

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**Year Ended September 30, 2011**

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

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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, 2011, 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, 2011, 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, 2011, 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 19 through 40 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  
March 23, 2012

EXHIBIT A

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

**STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011**

**ASSETS**

	<b><u>Combined Water &amp; Sewer System</u></b>
<b><i>CURRENT ASSETS</i></b>	
Cash and cash equivalents	\$ 7,624,581
Cash with fiscal agent	293,152
Accounts receivable - trade	2,014,615
Grants receivable	620,370
Total current assets	<u>10,552,718</u>
<b><i>CAPITAL ASSETS</i></b>	
Land	315,243
Construction in progress	7,190,323
Infrastructure, net	63,138,243
Buildings and improvements, net	158,469
Machinery and equipment, net	911,151
Total capital assets	<u>71,713,429</u>
<b><i>OTHER ASSETS</i></b>	
Deferred charge - state loan administrative cost	16,226
Total other assets	<u>16,226</u>
 <b><i>Total assets</i></b>	 <b><u>\$ 82,282,373</u></b>

See the accompanying notes to financial statements.

**LIABILITIES AND NET ASSETS**

	<b><u>Combined Water &amp; Sewer System</u></b>
<b><i>CURRENT LIABILITIES</i></b>	
Due to other funds	\$ 56,761
Sales tax payable	13,426
Accounts payable - trash hauling	180,766
Accounts payable - other	205,790
Accrued interest payable	141,296
Revenue bonds - current	1,380,000
General obligation bonds - current	515,000
General obligation note payable - current	611,599
<b>Total current liabilities</b>	<b><u>3,104,638</u></b>
<b><i>NON-CURRENT LIABILITIES</i></b>	
Revenue bonds	11,885,000
General obligation bonds	9,730,000
General obligation note payable	2,974,907
Customer meter deposits	1,029,935
<b>Total non-current liabilities</b>	<b><u>25,619,842</u></b>
<b>Total liabilities</b>	<b><u>28,724,480</u></b>
<b><i>NET ASSETS</i></b>	
Invested in capital assets, net of related debt	44,616,923
Unrestricted	8,940,970
<b>Total net assets</b>	<b><u>53,557,893</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 82,282,373</u></b>

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, 2011**

<b>OPERATING REVENUES</b>	
Water charges	\$ 6,077,959
Sewer charges	5,485,153
Sewer connections	7,664
Turn-on fees	55,900
Taps	108,039
Total operating revenues	<u>11,734,715</u>
<b>OPERATING EXPENSES</b>	
Personal services	2,109,480
Other services and charges	4,130,496
Supplies and expenses	898,978
Depreciation	1,112,337
Total operating expenses	<u>8,251,291</u>
<b>OPERATING INCOME</b>	<u>3,483,424</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	21,264
Interest expense	(1,069,756)
Other revenues	135,668
Intergovernmental revenues	3,023,224
Miscellaneous expenses	(242,509)
Loan amortization expenses	(19,148)
Total non-operating revenues (expenses)	<u>1,848,743</u>
<b>INCOME BEFORE TRANSFERS</b>	5,332,167
<b>OPERATING TRANSFERS</b>	
Operating transfers out	<u>(56,891)</u>
Total operating transfers	<u>(56,891)</u>
<b>CHANGE IN NET ASSETS</b>	5,275,276
<b>TOTAL NET ASSETS, beginning</b>	<u>48,282,617</u>
<b>TOTAL NET ASSETS, ending</b>	<u><u>\$ 53,557,893</u></u>

See the accompanying notes to financial statements.



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

**STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2011**

***CASH FLOWS FROM OPERATING ACTIVITIES:***

Cash received from customers	\$ 11,955,178
Cash paid to suppliers	(5,204,506)
Cash paid to employees	(2,109,480)
Net cash provided by operating activities	<u>4,641,192</u>

***CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:***

Other cash receipts	135,668
Transfers to other funds	(56,891)
Net cash provided by noncapital financing activities	<u>78,777</u>

***CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:***

Principal payments - capital lease	(327,978)
Principal payments - bonds	(1,815,000)
Principal payments - notes	(276,199)
Intergovernmental cash receipts	2,788,837
Acquisition and construction of capital assets	(6,193,836)
Proceeds from general obligation notes	1,425,800
Proceeds from general obligation bonds	3,600,000
Other receipts (payments)	(242,509)
Interest paid on debt	(1,115,117)
Net cash used by capital and related financing activities	<u>(2,156,002)</u>

***CASH FLOWS FROM INVESTING ACTIVITIES:***

Interest income	<u>21,264</u>
Net cash provided by investing activities	<u>21,264</u>

***NET INCREASE IN CASH AND CASH EQUIVALENTS*** 2,585,231

***CASH AND CASH EQUIVALENTS - Beginning of year*** 5,332,502

***CASH AND CASH EQUIVALENTS - End of year*** \$ 7,917,733

Displayed as:

Cash and cash equivalents	\$ 7,624,581
Cash with fiscal agent	<u>293,152</u>

\$ 7,917,733

See the accompanying notes to financial statements.

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

**STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2011**

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

<b><i>OPERATING INCOME</i></b>	<b>\$ 3,483,424</b>
<b><i>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i></b>	
Depreciation expense	1,112,337
Changes in assets and liabilities:	
Decrease in accounts receivable	160,029
(Decrease) in accounts payable - trash hauling	(383,075)
Increase in accounts payable - other	205,790
Increase in customer meter deposits	59,287
Increase in sales tax payable	1,147
Increase in amount due to governmental funds	2,253
Total adjustments	<u>1,157,768</u>
<b><i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i></b>	<b><u>\$ 4,641,192</u></b>

***NOTES TO FINANCIAL STATEMENTS***

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

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity** - The Combined Water and Sewer System is classified as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. 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 where the governing body has decided the periodic determination of revenues earned, expenses incurred, 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.

**Basis of Accounting** - 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, regardless of the time of related cash flows.

**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 original maturities of three (3) months or less from the date of acquisition. Cash and cash equivalents are valued at cost.

**Accounts Receivable** - All trade, sales, and other receivables are considered collectible by management; therefore no reduction has been made for allowance for uncollectibles.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds", which represents the current portion of interfund loans.

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE TWO  
YEAR ENDED SEPTEMBER 30, 2011**

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

**Capital Assets** - Land, buildings, equipment, and infrastructure assets that are purchased, acquired, or developed are carried at historical cost. Additions are capitalized while expenditures for maintenance and repairs are charged to income. A capitalization threshold of \$5,000 is used for all capital assets. 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, equipment, and infrastructure assets are as follows:

	<u>Estimated Useful Lives</u>
Water and sewer systems	25 - 100 years
Buildings and improvements	10 - 39 years
Motor vehicles	4 years
Equipment	10 years

**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, 2011 through March 23, 2012, as that date is the date the audited financial statements were available to be issued. See Note 10 for details of significant subsequent events.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Deposits** - 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, 2011**

**NOTE 2 - DEPOSITS 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, 2011, 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 \$293,152 and this consists of the monthly transfers of operating revenues for the next scheduled principal and interest payments of the Mississippi Development Bank Special Obligation Bonds, Series 2006.

**NOTE 3 - CAPITAL ASSETS**

	<b>Primary Government</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 315,243	\$ -	\$ -	\$ 315,243
Construction in progress	2,786,645	4,403,678	-	7,190,323
Total capital assets not being depreciated:	<u>3,101,888</u>	<u>4,403,678</u>	<u>-</u>	<u>7,505,566</u>
Capital assets being depreciated:				
Buildings and improvements	321,108	-	-	321,108
Machinery and equipment	5,298,911	-	-	5,298,911
Infrastructure	76,634,561	1,790,158	-	78,424,719
Total capital assets being depreciated:	<u>82,254,580</u>	<u>1,790,158</u>	<u>-</u>	<u>84,044,738</u>

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 3 - CAPITAL ASSETS (Cont.)**

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
<b>Business-Type Activities (Cont.):</b>				
Less: accumulated depreciation for:				
Buildings and improvements	\$ 151,607	\$ 11,032	\$ -	\$ 162,639
Machinery and equipment	4,209,926	177,834	-	4,387,760
Infrastructure	14,363,005	923,471	-	15,286,476
Total accumulated depreciation	<u>18,724,538</u>	<u>1,112,337</u>	<u>-</u>	<u>19,836,875</u>
Total capital assets being depreciated, net	<u>63,530,042</u>	<u>677,821</u>	<u>-</u>	<u>64,207,863</u>
<b>Business-type activity capital assets, net</b>	<u><u>\$ 66,631,930</u></u>	<u><u>\$ 5,081,499</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 71,713,429</u></u>

**NOTE 4 - BALANCES DUE TO/FROM OTHER FUNDS**

The balance due from the Combined Water and Sewer System at September 30, 2011 consists of the following:

\$ 15,915	Due to the General Fund for reimbursements due for oil and gas expenditures.
<u>40,846</u>	Due to the General Fund from Water and Sewer Fund for water and sewer debt service payments.
<u><u>\$ 56,761</u></u>	<b>Total</b>

**NOTE 5 - LONG-TERM DEBT**

A schedule of changes of the Combined Water and Sewer System's long-term obligations is presented in Schedule 3 on pages 39 - 40 herein.

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 5 - LONG-TERM DEBT (Cont.)**

On June 28, 2006, the City Council 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 were issued in the amount of \$17,000,000 to be repaid with semi-annual interest payments commencing February 1, 2007, and principal maturing on August 1 of each year from 2007 through 2021. 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.

On June 28, 2006, the City Council 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 were issued in the amount of \$17,000,000 to be repaid with semi-annual interest payments commencing February 1, 2007, and principal maturing on August 1 of each year from 2007 through 2021. 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
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	1,225,000	342,356
2017 - 2021	<u>6,935,000</u>	<u>912,681</u>
<b>Total</b>	<b><u>\$ 12,520,000</u></b>	<b><u>\$ 3,171,761</u></b>



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

**NOTES TO FINANCIAL STATEMENTS  
PAGE SIX  
YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 5 - LONG-TERM DEBT (Cont.)**

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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 360,000	\$ 44,700
2013	385,000	23,100
<b>Total</b>	<u>\$ 745,000</u>	<u>\$ 67,800</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:

(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, 2011**

**NOTE 5 - LONG-TERM DEBT (Cont.)**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 395,000	\$ 218,824
2013	410,000	205,742
2014	430,000	192,092
2015	450,000	177,793
2016	470,000	163,430
2017 - 2021	2,685,000	588,475
2022 - 2024	1,920,000	110,935
<b>Total</b>	<b>\$ 6,760,000</b>	<b>\$ 1,657,291</b>

In November 2010, the City issued a total of \$3,600,000 Water and Sewer General Obligation Bonds (\$3,600,000 Hattiesburg, MS General Obligation Water & Sewer Bonds, Series 2010) for improvements to the City's water and sewer system. The interest rates on these bonds range 2.60% to 3.70%, with an average coupon rate of 3.11% and average annual debt service is \$246,436. The final scheduled maturity date of these bonds is October 1, 2030. The City intends to use monthly transfers of water and sewer operating revenues to fund the scheduled semi-annual and annual principal and interest payments. Presented below is a recap of the principal and interest payments for the General Obligation Water & Sewer Bonds, Series 2010:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 120,000	\$ 111,584
2013	125,000	107,144
2014	130,000	102,519
2015	135,000	97,709
2016	145,000	92,714
2017 - 2021	820,000	380,709
2022 - 2026	1,015,000	249,744
2027 - 2031	995,000	81,372
<b>Total</b>	<b>\$ 3,485,000</b>	<b>\$ 1,223,495</b>

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE EIGHT  
YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 6 - 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.

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>
2012	\$ 137,242	\$ 30,414
2013	143,547	24,109
2014	150,141	17,514
2015	157,039	10,617
2016	150,280	3,401
<b>Total</b>	<u>\$ 738,249</u>	<u>\$ 86,055</u>

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:

(See Table on Next Page)

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE NINE  
YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 6 - NOTES PAYABLE - STATE REVOLVING FUND (Cont.)**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 132,480	\$ 33,655
2013	138,567	27,569
2014	144,932	21,203
2015	151,590	14,545
2016	158,555	7,581
2017	81,987	1,080
<b>Total</b>	<b>\$ 808,111</b>	<b>\$ 105,633</b>

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>
2012	\$ 73,322	\$ 26,146
2013	76,691	22,777
2014	80,214	19,254
2015	83,899	15,569
2016	87,753	11,715
2017-2019	212,467	11,335
<b>Total</b>	<b>\$ 614,346</b>	<b>\$ 106,796</b>

**NOTE 7 - GENERAL OBLIGATION NOTE PAYABLE**

During fiscal year 2011, the City borrowed \$1,425,800 from BancorpSouth using the five-year general obligation note provisions available to cities and counties as provided by the Mississippi Code for water and sewer improvements. Under the terms of the note, the City will make semiannual interest beginning February 16, 2012 and annual principal payments beginning August 16, 2012 that will approximate \$300,000 in total each year, at a 2.19% interest rate.

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE TEN  
YEAR ENDED SEPTEMBER 30, 2011**

**NOTE 7 - GENERAL OBLIGATION NOTE PAYABLE (Cont.)**

Presented below is a recap of the principal and interest payments outstanding for the note:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 268,555	\$ 31,225
2013	276,613	25,344
2014	284,912	19,286
2015	293,458	13,046
2016	302,262	6,620
<b>Total</b>	<b>\$ 1,425,800</b>	<b>\$ 95,521</b>

**NOTE 8 - 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.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

In September 2011, the City Council awarded a contract in the amount of \$2,165,000 for the construction of new cells at the City's North Lagoon waste water treatment facility, to be paid from the City's 2010 Water and Sewer General Obligation Bond Construction Fund.

**NOTE 10 - SUBSEQUENT EVENTS**

During fiscal year 2011, the City implemented certain remedial measures designed to improve the waste water treatment capabilities of the City's South Lagoon. In November 2011, the City authorized the execution of a sludge removal project contract at the South Lagoon in the amount of \$1,399,985 to be paid from the Water and Sewer Construction Fund from the proceeds of the City's Series 2011 Water and Sewer General Obligation Note. The City has attempted to coordinate these efforts with State and Federal regulatory agencies in order to comply with applicable environmental requirements at the lagoon. Whereas these measures are designed to bring about substantial improvements in the City's efforts to maintain environmental compliance, management is also in the process of developing long-term solutions that have not yet been finalized.

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE ELEVEN  
YEAR ENDED SEPTEMBER 30, 2011**

***NOTE 10 - SUBSEQUENT EVENTS (Cont.)***

In December 2011, the City paid a net fine in the amount of \$8,125 to Mississippi Department of Environmental Quality as a result of findings concerning the City's wastewater treatment facilities. The City also approved a new wastewater treatment agreement with the U.S.A. Yeast Company after voiding the existing contract during fiscal year 2011. Under the terms of the new agreement, upgrades will be made to the Company's manufacturing process, and the City will apply for \$5 million in grant funding through the Mississippi Development Authority in support of the project. The South Lagoon, in particular, has been singled out as the cause of a periodic stench, and the City had voided the wastewater treatment contract with U.S.A Yeast after determining the Company was a contributing factor in damages to infrastructure system at the South Lagoon.

In November 2011, the City adopted an intent resolution for the issuance of water and sewer revenue bonds in an amount not to exceed \$12,500,000 for improvements to the water and sewer system. The bonds are to be issued in early 2012 with principal and interest payments scheduled to begin in fiscal year 2013. The bonds are to be amortized over a twenty (20) year period from water and sewer operating revenues. The City implemented water and sewer rate adjustments in September 2011 that accommodate this new debt in conjunction with existing debt and operating expenses. The rate adjustments call for a 10% water rate increase effective October 2011, with sewer rates being set at 90% of water billings. There is also a rate increase authorized that will be effective for October 2012 that includes a 5% water rate increase with sewer rates being set at 100% of water billings at that time.

In February 2012, the City Council adopted a resolution requesting the Legislature of the State of Mississippi to enact local and private legislation to authorize the City to enter into an agreement for a term not to exceed thirty (30) years for the operation and/or leasing of all or portions of its wastewater collection, storage, transportation, treatment or other systems. The legislation, if enacted, also prescribes the necessary request for proposal procedures to be followed pursuant to applicable sections of the Mississippi Code 1972 in order to award a contract, operating agreement, or lease as authorized by the proposed local and private law.

***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,  
MODIFIED FOR CAPITAL ASSETS AND LONG-TERM DEBT  
SEPTEMBER 30, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$ 2,457,459
Deferred charge - state loan administration cost	16,226
Total current assets	<u>2,473,685</u>

***CAPITAL ASSETS***

Water distribution	36,718,990
Sanitary sewer system	41,705,729
Communication equipment	355,819
Motor vehicles	2,338,754
Office equipment	109,521
Other equipment	2,494,817
Improvements	321,108
	<u>84,044,738</u>
Less: Accumulated depreciation	(19,836,875)
	<u>64,207,863</u>
Land	315,243
Construction in progress	7,190,322
Total capital assets	<u>71,713,428</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness	<u>2,160,714</u>
--	------------------

***Total assets***

\$ 76,347,827
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**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Sales tax payable	\$	13,426
Accounts payable - trash hauling		180,766
Due to other funds		1,053,720
Current maturities of long-term debt		<u>343,044</u>
Total current liabilities		<u>1,590,956</u>

***LONG-TERM LIABILITIES***

Customer meter deposits		1,029,935
Long-term debt		<u>1,817,662</u>
Total long-term liabilities		<u>2,847,597</u>

***Total liabilities***

4,438,553

***RETAINED EARNINGS***

Appropriated		195,846
Investment in land, buildings and equipment		<u>71,713,428</u>
Total retained earnings		<u>71,909,274</u>

***Total liabilities and retained earnings***

\$ 76,347,827

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,  
MODIFIED FOR CAPITAL ASSETS AND LONG-TERM DEBT  
YEAR ENDED SEPTEMBER 30, 2011**

**OPERATING REVENUES**

Water charges	\$	6,162,245
Sewer charges		5,537,671
Sewer connections		7,664
Turn-on fees		55,900
Taps		108,039
Total operating revenues		<u>11,871,519</u>

**OPERATING EXPENSES**

Other services and charges		8,057
Depreciation expense		1,112,337
Total operating expenses		<u>1,120,394</u>

**OPERATING INCOME**

10,751,125

**NON-OPERATING REVENUES (EXPENSES)**

Interest revenue		2,461
Interest expense		(105,281)
Other revenue		4,651
Administrative costs		(19,148)
Debt principal payments		(327,977)
Total non-operating revenues (expenses)		<u>(445,294)</u>

**INCOME BEFORE OPERATING TRANSFERS**

10,305,831

**OPERATING TRANSFERS**

Operating transfers in		6,193,836
Operating transfers out		(11,424,297)
Total operating transfers		<u>(5,230,461)</u>

**NET INCOME**

5,075,370

**RETAINED EARNINGS, beginning of year**

66,833,904

**RETAINED EARNINGS, end of year**

\$ 71,909,274

***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, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	480,988
Due from other funds		<u>764,978</u>

<b><i>Total assets</i></b>	<b>\$</b>	<b><u><u>1,245,966</u></u></b>
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**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Accounts payable	\$	58,828
Total current liabilities		<u>58,828</u>

***RETAINED EARNINGS***

<b><i>Total liabilities and retained earnings</i></b>	<b>\$</b>	<b><u><u>1,245,966</u></u></b>
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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, 2011**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Personal services	2,109,480
Supplies and expenses	2,779,331
Other services and charges	934,206
Capital outlays	309,026
Total operating expenses	<u>6,132,043</u>
<b>OPERATING LOSS</b>	<u>(6,132,043)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Capital lease payments	(276,199)
Interest expense	(5,226)
Interest revenue	5,205
Other revenue	54,111
Total non-operating revenues (expenses)	<u>(222,109)</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	(6,354,152)
<b>OPERATING TRANSFERS</b>	
Operating transfers in	6,661,254
Total operating transfers	<u>6,661,254</u>
<b>NET INCOME</b>	307,102
<b>RETAINED EARNINGS, beginning of year</b>	<u>880,036</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ 1,187,138</u></u>

SCHEDULE 1

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

**OPERATION AND MAINTENANCE FUND  
SCHEDULE OF EXPENSES  
YEAR ENDED SEPTEMBER 30, 2011**

	<u>Personal Services</u>	<u>Supplies and Expenses</u>	<u>Other Services and Charges</u>	<u>Capital Outlays</u>	<u>Total</u>
Office	\$ 209,155	\$ 6,402	\$ 90,419	\$ 1,300	\$ 307,276
Transmission	707,414	185,878	111,527	14,114	1,018,933
Plant	432,563	154,923	756,645	16,619	1,360,750
Sewer	511,024	209,889	384,829	2,127	1,107,869
Sewer lagoon	<u>249,324</u>	<u>377,114</u>	<u>1,435,911</u>	<u>274,866</u>	<u>2,337,215</u>
<b><i>Total expenses</i></b>	<u><u>\$ 2,109,480</u></u>	<u><u>\$ 934,206</u></u>	<u><u>\$ 2,779,331</u></u>	<u><u>\$ 309,026</u></u>	<u><u>\$ 6,132,043</u></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, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents

\$ 1,540,041

***Total assets***

\$ 1,540,041

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ -

***RETAINED EARNINGS***

1,540,041

***Total liabilities and retained earnings***

\$ 1,540,041

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, 2011**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Capital outlays	5,711,098
Total operating expenses	<u>5,711,098</u>
<b>OPERATING LOSS</b>	<u>(5,711,098)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	963
Rents	100,919
Proceeds from general obligation note	1,425,800
Intergovernmental revenues	2,788,837
Total non-operating revenues	<u>4,316,519</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(1,394,579)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	1,731,393
Total operating transfers	<u>1,731,393</u>
<b>NET INCOME</b>	336,814
<b>RETAINED EARNINGS, beginning of year</b>	<u>1,203,227</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ 1,540,041</u></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, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	366,887
Cash with fiscal agent		293,152
Due from other funds		214,166
Total current assets		<u>874,205</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness		<u>22,765,000</u>
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***Total assets***

\$ 23,639,205

**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Current maturities of long-term debt	\$	1,803,555
Total current liabilities		<u>1,803,555</u>

***LONG-TERM LIABILITIES***

Bonds payable, less current portion		<u>20,961,445</u>
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Total liabilities

22,765,000

***RETAINED EARNINGS***

874,205

***Total liabilities and retained earnings***

\$ 23,639,205

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, 2011**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	520
Interest expense	(937,850)
Bonds redeemed	(1,475,000)
Total non-operating revenues (expenses)	<u>(2,412,330)</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(2,412,330)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	2,570,131
Total operating transfers	<u>2,570,131</u>
<b>NET INCOME</b>	157,801
<b>RETAINED EARNINGS, beginning of year</b>	<u>716,404</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 874,205</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, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	110,921
Due from other funds		<u>33,730</u>
Total current assets		<u>144,651</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness		<u>745,000</u>
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***Total assets***

\$ 889,651

**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Current maturities of long-term debt	\$	360,000
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***LONG-TERM LIABILITIES***

Bonds payable, less current portion		<u>385,000</u>
Total liabilities		<u>745,000</u>

***RETAINED EARNINGS***

144,651

***Total liabilities and retained earnings***

\$ 889,651

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, 2011**

<b>OPERATING REVENUES</b>	\$ -
<b>OPERATING EXPENSES</b>	-
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	204
Bonds redeemed	(340,000)
Interest expense	(64,760)
Other expense	(3,000)
Total non-operating revenues (expenses)	<u>(407,556)</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(407,556)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	404,760
Total operating transfers	<u>404,760</u>
<b>NET LOSS</b>	(2,796)
<b>RETAINED EARNINGS, beginning of year</b>	<u>147,447</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 144,651</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, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash with fiscal agent

\$ -

***Total assets***

\$ -

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ -

***RETAINED EARNINGS***

-

***Total liabilities and retained earnings***

\$ -

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, 2011**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Capital outlay	77,192
Total operating expenses	<u>77,192</u>
<b>OPERATING LOSS</b>	<u>(77,192)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	6
Total non-operating revenues	<u>6</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(77,186)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers out	131
Total operating transfers	<u>131</u>
<b>NET LOSS</b>	(77,317)
<b>RETAINED EARNINGS, beginning of year</b>	<u>77,317</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ -</u></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, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents

\$ 849,938

***Total assets***

\$ 849,938

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ -

***RETAINED EARNINGS***

849,938

***Total liabilities and retained earnings***

\$ 849,938

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, 2011**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Other services and charges	54,571
Capital outlay	<u>7,274</u>
Total operating expenses	<u>61,845</u>
<b>OPERATING LOSS</b>	<u>(61,845)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	<u>1,100</u>
Total non-operating revenues	<u>1,100</u>
<b>NET LOSS</b>	(60,745)
<b>RETAINED EARNINGS, beginning of year</b>	<u>910,683</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 849,938</u>

**2010 WATER AND SEWER  
GENERAL OBLIGATION BOND CONSTRUCTION FUND**

EXHIBIT A-8

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

**2010 WATER AND SEWER GENERAL OBLIGATION BOND CONSTRUCTION FUND  
BALANCE SHEET - BUDGETARY BASIS  
SEPTEMBER 30, 2011**

**ASSETS**

***CURRENT ASSETS***

Cash with fiscal agent

\$ 1,817,631

***Total assets***

\$ 1,817,631

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ -

***RETAINED EARNINGS***

1,817,632

***Total liabilities and retained earnings***

\$ 1,817,632



EXHIBIT B-8

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

**2010 WATER AND SEWER GENERAL OBLIGATION BOND CONSTRUCTION FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS - BUDGETARY BASIS  
YEAR ENDED SEPTEMBER 30, 2011**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Other services and charges	84,300
Capital outlay	<u>1,709,260</u>
Total operating expenses	<u>1,793,560</u>
<b>OPERATING LOSS</b>	<u>(1,793,560)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	<u>11,192</u>
Total non-operating revenues	<u>11,192</u>
<b>LOSS BEFORE OTHER SOURCES (USES)</b>	<u>(1,782,368)</u>
<b>OTHER SOURCES (USES)</b>	
Proceeds from general obligation bonds	<u>3,600,000</u>
Total other sources (uses)	<u>3,600,000</u>
<b>NET INCOME</b>	1,817,632
<b>RETAINED EARNINGS, beginning of year</b>	<u>-</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 1,817,632</u>

SCHEDULE 2

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

**SCHEDULE OF DEPRECIATION  
YEAR ENDED SEPTEMBER 30, 2011**

	<b>COST</b>		
	<b>Balance</b>		<b>Balance</b>
	<b>10/01/2010</b>	<b>Additions</b>	<b>09/30/2011</b>
<b><i>Water Distribution System:</i></b>			
Transmission lines	\$ 12,713,805	\$ 1,253,758	\$ 13,967,563
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	344,629	-	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
<b><i>Sanitary Sewer System:</i></b>			
Sewer lines	18,913,012	-	18,913,012
Sanitary sewerage system	22,139,236	536,400	22,675,636
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
<b>Totals</b>	<b>\$ 82,254,580</b>	<b>\$ 1,790,158</b>	<b>\$ 84,044,738</b>

<b>ACCUMULATED DEPRECIATION</b>				
<u>Rate</u>	<u>Method</u>	<u>Balance 10/01/2010</u>	<u>Additions</u>	<u>Balance 09/30/2011</u>
2%	D/B	\$ 1,619,830	\$ 244,649	\$ 1,864,479
2%	D/B	500,373	6,607	506,980
1%	D/B	3,591,680	169,137	3,760,817
1%	D/B	341,196	6,169	347,365
10%	D/B	95,551	825	96,376
20%	D/B	1,408,366	48,847	1,457,213
10%	D/B	90,060	2,356	92,416
10%	D/B	270,618	8,747	279,365
10%	D/B	798,387	94,681	893,068
3%	D/B	198,041	1,917	199,958
7%	D/B	151,607	11,032	162,639
10%	D/B	41,987	3,209	45,196
2%	D/B	4,487,657	308,119	4,795,776
1%	D/B	3,574,217	185,535	3,759,752
2%	D/B	50,011	1,338	51,349
10%	D/B	91,538	1,906	93,444
10%	D/B	161,357	865	162,222
20%	D/B	745,156	5,568	750,724
10%	D/B	10,373	75	10,448
10%	D/B	496,533	10,755	507,288
		<u>\$ 18,724,538</u>	<u>\$ 1,112,337</u>	<u>\$ 19,836,875</u>

SCHEDULE 3

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

**SCHEDULE OF LONG-TERM OBLIGATIONS  
YEAR ENDED SEPTEMBER 30, 2011**

<u>Description</u>	<u>Interest Rate</u>	<u>Original Amount of Issue</u>	<u>Balance 10/01/2010</u>	<u>Issued</u>
Mississippi Development Bank Special Obligation Bonds, Series 2006 (Hattiesburg Water and Sewer System)	Various	\$ 17,000,000	\$ 13,500,000	\$ -
Series 2009 Water and Sewer General Obligation Bonds	Various	7,500,000	7,140,000	-
Series 2010 Water and Sewer General Obligation Bonds	Various	3,600,000	-	3,600,000
Series 2011 Water and Sewer General Obligation Note	2.19%	1,425,800	-	1,425,800
State Revolving Loan Fund Notes - Loan #1	4.50%	2,191,243	869,463	-
State Revolving Loan Fund Notes - Loan #2	4.50%	2,165,672	934,773	-
State Revolving Loan Fund Notes - Loan #3	4.50%	1,268,863	684,448	-
Energy Services Lease Agreement	4.00%	3,679,255	276,199	-
Mississippi Development Bank Special Obligation Bonds, Series A	Various	2,950,000	1,085,000	-
<b>Totals</b>		<u>\$ 41,780,833</u>	<u>\$ 24,489,883</u>	<u>\$ 5,025,800</u>

<u>Retired</u>	<u>Balance 09/30/2011</u>	<u>CURRENT PORTION</u>		<u>TO MATURITY</u>	
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
\$ 980,000	\$ 12,520,000	\$ 1,020,000	\$ 550,156	\$ 11,500,000	\$ 2,621,607
380,000	6,760,000	395,000	218,824	6,365,000	1,538,467
115,000	3,485,000	120,000	111,584	3,365,000	1,111,913
-	1,425,800	268,555	31,225	1,157,245	64,296
131,214	738,249	137,242	30,414	601,007	55,641
126,662	808,111	132,480	33,414	675,631	72,219
70,102	614,346	73,322	26,146	541,024	79,487
276,199	-	-	-	-	-
340,000	745,000	360,000	44,700	385,000	23,100
<u>\$ 2,419,177</u>	<u>\$ 27,096,506</u>	<u>\$ 2,506,599</u>	<u>\$ 1,046,463</u>	<u>\$ 24,589,907</u>	<u>\$ 5,566,730</u>