

**Jackson County Utility Authority  
Pascagoula, Mississippi**

**Financial Statements  
September 30, 2011**

**Jackson County Utility Authority**  
**Financial Statements**

September 30, 2011

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## **Independent Auditors' Report**

Board of Directors  
Jackson County Utility Authority  
Pascagoula, Mississippi

We have audited the accompanying financial statements of the Jackson County Utility Authority as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the activities of the Jackson County Utility Authority at September 30, 2011, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2012, on our consideration of Jackson County Utility Authority's internal control over financial reporting and our test of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of reporting or on compliance and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Members:*

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson County Utility Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Jackson County Utility Authority. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Culver, Hatcher, Henry & Associates, P.A.*

Certified Public Accountants

Biloxi, Mississippi  
June 26, 2012

## **Management's Discussion and Analysis**

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

*Year ended September 30, 2011*

**FINANCIAL SUMMARIES AND COMPARISONS**

The following are summary presentations of the Statements of Net Assets and Statements of Revenues, Expenditures and Changes in Nets Assets for the years ended September 30, 2011 and 2010:

**Statements of Net Assets**

	<u>2011</u>	<u>2010</u>
Current assets	\$ 5,420,661	\$12,805,915
Restricted assets	4,311,788	4,203,489
Capital assets	<u>137,353,989</u>	<u>123,902,447</u>
Total assets	<u>147,086,438</u>	<u>140,911,851</u>
Current liabilities	7,437,149	13,398,011
Long-term liabilities	<u>7,750,836</u>	<u>10,018,316</u>
Total liabilities	<u>15,187,985</u>	<u>23,416,327</u>
Summary of net assets		
Invested in capital assets, net of related debt	124,472,231	108,852,641
Restricted	4,311,788	4,203,489
Unrestricted	<u>3,114,434</u>	<u>4,439,394</u>
Total net assets	<u>\$131,898,453</u>	<u>\$117,495,524</u>

The Authority's investment in capital assets accounted for 94 % of total net assets. Net assets totaling \$3,114,434 were considered unrestricted, the part of net assets used to finance everyday operations without constraints of legal requirements.

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

*Year ended September 30, 2011*

*(Continued)*

**Statements of Revenues, Expenditures & Changes in Net Assets**

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 8,254,091	\$ 8,219,617
Operating expenditures	(9,740,182)	(8,956,306)
Non-operating revenues	12,318	67,804
Non-operating expenditures	( 392,460)	( 589,410)
Capital contributions and grants	<u>16,269,162</u>	<u>53,708,121</u>
Increase in net assets	<u>\$14,402,929</u>	<u>\$ 52,449,826</u>

The Authority continued its efforts to complete all construction projects associated with Hurricane Katrina recovery. It is anticipated most of these Community Development Block Grant projects will reach significant completion in fiscal year 2012 and final close-out in fiscal year 2013. As result of this significant capital investment the Authority has positioned itself to recognize new revenue sources from retail water and sewer services and wholesale water supply that were previously not part of the Authority business model. Revenue from these new sources should commence in fiscal year 2012 and increase noticeably in fiscal year 2013 reporting. In response to increased regulatory pressure in the field of wastewater treatment the authority secured State Revolving Loan Funds to construct a new monitoring lab in fiscal year 2012. This will allow the authority to meet the demands of this activity internally and avoid steep increases in testing through outside laboratories and without the burden of the compliance risks associated with outsourcing of critical tasks. Additionally, the new laboratory will be located well inland to avoid repeated tropical cyclone associated interruptions. The Authority continued its joint Board of Supervisor efforts to bring Water Resource Development Act funds to construction in fiscal years 2012 and 2013 resulting in grant revenue sources matches exceeding \$20,000,000.

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

*Year ended September 30, 2011*

*(Continued)*

**Financial Highlights**

- The Authority's net assets increased approximately \$14.4 million over 2010 and are approximately \$131.9 million. Unrestricted assets decreased to \$3,114,434.
- Operating revenues were approximately \$8.3 million while operating expenses were approximately \$9.7 million, which reflects a continued limited opportunity for investment income and increased expenses of added tasks and assets.
- The Authority reduced long-term liability by approximately 2.3 million to \$7.8 million. (The Authority will make the final payment on the Series 1999 Bond in FY 2012.)

**BUDGETARY HIGHLIGHTS**

Throughout the year the Authority reviews capital projects and presents budget amendments to the Board of Directors to accommodate economic conditions that adversely affect operating expenses. Generally, non-urgent capital projects can be delayed, if necessary, to prevent any changes in fee contributions from participating agencies. Depreciation expenses are noted specifically at approximately \$4.1 million. The following table summarizes the final budget to actual comparative results.

**Year 2011 Budget to Actual Comparison**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$8,462,500	\$ 8,254,091	\$(208,409)
Operating expenditures	(5,593,374)	(5,670,276)	(76,902)
Debt service	(2,794,126)	(2,794,126)	0
Depreciation	<u>(75,000)</u>	<u>(4,069,906)</u>	<u>(3,994,906)</u>
Excess (deficiency)	<u>\$ 0</u>	<u>\$(4,280,217)</u>	<u>\$(4,280,217)</u>



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

*Year ended September 30, 2011*

*(Continued)*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets – As of September 30, 2011, the Authority had approximately \$137 million invested in facilities, infrastructure and equipment. This amount represents a net increase of approximately \$13.5 million, or about 10.9% over last year. The following table presents a summary of the Authority's capital assets for the fiscal year.

**Capital Assets at September 30, 2011**

	<u>2011</u>	<u>2010</u>
Land and construction in progress (CIP)	\$ 8,240,357	\$ 71,320,027
Other capital assets (Net of depreciation)	<u>129,113,632</u>	<u>52,582,420</u>
Total capital assets	<u>\$137,353,989</u>	<u>\$123,902,447</u>

Debt Administration – As of September 30, 2011, the Authority had \$10,033,917 in bonds and notes outstanding, with a bond principal payment of \$1,975,000 due in July 2012. The following table presents a summary of the Authority's debt for the fiscal year.

**Bonds and Notes Outstanding**

	<u>2011</u>	<u>2010</u>
Revenue bonds	\$ 1,975,000	\$ 4,150,450
State loans	<u>8,058,917</u>	<u>8,086,004</u>
Total Outstanding	<u>\$10,033,917</u>	<u>\$12,236,454</u>

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

*Year ended September 30, 2011*

*(Continued)*

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES**

The Authority remains committed to our rate assessment system that ensures everyone in Jackson County has the benefit of the same rate for wastewater treatment. Using detailed records we can accurately project and reconcile wastewater treatment charges based on flow in million gallons per day at the same rate per thousand gallons for all customers. For fiscal year 2012 budget results in a projected rate of \$1.47 per thousand gallons with a system budget of 15.95 million gallons per day. The system budget flow represents countywide peak demand coverage between 10% and 15% above the annualized daily average for seasonal peak treatment flows. The budget established for fiscal year 2012 represents a resulting treatment rate increase of less than 1% from fiscal year 2011.

Most of the Authority's recent capital investment has been in the primary resources needed to provide drinking water and the transportation and treatment of wastewater. The next step in recognizing the full potential of this investment is making this resource available to consumers. While much attention has been focused on the Community Development Block Grant programs, the Authority has successfully secured a mix of assistance programs to accomplish this task. This effort will be accomplished with a mix of financial resources that will include grants, private investment, user fees, and borrowing. Fortunately, nearly all planned capital projects will reflect a healthy mix of non-debt and debt funding.

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

*Year ended September 30, 2011*

*(Continued)*

**Contacting the Authority's Management**

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

Jackson County Utility Authority

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Pascagoula, MS 39567

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**Contacts:**

Edna Lott – Accounting Principal

Tommy Fairfield, Jr. – Executive Director

**Basic Financial Statements**

**Jackson County Utility Authority**  
**Statement of Net Assets**  
September 30, 2011

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 2,676,595
Receivables	
Accounts	654,198
Grants	1,974,573
Prepaid expenses and deposits	<u>115,295</u>
Total current assets	<u>5,420,661</u>
Restricted assets	
Cash, bond reserves	<u>4,311,788</u>
Non-current assets	
Capital assets, net of accumulated depreciation	<u>137,353,989</u>
Total assets	<u>147,086,438</u>

**LIABILITIES**

Current liabilities	
Accounts payable	1,915,029
Retainage payable	2,698,461
Lines of credit, construction	19,618
Revenue bonds payable, current	1,975,000
State loans in aid of construction, current	437,843
Accrued payroll liabilities	357,634
Accrued interest payable	<u>33,564</u>
Total current liabilities	<u>7,437,149</u>
Non-current liabilities	
State loans in aid of construction	<u>7,750,836</u>
Total liabilities	<u>15,187,985</u>

**NET ASSETS**

Invested in capital assets, net of related debts	124,472,231
Restricted:	
Bond reserves	4,311,788
Unrestricted	<u>3,114,434</u>
Total net assets	<u>\$131,898,453</u>

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

**Jackson County Utility Authority**  
**Statement of Revenues, Expenditures and Changes in Net Assets**  
Year Ended September 30, 2011

**Operating Revenues**

Utility revenue	\$ 8,216,012
Other income	<u>38,079</u>
Total operating revenues	<u>8,254,091</u>

**Operating Expenses**

Salaries and related expense	3,480,109
Outside services	213,054
Administrative services	36,229
Legal services	82,847
Chemicals and other supplies	243,443
Repairs and maintenance	213,382
Utilities and telephone	1,026,234
Vehicle expense	159,633
Insurance	106,941
Office and other expense	108,404
Depreciation	<u>4,069,906</u>
Total operating expenses	<u>9,740,182</u>

Operating loss ( 1,486,091 )

**Non-operating revenues (expenses)**

Grant revenue	16,269,162
Interest and investment income	12,318
Interest expense	( <u>392,460</u> )

Total non-operating revenues 15,889,020

Change in net assets 14,402,929

Net assets, beginning of year 117,495,524

Total net assets, end of year \$131,898,453

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

**Jackson County Utility Authority**  
**Statement of Cash Flows**  
Year Ended September 30, 2011

**Cash flows from operating activities**

Cash received from customers	\$ 7,968,968
Cash paid to suppliers for goods and services	( 2,108,832)
Cash paid for employees and related expenses	( <u>3,423,113</u> )

Net cash provided by operating activities	<u>2,437,023</u>
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**Cash flows from capital and related financing activities**

Proceeds from federal and state grants	24,002,532
Purchases of capital assets	( 23,694,638)
Proceeds received from new state loans	129,763
Net proceeds received from lines of credit	19,618
Principal paid on revenue bonds	( 1,880,000)
Principal paid on state loans	( 427,314)
Interest paid	( <u>486,812</u> )

Net cash used for capital and related financing activities	( <u>2,336,851</u> )
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**Cash flows from investing activities**

Increase in bond reserves	( 108,299)
Proceeds from interest and investment income	<u>12,318</u>

Net cash used in investing activities	( <u>95,981</u> )
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Net increase in cash and cash equivalents	4,191
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Cash and cash equivalents, beginning of year	<u>2,672,404</u>
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Cash and cash equivalents, end of year	\$ <u><u>2,676,595</u></u>
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*The accompanying notes are an integral part of the financial statements.*

**Jackson County Utility Authority**  
**Reconciliation of Operating Income to Net Cash**  
**Provided by Operating Activities**  
Year Ended September 30, 2011

Operating loss	\$( 1,486,091)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	4,069,906
Changes in assets and liabilities	
Increase in accounts receivable	( 285,123)
Decrease in prepaid expenses	( 58,802)
Increase operating payables	140,137
Increase in accrued payroll liabilities	<u>56,996</u>
Net cash provided by operating activities	<u>\$ 2,437,023</u>

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



**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 1 - Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

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

Through the issuance of revenue bonds, the Authority has made significant improvements to the treatment systems. The significant operating revenues of the Authority are the result of subscription agreements entered into with each of the above governing bodies and utility districts and call for monthly revenue payments from each, based upon budgeted costs of operations and debt service requirements allocated to each, based upon actual flow data. The reporting entity consists of and includes all funds that are covered by the oversight responsibility of the Authority. There are no funds excluded from the reporting entity which are under the control of the Authority. The reporting entity is not a component unit of another entity, nor does the reporting entity include any component units. The reporting entity is a joint venture of all the above named primary governments.

**B. Basis of Accounting and Fund Structure**

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

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 1 - Summary of Significant Accounting Policies (continued)**

**C. Financial Statement Amounts**

Property, Plant and Equipment

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

Inventories

Inventories of materials and supplies are not maintained and purchases of these items are expensed when incurred. The Authority began carrying inventories of parts for retail customers during the year ended September 30, 2010. These items are recorded at cost as inventory on the statement of net assets.

Investments

Investments are carried at cost or amortized cost, plus interest accretion. All investments are debt instruments consisting of U.S. Government Treasury obligations.

Operating and Non-operating Revenues and Expenditures

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

Capital Contributions and Grants

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

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 1 - Summary of Significant Accounting Policies (continued)**

Vacation and Sick Leave

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

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

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

CONTINUOUS SERVICE	ACCRUAL RATE	ACCRUAL RATE
	(MONTHLY)	(ANNUALLY)
1 month to 3 years	12.1 hours	14.5 days
37 months to 8 years	14.2 hours	17 days
97 months to 15 years	16.66 hours	20 days
Over 15 years	18.33 hours	22 days

Upon termination of employment, all ten (10) hour per day employees will first have accumulated service time converted into eight (8) hour days (for example one ten hour day will equal one and one-quarter eight hour day). Also, upon termination an employee shall be paid for not more than 240 hours of accumulated personal leave. Unused personal leave in excess of thirty (30) days and all unused medical leave will be counted as creditable service for the purposes of the retirement system.

Budget Information

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

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 1 - Summary of Significant Accounting Policies (continued)**

Cash Equivalents

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

Use of Estimates

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

**Note 2 - Cash on Hand and on Deposit**

**A. Cash and Cash Equivalents**

Cash and Cash Equivalents consist of demand deposit checking and money market accounts with no withdrawal restrictions, and petty cash balances. As of September 30, 2011 the book balance of the Authority's cash equivalents totaled \$2,676,595.

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, 2011.

**B. Restricted Assets**

At September 30, 2011, Jackson County Utility Authority had cash on deposit with a local bank totaling \$4,311,788, representing the Authority's bond reserves as more fully described in Note 6. These deposits are collateralized as required by state statute as describe in Note 2(A), above.

**Note 3 – Grants Receivable**

Grants receivable consists of grant proceeds due from grantors for grant-related expenditures incurred but not reimbursed as of September 30, 2011. At September 30, 2011, the Authority had grants receivable totaling \$1,974,573.

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 4 - Capital Assets**

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balances 10/01/10	Additions	Dispositions and Transfers	Ending Balances 9/30/11
<b>Land and construction in progress:</b>				
Land and easements	\$ 5,003,879	\$ 14,850	\$ -0-	\$ 5,018,729
Construction in progress	66,316,148	16,872,311	79,966,831	3,221,628
Total land and construction in progress	<u>71,320,027</u>	<u>16,887,161</u>	<u>79,966,831</u>	<u>8,240,357</u>
<b>Other capital assets:</b>				
CDBG construction placed in service	12,278,470	79,966,831	-0-	92,245,301
CDBG equipment placed in service	-0-	406,600	-0-	406,600
Pascagoula-Moss Point plant	31,891,425	-0-	-0-	31,891,425
West Jackson County plant	23,750,164	-0-	-0-	23,750,164
Escatawpa plant	8,619,307	-0-	-0-	8,619,307
Gautier plant	2,163,946	-0-	-0-	2,163,946
Retail systems	925,573	-0-	-0-	925,573
Connection systems	13,169,072	-0-	-0-	13,169,072
Pumping stations	7,641,480	-0-	-0-	7,641,480
Equipment, operation and maintenance	966,172	-0-	-0-	966,172
Equipment, retail operations	188,349	96,004	-0-	284,353
Vehicles and transportation equipment	705,763	121,565	-0-	827,328
Jackson Avenue administration building	1,233,931	-0-	-0-	1,233,931
Office furniture and equipment	116,891	10,118	-0-	127,009
Total	<u>103,650,543</u>	<u>80,601,118</u>	<u>-0-</u>	<u>184,251,661</u>
Less: accumulated depreciation	<u>51,068,123</u>	<u>4,069,906</u>	<u>-0-</u>	<u>55,138,029</u>
Total other capital assets	<u>52,582,420</u>	<u>76,531,212</u>	<u>-0-</u>	<u>129,113,632</u>
Total capital assets, net	<u>\$ 123,902,447</u>	<u>\$ 93,418,373</u>	<u>\$ 79,966,831</u>	<u>\$ 137,353,989</u>

The CDBG assets and portions of the construction in progress represent assets acquired and constructed through a Disaster Recovery Community Development Block Grant in the amount of \$99,422,705, awarded the Authority for improvements to existing plant facilities and for the construction of new water and sewer facilities and transmission lines in various locations throughout Jackson County, Mississippi. As of September 30, 2011, the Authority had completed and placed in service \$92,651,901 in administrative, legal, conceptual engineering and design costs, construction costs and equipment acquisitions associated with these projects.

Depreciation expense reported for the year ended September 30, 2011, totaled \$4,069,906.

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 5 - State Loans in Aid of Construction**

The Authority has a loan with Mississippi State Revolving Loan Fund, payable in monthly installments of \$2,767, bearing interest at 1.75%, through December, 2023. As of September 30, 2011, the balance on the loan was \$338,872, with \$27,496 due in one year.

The Authority has a second loan with Mississippi State Revolving Loan Fund, payable in monthly installments of \$49,889, bearing interest at 2.5%, through April, 2027. As of September 30, 2011, the balance on the loan was \$7,720,045, with \$410,347 due in one year.

In addition to the two loans above, the Authority has been approved for a construction loan in the amount of \$1,526,351. Amortization of the loan does not begin until construction has been completed and the loan closed. As of September 30, 2011, the Authority had received \$129,763 in advances under this agreement. Inasmuch as the loan has not closed, the entire balance is reported as a non-current liability in the statement of net assets.

Changes in state loans in aid of construction for the year ended September 30, 2011 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
State loans in aid of construction	\$ <u>8,486,230</u>	\$ <u>129,763</u>	\$ <u>427,314</u>	\$ <u>8,188,679</u>	\$ <u>437,843</u>

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

<u>SRF-C280878-01</u>			
<u>Year Ended September 30,</u>		<u>Principal</u>	<u>Interest</u>
	2012	\$ 27,496	\$ 5,710
	2013	27,981	5,225
	2014	28,474	4,732
	2015	28,977	4,229
	2016	29,488	3,718
	2017-2021	155,429	10,601
	2022-2023	<u>41,027</u>	<u>480</u>
	Totals	\$ <u>338,872</u>	\$ <u>34,695</u>

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**SRF-C280878-02**  
**Year Ended September 30,**

	<u>Principal</u>	<u>Interest</u>
2012	\$ 410,347	\$ 188,322
2013	420,724	177,945
2014	431,364	167,305
2015	442,272	156,397
2016	453,456	145,213
2017-2021	2,445,202	548,145
2022-2026	2,770,417	222,930
2027	<u>346,263</u>	<u>2,893</u>
Totals	\$ <u>7,720,045</u>	\$ <u>1,609,150</u>

**Note 6 - Wastewater Treatment Facilities Revenue Bonds**

Wastewater Treatment Facilities Revenue Bonds at September 30, 2011 are as follows:

Series 1999:

5.10% Serial Bonds, due July 2011 through July 2012	\$ 1,975,000
Less current maturities	<u>( 1,975,000)</u>

Revenue bonds payable, non-current, net	\$ <u>-0-</u>
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Changes in revenue bonds payable for the year ended September 30, 2011 are summarized as follows:

	<u>Balance</u> <u>10/01/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/11</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Series 1999 Revenue Bonds	\$ <u>3,855,000</u>	\$ <u>-0-</u>	\$ <u>1,880,000</u>	\$ <u>1,975,000</u>	\$ <u>1,975,000</u>

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 6 - Wastewater Treatment Facilities Revenue Bonds (continued)**

Series 1999 revenue bond maturities, interest and amortization of deferred costs are as follows:

<u>Year Ending September 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Deferred Costs Amortization</u>
2012	\$ <u>75,544</u>	\$ <u>1,975,000</u>	\$ <u>-0-</u>

On July 1, 1982, the Authority issued \$30,000,000 of Series 1982 Revenue Bonds to finance a portion of the cost of the acquisition, construction, improvement and extension of the Authority's wastewater treatment system. On November 1, 1984, the Authority issued \$24,130,000 of Series of 1984 Wastewater Treatment Facilities Revenue Refunding Bonds for the purpose of refunding the Series 1982 Revenue Bonds. On March 15, 1989, the Authority issued \$24,380,000 of Series 1989 Revenue Refunding Bonds for the purpose of refunding \$21,335,000 of the Authority's \$24,130,000 of Series 1984 Refunding Bonds. On July 30, 1999, the Authority issued \$19,735,000 of Series 1999 Revenue Refunding Bonds for the purpose of refunding the Series 1989 Revenue Refunding Bonds.

The Series 1999 Revenue Bonds are special obligations of the Authority secured under the provisions of the Bond Resolution, and will be equally and ratably payable solely from the revenues derived by the Authority from the operation and ownership of its wastewater treatment system, after payment of all operation and maintenance expenditures relating thereto.

The Authority has covenanted in the Bond Resolution that it will establish, fix, prescribe and collect such rates, fees and other charges for the use of and service of the System which will at all times be sufficient; (i) to pay the operating expenditures of the System, (ii) to provide for the amount of the principal and interest requirements for the current bond year on account of the bonds then outstanding and any debt service payments on any bond issued on a party therewith and (iii) to provide revenues available for debt service payments to be at least equal to one hundred ten percent (110%) of the highest annual debt service payments in any succeeding bond year with respect to any bounded indebtedness then outstanding with a lien on revenues.

The Resolution provides for the establishment and maintenance of the following special funds, all of which are held by the Authority:



**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 6 - Wastewater Treatment Facilities Revenue Bonds (continued)**

1999 Revenue Fund – In accordance with the Bond Resolution, all revenues shall be set aside as collected and shall be deposited into the 1999 Revenue Fund. Amounts in the 1999 Revenue Fund shall not be subject to lien or attachment by any creditor of the Authority except for the lien on revenues securing the 1999 Bonds.

1999 Operation and Maintenance Fund – During each month, commencing in the first month after delivery of the 1999 Bonds, there shall be deposited, if necessary, into the 1999 Operation and Maintenance Fund, an amount which will be provided for the payment of the operating expenditures to be paid during such calendar month and, in the event the aggregate amounts deposited into the 1999 Operation and Maintenance Fund during the preceding months shall have been insufficient to pay such expenditures, an amount sufficient to repay such deficiencies.

1999 Bond and Interest Fund – During each month, commencing in the first month after delivery of the 1999 Bonds, there shall be deposited into the 1999 Debt Service Fund of the 1999 Bond and Interest Fund an amount which, together with equal subsequent monthly deposits in each successive month, will provide a sum equal to the amount necessary to pay interest and principal due and payable through the date on which the next installment of principal on the 1999 bonds is due.

1999 Debt Service Reserve Fund – During any month in which there is a deficiency in the 1999 Debt Service Reserve Fund, there shall be transferred to the 1999 Debt Service Reserve Fund such amount as shall be required to maintain the 1999 Debt Service Reserve.

1999 Renewal and Replacement Fund- During any month in which there is a deficiency in the 1999 Renewal and Replacement Fund, there shall be transferred to the 1999 Renewal and Replacement Fund such amount as shall be required to maintain the 1999 Renewal and Replacement Fund in an amount equal to \$500,000; provided, however, that the full amount of any deficiency shall be funded within one (1) year of the determination of such deficiency.

1999 Contingency Reserve Fund – During each fiscal year, an amount equal to \$500,000 shall be transferred to the 1999 Contingency Reserve Fund.

The Series 1989 Revenue Refunding Bonds and all other previously mentioned refunded Revenue Bonds each had similar bond coverage, all of which were satisfied upon their refunding or retirement.

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 6 - Wastewater Treatment Facilities Revenue Bonds (continued)**

The Series 1999 Bond Covenant Funds, as of September 30, 2011, may be summarized as follows:

1999 Bond & Interest	\$ 518,931
1999 Debt Service Reserve Fund	1,973,500
1999 Renewal & Replacement Fund	500,000
1999 Contingency Reserve Fund	<u>500,000</u>
Total bond covenant funds	3,492,431
Less: investments reserved for bond covenant requirements	<u>4,311,788</u>
Reserve excess	<u>\$ 819,357</u>

In connection with the issuance of Series 1999 Revenue Refunding Bonds and the retirement of the 1989 Refunding Bonds, in accordance with Government Accounting Standards Board Opinion No. 23, the Authority has recorded the following as a deferred loss on early retirement of debt:

Deferred loss on early retirement of Series 1989 Revenue Bonds:

Series 1989 unamortized bond issuance costs	\$ 190,985
Series 1989 call premium paid	393,600
Series 1989 unamortized bond discount	174,889
Series bond issuance costs	139,194
Series 1989 bond discount	<u>139,000</u>

Deferred loss on early retirement of Series 1989 Revenue Bonds \$ 1,037,668

This deferred loss on early retirement of debt is being amortized using the bonds outstanding method over the life of the Series 1999 Refunding Bonds with the amortization being charged as interest expense. During the year ended September 30, 2011, the Authority recorded amortization for the final year of the bond issue totaling \$15,669.

**In-Substance Defeasance** - In connection with the previously mentioned refunding of the Series 1982 Revenue Bonds, on November 1, 1984, investments with a par value of \$905,000 and cash of \$28,582,437 were deposited in an irrevocable trust, the principal and interest of which would be sufficient to fund the scheduled principal and interest payments of the Authority's \$30,000,000 Series 1982 Bonds. As a result of this transaction, the securities, cash and bonds payable were eliminated from the 1985 financial statements and an extraordinary loss of \$3,952,978 was recognized in accordance with statement of Financial Accounting Standards No. 76.

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 6 - Wastewater Treatment Facilities Revenue Bonds (continued)**

The off-balance sheet investments and liabilities resulting from the above described refunding as of September 30, 2011, are as follows:

	<u>Average Yield</u>	<u>Maturity</u>	<u>Book Value</u>
Series 1982 Refunding			
Investments:			
Par Value of off-balance sheet investments			
United States Treasury Notes:			
State and local government series	10.88%	2011-2012	\$ 3,110,300
Liabilities:			
Outstanding principal balance of off-balance sheet			
Series 1982 bonds payable rates range from 7% to 13.375%	7.04%	2011-2012	\$ 3,180,000

**Note 7 - Pension Plan**

**Plan Description** – The Jackson County Utility Authority contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and requires supplementary information. The information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

**Funding Policy** – PERS' members are required to contribute 9.00% of their annual covered salary and the Jackson County Utility Authority is required to contribute at an actuarially determined rate. The current rate is 12.00% of annual covered payroll. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The Jackson County Utility Authority's contributions to PERS for the year ending September 30, 2011, totaled \$281,285, equal to the required contributions for the year.

**Jackson County Utility Authority**  
**Notes to Financial Statements**  
For the Year Ended September 30, 2011

**Note 8 – Commitments and Contingencies**

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 9 - Concentration of Revenue**

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

**Supplementary Information**

**Jackson County Utility Authority**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency Award Number	Amount
<i><b>U.S. Department of Housing and Urban Development</b></i>			
<i>Passed through Mississippi Department of Environmental Quality:</i>			
Community Development Block Grants	14.219 14.228	JCUA-01, JCUA-02	\$ 15,544,346
<i><b>U. S. Department of the Interior</b></i>			
<i>Passed through the Mississippi Department of Marine Resources:</i>			
Coastal Impact Assistance Program	15.426	MS.30.713	179,839
<i><b>U.S Department of the Army</b></i>			
ARRA - Mississippi Environmental Infrastructure	12.124	W807PM93345097 *	144,486
<i><b>U.S. Environmental Protection Agency</b></i>			
<i>Passed through Mississippi Department of Environmental Quality:</i>			
ARRA - Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	SRF-C280878-03 *	<u>113,932</u>
Total expenditures of federal awards			<u>\$ 15,982,603</u>

\* Denotes ARRA funds expended

**Jackson County Utility Authority**  
**Notes to Schedule of Expenditures of Federal Awards**  
For the Year Ended September 30, 2011

**Notes to Schedule of Federal Expenditures:**

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

**Reports on Compliance and Internal Control**



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

Board of Directors  
Jackson County Utility Authority  
Pascagoula, Mississippi

We have audited the financial statements of the Jackson County Utility Authority as of and for the year ended September 30, 2011, and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of Jackson County Utility Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

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

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

*Culbertson, Fletcher, Henry & Associates, P.A.*

Certified Public Accountants

Biloxi, Mississippi  
June 26, 2012

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

Board of Directors  
Jackson County Utility Authority  
Pascagoula, Mississippi

**Compliance**

We have audited the compliance of the Jackson County Utility Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2011. Jackson County Utility Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Jackson County Utility Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Jackson County Utility Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Jackson County Utility Authority's compliance with those requirements.

In our opinion, the Jackson County Utility Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2011.

## Internal Control over Compliance

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

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

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

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

*Culver, Skelley, Henry & Associates, P.A.*

Certified Public Accountants

Biloxi, Mississippi  
June 26, 2012

**Jackson County Utility Authority**  
**Schedule of Findings and Questioned Costs**  
Year Ended September 30, 2011

**Section 1 – Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified?        yes   X   no

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

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        yes   X   no

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

Type of auditor's report issued on compliance  
for major programs: unqualified

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.219 and 14.228

Disaster Recovery Community Development Block Grant

Dollar threshold used to distinguish between  
type A and type B programs

\$ 479,478

Auditee qualified as low-risk auditee?

  X   yes        no

**Jackson County Utility Authority**  
**Schedule of Findings and Questioned Costs**  
Year Ended September 30, 2011

**Section II – Financial Statement Findings**

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

**Section III – Federal Awards Findings**

There were no findings or questioned costs for federal awards.

**Jackson County Utility Authority**  
**Summary Schedule of Prior Audit Findings**  
Year Ended September 30, 2011

**There were no prior audit findings.**