

**Jackson County Utility Authority
Pascagoula, Mississippi**

**Financial Statements
September 30, 2014**

Jackson County Utility Authority
Financial Statements

September 30, 2014

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

Dean A. Fletcher, CPA

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

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

Independent Auditor's Report

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Jackson County Utility Authority as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Jackson County Utility Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the activities of Jackson County Utility Authority as of September 30, 2014, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson County Utility Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2015 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.

Altko and Company, P.L.L.C.

Certified Public Accountants

D'Iberville, Mississippi
March 9, 2015

Management's Discussion and Analysis

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2014

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, 2014 and 2013:

Statements of Net Position

	<u>2014</u>	<u>2013</u>
Current assets	\$ 4,444,069	\$ 2,828,776
Restricted assets	3,131,142	3,124,829
Capital assets	<u>138,365,712</u>	<u>135,840,387</u>
 Total assets	 <u>145,940,923</u>	 <u>141,793,992</u>
 Current liabilities	 10,716,647	 6,651,372
Long-term liabilities	<u>8,144,387</u>	<u>8,268,820</u>
 Total liabilities	 <u>18,861,034</u>	 <u>14,920,192</u>
 Summary of net position		
Invested in capital assets, net of related debt	120,961,211	123,272,743
Restricted	3,131,142	3,124,829
Unrestricted	<u>2,987,536</u>	<u>476,228</u>
 Total net position	 <u>\$127,079,889</u>	 <u>\$126,873,800</u>

The Authority's investment in capital assets accounted for 95% of total net position. It should be noted the total assets and total net position are calculated using capital asset values as depreciated and exclude value for real property and facilities held throughout Jackson County. Unrestricted net position used to finance everyday operations without constraints of legal requirements totaled \$2,987,536.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2014
(Continued)

Statements of Revenues, Expenditures & Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 10,472,040	\$ 9,212,044
Operating expenditures	(15,828,504)	(14,625,320)
Non-operating revenues	7,135	1,788
Non-operating expenditures	(274,380)	(241,999)
Capital contributions and grants	<u>5,829,798</u>	<u>2,203,654</u>
Change in net position	<u>\$ 206,089</u>	<u>\$ (3,449,833)</u>

The Authority achieved substantial completion of the wastewater projects and 95% completion of the water supply projects within the Hurricane Katrina Recovery Community Development Block Grant Program. As this effort was conceived as the “backbone” for a viable regional utility, the Authority continued to focus on projects that ensure future utilization, service, and revenue as required by the grant agreements. Construction projects under way in fiscal years 2014 and 2015 include a mix of grant programs that require Authority to match funding from 25% on US Army Corps of Engineers construction projects to 55% on Environmental Protection Agency (EPA) Projects. Additionally, the Authority continued efforts to connect new wastewater customers and the abandonment of failing systems with the Coast Impact Assistance Program (CIAP) Projects as fully reimbursable activities. The Authority secured short-term financing to complete most projects, as noted within this report. As construction completes the local match funding obligations will be converted to United States Department of Agriculture (USDA) – Rural Communities Revenue Bonds or other long term revenue bonds.

Recent construction has provided the Authority with the opportunity, and challenge, to evolve from a provider of wholesale wastewater treatment and transportation to a regional utility that provides water supply (wholesale and retail), wastewater collection, transportation and treatment, and environmental compliance and enforcement. During fiscal year 2014, we successfully provided all services required by our enabling legislation.

The current construction efforts under way will both expand and increase the availability of Authority services. Additionally, the Authority is increasing efforts on work process refinement and human asset management by engaging consultants for evaluation, recommendations, and training. This will also include capital assets as well to ensure capacity and efficiency of plant operations is maintained or improved.

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2014
(Continued)**

Financial Highlights

- The Authority's net position increased \$0.2 million over 2013 and is approximately \$127.1 million. Unrestricted net assets increased to \$3.0 million.
- Operating revenues were approximately \$10.5 million while operating expenses were approximately \$15.8 million, or approximately \$9.5 million excluding depreciation.
- The Authority decreased long-term liabilities by approximately 0.2 million to 8.1 million.

BUDGETARY HIGHLIGHTS

Throughout the year the Authority reviews capital projects and presents budget amendments to the Board of Directors to accommodate economic conditions that adversely affect operating expenses. Generally, non-urgent capital projects can be delayed, if necessary, to prevent any changes in fee contributions from participating agencies. Depreciation expenses are noted specifically at approximately \$6.3 million. The following table summarizes the final budget to actual comparative results.

Year 2014 Budget to Actual Comparison

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues	\$13,086,200	\$16,034,593	\$ 2,948,393
Operating expenditures	11,023,000	9,572,508	1,450,492
Debt service	1,334,312	1,031,003	303,309
Depreciation	<u>728,888</u>	<u>6,255,996</u>	<u>(5,527,108)</u>
Excess (deficiency)	\$ <u>0</u>	\$ <u>(824,914)</u>	\$ <u>(824,914)</u>

It should be noted that operating revenues and expenses shown in the budget to actual comparison do include certain Grants as a significant portion of projects described in this fiscal year are executed directly by the Authority. Therefore, certain grant expenses and revenues are represented in the values disclosed.

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2014
(Continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2014, the Authority had approximately \$138.4 million invested in facilities, infrastructure and equipment. This amount represents a net increase of approximately \$2.5 million, or about 2% above last year. The following table presents a summary of the Authority's capital assets for the fiscal year.

Capital Assets at September 30, 2014

	<u>2014</u>	<u>2013</u>
Land and construction in progress (CIP)	\$ 17,953,325	\$ 14,674,940
Other capital assets (Net of depreciation)	<u>120,412,387</u>	<u>121,165,447</u>
Total capital assets	<u>\$138,365,712</u>	<u>\$ 135,840,387</u>

Debt Administration – As of September 30, 2014, the Authority had \$13,751,791 in credit lines and notes outstanding. The following table presents a summary of the Authority's debt as of the end of the fiscal year.

Bonds and Notes Outstanding

	<u>2014</u>	<u>2013</u>
State SRF Loans	\$ 7,980,863	\$ 8,499,811
Bank financing, line of credit	4,995,818	2,293,090
Bank financing, term loans	<u>775,110</u>	<u>316,027</u>
Total outstanding	<u>\$ 13,751,791</u>	<u>\$ 11,108,928</u>

**JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2014
(Continued)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

In 2007, the Authority adopted an enterprise business model plan to comply the mandates of our enabling legislation and the grant agreements accepted. This plan established that the Authority will primarily function as three enterprises – wastewater treatment, water supply, and retail. The wastewater treatment enterprise Community Development Block Grant (CDBG) construction is now fully in place and this enterprise incorporated all assets, obligations and responsibilities of the Mississippi Gulf Coast Regional Wastewater Authority (MGCRWA) which was dissolved. The wastewater treatment enterprise has now incorporated all requirements described in the enabling legislation. The Authority remains committed to our operating cost assessment system that ensures everyone in Jackson County has the benefit of a uniform cost structure for wastewater transportation and treatment. The Authority calculates the cost to conduct all required wastewater enterprise activities in compliance with Mississippi Code, operating permits, and environmental compliance for the wastewater enterprise. These wastewater enterprise activities include laboratory operations, regional wastewater transportation, accounting, purchasing, administration, capital activities, engineering, compliance, and many other activities. This cost burden is then assigned to subscribers based using the corresponding average percentage of Jackson County's wastewater treatment demand. Using this approach, subscribers typically receive a stable monthly fee that results in a uniform cost burden among subscribers.

The Authority is also required to establish regional water supply and retail enterprises. This effort was designed to commence during the CDBG construction effort and continue to completion in the years to follow. The groundwater portion of the water supply system is fully operation and several projects highlighted within this report will provide the wholesale supply points to other subscribers. It is anticipated this enterprise will become fully operational in 2016. Presently, the system is serving several large commercial entities and one municipality until final construction is complete. The Environmental Protection Agency (EPA) Project to build a \$10 million surface water treatment plant is on schedule for completion in 2015. This project is funded in part by an (EPA) grant and match funds that the Authority has already received in the form of construction credits, and placed in trust with the Jackson County Board of Supervisors. The Authority does not anticipate requiring any new debt to complete this project which will supply much of the potable water in east central Jackson County.

The Authority's projects to fully establish the retail enterprise is progressing well and it is anticipated that the enterprise will be completed in 2016. During construction and initial operations the Authority will continue to transition construction staff to operations staff, as planned.

The Authority will evaluate and consider funding instruments in 2015 to address life cycle and compliance challenges with all ongoing operations. Facilities integrated from the MGCRWA, and serving most wastewater subscribers, are ageing. As such, capital investment in these resources to ensure compliance, continued service, and capacity will be considered. Fees and rates will be studied and addressed commensurate with any improvement project measure adopted by the Board of Directors.

JACKSON COUNTY UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended September 30, 2014
(Continued)

Contacting the Authority's Management

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

Jackson County Utility Authority
1225 Jackson Avenue
Pascagoula, MS 39567

(228) 762-0119 (office)
(228) 762-3299 (fax)
email: tfairfield@jcua-ms.us

Contacts:
Edna Lott – Accounting Principal
Tommy Fairfield, Jr. – Executive Director

Basic Financial Statements

Jackson County Utility Authority
Statement of Net Position
September 30, 2014

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,136,163
Accounts receivable	482,139
Grants receivable	2,644,481
Prepaid expenses and deposits	<u>181,286</u>
Total current assets	<u>4,444,069</u>
Restricted assets	
Cash, contingency reserve	631,142
Certificates of deposit	<u>2,500,000</u>
Total restricted assets	<u>3,131,142</u>
Non-current assets	
Capital assets, net of accumulated depreciation	<u>138,365,712</u>
Total assets	<u>145,940,923</u>

LIABILITIES

Current liabilities	
Accounts payable	3,912,426
Retainage payable	248,960
Lines of credit, construction	4,995,818
Notes payable, current	80,184
State loans in aid of construction, current	531,402
Accrued payroll liabilities	926,279
Accrued interest payable	<u>21,578</u>
Total current liabilities	<u>10,716,647</u>
Non-current liabilities	
Notes payable	694,926
State loans in aid of construction	<u>7,449,461</u>
Total non-current liabilities	<u>8,144,387</u>
Total liabilities	<u>18,861,034</u>

NET POSITION

Invested in capital assets, net of related debts	120,961,211
Restricted assets	3,131,142
Unrestricted	<u>2,987,536</u>
Total net position	<u>\$127,079,889</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, 2014

Operating Revenues	
Utility revenue	\$ 10,274,685
Other revenue	<u>197,355</u>
Total operating revenues	<u>10,472,040</u>
Operating Expenses	
Salaries and related expense	5,943,144
Outside services	567,611
Administrative services	78,635
Legal services	118,547
Chemicals and other supplies	554,490
Repairs and maintenance	399,410
Utilities and telephone	1,397,059
Vehicle expense	167,921
Insurance	219,181
Office and other expense	126,510
Depreciation	<u>6,255,996</u>
Total operating expenses	<u>15,828,504</u>
Operating loss	(<u>5,356,464</u>)
Non-operating revenues (expenses)	
Grant revenue	5,829,798
Interest income	7,135
Interest expense	(<u>274,380</u>)
Total non-operating revenues	<u>5,562,553</u>
Change in net position	206,089
Net position, beginning of year	<u>126,873,800</u>
Net position, end of year	<u>\$127,079,889</u>

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

Jackson County Utility Authority
Statement of Cash Flows
Year Ended September 30, 2014

Cash flows from operating activities

Cash received from customers	\$ 10,233,587
Cash paid to suppliers for goods and services	(3,382,609)
Cash paid for employees and related expenses	<u>(5,597,007)</u>
Net cash provided by operating activities	<u>1,253,971</u>

Cash flows from capital and related financing activities

Proceeds from federal and state grants	4,095,027
Purchases of capital assets	(8,075,210)
Proceeds received from bank financing	486,946
Net proceeds received from lines of credit	2,702,728
Principal paid on bank loans	(27,863)
Principal paid on state loans	(518,948)
Interest paid	<u>(327,886)</u>
Net cash used for capital and related financing activities	<u>(1,665,206)</u>

Cash flows from investing activities

Increase in contingency reserves	(6,313)
Proceeds from interest and investment income	<u>7,135</u>
Net cash used in investing activities	<u>822</u>
Net decrease in cash and cash equivalents	(410,413)
Cash and cash equivalents, beginning of year	<u>1,546,576</u>
Cash and cash equivalents, end of year	<u>\$ 1,136,163</u>

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

Jackson County Utility Authority
Reconciliation of Operating Income to Net Cash
Provided by Operating Activities
Year Ended September 30, 2014

Operating loss	\$(5,356,464)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	6,255,996
Changes in assets and liabilities	
Increase in accounts receivable	(238,453)
Increase in prepaid expenses	(52,482)
Increase operating payables	299,237
Increase in accrued payroll liabilities	<u>346,137</u>
Net cash provided by operating activities	<u>\$ 1,253,971</u>

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

Notes to Financial Statements

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

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.

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.

B. Basis of Accounting and Fund Structure

The Authority is classified as an Enterprise fund for purposes of financial reporting. Enterprise funds are used to account for state and local government activities which are similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties or to other departments or agencies. The Authority reports on the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenditures are recognized when incurred. The Authority complies with Generally Accepted Accounting Principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, and applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

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.

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

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

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

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

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

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

Capital Contributions and Grants - The Authority currently has several major construction projects in process that are funded all or in part by direct and pass-through grants from the United States Department of Housing and Urban Development, the United States Army Corps of Engineers, the United States Department of the Interior and the United States Environmental Protection Agency. These grant funds are restricted for capital acquisition or construction.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

Paid Time Off (PTO)

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

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

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

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

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

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

Budget Information

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

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

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, 2014 the book balance of the Authority's cash and cash equivalents totaled \$1,136,163.

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, 2014.

B. Restricted Assets

At September 30, 2014, Jackson County Utility Authority had cash on deposit with Bancorpsouth totaling \$631,142, representing the Authority's contingency reserve. This reserve is restricted by the board and may only be used for purposes determined by the board through a majority vote. In addition, the Authority had on deposit with Bancorpsouth bank five (5) certificates of deposit in the amount of \$500,000 each, for a total of \$2,500,000. These certificates are pledged as security for the line of credit as described in Note 5. These deposits are collateralized as required by state statute as described in Note 2(A), above.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

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, 2014, the Authority had grants receivable totaling \$2,644,481.

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balances <u>10/01/13</u>	Additions	Dispositions and Transfers	Ending Balances <u>9/30/14</u>
Land and construction in progress:				
Land and easements	\$ 5,581,206	\$ 74,987	\$ -0-	\$ 5,656,193
Construction in progress	<u>9,093,734</u>	<u>7,898,760</u>	<u>4,695,362</u>	<u>12,297,132</u>
Total land and construction in progress	<u>14,674,940</u>	<u>7,973,747</u>	<u>4,695,362</u>	<u>17,953,325</u>
Other capital assets:				
CDBG program constructed assets	94,647,642	4,695,362	-0-	99,343,004
CDBG program equipment	446,465	-0-	-0-	446,465
Vancleave laboratory facility	1,315,628	-0-	-0-	1,315,628
Pascagoula-Moss Point plant	31,942,092	-0-	-0-	31,942,092
West Jackson County plant	23,748,948	-0-	-0-	23,748,948
Escatawpa plant	8,619,307	-0-	-0-	8,619,307
Gautier plant	2,163,946	-0-	-0-	2,163,946
Retail systems, Ocean Beach Estates	925,573	-0-	-0-	925,573
Connection systems	13,210,383	-0-	-0-	13,210,383
Pumping stations	7,641,480	183,341	-0-	7,824,821
Equipment, operation and maintenance	954,664	541,452	-0-	1,496,116
Equipment, retail operations	520,712	64,447	-0-	585,159
Vehicles and transportation equipment	1,384,203	-0-	-0-	1,384,203
Jackson Avenue administration building	1,243,422	-0-	-0-	1,243,422
Office furniture and equipment	<u>185,209</u>	<u>18,334</u>	-0-	<u>203,543</u>
Total	188,949,674	5,502,936	-0-	194,452,610
Less: accumulated depreciation	<u>67,784,227</u>	<u>6,255,996</u>	-0-	<u>74,040,223</u>
Total other capital assets	<u>121,165,447</u>	<u>(753,060)</u>	-0-	<u>120,412,387</u>
Total capital assets, net	<u>\$ 135,840,387</u>	<u>\$ 7,220,687</u>	<u>\$ 4,695,362</u>	<u>\$ 138,365,712</u>

Depreciation expense reported for assets placed in service totaled \$6,255,996 for the year ended September 30, 2014. Construction period interest charged to construction in progress for the year ended September 30, 2014, totaled \$61,738.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

Note 4 - Capital Assets (continued)

Construction in Progress - Capital Projects

CDBG Project - The CDBG program constructed assets and CDBG program equipment amounts presented above represent capital assets acquired and constructed through a Disaster Recovery Community Development Block Grant in the amount of \$102,291,785, 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, 2014, the Authority had completed and placed in service \$99,789,469 in administrative, legal, conceptual engineering and design costs, construction costs and equipment acquisitions associated with these projects. Retainage payable to contractors related to these projects totaled \$248,960 as of September 30, 2014.

Southern Waterline Extension Project – The Authority is currently in the process of constructing an extension of the potable drinking water supply system to supply water to the unincorporated coastal section of Jackson County, Mississippi. The construction is funded in part through a grant from the United States Army Corps of Engineers, Vicksburg District, in the amount of \$5,311,628. Costs incurred with this project as of September 30, 2014, totaled \$2,660,191.

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 a loan from the United States Department of Agriculture Rural Utility Service program in the amount of \$3,835,288. Costs incurred with these projects as of September 30, 2014, totaled \$682,098.

Big Hill Acres Water and Sewer Systems Project – Jackson County, Mississippi (the County) through a project partnership agreement with the United States Army Corps of Engineers – Mobile (Corps), has been awarded a grant in the amount of \$11,812,710 for the construction of water and sewer systems in the Big Hill Acres area of Jackson County, Mississippi. The total project is budgeted at \$15,750,280, with the remaining costs being funded by the Authority through a combination of cash and real estate contributions. Through a memorandum of understanding between the Authority and the County, the Authority will provide coordination of project activities and the non-federal match portion of funding of the project. The County has agreed to transfer ownership of the systems to the Authority upon completion of the project. As of September 30, 2014, the Authority has transferred \$3,611,544 to the Corps in support of the project, and incurred additional cost totaling \$21,111 associated with the project for total construction in progress of \$3,648,440 at September 30, 2014.

Big Hill Acres Water Distribution System and Wastewater Collection System Project – As a companion project to the Big Hills Acres Water and Sewer Systems project, the Authority, through a loan from the United States Department of Agriculture Rural Utility Service program in the amount of \$4,996,050, is constructing utility systems and connections in the Big Hill Acres area. The Authority has been approved for interim financing for the project through Bancorpsouth bank effective November 1, 2013. As of September 30, 2014, the Authority had incurred costs associated with the project totaling \$2,919,950.

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

Note 4 - Capital Assets (continued)

Ocean Beach Estates and Shell Landing Wastewater Collection Systems Project – The Authority, through a Coastal Impact Assistance Program (CIAP) sub-grant passed through the County in the amount of \$4,033,685, is providing connections to the Authority’s wastewater collection system for residents of the Ocean Beach Estates and Shell Landing areas of Jackson County, Mississippi, and other system upgrades as provided for under the grant agreement. As of September 30, 2014, the Authority had incurred \$1,311,150 in construction costs associated with these tasks.

Mississippi Gulf Region Waste Water Plan Complementary Project - The Authority, through a Coastal Impact Assistance Program (CIAP) sub-grant passed through the Mississippi Department of Marine Resources in the amount of \$1,407,793, is providing connections to the Authority’s wastewater treatment systems within the CDBG projects approved service area in Jackson County, Mississippi. As of September 30, 2014, the Authority had incurred \$537,272 in costs associated with this project.

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, 2014, the Authority had incurred \$434,231 in costs associated with this project.

Wastewater Force Main System – 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, including upgrades to pumps and controls in an existing pump station and installation of three additional new pump stations. The Authority had incurred \$25,000 in engineering costs associated with this project as of September 30, 2014.

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 \$78,800.

Construction in progress at September 30, 2014 for the above projects totaled \$12,297,132.

Note 5 – Lines of Credit

At September 30, 2014, the Authority had three lines of credit established with Bancorpsouth Bank. A line of credit in the amount of \$5,500,000, secured by five (5) \$500,000 certificates of deposit, receivables, contract rights, general intangibles and chattel paper; payable monthly, interest only, at an annual rate of 4.95% through maturity on July 5, 2015. As of September 30, 2014, the Authority had drawn \$2,282,535 under this credit line. The second line of credit is in the amount of \$4,996,050, established as interim financing for the Big Hill Acres Water Distribution System and Wastewater Collection System Project. The line is payable monthly, interest only at 4.95%, secured by receivables, contract rights, general intangibles and chattel paper maturing November 5, 2015. As of September 30, 2014, the Authority had drawn \$2,488,211 under this credit line. The third line

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

Note 5 – Lines of Credit (continued)

of credit is in the amount of \$3,835,288, established as interim financing for the Southern Waterline Elevated Storage Tank and Water Well Projects. The line is payable monthly, interest only at 4.95%, secured by receivables, contract rights, general intangibles and chattel paper maturing July 5, 2015. As of September 30, 2014, the Authority had drawn \$225,072 under this credit line. Both of the credit lines established as interim financing are expected to be paid through the proceeds of long-term financing secured through the United States Department of Agriculture Rural Utility Service program.

Note 6 - Notes Payable

On November 13, 2012, the Authority secured financing for the purchase of a parcel of land north of Seaman Road in Jackson County from Bancorpsouth Bank. The loan was in the amount of \$338,115 bearing interest at 4.95%, payable in monthly installments of \$3,590 through November, 2017. Management expects to refinance the remaining balance at that time over five years, based on the original amortization period of ten years. At September 30, 2014, the balance of the note was \$288,164, with \$29,480 due within one year. Current year activity under the loan may be stated as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>316,027</u>	\$ <u>-0-</u>	\$ <u>27,863</u>	\$ <u>288,164</u>	\$ <u>29,480</u>

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 29,480	\$ 13,601
2016	30,973	12,108
2017	32,541	10,540
2018	34,189	8,892
2019	35,920	7,161
2020-2023	<u>125,061</u>	<u>10,231</u>
Totals	\$ <u>288,164</u>	\$ <u>62,533</u>

During the year ended September 30, 2014, the Authority secured financing for the purchase of machinery and equipment from Trustmark Bank. The loan was in the amount of \$486,946 bearing interest at 4.32%, payable in monthly installments of \$6,742 for a period of eighty-four months, with the first payment due December 5, 2014. Current year activity under the loan may be stated as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ <u>-0-</u>	\$ <u>486,946</u>	\$ <u>-0-</u>	\$ <u>486,946</u>	\$ <u>50,704</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

Note 6 - Notes Payable (continued)

Principal and interest payments required under the loan are as follows

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 50,704	\$ 16,714
2016	63,300	17,602
2017	66,089	14,813
2018	69,001	11,901
2019	72,042	8,860
2020-2022	<u>165,810</u>	<u>16,217</u>
Totals	<u>\$ 486,946</u>	<u>\$ 86,107</u>

Note 7 - State Loans in Aid of Construction

Mississippi State Revolving Loan Fund: SRF-C280878-01, payable in monthly installments of \$2,767, bearing interest at 1.75%, through December, 2023. As of September 30, 2014, the balance on the loan was \$254,921, with \$28,977 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, 2014, the balance on the loan was \$6,457,678, with \$442,272 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, 2014, the balance on the loan was \$1,268,264, with \$60,153 due within one year.

Changes in state loans in aid of construction for the year ended September 30, 2014 are summarized as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$ 8,499,811	\$ -0-	\$ 518,948	\$ 7,980,863	\$ 531,402

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

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

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

SRF-C280878-01		
<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 28,977	\$ 4,229
2016	29,488	3,718
2017	30,008	3,198
2018	30,537	2,669
2019	31,076	2,130
2020-2023	<u>104,835</u>	<u>3,086</u>
Totals	<u>\$ 254,921</u>	<u>\$ 19,030</u>

SRF-C280878-02		
<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 442,272	\$ 156,397
2016	453,456	145,213
2017	464,924	133,745
2018	476,681	121,988
2019	488,736	109,933
2020-2024	2,635,439	357,908
2025-2027	<u>1,496,170</u>	<u>50,392</u>
Totals	<u>\$ 6,457,678</u>	<u>\$ 1,075,576</u>

SRF-C280878-03		
<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 60,153	\$ 21,714
2016	61,214	20,653
2017	62,294	19,573
2018	63,393	18,474
2019	64,511	17,357
2020-2024	340,035	69,299
2025-2029	371,104	38,230
2030-2032	<u>245,560</u>	<u>6,854</u>
Totals	<u>\$ 1,268,264</u>	<u>\$ 212,154</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

Note 8 – Pension Plan

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

Funding Policy – PERS' members are required to contribute 9.00% of their annual covered salary and the Jackson County Utility Authority is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll, effective July 1, 2013. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The Jackson County Utility Authority's contributions to PERS for the years ending September 30, 2014, 2013 and 2012, totaled \$580,319, \$505,720 and \$395,563, respectively, equal to the required contributions for those years.

Note 9 – Sixteenth Section Lease

On July 22, 2014, the Authority entered into five separate lease agreements with the Jackson County Board of Education for the lease of a portion of sixteenth section land for use as utility line easements. The leases provide for a term of forty years with total annual minimum rental of \$2,610 for the first ten-year period of the lease, based on a 5% appraised fee simple value of the land. The leases provide for a rent increase each ten-year anniversary date of 10% above that charged during the immediately preceding ten-year period for the term of the lease. Lease expense for the year ended September 30, 2014 totaled \$2,610. Future minimum payments under these leases may be stated as follows:

<u>Year Ended</u> <u>September 30.</u>	<u>Future Minimum</u> <u>Rentals</u>
2015	\$ 2,610
2016	2,610
2017	2,610
2018	2,610
2019	2,610
2020-2024	13,311
2025-2029	14,355
2030-2034	14,642
2035-2039	15,790
2040-2044	16,105
2045-2049	17,365
2050-2053	<u>13,892</u>
Totals	<u>\$ 118,510</u>

Jackson County Utility Authority
Notes to Financial Statements
For the Year Ended September 30, 2014

Note 10 – Commitments and Contingencies

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

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

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

Note 11 - Concentration of Revenue

The Authority currently receives the majority of its operating revenue from four local municipalities and one local utility district. Revenues from these entities constituted 89.5% of total utility revenue recognized during the year ended September 30, 2014.

Note 12 – Subsequent Events

Events that occur after the statement of financial position date, but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management of Jackson County Utility Authority evaluated the activity of the Authority through March 9, 2015, (the date the financial statements were issued), and identified the following subsequent event:

On October 13, 2014, the Board of Directors of Jackson County Utility Authority authorized the Executive director to enter into a contract for the financing of the Wastewater Force Main System project as described in Note 4. The financing is being obtained through a loan in the amount of \$4,900,000 from the Water Pollution Control Revolving Loan Fund through the Mississippi Department of Environmental Quality. The loan agreement provides for an interest rate of 1.75% per annum; and monthly payments of \$24,468 beginning May 10, 2017, and each month thereafter for a period of 237 months.

Supplementary Information

Jackson County Utility Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency Award Number	Amount
<u>U.S. Department of Agriculture</u>			
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-001	\$ 2,488,211
Water and Waste Disposal Systems for Rural Communities	10.760	28-030-640652582-002	<u>225,072</u>
Total U.S. Department of Agriculture			<u>2,713,283</u>
<u>U.S. Department of the Army</u>			
ARRA - Mississippi Environmental Infrastructure	12.124	W807PM93345097	<u>1,993,760</u>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed through Mississippi Department of Environmental Quality:</i>			
Community Development Block Grants	14.219 14.228	JCUA-01, JCUA-02	<u>1,418,430</u>
<u>U. S. Department of the Interior</u>			
<i>Passed through the Mississippi Department of Marine Resources</i>			
Coastal Impact Assistance Program	15.426	MS.R.771-3	405,134
<i>Passed through Jackson County Mississippi</i>			
Coastal Impact Assistance Program	15.426	MS.30.713	<u>588,359</u>
Total U.S. Department of the Interior			<u>993,493</u>
<u>U.S. Department of Transportation</u>			
<i>Passed through the Mississippi Department of Transportation</i>			
Highway Planning and Construction	20.205	STP-0066-01	<u>434,231</u>
<u>U.S. Department of Homeland Security</u>			
<i>Passed through Mississippi Emergency Management Agency</i>			
Disaster Grants - Public Assistance	97.036	FEMA-4081-DR-MS 059-04C2C-00	<u>62,761</u>
Total expenditures of federal awards			<u>\$ 7,615,958</u>

The accompanying notes are an integral part of this schedule

Jackson County Utility Authority
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014

Notes to Schedule of Federal Expenditures:

- 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, 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 subrecipients during the fiscal year.

Reports on Compliance and Internal Control

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

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Jackson County Utility Authority as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Jackson County Utility Authority's basic financial statements, and have issued our report thereon dated March 9, 2015.

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.

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

D'Iberville, Mississippi
March 9, 2015

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by *OMB Circular A-133***

Board of Directors
Jackson County Utility Authority
Pascagoula, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Jackson County Utility Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Jackson County Utility Authority's major federal programs for the year ended September 30, 2014. Jackson County Utility Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Jackson County Utility Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jackson County Utility Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Jackson County Utility Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Jackson County Utility Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

D'Iberville, Mississippi
March 9, 2015

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unmodified

Internal control over financial reporting:
Material weakness(es) identified? 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: unmodified

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

10.760
12.124
20.205

Water and Waste Disposal Systems for Rural Communities
ARRA-Mississippi Environmental Infrastructure
Highway Planning and Construction

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

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes no

Jackson County Utility Authority
Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

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, 2014**

There were no prior audit findings.