

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**Year Ended September 30, 2013**

**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, 2013, and the related notes to the 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 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 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

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

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 opinion.

**Basis for qualified opinion**

As discussed in Note 8 to the financial statements, the City of Hattiesburg, Mississippi has not recorded a liability for other postemployment benefits in the Combined Water and Sewer System and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase liabilities, reduce the net position and change the expenses. The amount by which this departure would affect the liabilities, net position and expenses is not reasonably determinable.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above 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, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

***The Reporting Entity***

As described in Note 1, the financial statements present only the Combined Water and Sewer System and do not purport to, and do not present fairly the financial position of the City of Hattiesburg, Mississippi, as of September 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

*Change in Accounting Principle*

As described in Note 1 to the financial statements, in fiscal year 2013 the City established an accounting policy for estimating an allowance for doubtful water and sewer account balances.

*Uncertainties Regarding Wastewater Treatment Facilities*

As described in Notes 9 and 10, the City of Hattiesburg's efforts to comply with regulatory requirements applicable to the City's wastewater treatment facilities in conjunction with meeting the Combined Water and Sewer System's existing financial requirements are ongoing. These regulatory requirements follow a specific timeline that requires the implementation of various phases of wastewater system facilities over the next several years. The importance of the City Council and the Administration's ability to address these matters on a timely basis is emphasized in Note 9, where disclosure is made that substantial water and sewer rate increases may be necessary pursuant to funding compliance with these requirements.

***Other Matters***

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Combined Water and Sewer System of the City of Hattiesburg, Mississippi's financial statements. The individual fund financial statements – budgetary basis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relies 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Nicholson & Company, PLLC*

Hattiesburg, Mississippi  
June 30, 2014

EXHIBIT A

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

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013**

***CURRENT ASSETS***

Cash and cash equivalents	\$ 5,674,392
Cash with fiscal agent	1,391,719
Accounts receivable - trade (net of allowance for doubtful accounts of \$1,593,037)	863,666
Grants receivable	758,956
Total current assets	<u>8,688,733</u>

***CAPITAL ASSETS***

Land	315,243
Construction in progress	13,643,286
Infrastructure, net	83,272,179
Buildings and improvements, net	121,960
Machinery and equipment, net	1,795,567
Total capital assets	<u>99,148,235</u>

***Total assets*** 107,836,968

***DEFERRED OUTFLOWS OF RESOURCES***

Prepaid bond insurance	<u>82,485</u>
------------------------	---------------

***CURRENT LIABILITIES***

Due to other funds	921,268
Sales tax payable	14,098
Accounts payable - trash hauling	184,379
Accounts payable - other	430,715
Accrued interest payable	194,418
Unamortized bond premium - current	21,175
Revenue bonds - current	1,565,000
General obligation bonds - current	560,000
General obligation note payable - current	375,287
Total current liabilities	<u>4,266,340</u>

See the accompanying notes to financial statements.

EXHIBIT A  
PAGE TWO

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

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013**

***NON-CURRENT LIABILITIES***

Revenue bonds	\$ 20,900,000
General obligation bonds	11,635,000
General obligation note payable	1,083,570
Unamortized bond premium	381,150
Customer meter deposits	1,101,326
Total non-current liabilities	<u>35,101,046</u>
<b><i>Total liabilities</i></b>	<b><u>39,367,386</u></b>

***NET POSITION***

Net investment in capital assets	62,627,053
Unrestricted	<u>5,925,014</u>
<b><i>Total net position</i></b>	<b><u>\$ 68,552,067</u></b>



EXHIBIT B

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
YEAR ENDED SEPTEMBER 30, 2013**

<b>OPERATING REVENUES</b>	
Water charges	\$ 6,897,929
Sewer charges	7,581,870
Sewer connections	15,615
Turn-on fees	69,170
Taps	246,553
Total operating revenues	<u>14,811,137</u>
<b>OPERATING EXPENSES</b>	
Personal services	2,308,096
Other services and charges	5,320,682
Supplies and expenses	937,776
Depreciation	1,967,810
Other operating expenses	222,051
Total operating expenses	<u>10,756,415</u>
<b>OPERATING INCOME</b>	<u>4,054,722</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	7,949
Interest expense	(1,421,749)
Other revenues	71,298
Total non-operating revenues (expenses)	<u>(1,342,502)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	2,712,220
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	
Intergovernmental capital contributions	3,152,032
Transfers out	(257,475)
Total capital contributions and transfers	<u>2,894,557</u>
<b>CHANGE IN NET POSITION</b>	5,606,777
<b>NET POSITION - beginning</b>	62,831,150
<b>Prior period adjustment</b>	114,140
<b>NET POSITION - beginning, as adjusted</b>	<u>62,945,290</u>
<b>NET POSITION - ending</b>	<u>\$ 68,552,067</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, 2013**

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

Receipts from customers	\$ 15,284,357
Payments to suppliers and service providers	(6,006,271)
Payments to employees for salaries and benefits	(2,308,096)
Net cash provided by operating activities	<u>6,969,990</u>

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

Other cash receipts	71,298
Transfers to other funds	(257,475)
Net cash used by noncapital financing activities	<u>(186,177)</u>

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

Principal payments - bonds	(2,455,000)
Principal payments - notes	(358,805)
Intergovernmental cash receipts	3,265,784
Acquisition and construction of capital assets	(18,489,413)
Proceeds from general obligation bonds	3,000,000
Interest paid on capital debt	(1,340,365)
Net cash used by capital and related financing activities	<u>(16,377,799)</u>

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

Interest income	7,949
Net cash provided by investing activities	<u>7,949</u>

***NET DECREASE IN CASH AND CASH EQUIVALENTS***

(9,586,037)

***CASH AND CASH EQUIVALENTS - Beginning***

16,652,148

***CASH AND CASH EQUIVALENTS - Ending***

\$ 7,066,111

Displayed on Statement of Net Position as:

Cash and cash equivalents	\$ 5,674,392
Cash with fiscal agent	1,391,719
	<u>\$ 7,066,111</u>

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

**STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2013**

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

<b><i>OPERATING INCOME</i></b>	\$ 4,054,722
<b><i>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i></b>	
Depreciation expense	1,967,810
Changes in assets and liabilities:	
Decrease in accounts receivable	423,692
Decrease in prepaid insurance - bonds	4,341
Increase in accounts payable - trash hauling	5,595
Increase in accounts payable - other	89,168
Increase in customer meter deposits	48,452
Increase in sales tax payable	1,076
Increase in amount due to governmental funds	375,134
Total adjustments	<u>2,915,268</u>
<b><i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i></b>	<u><u>\$ 6,969,990</u></u>

***NOTES TO FINANCIAL STATEMENTS***

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

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2013**

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

The significant accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The other disclosures are organized to provide explanations of the City of Hattiesburg, Mississippi's Combined Water and Sewer System's financial activities.

**Reporting Entity** - The City of Hattiesburg, Mississippi's Combined Water and Sewer System (the System) is operated as an enterprise fund. Enterprise fund types 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 present only the activity of the Combined Water and Sewer System of the City of Hattiesburg, Mississippi, which consists of all funds, organizations, departments and offices that comprise the System and do not include financial data for the City's other funds, departments and offices.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - The System's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of the System's interfund activity has been eliminated.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. The System also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the System. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and Payables** - Activity 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.

Trade receivables are attributable to customer's unpaid balances at year-end for charges for services. During fiscal year 2013, the City established a policy for estimating the allowance for doubtful water and sewer account balances. The allowance is based upon a 90% factor applied to balances five months and older.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position.

**Capital Assets** - Land, buildings, equipment, and infrastructure assets that are purchased, acquired, or developed are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

A capitalization threshold of \$5,000 is used for all capital assets with an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

Water and sewer system	25 - 50 years
Buildings and improvements	10 - 39 years
Machinery and equipment	5 - 10 years

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

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

***Deferred Outflows of Resources*** - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and is not recognized as an outflow of resources, or expense, until then. The System reports prepaid insurance on the Water and Sewer Revenue Bond as a deferred outflow of resources. Bond insurance paid from debt proceeds as a credit enhancement feature with the bonds is deferred and amortized over the life of the bonds.

***Net Position*** - The System's statement of net position presents financial information on all of the System's assets, liabilities and deferred outflows of resources, with the difference reported as net position. This presentation was implemented during fiscal year 2012 pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Net position invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back any unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling creditors, grantors, or laws or regulations of other governments.

***Budgets and Budgetary Accounting*** - The City follows annual procedures in establishing the System's budgetary data. Each August, the City's Chief Financial Officer (CFO) submits a proposed operating budget for the upcoming fiscal year to the City Council for approval. The operating budgets include proposed revenues and expenses for each fund within the System and are prepared on the cash basis. Prior to September 15<sup>th</sup>, the budget is legally enacted by the City Council through the passage of an ordinance. The City's CFO is authorized to transfer budgeted amounts within departments within the published expense categories; however, any revisions that alter the total expenses of any fund must be approved by the City Council. Cumulative increases to departmental expenses in excess of 10% must also be published in the local newspaper.

Encumbrance accounting is used for the System's funds. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances do not lapse at the close of the fiscal year but are carried forward. If necessary, subsequent year budgets are amended to cover any prior year encumbrances.

***Changes in Accounting Standards*** - The government implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in the current year. The provisions of these standards have been incorporated into the financial statements and the related notes.

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

**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.

**NOTE 2 - PRIOR PERIOD ADJUSTMENTS**

A summary of prior period adjustments reflected on the Statement of Revenues, Expenses, and Changes in Fund Net Position is presented below:

<u>Explanation</u>	<u>Amount</u>
To adjust water and sewer capital assets	\$ 1,067,951
To recognize allowance for doubtful accounts	(953,811)
	<u>\$ 114,140</u>

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**Deposits** - The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the System'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).

The carrying amount of the System's deposits with financial institutions was \$5,674,392. The corresponding bank balances for these deposits are combined with cash balances of other City funds in pooled accounts. The total of the pooled accounts' bank balance was \$16,905,948, as disclosed in the City's separate Comprehensive Annual Financial Report.



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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

***NOTE 3 - DEPOSITS AND INVESTMENTS (Cont.)***

***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, 2013, the government's bank balance was not exposed to custodial credit risk.

***Cash with fiscal agents*** - The carrying amount of the System's cash with fiscal agents held by financial institutions was \$1,391,719 and consists of monthly transfers of operating revenues for the next scheduled principal and interest payments of the Mississippi Development Bank Special Obligation Bonds, Series 2006.

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the System for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 315,243	\$ -	\$ -	\$ -	\$ 315,243
Construction in progress	11,422,350	11,402,559	(9,181,623)	-	13,643,286
Total capital assets not being depreciated	<u>11,737,593</u>	<u>11,402,559</u>	<u>(9,181,623)</u>	<u>-</u>	<u>13,958,529</u>
Capital assets being depreciated:					
Buildings and improvements	321,108	-	-	-	321,108
Machinery and equipment	6,110,960	322,990	-	2,322,833	8,756,783
Infrastructure	84,875,793	15,945,488	-	589,760	101,411,041
Total capital assets being depreciated	<u>91,307,861</u>	<u>16,268,478</u>	<u>-</u>	<u>2,912,593</u>	<u>110,488,932</u>
Less accumulated depreciation for:					
Buildings and improvements	189,390	9,758	-	-	199,148
Machinery and equipment	4,624,222	492,351	-	1,844,642	6,961,215
Infrastructure	16,673,162	1,465,701	-	-	18,138,863
Total accumulated depreciation	<u>21,486,774</u>	<u>1,967,810</u>	<u>-</u>	<u>1,844,642</u>	<u>25,299,226</u>
Total capital assets being depreciated, net	<u>69,821,087</u>	<u>14,300,668</u>	<u>-</u>	<u>1,067,951</u>	<u>85,189,706</u>
<b>Total capital assets, net</b>	<u><u>\$ 81,558,680</u></u>	<u><u>\$ 25,703,227</u></u>	<u><u>\$ (9,181,623)</u></u>	<u><u>\$ 1,067,951</u></u>	<u><u>\$ 99,148,235</u></u>

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 5 - INTERFUND PAYABLES AND TRANSFERS**

Balances due from the System to other City funds at September 30, 2013, consist of the following:

\$ 15,474	Due to the City's General Fund for reimbursements of oil and gas expenses.
40,894	Due to the City's General Fund for System debt payments.
64,900	Due to the City's Group Insurance Fund for projected future claims
200,000	Due to the City's General Fund for administrative support.
600,000	Due to the City's General Fund for an interfund loan to the Water and Sewer Bond Construction Fund.
<u>921,268</u>	<b>Total Due to Other Funds</b>

The outstanding balances between funds result mainly from the time lag between the dates that goods and services are provided or reimbursable expenses occur. These balances are expected to be paid within one year.

Interfund transfers made from the System to other City funds for the year ended September 30, 2013, is as follows:

<u>\$ 257,475</u>	Transferred to the City's General Fund for System debt payments.
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**NOTE 6 - LONG-TERM LIABILITIES**

General Obligation Bonds and Notes

The City Council issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the City and have been issued for the System. Notes are generally issued with a five-year maturity. Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 10 to 20 years. General obligation bonds and notes outstanding for the System at September 30, 2013 are 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, 2013**

**NOTE 6 - LONG-TERM LIABILITIES (Cont.)**

<u>General Obligation Bonds and Notes</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/13</u>
Public Improvements	2009	\$ 7,500,000	3.00 - 3.80%	2024	\$ 5,955,000
Public Improvements	2010	3,600,000	2.60 - 3.70%	2030	3,240,000
Public Improvements	2013	3,000,000	1.38%	2018	<u>3,000,000</u>
					<u>\$ 12,195,000</u>

Revenue Bonds

The City Council issues revenue bonds to provide funds for the acquisition and construction of System infrastructure and related improvements. These bonds are secured by System operating revenues and are subject to the requirements of the respective revenue bond documents. These bond documents include important net revenue calculation and parity debt requirements. Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 15 to 20 years. Revenue bonds outstanding at September 30, 2013 are as follows:

<u>Revenue Bonds</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/13</u>
W&S Refunding Bonds	2006	\$ 17,000,000	4.00 - 5.00%	2021	\$ 10,440,000
W&S Revenue Project	2012	12,500,000	2.50 - 5.00%	2032	<u>12,025,000</u>
					<u>\$ 22,465,000</u>

State Revolving Loan Fund (SRF) Notes

In addition to revenue bonds, the City Council has utilized the State Revolving Loan Fund (SRF) program to provide funds for qualified sewer system projects pursuant to the State of Mississippi's SRF program. Monthly principal and interest payments for the repayment of these notes is deducted from the City's monthly sales tax diversion payments from the Mississippi Department of Revenue, with monthly reimbursements to the City's general fund being made from monthly operating sewer system revenues as authorized by the City's budget document. The SRF notes outstanding at September 30, 2013 are 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, 2013**

**NOTE 6 - LONG-TERM LIABILITIES (Cont.)**

<u>State Revolving Loan Funds</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/2013</u>
SRF #1	1987	\$ 2,191,243	4.50%	2016	\$ 457,461
SRF #2	1987	2,165,672	4.50%	2017	537,064
SRF #3	1989	1,268,863	4.50%	2019	<u>464,332</u>
					<u>\$ 1,458,857</u>

Changes in Long-Term Liabilities

Changes in the System's long-term liabilities for the year ended September 30, 2013, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds and notes	\$ 9,730,000	\$ 3,000,000	\$ (535,000)	\$ 12,195,000	\$ 560,000
Revenue bonds	24,385,000	-	(1,920,000)	22,465,000	1,565,000
State revolving loan funds	1,817,662	-	(358,805)	1,458,857	375,287
Premium on bonds	423,500	-	(21,175)	402,325	21,175
<b>Total long-term liabilities</b>	<u>\$ 36,356,162</u>	<u>\$ 3,000,000</u>	<u>\$ (2,834,980)</u>	<u>\$ 36,521,182</u>	<u>\$ 2,521,462</u>

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

**NOTE 6 - LONG-TERM DEBT (Cont.)**

The debt service requirements for the System's bonds and notes are as follows:

Year ending September 30,	G.O. Bonds and Notes		State Revolving Fund Notes	
	Principal	Interest	Principal	Interest
2014	\$ 1,133,455	\$ 332,054	\$ 375,287	\$ 57,971
2015	1,171,430	304,942	392,528	40,730
2016	1,214,700	277,400	396,589	22,698
2017	1,253,270	249,878	173,771	8,763
2018	1,297,145	221,306	96,001	3,467
2019-2023	3,825,000	730,142	24,681	185
2024-2028	1,780,000	301,740	-	-
2029-2030	520,000	25,384	-	-
<b>Total</b>	<b>\$ 12,195,000</b>	<b>\$ 2,442,846</b>	<b>\$ 1,458,857</b>	<b>\$ 133,814</b>

  

Year ending September 30,	Revenue Bonds		Total Bonds and Notes	
	Principal	Interest	Principal	Interest
2014	\$ 1,565,000	\$ 862,800	\$ 3,073,742	\$ 1,252,825
2015	1,640,000	789,863	3,203,958	1,135,535
2016	1,715,000	707,363	3,326,289	1,007,461
2017	1,790,000	635,813	3,217,041	894,454
2018	1,865,000	564,894	3,258,146	789,667
2019-2023	7,260,000	1,744,594	11,109,681	2,474,921
2024-2028	3,435,000	848,731	5,215,000	1,150,471
2029-2032	3,195,000	226,341	3,715,000	251,725
<b>Total</b>	<b>\$ 22,465,000</b>	<b>\$ 6,380,399</b>	<b>\$ 36,118,857</b>	<b>\$ 8,957,059</b>

During the year ended September 30, 2013, interest expense paid for the System's long-term liabilities totaled \$1,421,749.

**NOTE 7 - COMMITMENTS**

At September 30, 2013, the outstanding balance attributable to the City's Water and Sewer System included the USA Yeast Pretreatment Facility (\$2,463,090) and the balances on various other water and sewer projects totaling \$2,267,766.

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE ELEVEN  
YEAR ENDED SEPTEMBER 30, 2013**

***NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS***

The City's health insurance plan allows for retirees to obtain health insurance by participating in the City's health insurance plan. The City does not issue a publicly available financial report for the health insurance plan. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the City has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. However, the City has not recorded a liability for other postemployment benefits nor has the City reported note disclosures which are required by accounting principles generally accepted in the United States of America.

***NOTE 9 - CONTINGENCIES***

***Compliance with Amended Order No. 6034 11*** - In February 2012, the City and the Mississippi Commission on Environmental Quality (Complainant) executed Amended Agreed Order No. 6034 11. Contained in the provisions of this Order is the requirement that the City must decide upon a wastewater engineering solution for "Phase II" effluent limit compliance by May 31, 2013, and must complete all necessary design work for the project on or before October 31, 2014. Additionally, the City has agreed to submit a copy of the Notice to Proceed for construction on or before January 31, 2015, and the project is required to have been completed on or before February 28, 2017 with the City filing with the Complainant a certification of completion of construction within 10 days of completion. This order specifies that if the City fails to demonstrate compliance with the "Phase II" permit effluent limitations by the deadline of May 31, 2017, the City will be required to pay a penalty of \$100 per day until compliance has been demonstrated in accordance with the provisions of National Pollutant Discharge Elimination System (NPDES) Permit No. MS0020303.

The City is currently in the process of reviewing all water and sewer procedures and agreements that might significantly impact future revenues, including existing contracts. In addition to these measures, extensive rate increases are anticipated in order to meet all applicable financial, contractual and regulatory requirements, including compliance with provisions contained in water and sewer bond documents. The governing authorities of the City have demonstrated their willingness in recent years to implement moderate water and sewer rate increases that were necessary in order to fund increases to operating expenses and debt service requirements. The more substantial rate increases that were addressed in 2014 proved to be deeply divisive. The ability of the City Council and the Administration to reconcile their various concerns with the future financial requirements of a wastewater treatment facility that meets regulatory requirements will be a matter of profound importance to the viability of the City's water and sewer system.

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

***NOTE 9 - CONTINGENCIES (Cont.)***

***Litigation*** - On March 2, 2012, Gulf Restoration Network (GRN) filed a citizen enforcement suit under the Clean Water Act against the City in an action styled and numbered GRN v. City of Hattiesburg, Civil Action No. 2:12cv36-KS-JMR, on the docket of the United States District Court for the Southern District of Mississippi. The suit alleges that the City has discharged wastewater from its two wastewater facilities, commonly known as the North Lagoon and the South Lagoon, into the Bowie and Leaf River that violates various constituent limits contained in the City's NPDES permits. The suit seeks the imposition of civil penalties for alleged past and ongoing permit violations, as well as injunctive relief requiring the City to come to immediate compliance with NPDES permits. The City has filed an Answer to the suit denying liability. The case is set for a bench trial beginning on October 6, 2014. The City intends to vigorously defend against GRN's claims. Legal counsel has not concluded that the likelihood of an unfavorable outcome is either "probable" or "remote" and has not expressed an opinion as to the likely outcome of this matter. Additionally, legal counsel "does not estimate the amount or range of potential loss" in such matter set forth above that could result if the outcome should be unfavorable to the City.

The City is party to a lawsuit with the City of Petal over proposed rate increases for the acceptance and treatment of Petal's wastewater. The matter is ongoing and has not been settled. The City of Petal continues to remit monthly payments based upon a prior treatment rate based upon current treatment volumes. The amounts owed to the City for the City of Petal's wastewater treatment that will ultimately be paid is not readily determinable and has not been recorded in these financial statements.

The City is party to various other legal proceedings which normally occur in governmental operations. While the City cannot predict the results of any litigation, legal counsel for the City of Hattiesburg believes that it has meritorious defenses for those actions, proceedings and claims, or they are without merit or are of such kind, or involve such amounts, that unfavorable dispositions not covered by insurance resulting from such litigation would not materially affect the financial statements of the City of Hattiesburg, Mississippi.

***NOTE 10 - SUBSEQUENT EVENTS***

Management has evaluated subsequent events after the financial statement date of September 30, 2013 through June 30, 2014, as that date is the date the audited financial statements were available to be issued.



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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

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

***Wastewater Treatment Agreement*** - On January 21, 2014, the City executed an agreement for the treatment of wastewater with Groundworx, LLC. This agreement cited Mississippi House Bill No. 1529 that authorized the City to contract with private parties for the disposal and/or treatment of wastewater, and under the terms of the executed agreement, the Groundworx will design, construct, own, operate, and maintain a land treatment system and related facilities for collecting, receiving, storing, transporting, treating and/or disposing of the City's wastewater. Pursuant to this agreement, it was anticipated that the City would adopt and maintain in effect a comprehensive sewer use ordinance that is compatible and in conformity with the EPA, MDEQ, and any other governmental body having legal authority to set such standards and restrictions for publicly owned treatment works of similar size and character, and the agreement noted that this ordinance is subject to periodic reviews and revisions, if necessary.

The guaranteed maximum price for the construction and development of this system is \$137,100,000. When the treatment system becomes operational, the projected annual treatment system budget is projected to approximate \$16.6 million, including a debt service component of approximately \$10 million that is based upon Groundworx's projected annual debt service requirements for the anticipated \$141,125,000 Series 2014 Taxable Revenue Bonds. These bonds were projected to be amortized at an average coupon rate approximating 5.50% over a thirty year period, with the final payments due in fiscal year 2044. During the system's planned two year construction phase, the City's required payments were to have been limited to funding the interest portion of the Series 2014 Taxable Revenue Bonds, projected to approximate \$3.8 million payable at six month intervals for the two year period beginning in late 2014.

On February 18, 2014, the City Council adopted a revised sewer rate structure that was calculated to fund these projected interest payments with incremental increases to sewer charges that were previously set at 100% of water billings. The City's adopted water rates established for September, 2014 – 2017 were \$11.03/1,000 gallons (2014), \$12.13/1,000 gallons (2015), \$13.34/1,000 gallons (2016), and \$14.01/1,000 gallons (2017). Corresponding sewer rates were set at 100% of water rates for these annual adjustments. With the February, 2014 amendments to the rate ordinances, these rates were projected to be set at \$26.69/1,000 gallons, or 220% of water rate (2015), \$27.35/1,000 gallons, or 205% of water rate (2016), and \$32.64, or 233% of water rate (2017).

Additionally at the February 18, 2014 meeting, the City Council amended the water and sewer ordinance that contained the City's water system cut-off policy in order to set a 45 day provision for the cut-off of water due to the delinquent status of billings.

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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2013**

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

The above described rate increases were subsequently vetoed by the Mayor based upon his desire to pursue a local option sales tax to supplement user fees to fund waste water treatment expenses. In March, 2014 an effort was made to introduce legislation that would impose an additional 1% local sales tax in order to provide supplemental funding for infrastructure improvements, including sewer treatment facilities, but this proposed local and private bill was never brought up for a vote during the 2014 State of Mississippi legislative session.

On June 19, 2014, Groundworx, LLC filed a civil suit in Forrest County Chancery Court alleging breach of contract by the City regarding the creation of a revenue stream to retire the expected debt to be incurred by Groundworx in conjunction with the above-noted contract. The suit is seeking an injunction to enjoin the City from terminating the contract and asks for compensatory damages to cover costs and expenses already incurred by the Groundworx, LLC.

A July 15, 2014 evidentiary hearing date has been set for the Mississippi Department of Environmental Quality to review the application process followed by Groundworx in obtaining their permit to dispose of the City's waste water. Three citizens, including a member of the City Council, have requested this review, citing problems with the permitting process.

***Issuance of Water and Sewer Revenue Bonds*** - In December 2013, the City issued \$28,000,000 in Water and Sewer Revenue Bonds (Mississippi Development Bank Special Obligation Bonds, Series 2013) for the purposes of refunding the City's General Obligation Note, Series 2013 (\$3,000,000) and providing for the funding for repairing, improving, and extending the water and sewer system. These bonds are to be amortized over a 25 year period with semi-annual interest and annual principal payments, with the first principal payment due December 1, 2014 and the final payment due December 1, 2038. The average total annual debt service payment amount is \$1,993,945, the average life of the bonds is 17.586 years, and the average coupon rate on these bonds is approximately 4.44%.

***Litigation*** - On June 25, 2014, the Arbitrator of the Precision Construction, LLC vs. City of Hattiesburg litigation ruled that the City materially breached a 592 Program Sewer Rehabilitation contract held with Precision Construction. As a result of this ruling, Precision Construction is entitled to payment for work performed and to lost profits in the total amount of \$843,930. As of the report date, the Arbitrator has not determined the extent of legal fees that may be owed by the City as a result of this litigation.

***SUPPLEMENTARY INFORMATION***

***WATER AND SEWER FUND***

SCHEDULE 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, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$ 2,712,012
Total current assets	<u>2,712,012</u>

***CAPITAL ASSETS***

Water distribution	43,862,906
Sanitary sewer system	57,548,133
Communication equipment	355,819
Motor vehicles	2,677,586
Office equipment	109,521
Other equipment	5,613,857
Improvements	<u>321,108</u>
	110,488,930
Less: Accumulated depreciation	<u>(25,299,224)</u>
	85,189,706
Land	315,243
Construction in progress	<u>13,643,288</u>
Total capital assets	<u>99,148,237</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness	<u>1,458,856</u>
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<b><i>Total assets</i></b>	<b><u>\$ 103,319,105</u></b>
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**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Sales tax payable	\$	14,095
Accounts payable - trash hauling		184,027
Due to other funds		1,249,721
Current maturities of long-term debt		<u>375,287</u>
Total current liabilities		<u>1,823,130</u>

***LONG-TERM LIABILITIES***

Customer meter deposits		1,101,326
Long-term debt		<u>1,083,570</u>
Total long-term liabilities		<u>2,184,896</u>

***Total liabilities***

4,008,026

***RETAINED EARNINGS***

Appropriated		162,842
Investment in land, buildings and equipment		<u>99,148,237</u>
Total retained earnings		<u>99,311,079</u>

***Total liabilities and retained earnings***

\$ 103,319,105

SCHEDULE 2

**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, 2013**

**OPERATING REVENUES**

Water charges	\$	6,820,830
Sewer charges		7,469,925
Sewer connections		15,615
Turn-on fees		69,170
Taps		246,553
Total operating revenues		<u>14,622,093</u>

**OPERATING EXPENSES**

Other services and charges		15,783
Depreciation expense		1,967,810
Total operating expenses		<u>1,983,593</u>

**OPERATING INCOME**

12,638,500

**NON-OPERATING REVENUES (EXPENSES)**

Interest revenue		2,252
Interest expense		(74,454)
Other revenue		1,900
Debt principal payments		(358,804)
Total non-operating revenues (expenses)		<u>(429,106)</u>

**INCOME BEFORE OPERATING TRANSFERS**

12,209,394

**OPERATING TRANSFERS**

Operating transfers in		18,489,413
Operating transfers out		(14,197,950)
Total operating transfers		<u>4,291,463</u>

**NET INCOME**

16,500,857

**RETAINED EARNINGS, beginning**

81,742,271

**Prior period adjustment**

1,067,951

**RETAINED EARNINGS, beginning, as adjusted**

82,810,222

**RETAINED EARNINGS, end of year**

\$ 99,311,079

***OPERATION AND MAINTENANCE FUND***



SCHEDULE 3

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

**OPERATION AND MAINTENANCE FUND  
BALANCE SHEET - BUDGETARY BASIS  
SEPTEMBER 30, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	756,558
Due from other funds		<u>664,358</u>

<b><i>Total assets</i></b>	<b>\$</b>	<b><u><u>1,420,916</u></u></b>
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**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Accounts payable	\$	17,302
Total current liabilities		<u>17,302</u>

***RETAINED EARNINGS***

<b><i>Total liabilities and retained earnings</i></b>	<b>\$</b>	<b><u><u>1,420,916</u></u></b>
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SCHEDULE 4

**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, 2013**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Personal services	2,243,189
Supplies and expenses	3,854,850
Other services and charges	909,752
Capital outlays	353,354
Total operating expenses	<u>7,361,145</u>
<b>OPERATING LOSS</b>	<u>(7,361,145)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	2,656
Other revenue	29,405
Total non-operating revenues	<u>32,061</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	(7,329,084)
<b>OPERATING TRANSFERS</b>	
Operating transfers in	7,972,296
Total operating transfers	<u>7,972,296</u>
<b>NET INCOME</b>	643,212
<b>RETAINED EARNINGS, beginning of year</b>	<u>760,402</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 1,403,614</u>

SCHEDULE 5

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

**OPERATION AND MAINTENANCE FUND  
SCHEDULE OF EXPENSES  
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Personal Services</u>	<u>Supplies and Expenses</u>	<u>Other Services and Charges</u>	<u>Capital Outlays</u>	<u>Total</u>
Office	\$ 329,903	\$ 30,013	\$ 91,669	\$ 25,822	\$ 477,407
Transmission	615,761	175,967	416,539	10,726	1,218,993
Plant	533,550	119,596	871,688	8,320	1,533,154
Sewer	554,213	294,404	1,224,167	304,840	2,377,624
Sewer lagoon	<u>209,769</u>	<u>289,772</u>	<u>1,250,780</u>	<u>3,646</u>	<u>1,753,967</u>
<b>Total expenses</b>	<u>\$ 2,243,196</u>	<u>\$ 909,752</u>	<u>\$ 3,854,843</u>	<u>\$ 353,354</u>	<u>\$ 7,361,145</u>

***WATER AND SEWER CONSTRUCTION FUND***

SCHEDULE 6

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

**WATER AND SEWER CONSTRUCTION FUND  
BALANCE SHEET - BUDGETARY BASIS  
SEPTEMBER 30, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	1,313,490
Due from other funds		<u>11,598</u>

<b><i>Total assets</i></b>	<b>\$</b>	<b><u>1,325,088</u></b>
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**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

Accounts payable	\$	11,240
<b><i>Total liabilities</i></b>		<u>11,240</u>

***RETAINED EARNINGS***

<b><i>Total liabilities and retained earnings</i></b>	<b>\$</b>	<b><u>1,325,088</u></b>
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SCHEDULE 7

**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, 2013**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Other services and charges	453,443
Capital outlays	<u>10,737,611</u>
Total operating expenses	<u>11,191,054</u>
<b>OPERATING LOSS</b>	<u>(11,191,054)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	1,810
Rents	65,003
Proceeds from general obligation note	3,000,000
Intergovernmental revenues	<u>2,484,331</u>
Total non-operating revenues	<u>5,551,144</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(5,639,910)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	<u>1,973,719</u>
Total operating transfers	<u>1,973,719</u>
<b>NET LOSS</b>	(3,666,191)
<b>RETAINED EARNINGS, beginning of year</b>	<u>4,980,039</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ 1,313,848</u></u>

***BOND AND INTEREST FUND***

SCHEDULE 8

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

**BOND AND INTEREST FUND  
BALANCE SHEET - BUDGETARY BASIS  
SEPTEMBER 30, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	1,146,869
Cash with fiscal agent		598,974
Prepaid insurance - bonds		82,485
Due from other funds		307,038
Total current assets		<u>2,135,366</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness		<u>34,660,000</u>
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***Total assets***

\$ 36,795,366

**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Current maturities of long-term debt	\$	2,070,000
Total current liabilities		<u>2,070,000</u>

***LONG-TERM LIABILITIES***

Bonds payable, less current portion		<u>32,992,325</u>
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Total liabilities

35,062,325

***RETAINED EARNINGS***

1,733,041

***Total liabilities and retained earnings***

\$ 36,795,366



SCHEDULE 9

**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, 2013**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	697
Interest expense	(1,193,140)
Amortization of prepaid insurance	(4,341)
Bonds redeemed	(2,070,000)
Total non-operating revenues (expenses)	<u>(3,266,784)</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(3,266,784)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	3,684,460
Total operating transfers	<u>3,684,460</u>
<b>NET INCOME</b>	417,676
<b>RETAINED EARNINGS, beginning of year</b>	<u>1,315,365</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ 1,733,041</u></u>

***USA YEAST BOND AND INTEREST FUND***

SCHEDULE 10

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

**USA YEAST BOND AND INTEREST FUND  
BALANCE SHEET- BUDGETARY BASIS  
SEPTEMBER 30, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	18,082
Due from other funds		<u>25,833</u>
Total current assets		<u>43,915</u>

***Total assets*** \$ 43,915

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES*** \$ -

***RETAINED EARNINGS*** 43,915

***Total liabilities and retained earnings*** \$ 43,915

SCHEDULE 11

**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, 2013**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	174
Bonds redeemed	(385,000)
Interest expense	(23,100)
Total non-operating revenues (expenses)	<u>(407,926)</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(407,926)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	310,000
Total operating transfers	<u>310,000</u>
<b>NET LOSS</b>	(97,926)
<b>RETAINED EARNINGS, beginning of year</b>	<u>141,841</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 43,915</u>

***2012 WATER AND SEWER CONSTRUCTION FUND***

SCHEDULE 12

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

**2012 WATER AND SEWER CONSTRUCTION FUND  
BALANCE SHEET- BUDGETARY BASIS  
SEPTEMBER 30, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash with fiscal agent

\$ 789,168

***Total assets***

\$ 789,168

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ -

***RETAINED EARNINGS***

789,168

***Total liabilities and retained earnings***

\$ 789,168

SCHEDULE 13

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

**2012 WATER AND SEWER CONSTRUCTION FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - BUDGETARY BASIS  
YEAR ENDED SEPTEMBER 30, 2013**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Capital outlay	<u>7,206,664</u>
Total operating expenses	<u>7,206,664</u>
<b>OPERATING LOSS</b>	<u>(7,206,664)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	<u>544</u>
Total non-operating revenues	<u>544</u>
<b>NET LOSS</b>	(7,206,120)
<b>RETAINED EARNINGS, beginning of year</b>	<u>7,995,288</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ 789,168</u></u>

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



SCHEDULE 14

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

**2009 WATER AND SEWER GENERAL OBLIGATION BOND CONSTRUCTION FUND  
BALANCE SHEET - BUDGETARY BASIS  
SEPTEMBER 30, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents

\$ 33,869

***Total assets***

\$ 33,869

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ -

***RETAINED EARNINGS***

33,869

***Total liabilities and retained earnings***

\$ 33,869

SCHEDULE 15

**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, 2013**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Other services and charges	10,500
Capital outlay	<u>5,395</u>
Total operating expenses	<u>15,895</u>
<b>OPERATING LOSS</b>	<u>(15,895)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	<u>47</u>
Total non-operating revenues	<u>47</u>
<b>NET LOSS</b>	(15,848)
<b>RETAINED EARNINGS, beginning of year</b>	<u>49,717</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 33,869</u>

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

SCHEDULE 16

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

**2010 WATER AND SEWER GENERAL OBLIGATION BOND CONSTRUCTION FUND  
BALANCE SHEET - BUDGETARY BASIS  
SEPTEMBER 30, 2013**

**ASSETS**

***CURRENT ASSETS***

Cash with fiscal agent

\$ 359,361

***Total assets***

\$ 359,361

**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Due to other funds

\$ 600,000

Total current liabilities

600,000

***Total liabilities***

600,000

***RETAINED EARNINGS***

(240,639)

***Total liabilities and retained earnings***

\$ 359,361

SCHEDULE 17

**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, 2013**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Capital outlay	841,227
Total operating expenses	<u>841,227</u>
<b>OPERATING LOSS</b>	<u>(841,227)</u>
<b>NON-OPERATING REVENUES</b>	
Intergovernmental	781,453
Interest revenue	427
Total non-operating revenues	<u>781,880</u>
<b>LOSS BEFORE OTHER SOURCES (USES)</b>	<u>(59,347)</u>
<b>NET INCOME</b>	(59,347)
<b>RETAINED EARNINGS, beginning of year</b>	<u>(181,292)</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ (240,639)</u>