

**Desoto County Regional Utility Authority
Audited Financial Statements
For the Year Ended September 30, 2016 and 2015**



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Audited Financial Statements
For the Years Ended September 30, 2016 and 2015**

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DANNY L. WILLIAMS | 2042 MCINGVALE ROAD, SUITE A
JERRY W. PITTS | HERNANDO, MISSISSIPPI 38632
REBECCA A. BEARD | 662-429-4436
KRISTOPHER A. WHITTEN | 662-429-4438 FAX

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Desoto County Regional Utility Authority
Hernando, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Desoto County Regional Utility Authority ("DCRUA"), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise DCRUA'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 financial position of the business-type activities of Desoto County Regional Utility Authority, as of September 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of DCRUA's Proportionate Share of the Net Pension Liability, and the

Schedule of DCRUA's Contributions on pages i-vi and 22-24, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise DCRUA's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 relates 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 April 20, 2016, on our consideration of DCRUA'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 DCRUA's internal control over financial reporting and compliance.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Hernando, Mississippi

June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Desoto County Regional Utility Authority
Management's Discussion and Analysis
For the Years Ended September 30, 2016 and 2015**

Introduction

The Management Discussion and Analysis (MD&A) of the DeSoto County Regional Utility Authority (DCRUA) financial performance presents an overall assessment of the Authority's financial activities for the year ending September 30, 2016. The objective of this discussion and analysis is to provide a comprehensive view of the financial performance of the Authority. Please read the discussion in conjunction with the financial statements and notes to the financial statements to enhance understanding of the Authority's financial performance.

The DeSoto County Regional Utility Authority completed the ninth year of operation of the sewer treatment and collection facilities on September 30, 2016.

The DeSoto County Regional Utility Authority is a separate entity from DeSoto County or any municipalities within DeSoto County, and as such, is not included as a part of the financials for DeSoto County.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$59,432,000. Of this amount \$10,513,235 is unrestricted net position and may be used to meet the Authority's ongoing obligations. For fiscal year 2015, assets of the Authority exceeded its liabilities by \$60,002,379. Of this amount \$7,535,442 was unrestricted net position.
- The Authority's total operating revenues for the fiscal years ended September 30, 2016 and September 30, 2015 were \$8,220,614 and \$7,688,972, respectively. The total operating expenditures were \$9,610,650 for 2016 and \$9,298,040 for 2015.
- Audited net position decreased by \$570,379 during fiscal year 2016, resulting in an ending 2016 net position of \$59,432,000. The Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during fiscal year 2015. This adoption resulted in a prior period adjustment which decreased the 2015 net position by \$121,788. The total decrease in net position at the end of fiscal year 2015 was \$3,669,858 for a total net position of \$60,002,379 at September 30, 2015.
- The Authority reported a net operating loss in the amount of \$1,390,036 for fiscal year 2016 as compared to a net operating loss of \$1,609,113 for fiscal year 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements contain two components: 1) financial statements, and 2) notes to the financial statements.

Basic Financial Statements

The Authority's financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private sector business.

The Balance Sheet presents information on the Authority's assets, deferred outflows, liabilities, and deferred inflows. The net position is reported as total assets and deferred outflows less total liabilities and deferred inflows. The increase/decrease in net position may provide an indication of whether or not the financial position of the Authority is improving or weakening.

**Desoto County Regional Utility Authority
Management's Discussion and Analysis
For the Years Ended September 30, 2016 and 2015**

The Statement of Revenues, Expenses and Changes in Net Position represent information showing how the Authority's net position changed. All changes in net position are reported at the same time as the underlying events that caused the change to occur. Therefore, items are recorded in this statement that will result in cash flows in future fiscal periods.

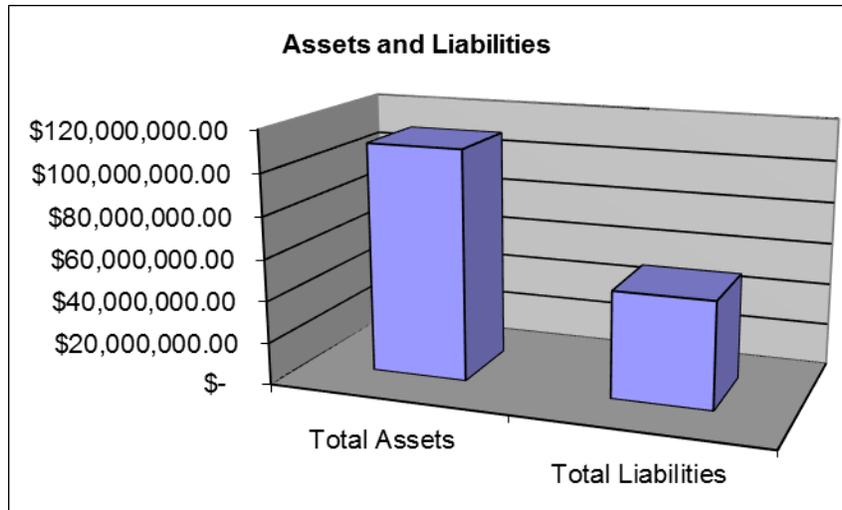
The Statement of Cash Flows reports the following: cash receipts, cash payments and net changes in cash resulting from operating activities, capital and related financing activities and investing activities for the fiscal year.

Notes to Financial Statements

The notes to the financial statements provide additional information that is helpful in further understanding of the data presented in the financial statements.

Analysis of Overall Financial Position

As stated previously, the change in net position may serve as a useful indicator of the Authority's financial position. At the end of fiscal year 2016 the Authority's net position was \$59,432,000. The majority of this figure is the investment in capital assets (e.g. land, buildings, plants, collection lines, and equipment) net of related debt used to acquire those assets. Since capital assets themselves are not intended to be used to liquidate liabilities, resources to repay the debt associated with the capital assets must be provided from other sources such as charges for services. These capital assets are used to provide wastewater treatment services and are not available for future spending.

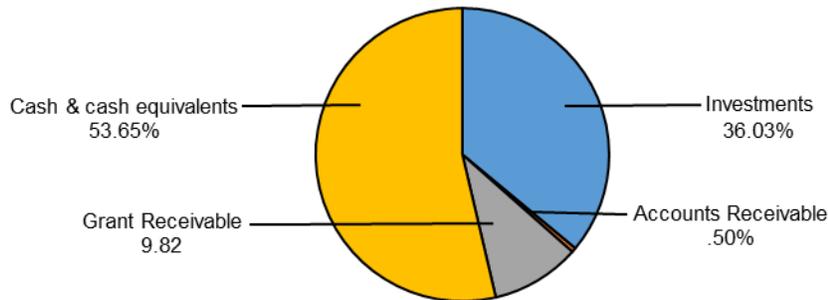


At the end of the fiscal period the unrestricted net position was 17.7% of total net position in 2016 as compared to 12.6% in 2015. The increase of these unrestricted assets is attributed to the stagnation of major capital construction projects. This value indicates that 17.7% of the assets contributed to the Authority are not restricted and could be used to finance other capital activities if needed. The total outstanding debt to total net position is 85% in 2016 as compared to 81% in 2015. Ideally this ratio should be 100% or less. A number greater than 100% indicates a negative equity position. Marked improvement in this ratio is recognized over the past year. This ratio should continue to be monitored.

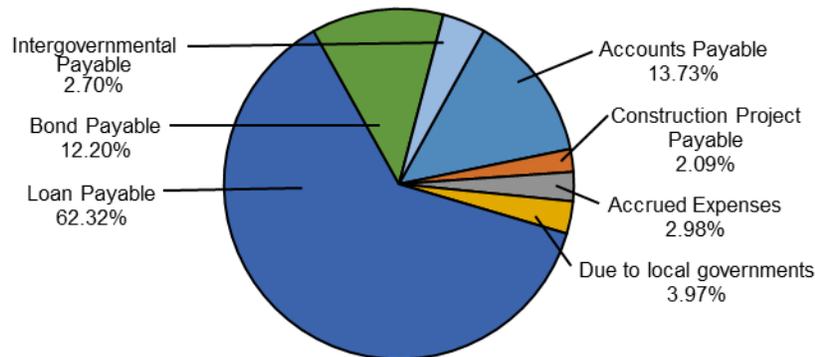
**Desoto County Regional Utility Authority
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The current ratio (current assets/current liabilities) for the fiscal year ending September 30, 2016 is 3.1. This ratio is a liquidity ratio and compares current assets to current liabilities. It displays the ability of the Authority to pay its current liabilities with its current assets. In other words the Authority has \$3.00 of current assets for every \$1.00 of current liabilities at the end of the fiscal year. The value of the ratio being greater than 3.0 is indicative of the Authority's ability to cover unexpected fluctuations in cash flows; the current revenue structure of the Authority is such that operating cash flows are fairly predictable over a 12 month period.

Current Assets



Current Liabilities



For the fiscal year 2016 the audited operating margin (Operating Income (Loss) / Total Operating Revenues) for the Authority was -16.9%. This ratio compares operating expenses with operating revenues. The Authority operates by estimating the flow and revenue from its Members for this fiscal year, then "truing up" with the Members based on actual flow and revenue at the end of the year.

**Desoto County Regional Utility Authority
Management's Discussion and Analysis
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Capital Asset and Debt Administration

The Authority's net investment in capital assets totals \$48,215,272 (net of accumulated debt). At the beginning of the fiscal period the value of the work in progress was \$4,924,017 which consisted of Short Fork WWTF and other Regional System activities. During the 2016 fiscal year, additions to work in progress totaled \$4,061,104 which included continued phased expansion of the Short Fork WWTF and other Regional System activities. Construction in progress at the year end was \$7,343,499. Additional information is provided in Note C of the Notes to Financial Statements.

At the end of the 2016 fiscal period the State Revolving Fund (SRF) debt service (principal and interest) totaled \$37,518,586. Bond debt service totaled \$10,661,820 and the amount due to local governments totaled \$11,536,805. The sum of these values equals \$59,717,211 of total long-term debt service. The majority (81%) of the long-term debt service consists of eleven low-interest Mississippi Department of Environmental Quality SRF loans and one Special Obligation Bond by Trustmark National Bank. Additional information regarding the Authority's long-term debt service may be found in Note D of the Notes to Financial Statements.

Operational Administration

The DeSoto County Regional Utility Authority completed the tenth full year of operations. During this timeframe major milestones in the long term goal of a County-wide sewer system were achieved that contributed to the Authority's net position of \$59,432,000 at the end of fiscal year 2016.

Member annual payments were based on the pro-rata share of estimated flow. The "true-up" was calculated based on the member's actual annual flow and adjusted as shown in the following table:

CITY	ESTIMATED FLOW (GALLONS)	ACTUAL PAYMENT	ACTUAL FLOW (GALLONS)	REQUIRED PAYMENT	"TRUE-UP" CITY CREDIT/ (DEFICIT)
Olive Branch (Ross Road, Braybourne and Short Fork WWTF)	1,420,134,935	\$4,530,230	1,509,730,000	\$4,289,301	\$240,929
Town of Walls (Johnson Creek WWTF)	49,841,385	\$158,994	67,548,000	\$191,911	\$(32,917)
Southaven (Ross Road / Short Fork WWTF)	119,205,892	\$380,267	234,686,000	\$666,768	\$(286,501)
Hernando (Short Fork WWTF)	519,544,756	\$1,657,348	550,159,000	\$1,563,059	\$94,288
Horn Lake (Johnson Creek WWTF)	188,111,032	\$600,074	185,640,000	\$527,423	\$72,651
TOTALS	2,296,838,000	\$7,326,913	2,547,763,000	\$7,238,462	\$88,450

**Desoto County Regional Utility Authority
Management's Discussion and Analysis
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The Authority took the following notable actions as part of the operational administration for 2016:

- The Authority approved the user charge of \$3.19 per one thousand gallons of total estimated wastewater treated, resulting in no rate increase to the members for fiscal year 2016.
- Completed Short Fork Effluent Outfall Relocation discharge to the Coldwater River.
- Began the Short Fork Expansion to 8MGD Phase 1.

FINANCIAL STATEMENTS

Desoto County Regional Utility Authority
Statements of Net Position
September 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,790,714	\$ 4,417,305
Investments	3,889,311	3,865,419
Accrued interest receivable	-	9,238
Accounts receivable	53,453	72,024
Loan receivable	-	674,206
Grant receivable	1,059,759	20,438
Total Current Assets	10,793,237	9,058,630
Non-current Assets		
Restricted cash	703,493	703,459
Capital assets, net	98,699,111	100,376,905
Total Non-current Assets	99,402,604	101,080,364
Total Assets	110,195,841	110,138,994
Deferred outflows of resources		
Deferred amount on refunding	582,331	619,304
Deferred outflows - pensions	37,906	28,461
Total Deferred Outflows	620,237	647,765
Liabilities		
Current Liabilities		
Accounts payable	450,127	427,656
Construction project payable	68,650	1,383,557
Intergovernmental payable	88,450	91,681
Accrued expenses	97,705	102,678
Loans payable	2,042,580	1,994,037
Bonds payable	400,000	385,000
Due to local governments	130,008	130,008
Total Current Liabilities	3,277,520	4,514,617
Long-term Liabilities		
Loans payable	28,405,391	25,761,995
Bonds payable	8,099,063	8,520,273
Due to local governments	11,406,797	11,822,114
Net pension liability	186,663	161,382
Total Long-term Liabilities	48,097,914	46,265,764
Total Liabilities	51,375,434	50,780,381
Deferred inflows of resources		
Deferred inflows - pensions	8,645	3,999
Net Position		
Net investment in capital assets	48,215,272	51,763,478
Restricted:		
Debt service	703,493	703,459
Unrestricted	10,513,235	7,535,442
Total Net Position	\$ 59,432,000	\$ 60,002,379

The notes to the financial statements are an integral part of this statement.

Desoto County Regional Utility Authority
Statements of Revenues, Expenses,
and Changes in Net Position
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Charges for services	\$ 7,266,696	\$ 6,773,172
System development fees	951,700	900,000
Other income	2,218	15,755
Total Operating Revenues	<u>8,220,614</u>	<u>7,688,927</u>
Operating Expenses		
Advertising	31,023	36,800
Contract labor	3,750	5,000
Depreciation and amortization	6,110,148	6,071,531
Insurance	46,452	50,035
Office and supplies	10,108	19,093
Pension expense	23,114	17,764
Professional fees	179,149	166,961
Repairs and maintenance	2,453,890	2,150,181
Salaries and wages	157,048	152,131
Travel and entertainment	14,982	19,525
Utilities	580,986	609,019
Total Operating Expenses	<u>9,610,650</u>	<u>9,298,040</u>
Operating Income (Loss)	<u>(1,390,036)</u>	<u>(1,609,113)</u>
Non-operating Revenues (Expenses)		
Grant revenue	1,609,744	445,727
Contributed capital	-	15,930
Interest income	19,747	18,159
Bond issue costs	-	(312,869)
Interest expense	(809,834)	(864,764)
Net Non-operating Revenues (Expenses)	<u>819,657</u>	<u>(697,817)</u>
Special Item	<u>-</u>	<u>(1,241,140)</u>
Change in Net Position	<u>(570,379)</u>	<u>(3,548,070)</u>
Net Position - Beginning, as previously reported	60,002,379	63,672,237
Prior Period Adjustment	-	(121,788)
Net Position - Beginning, as restated	<u>60,002,379</u>	<u>63,550,449</u>
Net Position - Ending	<u>\$ 59,432,000</u>	<u>\$ 60,002,379</u>

The notes to the financial statements are an integral part of this statement.

Desoto County Regional Utility Authority
Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Receipts from customers and other operating sources	\$ 8,235,954	\$ 7,708,584
Payments for goods and services	(3,297,869)	(2,869,253)
Payments to employees	(159,681)	(154,763)
Net Cash Provided (Used) By Operating Activities	4,778,404	4,684,568
Cash Flows From Capital and Related Financing Activities:		
Payments for capital acquisitions	(5,747,261)	(1,933,006)
Proceeds from grants	570,423	725,493
Proceeds from contributed capital	-	15,930
Proceeds from capital debt	5,360,182	9,163,668
Principal payments on debt	(2,794,354)	(11,280,707)
Interest payments on debt	(799,044)	(1,204,113)
Net Cash Provided (Used) By Capital and Related Financing Activities	(3,410,054)	(4,512,735)
Cash Flows From Investing Activities:		
Investment receipts	(23,926)	(481,516)
Interest on deposits	28,985	17,618
Net Cash Provided (Used) By Investing Activities	5,059	(463,898)
Net Increase (Decrease) In Cash and Cash Equivalents	1,373,409	(292,065)
Cash and Cash Equivalents at Beginning of Year	4,417,305	4,709,370
Cash and Cash Equivalents at End of Year	\$ 5,790,714	\$ 4,417,305
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:		
Operating income (loss)	\$ (1,390,036)	\$ (1,609,113)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,110,148	6,071,531
(Increase) decrease in intergovernmental receivable	-	-
(Increase) decrease in accounts receivable	18,571	(72,024)
(Increase) decrease in deferred outflows - pensions	20,481	15,132
Increase (decrease) in accounts payable	22,471	187,361
Increase (decrease) in intergovernmental payable	(3,231)	91,681
Total Adjustments	6,168,440	6,293,681
Net Cash Provided (Used) Operating Activities	\$ 4,778,404	\$ 4,684,568

The notes to the financial statements are an integral part of this statement.

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Desoto County Regional Utility Authority (DCRUA) was established by local and private legislation on October 1, 2004. DCRUA operates under a Board of Directors and is designed to construct and operate a county-wide sewer system. The Board of Directors is appointed by the members of DCRUA. Members consist of each municipality within the County.

Financial Reporting Entity

These financial statements present all the accounts of DCRUA. DCRUA is not a component unit of another government nor are there component units that should be included in DCRUA's reporting entity.

Basis of Presentation

DCRUA's accounting policies conform to generally accepted accounting principles applicable to governmental units.

Fund Financial Statements

DCRUA uses a single fund to report on its financial position. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. The following fund type is used by DCRUA:

Proprietary Fund

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents revenues as increases and expenses as decreases in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. DCRUA has presented the following major proprietary fund:

Utility Fund:

The Utility Fund is used to account for the provision of sewer services to the cities within DeSoto County. Activities of the fund include administration, operations and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for sewer debt. All costs are financed through charges to cities with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Encumbrance Accounting

DCRUA does not use the encumbrance method of accounting.

Cash and Cash Equivalents

For the purpose of the Statements of Net Position, "Cash and cash equivalents" include all demand, savings accounts, and certificates of deposits of DCRUA. For the purpose of the Statements of Cash Flows, "Cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Cash classified as restricted is a result of bond indenture requirements and is held in qualified public depositories.

Investments and Restricted Investments

Investments are certificates of deposit participating in the Certificate of Deposit Account Registry Service ("CDARS") program that mature in less than twelve months. Investments classified as restricted are a result of bond indenture requirements and are held in qualified public depositories. These investments are carried at fair market value.

Intergovernmental Receivable

Intergovernmental receivables consist of all revenue earned at year-end and not yet received. These receivable balances include system development fees, charges for services, and any excess of costs over reimbursements from participating municipalities.

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Grant Receivable

Grant receivable consists of any state or federal grants requested prior to year-end and not yet received or the portion of expenses occurring before year-end allowable to be reimbursed under grant agreements.

Capital Assets and Depreciation

Capital assets include property, plant, equipment, and infrastructure assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

- Buildings – 20 to 50 years
- Improvements/infrastructure – 20 to 50 years
- Equipment – 2 to 5 years

Unearned Revenue

Unearned revenue consists of fees received at year-end for services not yet provided. The balance will be allocated to charges for services in the following year as service is provided or may be returned to the cities upon their request.

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Long-term Liabilities

In the proprietary financial statements, outstanding debt is reported as liabilities. Bond issue costs are reported as deferred charges and amortized over the term of the related bond.

Net Position

Net position is the difference between assets and liabilities, and is displayed in three categories. "Net investment in capital assets" consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets. "Restricted net position" consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation. "Unrestricted" net position includes all other net position not meeting the definition of "net investment in capital assets," or "restricted".

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, DCRUA first applies restricted resources. DCRUA's board of directors has designated \$665,000 to be used for future repairs and upgrades to current infrastructure.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Changes in Accounting Standards

DCRUA adopted GASB Statements No. 68, *Accounting and Financial Reporting for Pension*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the 2015 fiscal year changing the method of accounting for pension plans. As a result of these new Statements, PERS is responsible for the pension plan assets and DCRUA is responsible for benefits promised beyond those covered assets.

NOTE B – DEPOSITS AND INVESTMENTS

The carrying amounts of DCRUA's deposits with financial institutions at September 30, 2016 and 2015, were \$10,383,518 and \$8,986,183, respectively (which includes \$3,889,310 2016, and \$3,865,419, 2015, of certificates of deposit with original maturities beyond three months and reported on the financial statements as investments). The collateral for public entities' deposits in financial institutions are 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 Deposit Insurance Corporation (FDIC).

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Custodial credit risk is defined as the risk that in the event of a financial institution's failure, the entity will not be able to recover deposits or collateral securities that are in the possession of an outside party. DCRUA does not have a formal deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of DCRUA. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of DCRUA. As of September 30, 2016 and 2015, none of DCRUA's bank balance was exposed to custodial risk.

NOTE C – CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2016:

Description	Balance Oct. 1, 2015	Additions	Deletions	Balance Sept. 30, 2016
Nondepreciable Assets:				
Land	\$ 352,316	\$ 371,250	\$ -	\$ 723,566
Construction in progress	4,924,017	4,061,104	1,641,672	7,343,449
Total Nondepreciable Assets	<u>5,276,333</u>	<u>4,432,354</u>	<u>1,641,672</u>	<u>8,067,015</u>
Depreciable Assets:				
Sewer system	134,270,737	1,641,672	-	135,912,409
Equipment	154,538	-	-	154,538
Total Depreciable Assets	<u>134,425,275</u>	<u>1,641,672</u>	<u>-</u>	<u>136,066,947</u>
Less accumulated depreciation	39,324,703	6,110,148	-	45,434,851
Total Accumulated Depreciation	<u>39,324,703</u>	<u>6,110,148</u>	<u>-</u>	<u>45,434,851</u>
Total Capital Assets, Net	<u>\$ 100,376,905</u>	<u>\$ (36,122)</u>	<u>\$ 1,641,672</u>	<u>\$ 98,699,111</u>

Commitments with respect to unfinished capital projects at September 30, 2016, consisted of the following:

Project	Contract Amount	Remaining Balance
Nolehole System	\$ 285,000	\$ 23,586
Short Fork Wastewater Treatment Facility	7,278,860	2,067,401
Total Commitments	<u>7,563,860</u>	<u>2,090,987</u>
Less grant funding	-	(2,067,401)
Total DCRUA Share	<u>\$ 7,563,860</u>	<u>\$ 23,586</u>

DCRUA has contracted the above projects with part of the funding being provided through grant money.

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

NOTE D – LONG-TERM LIABILITIES

Loans Payable

DCRUA uses loans to finance its projects. Project expenditures are paid using funds from a Trustmark National Bank line of credit and state revolving funds ("SRF") from the Mississippi Department of Environmental Quality.

The following is a summary of DCRUA's loans:

Description	Interest Rate	Issue Date	Maturity Date	Amounts Issued	Outstanding
MS Dept. of Environmental Quality SRF Loan (1)	1.75%	1/23/2006	8/1/2025	\$ 8,585,496	\$ 4,259,522
MS Dept. of Environmental Quality SRF Loan (2a)	1.75%	6/1/2006	3/1/2026	5,471,441	2,951,534
MS Dept. of Environmental Quality SRF Loan (2b)	2.50%	6/1/2006	3/1/2026	2,733,903	1,523,138
MS Dept. of Environmental Quality SRF Loan (3)	1.75%	5/1/2006	10/1/2027	14,105,349	8,578,512
MS Dept. of Environmental Quality SRF Loan (4)	2.00%	1/1/2008	11/1/2027	614,743	377,035
MS Dept. of Environmental Quality SRF Loan (5)	1.75%	11/30/2011	10/10/2031	4,154,243	3,297,956
MS Dept. of Environmental Quality SRF Loan (6)	1.75%	9/30/2009	7/10/2032	116,415	96,751
MS Dept. of Environmental Quality SRF Loan (7)	1.75%	2/10/2010	12/5/2031	354,679	284,287
MS Dept. of Environmental Quality SRF Loan (8)	1.75%	6/20/2012	8/10/2033	3,855,348	3,392,616
MS Dept. of Environmental Quality SRF Loan (9)	1.75%	11/10/2017	8/10/2037	4,685,976	4,685,976
MS Dept. of Environmental Quality SRF Loan (10)	1.75%	12/1/2015	9/1/1935	1,033,729	1,000,645
Total				<u>\$ 45,711,322</u>	<u>\$ 30,447,972</u>

The aggregate maturity of Authority loans at September 30, 2016 is summarized in the following table:

Year ended September 30:	Principal	Interest	Total
2017	\$ 2,042,580	\$ 459,701	\$ 2,502,281
2018	2,870,085	739,622	3,609,707
2019	3,082,291	748,902	3,831,193
2020	3,139,081	692,112	3,831,193
2021	3,196,934	641,075	3,838,009
2022-2026	16,066,896	2,270,885	18,337,781
2027-2031	9,369,489	1,103,370	10,472,859
2032-2036	6,964,234	404,356	7,368,590
2037-2041	1,207,579	10,591	1,218,170
Uncommitted Principal	(17,491,197)	-	(17,491,197)
Total	<u>\$ 30,447,972</u>	<u>\$ 7,070,614</u>	<u>\$ 37,518,586</u>

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Bonds Payable

The following is a summary of DCRUA's Special Obligation Bonds:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts Issued</u>	<u>Outstanding</u>
Special Obligation Bonds, Series 2014	various	12/30/2014	7/1/2032	9,080,000	8,165,000
Total				<u>\$ 9,080,000</u>	<u>\$ 8,165,000</u>

The aggregate maturity of Authority bonds payable at September 30, 2016 is summarized in the following table:

Year ended September 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 400,000	\$ 289,731	\$ 689,731
2018	420,000	273,731	693,731
2019	435,000	252,731	687,731
2020	460,000	235,331	695,331
2021	470,000	221,532	691,532
2022-2026	2,630,000	846,103	3,476,103
2027-2031	3,095,000	369,055	3,464,055
2032-2036	255,000	8,606	263,606
Total	<u>\$ 8,165,000</u>	<u>\$ 2,496,820</u>	<u>\$ 10,661,820</u>

Due to Local Governments

<u>Description</u>	<u>Issue Date</u>	<u>Amounts Issued</u>	<u>Outstanding</u>
DeSoto County	11/5/2002	\$ 3,968,221	\$ 3,510,216
City of Southaven	10/1/2008	10,269,960	8,026,589
Total		<u>\$ 14,238,181</u>	<u>\$ 11,536,805</u>

The agreement between DeSoto County and DCRUA relates to construction on the regional sewer line prior to DCRUA's existence. The agreement was updated during the 2013 year. The new agreement states that DCRUA will repay the County an amount equal to \$3,900,000 with 0% interest due or accruing, payable over 30 years with the first payment due on October 1, 2014 and the final payment to be made on September 1, 2044. In accordance with GASB Statement No. 62, interest has been imputed on this loan at a rate of 1.75% which is the same as the rates received on the recent SRF loans from MDEQ. Accordingly, DCRUA received a discount on the note of \$867,334 which is reported on the face of the financial statements and netted with the outstanding principal balance. The discount is being amortized over the 30 year term of the loan.

As for the agreement with the City of Southaven, DCRUA acquired the Bean Patch Creek sewer line from the City at the completion of construction. This agreement states DCRUA is obligated to repay 30% of the system development fees collected on an annual basis. Aggregate maturities on the loan from the City of Southaven are not included in the table below since the yearly amounts to be paid cannot be readily determined.

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

The aggregate maturity of the loan due to Desoto County at September 30, 2016 is summarized in the following table:

Year ended September 30:	Principal	Interest	Total
2017	\$ 81,734	\$ 48,274	\$ 130,008
2018	83,176	46,832	130,008
2019	84,643	45,365	130,008
2020	86,136	43,872	130,008
2021	87,656	42,352	130,008
2022-2026	462,027	188,013	650,040
2027-2031	504,242	145,797	650,039
2032-2036	550,317	99,722	650,039
2037-2041	600,602	49,439	650,041
2042-2046	255,335	4,682	260,017
Total	\$ 2,795,868	\$ 714,348	\$ 3,510,216

The following is a summary of changes in long-term liabilities for the year ended September 30, 2016:

	Balance at Oct. 1, 2015	Additions	Deletions	Balance at Sept. 30, 2016	Amounts Due Within One Year
Loans payable	\$ 27,756,033	\$ 4,685,976	\$ 1,994,037	\$ 30,447,972	\$ 2,042,580
Bonds payable	8,905,273	-	406,210	8,499,063	400,000
Bond premiums	-	-	-	-	-
Deferred amount on refunding	-	-	-	-	-
Due to local governments	11,952,122	-	415,317	11,536,805	130,008
Total	\$ 48,613,428	\$ 4,685,976	\$ 2,815,564	\$ 50,483,840	\$ 2,572,588

Revolving Line of Credit

DCRUA has an \$8,500,000 revolving line of credit, of which \$8,500,000 was unused at September 30, 2015. Bank advances on the credit line are payable on demand and carry an interest rate of 4.27%. The credit line is secured by substantially all assets of DCRUA.

NOTE E – RISK MANAGEMENT

DCRUA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which DCRUA carries commercial insurance. DCRUA has not incurred any losses in excess of commercial insurance coverage.

NOTE F - CONTINGENCIES

Litigation- DCRUA is subject to various legal proceedings in various stages of litigation, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, with respect to the various proceedings. However, DCRUA's management and legal counsel believe that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of DCRUA.

Federal Grants- DCRUA has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability for DCRUA.

NOTE G – CONCENTRATIONS OF CREDIT RISKS

DCRUA receives approximately 99% of its operating revenue from the five municipalities within the county.

NOTE H – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description – DCRUA is a member of the Public Employees’ Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan as defined in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Membership in PERS is a condition of employment and is granted upon hiring for qualifying employees and officials of the County. Code Section 25-11-15, Mississippi Code Ann. (1972) grants the authority for general administration and proper operation of PERS to the PERS Board of Trustees (PERS Board). PERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.pers.ms.gov.

Benefits Provided – Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee’s earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member’s accumulated contributions and interest are paid to the designated beneficiary. Benefit provisions are established by Section 25-11-1 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature.

A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.00% compounded for each fiscal year thereafter.

Contributions - Per Chapter 11 of Title 25, Mississippi Code Ann. (1972), contribution requirements of plan members and their employees are established and may be amended only by the PERS Board. The adequacy of these rates is assessed annually by actuarial valuation. For the year ended September 30, 2016, member employees were required to contribute 9.00% of their annual pay, while DCRUA’s required contribution rate was 15.75% of annual covered payroll. The Authority’s

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

employer contribution to PERS for the years ended September 30, 2016, 2015, and 2014, were \$10,527, \$10,401, and \$9,903 respectively. The contributions for each year met the required contributions.

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

At September 30, 2016, the Authority reported a liability of \$186,663 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's employer contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2016, the Authority's proportion was .001%, which was the same at June 30, 2015.

For the year ended September 30, 2016, the Authority recognized pension expense of \$23,114. At September 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,650	\$ -
Net difference between projected and actual earnings on pension plan investments	21,831	-
Changes of assumptions	8,792	496
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	8,149
DCRUA contributions subsequent to the measurement date	2,633	-
Total	<u>\$ 37,906</u>	<u>\$ 8,645</u>

\$2,633 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending Sept 30</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Total</u>
2017	\$ 13,314	\$ (3,936)	\$ 9,378
2018	11,627	(3,525)	8,102
2019	6,645	(1,184)	5,461
2020	3,688	-	3,688
Totals	<u>\$ 35,274</u>	<u>\$ (8,645)</u>	<u>\$ 26,629</u>

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Actuarial assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S Broad	34%	5.20%
International Equity	19%	5.00%
Emerging Markets Equity	8%	5.45%
Fixed Income	20%	0.25%
Real Assets	10%	4.00%
Private Equity	8%	6.15%
Cash	1%	(0.50)%
Total	100%	

Discount rate - The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Desoto County Regional Utility Authority
Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Authority's proportionate share of the net pension liability	\$ 239,344	\$ 186,663	\$ 142,955

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS Comprehensive Annual Financial Report, publicly available at www.pers.ms.gov.

NOTE I – PRIOR PERIOD ADJUSTMENT

In the fiscal year ending September 30, 2015, DCRUA implemented the GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the measurement Date*. This resulted in a prior year overstatement of the Statement of Net Position of \$121,788 for the year ending September 30, 2015.

NOTE J – SUBSEQUENT EVENTS

Events that occur after the Statement of Net 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 Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of DCRUA evaluated the activity of the DCRUA through June 30, 2017 the date the financial statements were available to be issued.

NOTE K – SPECIAL ITEM

An adjustment was made to construction-in-progress of \$1,241,140 in fiscal year ending September 30, 2015 to reclassify the costs of reclaiming the lagoon from assets to expenses to better reflect the fair market value.

SUPPLEMENTAL INFORMATION

**Desoto County Regional Utility Authority
Schedule of Expenditures of Federal Awards
For the Years Ended September 30, 2016**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Number	Federal Expenditures
U.S. Department of Defense			
Passed through U.S. Army Corps of Engineers			
* Congressionally Directed Assistance	12.599	N/A	\$ 1,119,936
Total U.S. Department of Defense			<u>1,119,936</u>
U.S. Environmental Protection Agency			
Congressionally Mandated Projects	66.202	XP-984855-99	<u>34,261</u>
Passed through Mississippi Department of Environmental Quality			
Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-C280887-09	<u>283,222</u>
Total Mississippi Department of Environmental Quality			<u>283,222</u>
Total U.S. Environmental Protection Agency			<u>317,483</u>
Total For All Federal Awards			<u>\$ 1,437,419</u>

* Denotes Major Federal Program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A –Significant Accounting Policies

The accompany Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

Note B – Capitalization Grants for Clean Water State Revolving Funds

The value of federal awards expended in the form of loans made to DCRUA as of September 30, 2016, is \$283,222.

REQUIRED SUPPLEMENTARY INFORMATION

Desoto County Regional Utility Authority
Schedule of DCRUA's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years
For the Year Ended September 30, 2016 and 2015

Last 10 Fiscal Years*

	2016	2015
DCRUA's proportion of the net pension liability	0.0010%	0.0010%
DCRUA's proportionate share of the net pension liability	\$ 186,663	\$ 161,382
DCRUA's covered-employee payroll	66,840	75,683
DCRUA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	279.27%	213.23%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%

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

*The amounts presented for each year were determined as of June 30th of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB No. 68 was implemented in the fiscal year ended September 30, 2016, and, until a full 10-year trend is compiled, DCRUA has only presented information for the years in which information is available.

Desoto County Regional Utility Authority
Schedule of DCRUA's Contributions
Last 10 Fiscal Years
For the Year Ended September 30, 2016 and 2015

Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 10,527	\$ 10,401
Contributions in relation to the contractually required contribution	<u>10,527</u>	<u>10,401</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
DCRUA's covered-employee payroll	66,837	66,041
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

*This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB No. 68 was implemented in the fiscal year ended September 30, 2016, and, until a full 10-year trend is compiled, DCRUA has only presented information for the years in which information is available.

**Desoto County Regional Utility Authority
Notes to the Required Supplementary Information
For the Year Ended September 30, 2016 and 2015**

Pension Schedules

- 1) Change of benefit terms – there were no changes of benefit terms in 2016.
- 2) Change of assumptions – there were no changes of assumptions from 2015 to 2016.

SPECIAL REPORTS



DANNY L. WILLIAMS | 2042 McINGVALE ROAD, SUITE A
JERRY W. PITTS | HERNANDO, MISSISSIPPI 38632
REBECCA A. BEARD | 662-429-4436
KRISTOPHER A. WHITTEN | 662-429-4438 FAX

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Desoto County Regional Utility Authority
Hernando, 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 of Desoto County Regional Utility Authority (DCRUA), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise DCRUA's basic financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCRUA'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 DCRUA's internal control. Accordingly, we do not express an opinion on the effectiveness of DCRUA'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 DCRUA'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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 30, 2017



DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

2042 MCINGVALE ROAD, SUITE A
HERNANDO, MISSISSIPPI 38632
662-429-4436
662-429-4438 FAX

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Desoto County Regional Utility Authority
Hernando, Mississippi

Report on Compliance for Each Major Federal Program

We have audited DCRUA's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of DCRUA's major federal programs for the year ended September 30, 2016. DCRUA'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 DCRUA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about DCRUA'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 DCRUA's compliance.

Opinion on Each Major Federal Program

In our opinion, DCRUA, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of DCRUA 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 DCRUA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine

the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DCRUA's internal control over compliance.

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

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitt & Beard, PLLC

Hernando, Mississippi

June 30, 2017



DANNY L. WILLIAMS | 2042 MCINGVALE ROAD, SUITE A
JERRY W. PITTS | HERNANDO, MISSISSIPPI 38632
REBECCA A. BEARD | 662-429-4436
KRISTOPHER A. WHITTEN | 662-429-4438 FAX

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

To the Board of Directors
Desoto County Regional Utility Authority
Hernando, Mississippi

In planning and performing our audit of the financial statements of the Desoto County Regional Utility Authority (DCRUA) for the year ended September 30, 2016, we considered DCRUA's internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to DCRUA's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on DCRUA's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated April 20, 2016, on the financial statements of DCRUA.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

This report is intended solely for the information and use of DCRUA's board of directors, management, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 30, 2017

**Desoto County Regional Utility Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016**

Section 1: Summary of Auditors' Results

Financial Statements:

- | | | |
|-----|--|----------------------------------|
| (1) | Type of auditor's report issued on the financial statements: | _____ <u>Unmodified</u> _____ |
| (2) | Internal control over financial reporting: | |
| (a) | Material weakness identified? | _____ <u>No</u> _____ |
| (b) | Significant deficiency identified? | _____ <u>None reported</u> _____ |
| (3) | Noncompliance material to the financial statements noted? | _____ <u>No</u> _____ |

Federal Awards:

- | | | |
|-----|--|----------------------------------|
| (4) | Internal control over major programs: | |
| (a) | Material weakness identified? | _____ <u>No</u> _____ |
| (b) | Significant deficiency identified? | _____ <u>None reported</u> _____ |
| (5) | Type of auditor's report issued on compliance for major federal programs: | _____ <u>Unmodified</u> _____ |
| (6) | Any audit finding(s) disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | _____ <u>No</u> _____ |
| (7) | Identification of major federal programs: | |
| (a) | CFDA# 12.599, Congressionally Directed Assistance | |
| (8) | The dollar threshold used to distinguish between type A and type B programs: | _____ <u>\$750,000</u> _____ |
| (9) | Auditee qualified as a low-risk auditee? | _____ <u>No</u> _____ |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Governmental Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

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