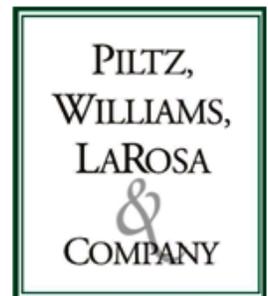


Financial Statements
Jackson County Utility Authority
Period Ended September 30, 2017

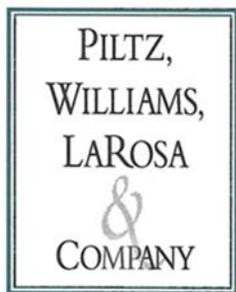


CERTIFIED PUBLIC ACCOUNTANTS
A Professional Association

Jackson County Utility Authority
Financial Statements

September 30, 2017

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AICPA Center for Audit Quality
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Mississippi Society of CPAs

Independent Auditors' Report

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Margaret D. Closson, CPA (Retired)
Stephen P. Theobald, CPA, CVA

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, 2017, 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.

Auditors' 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, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the Authority's Proportionate Share of the Net Pension Liability, and the Schedule of the Authority's Employer Contributions on pages 4-8 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 July 23, 2018, 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.



Certified Public Accountants

Biloxi, Mississippi
July 23, 2018

Section I

Management's Discussion and Analysis

Jackson County Utility Authority
Management's Discussion and Analysis
September 30, 2017

Introduction

This discussion and analysis of the Jackson County Utility Authority (Authority) financial performance provides an overall narrative review of the Authority's financial activities for the year ended September 30, 2017. 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 \$(2.2) million over 2016; and is approximately \$113.9 million. Unrestricted net position decreased by approximately \$(5.2) million to approximately \$(13.2) million; restricted net position decreased by approximately \$(0.5) million to approximately \$4.6 million; and net position invested in capital assets net of related debt increased approximately \$3.6 million to \$122.6 million.
- Operating revenues were approximately \$15.9 million while operating expenses were approximately \$20.3 million, or approximately \$13.4 million excluding depreciation.
- The Authority increased noncurrent liabilities by approximately \$0.9 million to \$61.5 million and reported a net pension liability of approximately \$11.6 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 expense is noted specifically at approximately \$6.9 million. The following table summarizes the final budget, excluding certain Grant and Bond activities, to actual comparative results.

Year 2017 Budget to Actual Comparison

	Budget	Actual	Variance
Operating revenues	\$18,608,653	\$15,876,081	\$ (2,732,572)
Operating expenditures	(17,843,653)	(13,397,866)	4,445,787
Grant and other revenue	-	4,038,365	4,038,365
Debt service	(2,298,847)	(3,744,811)	(1,445,964)
Depreciation	(1,148,500)	(6,930,913)	(5,782,413)
Excess (deficiency)	<u>\$ (2,682,347)</u>	<u>\$ (4,159,144)</u>	<u>\$ (1,476,797)</u>

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
September 30, 2017

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, 2017 and 2016:

Statements of Net Position

	September 30,	
	2017	2016
Current assets	\$ 3,664,069	\$ 4,961,364
Restricted assets	17,595,349	29,323,459
Capital assets	<u>160,064,680</u>	<u>146,570,377</u>
 Total assets	 <u>181,324,098</u>	 <u>180,855,200</u>
 Deferred outflows of resources	 <u>1,391,731</u>	 <u>3,233,605</u>
 Current liabilities	 6,998,562	 7,274,005
Long-term liabilities	<u>61,520,917</u>	<u>60,575,100</u>
 Total liabilities	 <u>68,519,479</u>	 <u>67,849,105</u>
 Deferred inflows of resources	 <u>254,047</u>	 <u>32,586</u>
 Summary of net position		
Invested in capital assets, net of related debt	122,580,464	119,021,699
Restricted	4,556,756	5,131,808
Unrestricted	<u>(13,194,917)</u>	<u>(7,946,393)</u>
 Total net position	 <u>\$ 113,942,303</u>	 <u>\$ 116,207,114</u>

The Authority's investment in capital assets accounted for 107.6% 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
September 30, 2017

Statements of Revenues, Expenditures and Changes in Net Position

	September 30,	
	2017	2016
Operating revenues	\$ 15,876,081	\$ 15,458,591
Operating expenditures	(20,328,779)	(19,281,537)
Non-operating revenues	65,450	677,873
Non-operating expenditures	(1,451,549)	(2,175,701)
Capital contributions and grants	3,972,915	2,714,443
Change in net position	<u>\$ (1,865,882)</u>	<u>\$ (2,606,331)</u>

Capital Assets and Debt Administration

Capital Assets – As of September 30, 2017, the Authority had approximately \$160.1 million invested in facilities, infrastructure and equipment. This amount represents a net increase of approximately \$13.5 million, or about 8.4% above last year. The following table presents a summary of the Authority's capital assets for the fiscal year.

Capital Assets at September 30, 2017 and 2016

	September 30,	
	2017	2016
Land and construction in progress (CIP)	\$ 32,061,111	\$ 25,687,900
Other capital assets (net of depreciation)	128,003,569	120,882,477
Total capital assets	<u>\$ 160,064,680</u>	<u>\$ 146,570,377</u>

Jackson County Utility Authority
Management's Discussion and Analysis
September 30, 2017

8

Debt Administration – As of September 30, 2017, the Authority had \$49.2 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

	September 30,	
	2017	2016
State SRF Loans	\$ 10,198,411	\$ 8,525,883
USDA revenue bonds	8,136,214	7,276,638
Bank financing, line of credit	424,525	553,024
Bank financing, term loans	835,457	601,580
Series 2016 revenue bonds	29,620,000	30,440,000
	<u>\$ 49,214,607</u>	<u>\$ 47,397,125</u>
Total outstanding		

Economic Factors and Next Year's Budget Rates

The Authority will focus on the long-term goals of maximizing labor and equipment utilization and improving our customer experience. No other significant financial challenges are forecast that should significantly affect the stability of customer rates.

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

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(228) 762-3299 (fax)
email: smcelroy@jcua-ms.us
elott@jcua-ms.us

Contacts:
Scott McElroy - Director of Finance/Administration
Edna Lott – Accounting Principal
Tommy Fairfield, Jr. – Executive Director

Section II
Financial Statements

Jackson County Utility Authority
Statement of Net Position
September 30, 2017

Assets	
Current assets	
Cash and cash equivalents	\$ 2,178,887
Accounts receivable	342,413
Grants receivable	813,720
Prepaid expenses and deposits	329,049
Total current assets	<u>3,664,069</u>
Restricted assets	
Cash and cash equivalents	12,583,062
Investments	5,012,287
Total restricted assets	<u>17,595,349</u>
Noncurrent assets	
Capital assets, net	<u>160,064,680</u>
Total assets	<u>181,324,098</u>
Deferred outflows of resources	
Deferred outflows, pensions	<u>1,391,731</u>
Totals	<u><u>\$ 182,715,829</u></u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 3,287,444
Retainage payable	393,098
Accrued payroll liabilities	757,857
Accrued interest payable	91,984
Lines of credit	424,525
Bonds and notes payable	2,042,619
Unearned revenue	1,035
Total current liabilities	<u>6,998,562</u>
Noncurrent liabilities	
Bonds and notes payable	49,888,697
Net pension liability	11,632,220
Total noncurrent liabilities	<u>61,520,917</u>
Total liabilities	<u>68,519,479</u>
Deferred inflows of resources	
Deferred inflows, pensions	<u>254,047</u>
Net position	
Invested in capital assets, net of related debts	122,580,464
Restricted assets	4,556,756
Unrestricted	(13,194,917)
Total net position	<u>113,942,303</u>
Totals	<u><u>\$ 182,715,829</u></u>

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

Jackson County Utility Authority
Statement of Revenues, Expenditures and Changes in Net Position
Year Ended September 30, 2017

Operating revenues	
Utility revenue	\$ 15,393,306
Other revenue	482,775
Total operating revenues	<u>15,876,081</u>
Operating expenses	
Administrative services	86,179
Chemicals and other supplies	745,437
Depreciation	6,930,913
Insurance	255,324
Legal services	287,457
Office and other expense	175,356
Outside services	1,704,926
Repairs and maintenance	978,043
Salaries and related expense	7,601,283
Utilities and telephone	1,398,409
Vehicle expense	165,452
Total operating expenses	<u>20,328,779</u>
Operating loss	<u>(4,452,698)</u>
Non-operating revenues (expenses)	
Grant revenue	3,972,915
Interest and investment income	65,450
Interest expense	(1,445,964)
Bond issuance costs	(5,585)
Total non-operating revenues	<u>2,586,816</u>
Change in net position	(1,865,882)
Net position, beginning of year	116,207,114
Prior period adjustment	(398,929)
Net position, beginning of year - as restated	<u>115,808,185</u>
Net position, end of year	<u><u>\$ 113,942,303</u></u>

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

Jackson County Utility Authority
Statement of Cash Flows
Year Ended September 30, 2017

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Cash flows from operating activities

Cash received from customers	\$ 16,064,308
Cash paid to suppliers for goods and services	(5,802,746)
Cash paid for employees and related expenses	(6,419,310)
Net cash provided by operating activities	<u>3,842,252</u>

Cash flows from capital and related financing activities

Proceeds from federal and state grants	4,954,540
Acquisition of capital assets	(20,740,435)
Proceeds received from lines of credit	2,387,315
Proceeds received from bank loans	334,400
Proceeds received from state revolving loans	2,229,754
Proceeds received from USDA revenue bonds	1,464,716
Principal paid on lines of credit	(2,515,814)
Principal paid on bank loans	(100,523)
Principal paid on bonds	(1,036,357)
Principal paid on state revolving loans	(557,226)
Principal paid on USDA revenue bonds	(605,140)
Interest paid	(1,604,388)
Net cash used in capital and related financing activities	<u>(15,789,158)</u>

Cash flows from investing activities

Increase in bond debt reserve	(289,871)
Increase in USDA RUS bond reserves	(140,091)
Decrease in certificates of deposit	1,005,013
Increase in 2016 revenue bond reserves	11,153,059
Proceeds from interest income	65,450
Net cash provided by investing activities	<u>11,793,560</u>

Net decrease in cash and cash equivalents (153,346)

Cash and cash equivalents, beginning of year 2,332,233

Cash and cash equivalents, end of year \$ 2,178,887

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, 2017

12

Operating loss	\$ (4,452,698)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,930,913
Changes in assets and liabilities	
Decrease in accounts receivable	188,227
Increase in prepaid expenses	(30,453)
Increase in operating payables	24,290
Increase in accrued payroll liabilities	148,130
Decrease in deferred outflows	1,442,945
Increase in deferred inflows	221,461
Decrease in net pension liability	(630,563)
Net cash provided by operating activities	<u>\$ 3,842,252</u>

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

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Basis of presentation – The accompanying financial statements of the Jackson County Utility Authority (hereafter called “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 ensure 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.

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.

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

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 the Interior, the United States Environmental Protection Agency and the United States Department of Transportation. 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 (Monthly)	Accrual rate (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

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

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

Continuous Service	Accrual Rate (Monthly)	Accrual rate (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.

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

Jackson County Utility Authority
Notes to Financial Statements
September 20, 2017
(Continued)

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.

Note 2 – Cash and Investments

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, 2017 the book balance of the Authority's unrestricted cash and cash equivalents totaled \$2,178,887.

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, 2017.

Restricted assets

At September 30, 2017, the Authority had the following restricted assets:

Description	Amount
BancorpSouth Bank – Bond Debt Reserve	\$ 4,268,644
BancorpSouth Bank – USDA RUS Bond Reserves	288,112
Trustmark Bank – 2016 Revenue Bond Reserve Cash	5,936,631
Trustmark Bank – 2016 Revenue Bond Prefunded Payment	2,089,675
Trustmark Bank – 2016 Revenue Bond Reserve Investments	5,012,287
Total restricted assets	\$ 17,595,349

Restricted cash balances totaling \$12,583,062 are collateralized as stated above. Restricted investments totaling \$5,012,287 consist of United States Treasury Bills backed by the full faith and credit of the U.S. Government.

Jackson County Utility Authority
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September 30, 2017
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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, 2017, the Authority had grants receivable totaling \$813,720.

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance 10/1/16	Additions	Dispositions and Transfers	Ending Balance 9/30/17
Land and construction in progress				
Land and easements	\$ 7,508,923	\$ 415,947	\$ -	\$ 7,924,870
Construction in progress	18,178,977	19,687,884	13,730,620	24,136,241
Total land and construction in progress	<u>25,687,900</u>	<u>20,103,831</u>	<u>13,730,620</u>	<u>32,061,111</u>
Other capital assets				
CDBG program constructed assets	100,697,836	67,968	-	100,765,804
CDBG program equipment	440,865	-	-	440,865
CIAP state wastewater project assets	692,904	-	-	692,904
CIAP county collection systems	-	3,590,940	-	3,590,940
COE Vicksburg Water Line	-	5,032,048	-	5,032,048
Vancleave laboratory facility	1,315,628	-	-	1,315,628
Pascagoula-Moss Point plant	31,993,936	-	-	31,993,936
West Jackson County plant	23,748,948	12,200	-	23,761,148
Escatawpa plant	8,705,148	-	-	8,705,148
Gautier plant	2,213,154	-	-	2,213,154
Retail systems, Ocean Beach Estates	925,573	-	-	925,573
Ramsey/Seaman Road water supply well	1,120,852	15,895	-	1,136,747
Big Hill Acres water and sewer systems	8,713,209	9,188	-	8,722,397
Connection systems	13,962,282	2,594	-	13,964,876
Pumping stations	8,049,098	4,863,092	-	12,912,190
Equipment, operation and maintenance	1,361,335	-	-	1,361,335
Equipment, retail operations	923,860	262,322	-	1,186,182
Vehicles and transportation equipment	1,521,457	109,757	-	1,631,214
Jackson Avenue administration building	1,243,422	-	-	1,243,422
Wastewater treatment systems	-	55,453	-	55,453
Hurley treatment & water storage	-	8,435	-	8,435
Surface water treatment facility	-	11,115	-	11,115
Office furniture and equipment	251,271	10,998	-	262,269
Total	<u>207,880,778</u>	<u>14,052,005</u>	<u>-</u>	<u>221,932,783</u>
Less accumulated depreciation	<u>86,998,301</u>	<u>6,930,913</u>	<u>-</u>	<u>93,929,214</u>
Total other capital assets	<u>120,882,477</u>	<u>7,121,092</u>	<u>-</u>	<u>128,003,569</u>
Total capital assets, net	<u>\$ 146,570,377</u>	<u>\$ 27,224,923</u>	<u>\$ 13,730,620</u>	<u>\$ 160,064,680</u>

Depreciation expense reported for assets placed in service totaled \$6,930,913 for the year ended September 30, 2017.

Capital Projects

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, 2017, the Authority completed the construction of the water supply well at a total cost of \$1,136,747. Costs incurred for the construction of the elevated storage tank as of September 30, 2017, totaled \$2,513,088.

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, 2017, the Authority had incurred \$4,668,045 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 \$5,225,436 in engineering and construction costs associated with this project as of September 30, 2017.

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 \$1,490,122 in engineering and construction costs associated with this project as of September 30, 2017.

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, 2017, a portion of the bond proceeds had been used to finance various projects totaling \$13,409,356 of which, \$4,863,091 in completed construction has been placed in service and \$8,546,265 in costs are construction in progress.

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 \$1,693,285 as of September 30, 2017.

Construction in progress for the above projects totaled \$24,136,241 as of September 30, 2017.

Note 5 – Defined Benefit Pension Plan

Plan description

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

Benefits provided

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

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, 2017 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, 2017, 2016 and 2015 were \$696,254, \$688,260, and \$664,312, respectively, which equaled the required contributions for each year.

Jackson County Utility Authority
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(Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At September 30, 2017, the Authority reported a liability of \$11,632,220 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Authority's proportion was 0.069975% which was an increase of 0.001324% from its proportion measured as of June 30, 2016.

For the year ended September 30, 2017, the Authority recognized pension expense of \$1,730,097. At September 30, 2017, 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	\$ 167,118	\$ 84,877
Net difference between projected and actual earnings on pension plan investments		149,349
Changes in assumptions	258,540	19,821
Changes in proportion and differences between Authority contributions and proportionate share of contributions	794,108	
Authority contributions subsequent to the measurement date	171,965	
Totals	\$ 1,391,731	\$ 254,047

Deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date totaling \$171,965 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:

Year Ended September 30,	
2018	\$ 506,560
2019	487,373
2020	155,806
2021	(184,020)
Total	\$ 965,719

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

Actuarial assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.25-18.50%, average, including inflation
Investment rate of return	7.75%, 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 2022, with males set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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 as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Broad	27.00%	4.60%
International equity	18.00%	4.50%
Emerging markets equity	4.00%	4.75%
Global	12.00%	4.75%
Fixed income	18.00%	0.75%
Real assets	10.00%	3.50%
Private equity	8.00%	5.10%
Emerging debt	2.00%	2.25%
Cash	1.00%	0.00%
Total	<u>100.00%</u>	

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(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	Current Discount Rate	1% Increase
	6.75%	7.75%	8.75%
Net pension liability	\$ 15,256,433	\$ 11,632,220	\$ 8,623,336

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 – Deferred Compensation Plan

In addition to PERS, fulltime employees may also participate in a Section 457 deferred compensation plan funded through Mississippi Deferred Compensation Plan and Trust. Contributions are made through employee salary deferral elections. For each employee that contributes up to 3% of gross annual salary, the Authority will contribute matching funds to the employee’s plan. Employees are permitted to make contributions up to the applicable Internal Revenue Code limits. Participants are fully vested in all contributions and earnings thereon. Participant’s investments are self-directed from a list of funds provided. With respect to the Section 457 plan, the Authority has no unfunded pension liability or fiduciary responsibility.

Note 7 – 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. During 2017, the Authority had draws totaling \$2,356,604. As of September 30, 2017, the balance of the line of credit has been paid and closed.

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.

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

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, 2017, the authority had drawn \$424,525 under this credit line. In June 2018, the Authority paid off the balance of the credit line.

Note 8 – Notes Payable

On November 13, 2012, the Authority secured financing for the purchase of a parcel of land north of Seaman Road in Jackson County from BancorpSouth Bank. The loan was in the amount of \$338,115 bearing interest at 4.95%, payable in monthly installments of \$3,590 through November, 2017. At September 30, 2017, the balance of the note was \$195,730 all 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>
\$ 228,104	\$ -	\$ 32,374	\$ 195,730	\$ 195,730

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

<u>Year Ended September 30, 2018</u>	<u>Principal</u>	<u>Interest</u>
	\$ 195,730	\$ 1,603

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>
\$ 373,476	\$ -	\$ 65,858	\$ 307,618	\$ 68,977

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 68,977	\$ 11,925
2019	72,016	8,886
2020	75,190	5,712
2021	78,503	2,399
2022	12,932	139
Totals	\$ 307,618	\$ 29,061

Jackson County Utility Authority
Notes to Financial Statements
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(Continued)

On August 29, 2017, the Authority secured financing for the purchase of 2 parcels of land located at Washington Avenue / Tucker Road in Jackson County from The Citizens Bank. The loan was in the amount of \$334,000 bearing interest at 4.25%, payable in monthly installments of \$3,435 through August, 2027. At September 30, 2017, the balance of the note was \$332,109, with \$27,643 due within one year. Current year activity under the loan may be stated as follows:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
\$ -	\$ 334,000	\$ 1,891	\$ 332,109	\$ 27,643

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

Year Ended September 30,	Principal	Interest
2018	\$ 27,643	\$ 13,582
2019	28,843	12,382
2020	30,093	11,132
2021	31,397	9,828
2022	32,757	8,468
Thereafter	181,376	19,775
Totals	\$ 332,109	\$ 75,167

Note 9 – State Loans in Aid of Construction

Mississippi State Revolving Loan Fund: SRF-C280878-01, payable in monthly installments of \$2,767, bearing interest at 1.75%, through December, 2023. As of September 30, 2017, the balance on the loan was \$166,448, with \$30,537 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, 2017, the balance on the loan was \$5,097,026, with \$476,681 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, 2017, the balance on the loan was \$1,084,602, with \$63,393 due within one year.

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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, 2017, \$3,515,584 had been drawn on the loan. The loan closed in April, 2018, at a total principal amount of \$4,992,269, which includes interest accrued, with payments beginning June 2018 payable monthly in the amount of \$25,197 for a period of 234 months, bearing interest at 1.75%. As of September 30, 2017, the balance on the loan was \$3,515,584, with \$71,822 due within one year.

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 Vanleave Road; and interconnection with the existing water mains on Highway 57 and Highway 90. As of September 30, 2017, \$334,750 had been drawn on the loan. The loan bears interest at 1.95% and is to be repaid over a period of 237 months at \$28,221 monthly beginning December 2018.

Mississippi State Revolving Loan Fund: SRF-C280878-06, the Authority is approved for a loan in amount of \$4,076,634 for the installation of a new wastewater force main system, including upgrades to pumps and controls in an existing pump station. As of September 30, 2017, no funds had been drawn on the loan. The loan bears interest at 1.75% and is to be repaid over a period of 237 months at \$20,357 monthly beginning March 2020.

Changes in state loans in aid of construction for the year ended September 30, 2017, are summarized as follows:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
\$8,525,883	\$ 2,229,754	\$ 557,226	\$10,198,411	\$ 642,434

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

Year Ended September 30,	Principal	Interest
2018	\$ 642,434	\$ 172,095
2019	821,526	222,798
2020	1,053,140	301,617
2021	921,126	213,517
2022	857,233	158,870
2023-2027	4,167,544	505,795
2028-2032	1,712,668	208,469
2033-2037	22,740	1,129
Totals	<u>\$10,198,411</u>	<u>\$ 1,784,290</u>

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

Note 10 – 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 loan 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. At September 30, 2017, the balance of the loan totaled \$4,700,039. The loan 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, 2017, the balance of the loan totaled \$2,512,024. 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, 2017, the balance of the loan totaled \$924,151. The loan bears interest at 3.625%, payable in monthly installments of \$4,046.

Changes in USDA revenue bond loans for the year ended September 30, 2017, are summarized as follows:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>\$ 7,276,638</u>	<u>\$ 1,464,716</u>	<u>\$ 605,140</u>	<u>\$ 8,136,214</u>	<u>\$ 272,836</u>

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

Year Ended September 30,	Principal	Interest
2018	\$ 272,836	\$ 313,009
2019	178,826	265,402
2020	185,014	259,214
2021	191,416	252,812
2022	198,040	246,189
2023-2027	1,097,896	1,123,244
2028-2032	1,301,613	919,527
2033-2037	1,543,263	677,877
2038-2042	1,829,932	391,208
2043-2047	1,227,872	90,389
2048-2050	109,506	4,910
Totals	<u>\$ 8,136,214</u>	<u>\$ 4,543,781</u>

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

Note 11 – 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. The original issue premium is amortized over the life of bond resulting in a decrease in interest expense.

Changes in Water and Wastewater Treatment System Revenue Bond, Series 2016 the year ended September 30, 2017, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bond, Series 2016	\$30,440,000	\$ -	\$ 820,000	\$29,620,000	\$ 835,000
Issuance Premium	3,357,591	-	216,357	3,141,234	-
Net Revenue Bond, Series 2016	<u>\$33,797,591</u>	<u>\$ -</u>	<u>\$ 1,036,357</u>	<u>\$32,761,234</u>	<u>\$ 835,000</u>

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

Year Ended September 30,	Principal	Interest
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	935,000	1,154,675
2023-2027	5,100,000	5,333,475
2028-2032	6,430,000	4,008,625
2033-2037	7,990,000	2,445,388
2038-2040	5,690,000	578,250
Totals	<u>\$ 29,620,000</u>	<u>\$ 18,394,913</u>

Jackson County Utility Authority
Notes to Financial Statements
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(Continued)

Note 12 – Interest Expense and Capitalized Interest

As of September 30, 2017, the following schedule sets forth the components of interest expense:

Total interest costs incurred	\$ 1,445,964
Capitalized interest	-
	<u>\$ 1,445,964</u>

Note 13 – 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:

Year Ended September 30,	Furture Minimun Rentals
2018	\$ 3,875
2019	3,875
2020	3,875
2021	3,875
2022	3,875
2023-2027	20,419
2028-2032	20,680
2033-2037	21,828
2038-2042	22,115
2043-2047	23,375
2048-2052	23,690
2053-2054	6,003
Totals	<u>\$ 157,485</u>

Rent expenditures were \$3,875 for the year ended September 30, 2017.

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

Note 14 – 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. In November 2017, ownership of the facility was transferred to the Authority.

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

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

Note 15 – 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 85.57% of total operating revenue recognized during the year ended September 30, 2017.

Note 16 – Prior Period Adjustment

The beginning net position has been restated to record a prior period adjustment to correct for the unrecorded amortization of *Changes in proportion and differences between Authority contributions and proportionate share of contributions* which should have been recorded as an expense in prior years. A reconciliation of the prior period ending net position to the current year beginning net position is as follows:

Beginning net position	\$ 116,207,114
Prior period adjustment	(398,929)
Beginning net position, as restated	<u>\$ 115,808,185</u>

Note 17 – 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

Jackson County Utility Authority
Notes to Financial Statements
September 30, 2017
(Continued)

Authority through July 23, 2018, (the date the financial statements were issued), and identified the following subsequent events:

In March 2018, the Authority was awarded a grant from the Mississippi Department of Transportation (MDOT) for 100% reimbursement of utility relocation costs totaling \$3,338,467 for water lines located along Highway 57 from Interstate 10 to Humphrey Road in Vanleave.

In June 2018, the Authority was awarded a grant from the Mississippi Department of Transportation (MDOT) for 50% reimbursement for the adjustment of the transmission and/or distribution facilities totaling \$1,860,512 for wastewater facilities located along Highway 57 from Interstate 10 to Humphrey Road in Vanleave.

In June 2018, the Authority was awarded a grant from the Mississippi Department of Transportation (MDOT) for 100% reimbursement for the adjustment of the transmission and/or distribution facilities totaling \$196,760 is for wastewater facilities located on Highway 613 at Black Creek in Jackson County.

In June 2018, the Authority and the United States Department of the Army signed an agreement for design assistance for the Jackson County Water Reclamation Project (Project). The agreement provides for cost-sharing and financing of Project. The Project is design of a system the will reclaim treated wastewater effluent and utilize it to supplement water requirements for the Jackson County Industrial Complex. The total design costs are projected to \$4,000,000.00. This cost-sharing agreement commits the Authority to 25% of the total funding. Congress of the United States has made available \$3,000,000.00 for this purpose.

Required Supplementary Information

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability	0.069975%	0.068651%	0.064974%	0.059165%
Authority's proportionate share of the net pension liability	\$ 11,632,220	\$ 12,262,783	\$ 10,043,699	\$ 7,181,548
Authority's covered-employee payroll	\$ 4,488,942	\$ 4,393,077	\$ 4,056,550	\$ 3,613,613
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	259.13%	279.14%	247.59%	198.74%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%	67.21%

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.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 696,254	\$ 688,260	\$ 664,312	\$ 580,319
Contributions in relation to the contractually required contribution	<u>696,254</u>	<u>688,260</u>	<u>664,312</u>	<u>580,319</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 4,420,655	\$ 4,369,905	\$ 4,217,854	\$ 3,684,565
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%	15.75%

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

Changes of assumptions:

2017:

In 2017 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives. The wage inflation assumption was reduced from 3.75% to 3.25%. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. The percentage of active member disabilities assumed to be in the line of duty increased from 6% to 7%.

2016:

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

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. 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.

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 (June 30, 2015 valuation for the June 30, 2017 fiscal year end. 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	33.9 years
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Supplementary Information

Jackson County Utility Authority
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency Award Number	Amount
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-001	\$ 803,457
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-002	662,745
Total U.S. Department of Agriculture			<u>1,466,202</u>
U.S. Department of the Interior			
Passed through the Mississippi Department of Marine Resources			
Coastal Impact Assistance Program	15.668	MS.30.771	586,947
Passed through Jackson County MS			
Coastal Impact Assistance Program	15.668	MS.30.713	161,627
Total U.S. Department of Interior			<u>748,574</u>
U.S. Department of Transportation			
Passed through the Mississippi Department of Transportation			
Highway Planning and Construction	20.205	STP-0066-01	<u>3,148,356</u>
U.S. Environmental Protection Agency			
Passed through the Mississippi Department of Environmental Quality Water Pollution Control Revolving Loan Fund Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-C280878-04	1,286,636
Passed through the Mississippi State Department of Health Drinking Water Systems Improvements Revolving Loan Fund Capitalization Grants for Drinking Water State Revolving Funds	66.468	DWI-L300164-01-0	866,022
Total U.S. Environmental Protection Agency			<u>2,152,658</u>
Total expenditures of federal awards			<u>\$ 7,515,790</u>

See accompanying notes to 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, 2017

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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.

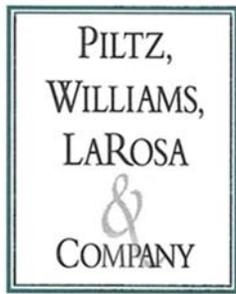
Note 2 – Outstanding Balances of Federal Loans

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: \$4,700,039

Loan number 28-030-640652582-002: \$2,512,024

**Independent Auditors' 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***



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**Independent Auditors' 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, 2017, 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 July 23, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

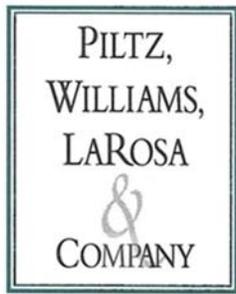
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in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

A handwritten signature in black ink, appearing to read "R. Williams, CPA", with a stylized flourish at the end.

Certified Public Accountants

Biloxi, Mississippi
July 23, 2018

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



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Independent Auditors' 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, 2017. 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.

Auditors' 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, 2017.

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, 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.



Certified Public Accountants

Biloxi, Mississippi
July 23, 2018

Schedule of Findings and Questioned Costs

Section 1 – Summary of Auditors’ Results

Financial Statements Section

- An unmodified opinion was issued on the financial statements.
- There were no significant deficiencies in internal control disclosed by the audit of the financial statements.
- The audit did not disclose any noncompliance which is material to the financial statements.

Federal Awards Section

- The audit did not disclose any significant deficiencies in internal control over major programs.
- An unmodified opinion was issued on compliance for major programs.
- The audit did not disclose any audit findings that are required to be reported under 2 CFR 200.516(a).

- The major programs were:

Highway Planning and Construction CFDA 20.205

Capitalization Grants for Clean Water State Revolving Funds CFDA 66.458

Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468

- The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- The auditee was determined to be a low-risk auditee.

Section 2 – Findings Relating to the Financial Statements

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

Section 3 – Findings and Questioned Costs for Federal Awards

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

Summary Schedule of Prior Audit Findings

Jackson County Utility Authority
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2017

Financial Statement

Finding 2016-001: Water and Wastewater Treatment System Revenue Bonds, Series 2016

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.

Recommendation: The auditor recommended that 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.

Current Status: The corrective action plan was implemented successfully.