

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

Year Ended September 30, 2010

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Hattiesburg, Mississippi
Hattiesburg, Mississippi

We have audited the accompanying financial statements of the Combined Water and Sewer System of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Combined Water and Sewer System of the City of Hattiesburg, Mississippi, and do not purport to, and do not, present fairly the financial position of the City of Hattiesburg, Mississippi, as of September 30, 2010, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and City Council
City of Hattiesburg, Mississippi

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Combined Water and Sewer System of the City of Hattiesburg, Mississippi, as of September 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the City's Combined Water and Sewer System. The supplemental information presented on pages 16 through 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

NICHOLSON & COMPANY, PLLC

Hattiesburg, Mississippi
June 23, 2011

EXHIBIT A

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

ASSETS

	<u>Combined Water & Sewer System</u>
<i>CURRENT ASSETS</i>	
Cash and cash equivalents	\$ 4,962,892
Cash with fiscal agent	369,610
Accounts receivable - trade	2,174,644
Grants receivable	385,983
Total current assets	<u>7,893,129</u>
<i>CAPITAL ASSETS</i>	
Land	315,243
Construction in progress	2,786,645
Infrastructure, net	62,271,556
Buildings and improvements, net	169,501
Machinery and equipment, net	1,088,985
Total capital assets	<u>66,631,930</u>
<i>NON-CURRENT ASSETS</i>	
Deferred charge - state loan administrative cost	35,374
Total non-current assets	<u>35,374</u>
 <i>Total assets</i>	 <u>\$ 74,560,433</u>

See the accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>Combined Water & Sewer System</u>
<i>CURRENT LIABILITIES</i>	
Due to other funds	\$ 54,508
Sales tax payable	12,279
Accounts payable - trash hauling	177,423
Accounts payable - other	386,418
Accrued interest payable	186,657
General obligation bonds - current	1,700,000
General obligation note payable - current	327,978
Capital leases payable - current	276,199
Total current liabilities	<u>3,121,462</u>
<i>NON-CURRENT LIABILITIES</i>	
General obligation bonds	20,025,000
General obligation note payable	2,160,706
Customer meter deposits	970,648
Total non-current liabilities	<u>23,156,354</u>
Total liabilities	<u>26,277,816</u>
<i>NET ASSETS</i>	
Invested in capital assets, net of related debt	42,142,047
Unrestricted	6,140,570
Total net assets	<u>48,282,617</u>
Total liabilities and net assets	<u>\$ 74,560,433</u>

EXHIBIT B

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	
Water charges	\$ 6,184,041
Sewer charges	5,910,722
Sewer connections	11,834
Turn-on fees	64,410
Taps	74,740
Total operating revenues	<u>12,245,747</u>
OPERATING EXPENSES	
Personal services	2,248,809
Other services and charges	4,818,916
Supplies and expenses	802,134
Depreciation	1,097,910
Total operating expenses	<u>8,967,769</u>
OPERATING INCOME	<u>3,277,978</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	17,758
Interest expense	(1,127,709)
Other revenues	111,766
Intergovernmental revenues	1,127,211
Miscellaneous expenses	(122,971)
Loan amortization expenses	(45,263)
Total non-operating revenues (expenses)	<u>(39,208)</u>
INCOME BEFORE TRANSFERS	3,238,770
OPERATING TRANSFERS	
Operating transfers out	<u>(58,940)</u>
Total operating transfers	<u>(58,940)</u>
CHANGE IN NET ASSETS	3,179,830
TOTAL NET ASSETS, beginning	<u>45,102,787</u>
TOTAL NET ASSETS, ending	<u>\$ 48,282,617</u>

See the accompanying notes to financial statements.

EXHIBIT C

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 12,439,311
Cash paid to suppliers	(6,202,052)
Cash paid to employees	(2,248,809)
Net cash provided by operating activities	<u>3,988,450</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Other cash receipts	111,766
Intergovernmental cash receipts	1,127,211
Cash receipts from government funds	(58,940)
Net cash provided by noncapital financing activities	<u>1,180,037</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal payments - capital lease	(452,859)
Principal payments - bonds	(1,625,000)
Principal payments - loans	(313,571)
Purchase of fixed assets	(3,609,237)
Other receipts (payments)	(122,971)
Interest paid on debt	(1,209,470)
Net cash used by capital and related financing activities	<u>(7,333,108)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	<u>17,758</u>
Net cash provided by investing activities	<u>17,758</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(2,146,863)

CASH AND INVESTMENTS - OCTOBER 1, 2009

7,479,365

CASH AND INVESTMENTS - SEPTEMBER 30, 2010

\$ 5,332,502

Displayed as:

Cash and cash equivalents	\$ 4,962,892
Cash with fiscal agent	<u>369,610</u>
	<u>\$ 5,332,502</u>

EXHIBIT C-1

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**RECONCILIATION OF NET INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010**

***RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:***

<i>OPERATING INCOME</i>	\$ 3,277,978
<i>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
Depreciation expense	1,097,910
(Increase) in accounts receivable	(500,761)
Decrease in grants receivable	646,102
(Decrease) in accounts payable - trash hauling	(390,809)
(Decrease) in accounts payable - other	(193,213)
Increase in customer meter deposits	47,770
Increase in sales tax payable	453
Increase in amount due to government funds	3,020
Total adjustments	<u>710,472</u>
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i>	<u><u>\$ 3,988,450</u></u>

NOTES TO FINANCIAL STATEMENTS

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies and procedures, related to major balance sheet, income and expense classifications, are followed in reporting financial information annually.

General - The Combined Water and Sewer System is classified as an enterprise fund. Enterprise funds are used to account for operations [a] that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or [b] where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

These financial statements include only the Combined Water and Sewer System of the City of Hattiesburg, Mississippi, which consists of all funds, organizations, departments and offices that comprise the City's Combined Water and Sewer System and do not include financial data for the City's other funds, departments and offices.

The Combined Water and Sewer System follows the accrual method of accounting wherein revenues and expenses are recognized during the period in which they are earned or incurred respectively.

Cash and Cash Equivalents - The government deposits excess funds in the financial institutions selected by the City Council. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of twelve (12) months or less. Cash and cash equivalents are valued at cost.

Accounts Receivable - All trade, sales, and property tax receivables, including those for the Commission, are considered collectible; therefore no reduction has been made for allowance for uncollectibles.

Capital Assets - Land, buildings and equipment are stated at cost. Additions are capitalized while expenditures for maintenance and repairs are charged to income. Depreciation is provided for based upon the estimated useful life of the individual units of property under the declining balance method. Estimated useful lives of buildings and equipment are as follows:

Water and sewer systems	25 - 100 years
Motor vehicles	4 years
Equipment	10 years

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
PAGE TWO
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events - Management has evaluated subsequent events after the financial statement date of September 30, 2010 through June 23, 2011, as that date is the date the audited financial statements were available to be issued. There have been no subsequent events to report as of that date previously stated for the Combined Water and Sewer System.

NOTE 2 - ACCOUNTING METHOD

The City presently utilizes a modified accrual basis of accounting wherein revenues are recorded as earned. In order to present fairly the financial position of the Combined Water and Sewer System at September 30, 2010, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles, certain adjustments were necessary for a proper conversion to the accrual method of accounting. Revenues from water and sewer sales must be increased by ending accounts receivable of \$2,174,644 and decreased by beginning accounts receivable of \$1,673,883. The net effect of these adjustments is to increase net income by \$500,761.

NOTE 3 - CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS, AND INVESTMENTS

Cash and cash equivalents - The collateral for public entities' deposits in financial institutions is now 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 City'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 (FDIC).

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
PAGE THREE
YEAR ENDED SEPTEMBER 30, 2010**

**NOTE 3 - CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS, AND INVESTMENTS
(Cont.)**

The carrying amount of the Combined Water and Sewer System's deposits with financial institutions was \$4,962,292. The corresponding bank balances are combined with cash balances of other City funds in pooled accounts that are disclosed in total in Note 2 "Cash and Cash Equivalents, Cash With Fiscal Agents, and Investments" in the City's Comprehensive Annual Report.

Custodial credit risk - Deposits - Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of September 30, 2010, the government's bank balance was not exposed to custodial credit risk.

Cash with fiscal agents - The carrying amount of the government's cash with fiscal agents held by financial institutions was \$369,610 and this consists of the residual funds on hand from the Series 2007 Water and Sewer Revenue Bond issue after the refunding of the Series 2005 Refunding Bonds and balances in the Bond and Interest and Contingency Funds.

NOTE 4 - LONG-TERM DEBT

On April 4, 2006, the City Council passed an intent resolution to issue Series 2006 Water and Sewer Revenue Bonds in the amount of \$17,000,000. Proceeds of the issue are to be used for scheduled water and sewer improvements, completion of the expansion of the water and sewer system into the annexed areas, additional water and sewer expansions and improvements, and defeasance of remaining debt under the Series 1995 refunding bond issue.

On June 28, 2006, the Governing Authorities of the City entered into a loan agreement with the Mississippi Development Bank for the purpose of providing for the refunding of all of the City's outstanding Water and Sewer System Revenue Bonds (i.e., Series 1995, dated October 1, 1995) and for improvements and expansions to the Water and Sewer System. The Series 2006 Bonds, dated August 1, 2006 will be repaid with semi-annual interest payments commencing February 1, 2007, and principal maturing on August 1 of each year from 2007 through 2026. These bonds are payable solely from and secured by a lien on the net revenues attributable to the Water and Sewer System and are not general obligations of the City.

The Mississippi Development Bank Special Obligation Bonds, Series 2006 (Hattiesburg, Mississippi Combined Water and Sewer System Refunding and Construction Project) Bonds mature and are payable as follows:

(See Table on Next Page)

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2010**

NOTE 4 - LONG-TERM DEBT (Cont.)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	980,000	589,356
2012	1,020,000	550,156
2013	1,060,000	509,356
2014	1,110,000	456,356
2015	1,170,000	400,856
2016 - 2020	6,660,000	1,189,413
2021 - 2024	1,500,000	65,626
Total	\$ 13,500,000	\$ 3,761,119

There are rate covenants associated with the Series 2006 Bonds. The principal and interest payments are payable solely from the gross revenues of the System, less operating and maintenance expenses and the payment of existing debt of the System. Not later than sixty (60) days after the end of each fiscal year, the rates, charges and fees will be reviewed by the City in order to ascertain that the prior fiscal year's net revenues as defined in the Series 2006 Bond documents were not less than 105% of the aggregate of all debt service payments due on the Series 2006 Bonds. There are also covenants that address the issuance of parity indebtedness.

On February 19, 2002, the Governing Authorities of the City adopted a bond resolution for the purpose of funding water and sewer improvements. The \$2,950,000 Mississippi Development Bank Special Obligation Bonds, Series A – "Hattiesburg, Mississippi Water and Sewer Improvements Project" debt service will be repaid from water and sewer operating revenues. The USA Yeast Company has executed a contract with the City of Hattiesburg that sets water and sewer rates at levels that are designed to cover the projected utility bill and debt service for the Series A Bonds.

The \$2,950,000 Mississippi Development Bank Special Obligation Bonds, Series A are payable as follows:

(See Table on Next Page)

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2010**

NOTE 4 - LONG-TERM DEBT (Cont.)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 340,000	\$ 64,760
2012	360,000	44,700
2013	<u>385,000</u>	<u>23,100</u>
Total	<u>\$ 1,085,000</u>	<u>\$ 132,560</u>

In February 2009, the Governing Authorities of the City authorized the issuance of the \$7,500,000 General Obligation bonds, Series 2009 for the implementation of an automated meter reading system, to be serviced with water and sewer operating revenues. The bonds will be amortized over a fifteen year period with semi-annual interest (February and August) and annual principal and interest (February) at an interest rate of 3.50% - 3.80%. The average annual debt service is \$649,045. Presented below is a recap of the debt service requirements for these bonds:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 380,000	\$ 231,655
2012	395,000	218,824
2013	410,000	205,742
2014	430,000	192,092
2015	450,000	177,793
2016 - 2020	2,570,000	669,637
2021 - 2024	<u>2,505,000</u>	<u>293,203</u>
Total	<u>\$ 7,140,000</u>	<u>\$ 1,988,946</u>

NOTE 5 - NOTES PAYABLE - STATE REVOLVING FUND

During fiscal year 1997, the City financed construction under the State of Mississippi Department of Environmental Quality's (DEQ) State Revolving Loan Fund (SRF) Programs authorized under Mississippi Code Section 49-17-18, et seq. A cumulative total of \$2,191,243 was financed under the City's initial SRF loan #1, \$2,165,672 was financed on SRF loan #2, and \$1,268,863 was financed on SRF loan #3.

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2010**

NOTE 5 - NOTES PAYABLE - STATE REVOLVING FUND (Cont.)

Debt service attributable to notes payable pursuant to the State Revolving Loan Fund program requires monthly principal and interest payments to be withheld by the State Tax Commission from the City's monthly sales tax diversion checks. The Water and Sewer System will reimburse the General Fund each year for the SRF debt service withholdings from the sales tax revenues, subject to annual appropriations by the Water and Sewer System during the City's budgetary process. Such reimbursements to the General Fund are to be funded exclusively by surplus revenues as defined by the bond resolution prescribed by the Water and Sewer System Refunding Bonds, Series 1995.

The monthly repayments for SRF loan #1 are \$13,971 for a period of two hundred and thirty seven (237) months beginning in December 1997. Presented below is a recap of the principal and interest payments for SRF loan #1:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 131,214	\$ 36,442
2012	137,242	30,414
2013	143,547	24,109
2014	150,141	17,514
2015	157,039	10,617
2016 - 2021	150,280	3,401
Total	\$ 869,463	\$ 122,497

The monthly repayments for SRF loan #2 are \$13,845 for a period of two hundred and thirty-six (236) months beginning in August 1997. Presented below is a recap of the principal and interest payments for SRF loan #2:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 126,662	\$ 39,474
2012	132,480	33,655
2013	138,567	27,569
2014	144,932	21,203
2015	151,590	14,545
2016 - 2020	240,542	8,659
Total	\$ 934,773	\$ 145,105

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
PAGE SEVEN
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 5 - NOTES PAYABLE - STATE REVOLVING FUND (Cont.)

Both loans are calculated at 4.5% interest for level monthly payments.

The monthly repayments for SRF loan #3 are \$8,289 for a period of two hundred thirty-six months (236) beginning in June 1999. Presented below is a recap of the principal and interest payments for SRF loan #3:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 70,102	\$ 29,366
2012	73,322	26,146
2013	76,691	22,777
2014	80,214	19,254
2015	83,899	15,569
2016 - 2020	<u>300,220</u>	<u>23,050</u>
Total	<u>\$ 684,448</u>	<u>\$ 136,162</u>

NOTE 6 - CAPITAL LEASE PAYABLE

During fiscal year 2001, the City finalized an Energy Services Lease Agreement with Southern Company Energy Solutions, Inc. providing an Energy Services Program at a total cost of \$3,679,255, funded through the Master State and Municipal Lease/Purchase Agreement. Proceeds of the lease were used for the purchase and installation of 94 aerators at the sewer lagoons. These assets are included in the Sanitary Sewer System category of assets being depreciated and are being amortized using the declining balance method.

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2010**

NOTE 6 - CAPITAL LEASE PAYABLE (Cont.)

The monthly repayments for the lease are \$40,204 for a period of one hundred and twenty (120) payments beginning in May 2002. Presented below is a recap of the principal and interest payment for the lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 276,199	\$ 5,226
Total	\$ 276,199	\$ 5,226

NOTE 7 - DEFERRED DEBT EXPENSE AND BOND DISCOUNT

Bond issuance costs, bond discounts, and loan administration costs are capitalized and amortized over the terms of the respective bonds and loans using a method which approximates the effective interest method.

SUPPLEMENTARY INFORMATION

WATER AND SEWER FUND

EXHIBIT A-1

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**WATER AND SEWER FUND
BALANCE SHEET - BUDGETARY BASIS
SEPTEMBER 30, 2010**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,381,981
Deferred charge - state loan administration cost	35,374
Total current assets	<u>2,417,355</u>

CAPITAL ASSETS

Water distribution	35,465,232
Sanitary sewer system	41,169,329
Communication equipment	355,819
Motor vehicles	2,338,754
Office equipment	109,521
Other equipment	2,494,817
Improvements	321,108
	<u>82,254,580</u>
Less: Accumulated depreciation	<u>(18,724,538)</u>
	63,530,042
Land	315,243
Construction in progress	2,786,645
Total capital assets	<u>66,631,930</u>

DEFERRED TO FUTURE REVENUES

Amount to be provided in future years for retirement of indebtedness	<u>2,764,890</u>
--	------------------

Total assets

\$ 71,814,175

LIABILITIES AND RETAINED EARNINGS

CURRENT LIABILITIES

Sales tax payable	\$	12,279
Accounts payable - trash hauling		177,423
Due to other funds		1,055,038
Current maturities of long-term debt		604,177
Total current liabilities		<u>1,848,917</u>

LONG-TERM LIABILITIES

Customer meter deposits		970,648
Long-term debt		2,160,706
Total long-term liabilities		<u>3,131,354</u>

Total liabilities

4,980,271

RETAINED EARNINGS

Appropriated		201,974
Investment in land, buildings and equipment		66,631,930
Total retained earnings		<u>66,833,904</u>

Total liabilities and retained earnings

\$ 71,814,175

EXHIBIT B-1

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	
Water charges	\$ 5,927,840
Sewer charges	5,658,497
Sewer connections	11,834
Turn-on fees	64,410
Taps	74,740
Total operating revenues	<u>11,737,321</u>
OPERATING EXPENSES	
Other services and charges	13,512
Depreciation expense	1,097,910
Total operating expenses	<u>1,111,422</u>
OPERATING INCOME	<u>10,625,899</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	2,782
Interest expense	(119,687)
Other revenue	13,188
Issuance costs	(14,765)
Administrative costs	(19,148)
Debt principal payments	(313,572)
Bond interest	(11,350)
Total non-operating revenues (expenses)	<u>(462,552)</u>
INCOME BEFORE OPERATING TRANSFERS	10,163,347
OPERATING TRANSFERS	
Operating transfers in	3,609,237
Operating transfers out	(11,301,335)
Total operating transfers	<u>(7,692,098)</u>
NET INCOME	2,471,249
RETAINED EARNINGS, beginning of year	<u>64,362,655</u>
RETAINED EARNINGS, end of year	<u>\$ 66,833,904</u>

OPERATION AND MAINTENANCE FUND

EXHIBIT A-2

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**OPERATION AND MAINTENANCE FUND
BALANCE SHEET - BUDGETARY BASIS
SEPTEMBER 30, 2010**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	815,697
Due from other funds		93,549

<i>Total assets</i>	\$	909,246
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LIABILITIES AND RETAINED EARNINGS

CURRENT LIABILITIES

Accounts payable	\$	39,634
Accrued interest payable		1,726
Due to other funds		13,491
Total current liabilities		54,851

RETAINED EARNINGS

<i>Total liabilities and retained earnings</i>	\$	909,246
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EXHIBIT B-2

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**OPERATION AND MAINTENANCE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	<u>\$ -</u>
OPERATING EXPENSES	
Personal services	2,248,809
Supplies and expenses	802,134
Other services and charges	2,517,622
Capital outlays	112,218
Total operating expenses	<u>5,680,783</u>
OPERATING LOSS	<u>(5,680,783)</u>
NON-OPERATING REVENUES (EXPENSES)	
Capital lease payments	(452,859)
Interest expense	(28,907)
Interest revenue	8,898
Other revenue	11,046
Total non-operating revenues (expenses)	<u>(461,822)</u>
LOSS BEFORE OPERATING TRANSFERS	(6,142,605)
OPERATING TRANSFERS	
Operating transfers in	6,122,589
Operating transfers out	(7,583)
Total operating transfers	<u>6,115,006</u>
NET INCOME	(27,599)
RETAINED EARNINGS, beginning of year	<u>881,994</u>
RETAINED EARNINGS, end of year	<u><u>\$ 854,395</u></u>

SCHEDULE 1

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**OPERATION AND MAINTENANCE FUND
SCHEDULE OF EXPENSES
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Personal Services</u>	<u>Supplies and Expenses</u>	<u>Other Services and Charges</u>	<u>Capital Outlays</u>	<u>Total</u>
Office	\$ 217,549	\$ 5,759	\$ 92,763	\$ 4,428	\$ 320,499
Transmission	777,980	184,261	21,834	45,596	1,029,671
Plant	460,542	128,496	754,585	46,378	1,390,001
Sewer	514,016	203,427	316,724	2,375	1,036,542
Sewer lagoon	<u>278,722</u>	<u>280,191</u>	<u>1,331,716</u>	<u>13,441</u>	<u>1,904,070</u>
<i>Total expenses</i>	<u>\$ 2,248,809</u>	<u>\$ 802,134</u>	<u>\$ 2,517,622</u>	<u>\$ 112,218</u>	<u>\$ 5,680,783</u>

WATER AND SEWER CONSTRUCTION FUND

EXHIBIT A-3

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**WATER AND SEWER CONSTRUCTION FUND
BALANCE SHEET - BUDGETARY BASIS
SEPTEMBER 30, 2010**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	498,772
Due from other funds		704,523
Other receivables		<u>385,983</u>

Total assets \$ 1,589,278

LIABILITIES AND RETAINED EARNINGS

LIABILITIES

Accounts payable	\$	346,784
<i>Total liabilities</i>		<u>346,784</u>

RETAINED EARNINGS

Total liabilities and retained earnings \$ 1,589,278

EXHIBIT B-3

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**WATER AND SEWER CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	<u>\$ -</u>
OPERATING EXPENSES	
Other services and charges	1,955,154
Capital outlays	<u>(17,237)</u>
Total operating expenses	<u>1,937,917</u>
OPERATING LOSS	<u>(1,937,917)</u>
NON-OPERATING REVENUES	
Interest revenue	635
Rents	95,197
Intergovernmental revenues	<u>1,069,628</u>
Total non-operating revenues	<u>1,165,460</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(772,457)</u>
OPERATING TRANSFERS	
Operating transfers in	3,259,755
Operating transfers out	<u>(1,449,238)</u>
Total operating transfers	<u>1,810,517</u>
NET INCOME	1,038,060
RETAINED EARNINGS, beginning of year	<u>204,434</u>
RETAINED EARNINGS, end of year	<u>\$ 1,242,494</u>

BOND AND INTEREST FUND

EXHIBIT A-4

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**BOND AND INTEREST FUND
BALANCE SHEET - BUDGETARY BASIS
SEPTEMBER 30, 2010**

ASSETS

CURRENT ASSETS

Cash with fiscal agent	\$	534,093
Due from other funds		182,339
Total current assets		<u>716,432</u>

DEFERRED TO FUTURE REVENUES

Amount to be provided in future years for retirement of indebtedness		<u>20,640,000</u>
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Total assets

\$ 21,356,432

LIABILITIES AND RETAINED EARNINGS

CURRENT LIABILITIES

Accrued interest payable	\$	184,931
Current maturities of long-term debt		1,360,000
Total current liabilities		<u>1,544,931</u>

LONG-TERM LIABILITIES

Bonds payable, less current portion		<u>19,280,000</u>
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Total liabilities

20,824,931

RETAINED EARNINGS

531,501

Total liabilities and retained earnings

\$ 21,356,432

EXHIBIT B-4

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**BOND AND INTEREST FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	<u>\$ -</u>
OPERATING EXPENSES	<u>-</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	354
Interest expense	(892,795)
Bonds redeemed	(1,305,000)
Total non-operating revenues (expenses)	<u>(2,197,441)</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(2,197,441)</u>
OPERATING TRANSFERS	
Operating transfers in	2,452,200
Total operating transfers	<u>2,452,200</u>
NET INCOME	254,759
RETAINED EARNINGS, beginning of year	<u>276,742</u>
RETAINED EARNINGS, end of year	<u>\$ 531,501</u>

USA YEAST BOND AND INTEREST FUND

EXHIBIT A-5

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**USA YEAST BOND AND INTEREST FUND
BALANCE SHEET- BUDGETARY BASIS
SEPTEMBER 30, 2010**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	113,843
Due from other funds		33,610
Total current assets		<u>147,453</u>

DEFERRED TO FUTURE REVENUES

Amount to be provided in future years for retirement of indebtedness		<u>1,085,000</u>
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Total assets

\$ 1,232,453

LIABILITIES AND RETAINED EARNINGS

CURRENT LIABILITIES

Current maturities of long-term debt	\$	340,000
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LONG-TERM LIABILITIES

Bonds payable, less current portion		745,000
Total liabilities		<u>1,085,000</u>

RETAINED EARNINGS

147,453

Total liabilities and retained earnings

\$ 1,232,453

EXHIBIT B-5

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**USA YEAST BOND AND INTEREST FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	<u>\$ -</u>
OPERATING EXPENSES	<u>-</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	200
Bonds redeemed	(320,000)
Interest expense	(83,320)
Other expense	(3,000)
Total non-operating revenues (expenses)	<u>(406,120)</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(406,120)</u>
OPERATING TRANSFERS	
Operating transfers in	403,320
Total operating transfers	<u>403,320</u>
NET LOSS	(2,800)
RETAINED EARNINGS, beginning of year	<u>150,253</u>
RETAINED EARNINGS, end of year	<u><u>\$ 147,453</u></u>

2006 WATER AND SEWER CONSTRUCTION FUND

EXHIBIT A-6

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**2006 WATER AND SEWER CONSTRUCTION FUND
BALANCE SHEET- BUDGETARY BASIS
SEPTEMBER 30, 2010**

ASSETS

CURRENT ASSETS

Cash with fiscal agent

\$ 77,317

Total assets

\$ 77,317

LIABILITIES AND RETAINED EARNINGS

LIABILITIES

\$ -

RETAINED EARNINGS

77,317

Total liabilities and retained earnings

\$ 77,317

EXHIBIT B-6

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**2006 WATER AND SEWER CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	<u>\$ -</u>
OPERATING EXPENSES	
Capital outlay	1,855,652
Total operating expenses	<u>1,855,652</u>
OPERATING LOSS	<u>(1,855,652)</u>
NON-OPERATING REVENUES	
Interest revenue	122
Total non-operating revenues	<u>122</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(1,855,530)</u>
OPERATING TRANSFERS	
Operating transfers out	-
Total operating transfers	<u>-</u>
NET LOSS	(1,855,530)
RETAINED EARNINGS, beginning of year	<u>1,932,847</u>
RETAINED EARNINGS, end of year	<u>\$ 77,317</u>

**2009 WATER AND SEWER
GENERAL OBLIGATION BOND CONSTRUCTION FUND**

EXHIBIT A-7

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**2009 WATER AND SEWER GENERAL OBLIGATION BOND CONSTRUCTION FUND
BALANCE SHEET – BUDGETARY BASIS
SEPTEMBER 30, 2010**

ASSETS

CURRENT ASSETS

Cash with fiscal agent

\$ 910,683

Total assets

\$ 910,683

LIABILITIES AND RETAINED EARNINGS

LIABILITIES

\$ -

RETAINED EARNINGS

910,683

Total liabilities and retained earnings

\$ 910,683

EXHIBIT B-7

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**2009 WATER AND SEWER GENERAL OBLIGATION BOND CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - BUDGETARY BASIS
YEAR ENDED SEPTEMBER 30, 2010**

OPERATING REVENUES	<u>\$ -</u>
OPERATING EXPENSES	
Other services and charges	1,012,445
Capital outlay	<u>126,673</u>
Total operating expenses	<u>1,139,118</u>
OPERATING LOSS	<u>(1,139,118)</u>
NON-OPERATING REVENUES	
Interest revenue	<u>6,055</u>
Total non-operating revenues	<u>6,055</u>
LOSS BEFORE OTHER SOURCES (USES)	<u>(1,133,063)</u>
OTHER SOURCES (USES)	
Proceeds from general obligation bonds	<u>-</u>
Total other sources (uses)	<u>-</u>
NET INCOME	(1,133,063)
RETAINED EARNINGS, beginning of year	<u>2,043,746</u>
RETAINED EARNINGS, end of year	<u><u>\$ 910,683</u></u>

SCHEDULE 2

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**SCHEDULE OF DEPRECIATION
YEAR ENDED SEPTEMBER 30, 2010**

	COST		
	<u>Balance</u> <u>10/01/2009</u>	<u>Additions</u>	<u>Balance</u> <u>09/30/2010</u>
<i>Water Distribution System:</i>			
Transmission lines	\$ 11,531,703	\$ 1,182,102	\$ 12,713,805
Water treating plant	858,978	-	858,978
Water main extensions, wells, etc.	20,686,821	-	20,686,821
Water treating plant	964,685	-	964,685
Agricultural equipment	118,296	-	118,296
Motor vehicles	1,550,084	-	1,550,084
Office equipment	109,521	-	109,521
Radio and communication equipment	337,046	7,583	344,629
Other equipment	1,424,229	-	1,424,229
Water office building	240,943	-	240,943
Improvements	321,108	-	321,108
Computer software	55,681	-	55,681
<i>Sanitary Sewer System:</i>			
Sewer lines	18,292,256	620,756	18,913,012
Sanitary sewerage system	22,139,236	-	22,139,236
Buildings and structures	117,081	-	117,081
Building equipment	112,277	-	112,277
Agricultural equipment	170,767	-	170,767
Motor vehicles	788,670	-	788,670
Radio and communication equipment	11,190	-	11,190
Other equipment	613,567	-	613,567
<i>Totals</i>	<u>\$ 80,444,139</u>	<u>\$ 1,810,441</u>	<u>\$ 82,254,580</u>

ACCUMULATED DEPRECIATION				
<u>Rate</u>	<u>Method</u>	<u>Balance 10/01/2009</u>	<u>Additions</u>	<u>Balance 09/30/2010</u>
2%	D/B	\$ 1,398,130	\$ 221,700	\$ 1,619,830
2%	D/B	493,631	6,742	500,373
1%	D/B	3,420,835	170,845	3,591,680
1%	D/B	334,965	6,231	341,196
10%	D/B	94,634	917	95,551
20%	D/B	1,343,654	64,712	1,408,366
10%	D/B	87,545	2,515	90,060
10%	D/B	262,161	8,457	270,618
10%	D/B	704,415	93,972	798,387
3%	D/B	195,303	2,738	198,041
7%	D/B	139,866	11,741	151,607
10%	D/B	37,640	4,347	41,987
2%	D/B	4,190,706	296,951	4,487,657
1%	D/B	3,388,682	185,535	3,574,217
2%	D/B	48,673	1,338	50,011
10%	D/B	89,632	1,906	91,538
10%	D/B	160,492	865	161,357
20%	D/B	739,588	5,568	745,156
10%	D/B	10,298	75	10,373
10%	D/B	485,778	10,755	496,533
		<u>\$ 17,626,628</u>	<u>\$ 1,097,910</u>	<u>\$ 18,724,538</u>

SCHEDULE 3

**CITY OF HATTIESBURG, MISSISSIPPI
COMBINED WATER AND SEWER SYSTEM**

**SCHEDULE OF BONDS PAYABLE
YEAR ENDED SEPTEMBER 30, 2010**

<u>Description</u>	<u>Interest Rate</u>	<u>Original Amount of Issue</u>	<u>Balance 10/01/2009</u>	<u>Issued</u>
Mississippi Development Bank Special Obligation Bonds, Series 2006 (Hattiesburg Water and Sewer System)	Various	\$ 17,000,000	\$ 14,445,000	\$ -
Series 2009 Water and Sewer General Obligation Bonds	Various	7,500,000	7,500,000	-
Mississippi Development Bank Special Obligation Bonds, Series A	Various	<u>2,950,000</u>	<u>1,405,000</u>	<u>-</u>
Totals		<u>\$ 27,450,000</u>	<u>\$ 23,350,000</u>	<u>\$ -</u>

<u>Retired</u>	<u>Balance 09/30/2010</u>	<u>CURRENT PORTION</u>		<u>TO MATURITY</u>	
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
\$ 945,000	\$ 13,500,000	\$ 980,000	\$ 589,356	\$ 12,520,000	\$ 3,171,763
360,000	7,140,000	380,000	231,655	6,760,000	1,757,291
<u>320,000</u>	<u>1,085,000</u>	<u>340,000</u>	<u>64,760</u>	<u>745,000</u>	<u>67,800</u>
<u>\$ 1,625,000</u>	<u>\$ 21,725,000</u>	<u>\$ 1,700,000</u>	<u>\$ 885,771</u>	<u>\$ 20,025,000</u>	<u>\$ 4,996,854</u>