 30, 2016, remaining retainage payable to contractors related to these projects totaled \$2,031.

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. Costs incurred with this project as of September 30, 2016, totaled \$4,719,058.

Southern Waterline Elevated Storage Tank and Water Well Projects – In addition to the southern waterline extension project described above, the Authority is constructing an elevated storage tank and water well to supply the waterline extension. The project is being funded through two loans from the United States Department of Agriculture Rural Utility Service program in the amounts of \$2,881,029 and \$954,259, respectively. As of September 30, 2016, the Authority completed the construction of the water supply well at a total cost of \$1,120,852. Costs incurred for the construction of the elevated storage tank as of September 30, 2016, totaled \$2,416,148.

Big Hill Acres Water and Sewer Systems Project – Jackson County, Mississippi (the County) through a project partnership agreement with the United States Army Corps of Engineers – Mobile (Corps), has been awarded a grant in the amount of \$11,812,710 for the construction of water and sewer systems in the Big Hill Acres area of Jackson County, Mississippi. The total project is budgeted at \$15,750,280, with the remaining costs being funded by the Authority through a combination of cash and real estate contributions. Through a memorandum of understanding between the Authority and the County, the Authority will provide coordination of project activities and the non-federal match portion of funding of the project. The County has agreed to transfer ownership of the systems to the Authority upon completion of the project. As of September 30, 2016, the Authority has transferred \$3,686,544 to the Corps in support of the project, and incurred additional cost totaling \$161,316 associated with the project. As a companion project to the Big Hills Acres Water and Sewer Systems project, the Authority, through a loan from the United States Department of Agriculture Rural Utility Service program in the amount of \$4,996,050, financed the construction of utility systems and connections in the Big Hill Acres area. As of September 30, 2016, the Authority had completed construction costs totaling \$8,713,209.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 4 - Capital Assets (continued)

Ocean Beach Estates and Shell Landing Wastewater Collection Systems Project – The Authority, through a Coastal Impact Assistance Program (CIAP) sub-grant passed through Jackson County in the amount of \$3,500,000, is providing connections to the Authority's wastewater collection system for residents of the Ocean Beach Estates and Shell Landing areas of Jackson County, Mississippi, and other system upgrades as provided for under the grant agreement. As of September 30, 2016, the Authority had incurred \$1,741,246 in construction costs and \$337,774 in equipment costs for a total of \$2,079,020 in total costs associated with the project.

Mississippi Gulf Region Waste Water Plan Complementary Project - The Authority, through a Coastal Impact Assistance Program (CIAP) sub-grant passed through the Mississippi Department of Marine Resources in the amount of \$1,706,038, is providing connections to the Authority's wastewater treatment systems within the CDBG projects approved service area in Jackson County, Mississippi. In addition, as part of the project, the Authority is working with the Jackson County School District through a memorandum of understanding (MOU), to connect the Vancleave High School to the Authority's sewer collection system. The Jackson County School District is in the process of improving pump stations and providing the necessary infrastructure to connect to the Authority's system. Under the terms of the MOU, the Jackson County School District will donate the completed infrastructure to the Authority upon completion of the connections to the sewer collection system. As of September 30, 2016, the Authority had incurred \$1,794,023 in costs associated with this project; of which, \$692,904 in completed construction has been placed in service and \$1,101,119 in costs are construction in progress.

Mississippi Department of Transportation Utility Relocation Project – The Authority has been awarded a grant from the Mississippi Department of Transportation (MDOT) for the relocation and improvement of water and sewer lines along Highway 57 from Humphrey Road to Vancleave. The grant provides for \$2,000,000 for water line relocation and improvement and \$4,500,000 for sewer line relocation and improvement for a total award of \$6,500,000. As of September 30, 2016, the Authority had incurred \$1,519,688 in costs associated with this project.

Wastewater Force Main System Project – The Authority has been awarded a loan in the amount of \$4,900,000 from the Water Pollution Control Revolving Loan Fund through the Mississippi Department of Environmental Quality, for the installation of a new wastewater force main system along Highway 63 in Moss Point, including upgrades to pumps and controls in an existing pump station and installation of three additional new pump stations. The Authority had incurred \$3,136,293 in engineering and construction costs associated with this project as of September 30, 2016.

Water System Facilities Plan – The Authority has been awarded a loan in the amount of \$6,295,862 from the Drinking Water Systems Improvements Revolving Loan Fund through the Mississippi State Department of Health, for the installation of 60,000 linear feet of 12" force mains with appurtenances along Old Fort Bayou and Humphrey Road, Woodlake Lane, Ocean Springs and Vancleave Road; and interconnection with the existing water mains on Highway 57 and Highway 90. The Authority had incurred \$281,075 in engineering costs associated with this project as of September 30, 2016.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 4 - Capital Assets (continued)

Water and Wastewater Treatment System Revenue Bonds, Series 2016 – During the year ended September 30, 2016, the Authority issued \$30,440,000 in revenue bonds for the purpose of financing the construction, enlargement, improvement, repairs or extension of its utility systems. As of September 30, 2016, a portion of the bond proceeds had been used to finance design and construction costs of various planned projects totaling \$2,258,265.

Other Construction Projects and Activity – In addition to the major construction projects undertaken by the Authority as described above, the Authority has incurred construction and design costs associated with various other projects within the Authority's service area. Costs associated with these projects totaled \$1,006,085 as of September 30, 2016.

Construction in progress for the above projects totaled \$18,178,977 as of September 30, 2016.

Note 5 – Defined Benefit Pension Plan

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

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 5 – Defined Benefit Pension Plan (Continued)

members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the Authority is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2016 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The Authority's contributions to PERS for the fiscal years ending September 30, 2016, 2015 and 2014 were \$688,260, \$664,312, and \$580,319, respectively, which equaled the required contributions for each year.

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

At September 30, 2016, the Authority reported a liability of \$12,262,783 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2016, the Authority's proportion was 0.068651 percent.

For the year ended September 30, 2016, the Authority recognized pension expense of \$1,509,217. At September 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 342,042	\$
Net difference between projected and actual earnings on pension plan investments	830,743	
Changes in assumptions	578,094	32,586
Changes in proportion and differences between entity contributions and proportionate share of contributions	1,300,006	
Entity contributions subsequent to the measurement date	<u>182,720</u>	
Totals	<u>\$ 3,233,605</u>	<u>\$ 32,586</u>

Deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date totaling \$182,720 will be recognized as a reduction to the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended September 30:	
2017	\$ 921,553
2018	774,158
2019	755,334
2020	<u>567,255</u>
Total	<u>\$ 3,018,300</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 5 – Defined Benefit Pension Plan (Continued)

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

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 5 – Defined Benefit Pension Plan (Continued)

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

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

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

	1% Decrease <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Authority's proportionate share of the net pension liability	\$ 15,723,573	\$ 12,262,783	\$ 9,391,357

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

Note 6 – Lines of Credit

At September 30, 2016, the Authority had a line of credit established with Bancorpsouth Bank in the amount of \$1,000,000, secured by two (2) \$500,000 certificates of deposit, payable monthly, interest only, at an annual rate of 3.50% through maturity on March 5, 2017. As of September 30, 2016, the Authority had drawn \$-0- under this credit line.

At September 30, 2016 the Authority had a line of credit established with Trustmark National Bank in the amount of \$600,000, to fund repairs to the Authority's Hurley wastewater treatment facility. The note is secured by a deed of trust on the facility; payable principal and interest quarterly, at an annual rate of 3.25%. The note is renewed quarterly at the discretion of the lender. As of September 30, 2016, the authority had drawn \$553,024 under this credit line.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 7 - Notes Payable

On November 13, 2012, the Authority secured financing for the purchase of a parcel of land north of Seaman Road in Jackson County from Bancorpsouth Bank. The loan was in the amount of \$338,115 bearing interest at 4.95%, payable in monthly installments of \$3,590 through November, 2017. Management expects to refinance the remaining balance at that time over five years, based on the original amortization period of ten years. At September 30, 2016, the balance of the note was \$228,104, with \$32,521 due within one year. Current year activity under the loan may be stated as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>258,867</u>	\$ <u>-0-</u>	\$ <u>30,763</u>	\$ <u>228,104</u>	\$ <u>32,521</u>

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 32,521	\$ 10,560
2018	<u>195,583</u>	<u>1,602</u>
Totals	\$ <u>228,104</u>	\$ <u>12,162</u>

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

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>436,470</u>	\$ <u>-0-</u>	\$ <u>62,994</u>	\$ <u>373,476</u>	\$ <u>66,065</u>

Principal and interest payments required under the loan are as follows

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 66,065	\$ 14,836
2018	68,977	11,925
2019	72,016	8,886
2020	75,190	5,712
2021	78,503	2,399
2022-2026	<u>12,725</u>	<u>67</u>
Totals	\$ <u>373,476</u>	\$ <u>43,825</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 8 - 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, 2016, the balance on the loan was \$225,944, with \$29,488 due in one year.

Mississippi State Revolving Loan Fund: SRF-C280878-02, payable in monthly installments of \$49,889, bearing interest at 2.5%, through April, 2027. As of September 30, 2016, the balance on the loan was \$6,015,406, with \$453,457 due in one year.

Mississippi State Revolving Loan Fund: SRF-C280878-03, the Authority was originally approved for a loan in the amount of \$1,526,351 for the construction of a wastewater compliance testing laboratory. Construction was completed during the fiscal year ended September 30, 2012, at a lower anticipated cost resulting in a reduction in the final amount of the loan. The loan was closed in January, 2013, at a total principal amount of \$1,356,544, with monthly payments of \$6,822 beginning in April, 2013. The loan bears interest at 1.75% with a term of 235 months. As of September 30, 2016, the balance on the loan was \$1,208,111, with \$61,214 due within one year.

Mississippi State Revolving Loan Fund: SRF-C280878-04, the Authority is approved for a loan in the amount of \$4,900,000 for the installation of a new wastewater force main system, including upgrades to pumps and controls in an existing pump station and installation of three additional new pump stations. As of September 30, 2016, \$246,000 had been drawn on the loan. The loan is expected to close in April, 2017, payable monthly with payments of \$24,468 for a period of 237 months, bearing interest at 1.75%. Amortization of the outstanding balance as presented is based on this expected closing date and payment terms.

Mississippi State Revolving Loan Fund: DWI-L300164-01-0, On October 27, 2015, the Authority entered into a Drinking Water Systems Improvements Revolving Loan Fund loan agreement authorized in the amount of \$6,295,862 for the installation of 60,000 linear feet of 12" force mains with appurtenances along Old Fort Bayou and Humphrey Road, Woodlake Lane, Ocean Springs and Vancleave Road; and interconnection with the existing water mains on Highway 57 and Highway 90. The loan bears interest at 1.95% and is to be repaid over a period of two hundred thirty-seven months at \$31,955 monthly beginning May 1, 2018.

Changes in state loans in aid of construction for the year ended September 30, 2016, are summarized as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>7,695,461</u>	\$ <u>1,374,581</u>	\$ <u>544,159</u>	\$ <u>8,525,883</u>	\$ <u>669,661</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 8 - State Loans in Aid of Construction (Continued)

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 669,661	\$ 166,423
2018	1,002,347	164,790
2019	920,799	145,149
2020	881,302	126,060
2021	900,681	106,681
2022-2026	3,332,659	281,588
2027-2031	730,644	27,914
2032-2036	87,790	899
Totals	<u>\$ 8,525,883</u>	<u>\$ 1,019,504</u>

Note 9 – USDA Revenue Bonds

USDA Revenue Bond 28-030-640652582-001: On May 12, 2011, the Authority was approved for a USDA Rural Development revenue bond issued in the amount of \$4,996,050 to finance the engineering and construction costs of connections to the Big Hill Acres water and sewer system. During the year ended September 30, 2016, an interim financing arrangement with Bancorpsouth in the amount of \$3,662,709 was paid off with proceeds of the loan and the Authority received additional proceeds totaling \$529,884 during the year to fund costs of construction, for a total outstanding balance of \$4,192,593. The bond bears interest at 3.25% and is to be repaid over a period of thirty-five (35) years; the first two years will consist of interest only payments in the amount of \$162,372, payable October 8, 2016 and October 8, 2017. Payments for the remaining thirty-three (33) years, payable monthly in three hundred ninety-six (396) installments of \$20,755.

USDA Revenue Bond 28-030-640652582-002: The Authority received financing from USDA for the construction of an elevated storage tank and water well to supply the southern waterline extension. The loan is approved in the amount of \$2,881,029. At September 30, 2016, the balance of the loan totaled \$2,145,131. The loan bears interest at 3.625%, payable in monthly installments of \$12,218.

USDA Revenue Bond 28-030-640652582-003: The Authority received financing from USDA for the completion of construction of the elevated storage tank and water well to supply the southern waterline extension. The loan was approved in the amount of \$954,259. At September 30, 2016, the balance of the loan totaled \$938,913. The loan bears interest at 3.625%, payable in monthly installments of \$4,046.

Changes in USDA revenue bonds for the year ended September 30, 2016, 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>3,155,841</u>	\$ <u>4,202,705</u>	\$ <u>81,908</u>	\$ <u>7,276,638</u>	\$ <u>84,771</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 9 – USDA Revenue Bonds (continued)

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 84,771	\$ 110,397
2018	87,895	245,580
2019	108,939	276,357
2020	167,175	235,278
2021	173,055	229,398
2022-2026	961,008	1,051,258
2027-2031	1,142,466	869,801
2032-2036	1,358,302	653,965
2037-2041	964,869	443,567
2042-2046	989,115	290,071
2047-2051	1,085,663	103,995
2052	153,380	2,084
Totals	<u>\$ 7,276,638</u>	<u>\$ 4,511,751</u>

Note 10 - Water and Wastewater Treatment System Revenue Bond, Series 2016

On January 27, 2016, the Authority issued the Jackson County Utility Authority Water and Wastewater Treatment System Revenue Bond, Series 2016; par value \$30,440,000 with an original issue premium of \$3,486,203, and net proceeds of \$33,363,063 after the underwriters discount of \$563,140. The bonds were issued for the purpose of financing the construction, enlargement, improvement, repair and/or extension of the Authority's water and wastewater systems, funding a debt service reserve fund for the bond issue, refunding a line of credit, funding capitalized interest on the bond issue through September 1, 2016; and paying the cost of issuance for the bond issue. The bonds bear interest at rates between 2% and 5%; first interest payment date was September 1, 2016; first principal payment date is September 1, 2017; and final maturity date is September 1, 2040.

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 820,000	\$ 1,266,975
2018	835,000	1,250,575
2019	855,000	1,233,875
2020	880,000	1,208,225
2021	905,000	1,181,825
2022-2026	4,925,000	5,513,475
2027-2031	6,145,000	4,288,875
2032-2036	7,670,000	2,769,563
2037-2040	7,405,000	948,500
Totals	<u>\$ 30,440,000</u>	<u>\$ 19,661,888</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 11 – Sixteenth Section Leases

The Authority leases portions of sixteenth section land from the Jackson County School District for use as utility line easements. The leases provide for annual lease payments for a term of forty years. The annual lease amount for the first ten-year period of each lease is based on a 5% appraised fee simple value of the land. Rent increases each ten-year anniversary date by 10% above that charged during the immediately preceding ten-year period for the term of the lease. The Authority has entered into two leases with a beginning date of June 15, 2009, which were prepaid as part of the CDBG grant program; five leases with a beginning date of July 22, 2014, with a combined annual rental for the initial ten-year period of \$2,610; and two leases with a beginning date of October 21, 2014, with a combined annual rental of \$1,265. Future minimum payments under these leases may be stated as follows:

<u>Year Ended September 30,</u>	<u>Future Minimum Rentals</u>
2017	\$ 3,875
2018	3,875
2019	3,875
2020	3,875
2021	3,875
2022-2026	20,158
2027-2031	20,680
2032-2036	21,541
2037-2041	22,115
2042-2046	23,060
2047-2051	23,690
2052-2054	<u>10,741</u>
Totals	<u>\$ 161,360</u>

Note 12 – Commitments and Contingencies

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

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2016

Note 12 – 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 13 - Concentration of Revenue

The Authority currently receives the majority of its operating revenue from four local municipalities and one local utility district. Revenues from these entities constituted 85.21% of total operating revenue recognized during the year ended September 30, 2016.

Note 14 – Subsequent Events

Events that occur after the statement of financial position date, but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management of Jackson County Utility Authority evaluated the activity of the Authority through June 28, 2017, (the date the financial statements were issued), and identified the following subsequent events:

On February 22, 2016, the Authority entered into a contract for the purchase of the assets of St. Andrews Water and Sewer System, Inc. in the amount of \$3,400,000. As part of the agreement, all real property owned by the shareholder of St. Andrews Water and Sewer System, Inc. and utilized by the corporation was donated to the Authority. The purchase was completed and the Authority began providing water and sewer services on February 28, 2017.

On March 5, 2017, the Authority renewed the existing line of credit with Bancorpsouth Bank for working capital purposes in the amount of \$1,000,000. The credit line is secured by two (2) \$500,000 certificates of deposit, and bears interest payable monthly at 3.5%. The credit line matures March 5, 2018.

On June 12, 2017, the Authority announced that it has been awarded \$3,000,000 in funding to support the design of a treated wastewater affluent plant for Jackson County. This initial funding assists the authority's plans to build a new water reclamation facility in East Jackson County that when completed, will replace its existing Pascagoula, Moss Point and Escatawpa wastewater treatment plants.

Required Supplementary Information

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Authority's proportion of the net pension liability	\$ 7,181,548	\$ 10,043,699	\$ 12,262,783
Authority's proportionate share of the net pension liability	.059165%	.064974%	.068651%
Authority's covered – employee payroll	3,684,565	4,217,854	4,369,905
Authority's proportionate share of the net pension liability as a percentage of its covered – employee payroll	208.03%	261.79%	296.59%
Plan fiduciary net position as a percentage of the total pension liability	67.21%	61.70%	57.47%

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

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

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

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 580,319	\$ 664,312	\$ 688,260
Contributions in relation to the contractually required contribution	<u>580,319</u>	<u>664,312</u>	<u>688,260</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Authority's covered – employee payroll	3,684,565	4,217,854	4,369,905
Contributions as a percentage of covered – employee payroll	15.75%	15.75%	15.75%

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

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

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

Jackson County Utility Authority
Notes to the Required Supplementary Information
For the Year Ended September 30, 2016

Pension Schedules

Changes of assumptions:

2015:

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

2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%

Changes in benefit provisions:

2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

Method and assumptions used in calculations of actuarially determined contributions:

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (2016 Employer contributions are developed from 2014 valuation). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	29.2 years
Asset valuation method	5-year smoothed market
Price inflation	3.50 percent
Salary increase	4.25 percent to 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Supplementary Information

Jackson County Utility Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency Award Number	Amount
<u>U.S. Department of Agriculture</u>			
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-001	\$ 546,514
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-002	81,026
Total U.S. Department of Agriculture			<u>627,540</u>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through Mississippi Department of Environmental Quality:</i>			
Community Development Block Grants	14.228	JCUA-02	<u>160,435</u>
<u>U. S. Department of the Interior</u>			
<i>Passed through the Mississippi Department of Marine Resources</i>			
Coastal Impact Assistance Program	15.668	MS.30.771	1,048,919
<i>Passed through Jackson County Mississippi</i>			
Coastal Impact Assistance Program	15.668	MS.30.713	<u>251,104</u>
Total U.S. Department of the Interior			<u>1,300,023</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through the Mississippi Department of Transportation</i>			
Highway Planning and Construction	20.205	STP-0066-01	<u>799,644</u>
<u>U.S. Environmental Protection Agency</u>			
<i>Passed through the Mississippi Department of Environmental Quality Water Pollution Control Revolving Loan Fund</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-C280878-04	73,540
<i>Passed through the Mississippi State Department of Health Drinking Water Systems Improvements Revolving Loan Fund</i>			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	DWI-L300164-01-0	<u>175,249</u>
Total U.S. Environmental Protection Agency			<u>248,789</u>
<u>U.S. Department of Homeland Security</u>			
<i>Passed through Mississippi Emergency Management Agency</i>			
Disaster Grants - Public Assistance	97.036	FEMA-4081-DR-MS 059-04C2C-00	<u>141,731</u>
Total expenditures of federal awards			<u>\$ 3,278,162</u>

See the accompanying Notes to the Schedule of Expenditures of Federal Awards

Jackson County Utility Authority
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies

- The accompanying Schedule of Expenditures of Federal Awards includes the federal grant and loan activity of the Authority and is presented on the accrual basis of accounting, the same basis of accounting and the same significant accounting policies as applicable, as those used in the preparation of the Authority's financial statements. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.
- The Authority did not have any non-cash awards or subrecipients during the fiscal year.
- The Authority did not elect to use the 10% de minimis indirect cost rate.

Note 2 – Outstanding Balances of Federal Loans

- The Authority's outstanding balances of loans with expenditures presented in the Schedule of Expenditures of Federal Awards from the United States Department of Agriculture as of the end of the audit period were as follows:
 - Loan number 28-030-640652582-001: \$4,192,593
 - Loan number 28-030-640652582-002: \$2,145,131

Reports on Compliance and Internal Control

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

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Dean A. Fletcher, CPA

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

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Jackson County Utility Authority as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Jackson County Utility Authority's basic financial statements, and have issued our report thereon dated June 28, 2017.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-001.

Jackson County Utility Authority's Response to Findings

Jackson County Utility Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Jackson County Utility Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Altker and Company, PLLC.
Certified Public Accountants

D'Iberville, Mississippi
June 28, 2017

10598 D'Iberville Blvd., Suite G
D'Iberville, MS 39540

Dean A. Fletcher, CPA

Phone: 228-594-6559
Fax: 228-594-6554

**Independent Auditor's Report on Compliance for Each Major Program and on Internal
Control over Compliance Required by the Uniform Guidance**

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

D'Iberville, Mississippi
June 28, 2017

Schedule of Findings and Questioned Costs

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified that are not considered to be material weakness(es)?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified that are not considered to be material weakness(es)?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities
15.668	Coastal Impact Assistance Program

Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section II – Financial Statement Findings

Finding 2016-001

Criteria: Article VII of the Water and Wastewater Treatment System Revenue Bonds, Series 2016 bond indenture requires the establishment and operation of a system revenue fund, a system operation and maintenance fund and a renewal and replacement fund, which are to be held separate and apart from all other funds of the Authority.

Condition: The system revenue fund, system operation and maintenance fund and the renewal and replacement fund were not established and operated as required by the bond indenture

Cause: Requirements for the establishment of separate accounts were inadvertently overlooked by management.

Effect: The Authority is noncompliant with the provisions of Article VII of the bond indenture.

Recommendation: The Authority should establish and operate the system revenue fund, system operation and maintenance fund and the renewal and replacement fund as required by the bond indenture.

Management's Response: Management concurs with the finding and has established a new and separate account to service the system operation and maintenance fund that is separate and apart from the system revenue and the system renewal and replacement fund.

Section III – Federal Awards Findings

The results of our tests did not disclose any findings or questioned costs related to federal awards.



JACKSON COUNTY UTILITY AUTHORITY
Serving the People...Protecting the Environment

Directors
 Kevin Coggin • Jackson County
 Thomas Eldridge • Jackson County
 Andrew J. Elly • Moss Point
 Kevin Miller • Jackson County
 Michael R. Murphy • Pascagoula
 Ken Papania • Ocean Springs
 Marshall Smith • Gautier

June 22, 2017

No. 41016

Corrective Action Plan – Finding 2016-001

The Jackson County Utility Authority has established a new and separate account to service the system operation and maintenance fund that is separate and apart from the system revenue and the system renewal and replacement fund.

Sincerely,

Tommy Fairfield
 Executive Director
 Jackson County Utility Authority