

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**Year Ended September 30, 2012**

**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, 2012, as listed in the table of contents. These financial statements are the responsibility of the City of Hattiesburg, Mississippi'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, 2012, 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, 2012, 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 18 through 35 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Nicholson & Company, PLLC*

Hattiesburg, Mississippi  
April 24, 2013

EXHIBIT A

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

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2012**

***CURRENT ASSETS***

Cash and cash equivalents	\$ 8,414,272
Cash with fiscal agent	8,237,876
Accounts receivable - trade	2,241,169
Grants receivable	872,708
Total current assets	<u>19,766,025</u>

***CAPITAL ASSETS***

Land	315,243
Construction in progress	11,422,351
Infrastructure, net	68,202,631
Buildings and improvements, net	131,718
Machinery and equipment, net	1,486,738
Total capital assets	<u>81,558,681</u>

***Total assets***

101,324,706

***DEFERRED OUTFLOWS OF RESOURCES***

Prepaid bond insurance	<u>86,826</u>
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***CURRENT LIABILITIES***

Due to other funds	546,134
Sales tax payable	13,022
Accounts payable - trash hauling	178,784
Accounts payable - other	341,547
Accrued interest payable	91,859
Unamortized bond premium - current	21,175
Revenue bonds - current	1,920,000
General obligation bonds - current	535,000
General obligation note payable - current	358,805
Total current liabilities	<u>4,006,326</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, 2012**

***NON-CURRENT LIABILITIES***

Revenue bonds	\$ 22,867,325
General obligation bonds	9,195,000
General obligation note payable	1,458,857
Customer meter deposits	<u>1,052,874</u>
Total non-current liabilities	<u>34,574,056</u>
<b><i>Total liabilities</i></b>	<b><u>38,580,382</u></b>

***NET POSITION***

Net investment in capital assets	68,091,019
Unrestricted	<u>(5,259,869)</u>
<b><i>Total net position</i></b>	<b><u>\$ 62,831,150</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, 2012**

<b>OPERATING REVENUES</b>	
Water charges	\$ 6,478,738
Sewer charges	6,508,176
Sewer connections	27,110
Turn-on fees	66,560
Taps	138,312
Total operating revenues	<u>13,218,896</u>
<b>OPERATING EXPENSES</b>	
Personal services	2,166,081
Other services and charges	5,185,542
Supplies and expenses	939,000
Depreciation	1,712,129
Total operating expenses	<u>10,002,752</u>
<b>OPERATING INCOME</b>	<u>3,216,144</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	11,101
Interest expense	(1,148,066)
Other revenues	416,841
Loan amortization expenses	(16,226)
Total non-operating revenues (expenses)	<u>(736,350)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	2,479,794
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	
Intergovernmental capital contributions	4,564,903
Non-governmental capital contributions	2,488,400
Transfers out	(259,840)
Total capital contributions and transfers	<u>6,793,463</u>
<b>CHANGE IN NET POSITION</b>	9,273,257
<b>NET POSITION - beginning</b>	<u>53,557,893</u>
<b>NET POSITION - ending</b>	<u>\$ 62,831,150</u>

See the accompanying notes to financial statements.



EXHIBIT C  
PAGE 1 OF 2

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

**STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2012**

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

Receipts from customers	\$ 13,014,877
Payments to suppliers and service providers	(5,588,220)
Payments to employees for salaries and benefits	(2,166,081)
Net cash provided by operating activities	<u>5,260,576</u>

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

Other cash receipts	397,717
Transfers to other funds	(259,840)
Net cash provided by noncapital financing activities	<u>137,877</u>

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

Principal payments - bonds	(3,320,800)
Principal payments - notes	(343,044)
Non-governmental capital contributions	2,488,400
Intergovernmental cash receipts	4,312,565
Acquisition and construction of capital assets	(11,557,382)
Proceeds from general obligation bonds	12,923,500
Other receipts	19,125
Interest paid on capital debt	(1,197,503)
Net cash provided by capital and related financing activities	<u>3,324,861</u>

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

Interest income	11,101
Net cash provided by investing activities	<u>11,101</u>

***NET INCREASE IN CASH AND CASH EQUIVALENTS*** 8,734,415

***CASH AND CASH EQUIVALENTS - Beginning*** 7,917,733

***CASH AND CASH EQUIVALENTS - Ending*** \$ 16,652,148

Displayed on Statement of Net Position as:

Cash and cash equivalents	\$ 8,414,272
Cash with fiscal agent	<u>8,237,876</u>
	<u><u>\$ 16,652,148</u></u>

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

**STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2012**

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

***OPERATING INCOME*** **\$ 3,216,144**

***ADJUSTMENTS TO RECONCILE OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:***

Depreciation expense	1,712,129
Changes in assets and liabilities:	
(Increase) in accounts receivable	(226,554)
(Increase) in prepaid insurance - bonds	(86,826)
(Decrease) in accounts payable - trash hauling	(1,982)
Increase in accounts payable - other	135,757
Increase in customer meter deposits	22,939
(Decrease) in sales tax payable	(404)
Increase in amount due to governmental funds	489,373
Total adjustments	<u>2,044,432</u>

***NET CASH PROVIDED BY OPERATING ACTIVITIES*** **\$ 5,260,576**

***NOTES TO FINANCIAL STATEMENTS***

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

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012**

**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, 2012**

**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. All trade and other receivables are considered collectible by the government; therefore no allowance for uncollectible accounts has been established.

**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:

	<u>Estimated Useful Lives</u>
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, 2012**

**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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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, 2012**

***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 - 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 \$16,358,895. 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 \$20,821,121, as disclosed in the City's separate Comprehensive Annual Financial 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, 2012, 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 \$293,253 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, 2012**

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the System for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 315,243	\$ -	\$ -	\$ 315,243
Construction in progress	7,190,323	11,272,860	(7,040,833)	11,422,350
Total capital assets not being depreciated	<u>7,505,566</u>	<u>11,272,860</u>	<u>(7,040,833)</u>	<u>11,737,593</u>
Capital assets being depreciated:				
Buildings and improvements	321,108	-	-	321,108
Machinery and equipment	5,298,911	874,278	(62,229)	6,110,960
Infrastructure	78,424,719	6,451,074	-	84,875,793
Total capital assets being depreciated	<u>84,044,738</u>	<u>7,325,352</u>	<u>(62,229)</u>	<u>91,307,861</u>
Less accumulated depreciation for:				
Buildings and improvements	162,639	26,751	-	189,390
Machinery and equipment	4,387,760	298,691	(62,229)	4,624,222
Infrastructure	15,286,475	1,386,687	-	16,673,162
Total accumulated depreciation	<u>19,836,874</u>	<u>1,712,129</u>	<u>(62,229)</u>	<u>21,486,774</u>
Total capital assets being depreciated, net	<u>64,207,864</u>	<u>5,613,223</u>	<u>-</u>	<u>69,821,087</u>
<b>Total capital assets, net</b>	<u>\$ 71,713,430</u>	<u>\$ 16,886,083</u>	<u>\$ (7,040,833)</u>	<u>\$ 81,558,680</u>



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

**NOTES TO FINANCIAL STATEMENTS  
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YEAR ENDED SEPTEMBER 30, 2012**

**NOTE 4 - INTERFUND PAYABLES AND TRANSFERS**

Balances due from the System to other City funds at September 30, 2012, consist of the following:

\$	5,042	Due to the City's General Fund for reimbursements of oil and gas expenses.
	41,092	Due to the City's General Fund for System debt payments.
	200,000	Due to the City's General Fund for administrative support.
	300,000	Due to the City's General Fund for an interfund loan to the Water and Sewer Bond Construction Fund.
	<u>546,134</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, 2012, is as follows:

\$	<u>259,840</u>	Transferred to the City's General Fund for System debt payments.
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**NOTE 5 - 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, 2012 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, 2012**

**NOTE 5 - 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 9/30/12</u>
Public Improvements	2009	\$ 7,500,000	3.00 - 3.80%	2024	\$ 6,365,000
Public Improvements	2010	3,600,000	2.60 - 3.70%	2030	<u>3,365,000</u>
					<u><u>\$ 9,730,000</u></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, 2012 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 9/30/12</u>
USA Yeast (Series A)	2002	\$ 2,950,000	6.00%	2013	\$ 385,000
W&S Refunding Bonds	2006	17,000,000	4.00 - 5.00%	2021	11,500,000
W&S Revenue Project	2012	12,500,000	2.50 - 5.00%	2032	<u>12,500,000</u>
					<u><u>\$ 24,385,000</u></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, 2012 are as follows:

(See Table on Next Page)

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE EIGHT  
YEAR ENDED SEPTEMBER 30, 2012**

**NOTE 5 - 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 9/30/2012</u>
SRF #1	1987	\$ 2,191,243	4.50%	2016	\$ 601,008
SRF #2	1987	2,165,672	4.50%	2017	675,631
SRF #3	1989	1,268,863	4.50%	2019	<u>541,023</u>
					<u>\$ 1,817,662</u>

Changes in Long-Term Liabilities

Changes in the System's long-term liabilities for the year ended September 30, 2012, 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	\$ 11,670,800	\$ -	\$ (1,940,800)	\$ 9,730,000	\$ 535,000
Revenue bonds	13,265,000	12,500,000	(1,380,000)	24,385,000	1,920,000
State revolving loan funds	2,160,706	-	(343,044)	1,817,662	358,805
Premium on bonds	-	423,500	-	423,500	-
<b>Total long-term liabilities</b>	<u>\$ 27,096,506</u>	<u>\$ 12,923,500</u>	<u>\$ (3,663,844)</u>	<u>\$ 36,356,162</u>	<u>\$ 2,813,805</u>

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE NINE  
YEAR ENDED SEPTEMBER 30, 2012**

**NOTE 5 - 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
2013	\$ 535,000	\$ 312,886	\$ 358,805	\$ 74,454
2014	560,000	294,611	375,287	57,971
2015	585,000	275,502	392,528	40,730
2016	615,000	256,144	396,589	22,698
2017	640,000	236,992	173,770	8,763
2018-2022	3,660,000	853,797	120,683	3,652
2023-2027	2,370,000	370,635	-	-
2028-2032	765,000	49,813	-	-
<b>Total</b>	<b>\$ 9,730,000</b>	<b>\$ 2,650,380</b>	<b>\$ 1,817,662</b>	<b>\$ 208,268</b>

  

Year ending September 30,	Revenue Bonds		Total Bonds and Notes	
	Principal	Interest	Principal	Interest
2013	\$ 1,920,000	\$ 950,525	\$ 2,813,805	\$ 1,337,865
2014	1,565,000	862,800	2,500,287	1,215,382
2015	1,640,000	789,863	2,617,528	1,106,095
2016	1,715,000	707,363	2,726,589	986,205
2017	1,790,000	635,813	2,603,770	881,568
2018-2022	8,505,000	2,071,982	12,285,683	2,929,431
2023-2027	3,320,000	964,859	5,690,000	1,335,494
2028-2032	3,930,000	347,719	4,695,000	397,532
<b>Total</b>	<b>\$ 24,385,000</b>	<b>\$ 7,330,924</b>	<b>\$ 35,932,662</b>	<b>\$ 10,189,572</b>

During the year ended September 30, 2012, interest expense paid for the System's long-term liabilities totaled \$1,144,021.

**NOTE 6 - 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. At September 30, 2012, the outstanding balance on this contract was \$1,339,985.

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

**NOTES TO FINANCIAL STATEMENTS  
PAGE TEN  
YEAR ENDED SEPTEMBER 30, 2012**

***NOTE 6 - COMMITMENTS AND CONTINGENCIES (Cont.)***

Significant encumbrances at September 30, 2012, included \$304,840 for the purchase of a sewer vacuum truck in the Water and Sewer Operations and Maintenance Fund.

***NOTE 7 - SUBSEQUENT EVENTS***

Management has evaluated subsequent events after the financial statement date of September 30, 2012 through April 24, 2013, as that date is the date the audited financial statements were available to be issued.

Beginning in September, 2012, the City has been subject to a \$100 per day fine imposed by the Mississippi Department of Environmental Quality (MDEQ) for failure to meet certain regulatory requirements pertaining to sludge in the City's South Lagoon. The City has entered into dredging and treatment contracts with L & A Contracting Company and Merrill Brothers, Inc. in order to bring specified sections of the South Lagoon into compliance with regulations.

Due to previously unanticipated costs associated with this process, on March 19, 2013 the City Council authorized the issuance of a \$3 million general obligation note to be amortized over five (5) years for dredging expenses. The semi-annual debt service payments attributable to this note are to be funded with water and sewer operating revenues.

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. In December, 2012 the City received proposals for three land application sites in the Hattiesburg area. Those sites were analyzed by consultants and the results were reported to the Mayor and City Council. At their request, the consultants were engaged to collect additional information on land application feasibility, with a reporting deadline set for May 31, 2013.

***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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$ 2,556,347
Total current assets	<u>2,556,347</u>

***CAPITAL ASSETS***

Water distribution	42,255,893
Sanitary sewer system	42,619,897
Communication equipment	355,819
Motor vehicles	2,354,596
Office equipment	109,521
Other equipment	3,291,027
Improvements	<u>321,108</u>
	91,307,861
Less: Accumulated depreciation	<u>(21,486,772)</u>
	69,821,089
Land	315,243
Construction in progress	<u>11,422,351</u>
Total capital assets	<u>81,558,683</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness	<u>1,817,662</u>
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<b><i>Total assets</i></b>	<b><u>\$ 85,932,692</u></b>
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**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Sales tax payable	\$	13,018
Accounts payable - trash hauling		178,431
Due to other funds		1,128,436
Current maturities of long-term debt		358,805
Total current liabilities		<u>1,678,690</u>

***LONG-TERM LIABILITIES***

Customer meter deposits		1,052,874
Long-term debt		1,458,857
Total long-term liabilities		<u>2,511,731</u>

***Total liabilities***

4,190,421

***RETAINED EARNINGS***

Appropriated		183,588
Investment in land, buildings and equipment		81,558,683
Total retained earnings		<u>81,742,271</u>

***Total liabilities and retained earnings***

\$ 85,932,692

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, 2012**

**OPERATING REVENUES**

Water charges	\$	6,365,491
Sewer charges		6,368,919
Sewer connections		27,110
Turn-on fees		66,560
Taps		138,312
Total operating revenues		<u>12,966,392</u>

**OPERATING EXPENSES**

Other services and charges		(12,615)
Depreciation expense		1,712,129
Total operating expenses		<u>1,699,514</u>

**OPERATING INCOME**

11,266,878

**NON-OPERATING REVENUES (EXPENSES)**

Interest revenue		3,012
Interest expense		(90,214)
Other revenue		3,325
Administrative costs		(16,226)
Debt principal payments		(343,044)
Total non-operating revenues (expenses)		<u>(443,147)</u>

**INCOME BEFORE OPERATING TRANSFERS**

10,823,731

**OPERATING TRANSFERS**

Operating transfers in		11,557,380
Operating transfers out		(12,547,330)
Total operating transfers		<u>(989,950)</u>

**NET INCOME**

9,833,781

**RETAINED EARNINGS, beginning of year**

71,908,490

**RETAINED EARNINGS, end of year**

\$ 81,742,271

***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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	765,478
Due from other funds		6,150

<b><i>Total assets</i></b>	<b>\$</b>	<b>771,628</b>
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**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Accounts payable	\$	11,226
Total current liabilities		11,226

***RETAINED EARNINGS***

<b><i>Total liabilities and retained earnings</i></b>	<b>\$</b>	<b>771,628</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, 2012**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Personal services	2,166,081
Supplies and expenses	3,993,862
Other services and charges	915,332
Capital outlays	<u>331,797</u>
Total operating expenses	<u>7,407,072</u>
<b>OPERATING LOSS</b>	<u>(7,407,072)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	2,632
Other revenue	<u>26,804</u>
Total non-operating revenues (expenses)	<u>29,436</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	(7,377,636)
<b>OPERATING TRANSFERS</b>	
Operating transfers in	<u>6,950,900</u>
Total operating transfers	<u>6,950,900</u>
<b>NET INCOME</b>	(426,736)
<b>RETAINED EARNINGS, beginning of year</b>	<u>1,187,138</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 760,402</u>

SCHEDULE 5

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

**OPERATION AND MAINTENANCE FUND  
SCHEDULE OF EXPENSES  
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Personal Services</u>	<u>Supplies and Expenses</u>	<u>Other Services and Charges</u>	<u>Capital Outlays</u>	<u>Total</u>
Office	\$ 218,004	\$ 5,946	\$ 93,128	\$ -	\$ 317,078
Transmission	643,519	178,566	537,433	162,139	1,521,657
Plant	510,219	151,574	946,125	5,200	1,613,118
Sewer	558,369	232,679	1,076,019	86,139	1,953,206
Sewer lagoon	<u>235,970</u>	<u>346,567</u>	<u>1,341,157</u>	<u>78,319</u>	<u>2,002,013</u>
<b><i>Total expenses</i></b>	<u><u>\$ 2,166,081</u></u>	<u><u>\$ 915,332</u></u>	<u><u>\$ 3,993,862</u></u>	<u><u>\$ 331,797</u></u>	<u><u>\$ 7,407,072</u></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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	4,385,920
Due from other funds		<u>594,119</u>

<b><i>Total assets</i></b>	<b>\$</b>	<b><u><u>4,980,039</u></u></b>
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**LIABILITIES AND RETAINED EARNINGS**

<b><i>LIABILITIES</i></b>	<b>\$</b>	<b><u>-</u></b>
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<b><i>RETAINED EARNINGS</i></b>		<b><u>4,980,039</u></b>
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<b><i>Total liabilities and retained earnings</i></b>	<b>\$</b>	<b><u><u>4,980,039</u></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, 2012**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Other services and charges	251,056
Capital outlays	<u>2,916,991</u>
Total operating expenses	<u>3,168,047</u>
<b>OPERATING LOSS</b>	<u>(3,168,047)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	2,836
Rents	394,321
Non-governmental capital contributions	2,488,400
Intergovernmental revenues	<u>1,593,298</u>
Total non-operating revenues	<u>4,478,855</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>1,310,808</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	<u>2,129,190</u>
Total operating transfers	<u>2,129,190</u>
<b>NET INCOME</b>	3,439,998
<b>RETAINED EARNINGS, beginning of year</b>	<u>1,540,041</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 4,980,039</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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	1,105,437
Cash with fiscal agent		293,252
Prepaid insurance - bonds		86,826
Due from other funds		253,350
Total current assets		<u>1,738,865</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness		<u>33,730,000</u>
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***Total assets***

\$ 35,468,865

**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>32,083,500</u>
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Total liabilities

34,153,500

***RETAINED EARNINGS***

1,315,365

***Total liabilities and retained earnings***

\$ 35,468,865

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, 2012**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	715
Interest expense	(881,609)
Bonds redeemed	(1,535,000)
Total non-operating revenues (expenses)	<u>(2,415,894)</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(2,415,894)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	2,857,054
Total operating transfers	<u>2,857,054</u>
<b>NET INCOME</b>	441,160
<b>RETAINED EARNINGS, beginning of year</b>	<u>874,205</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 1,315,365</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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents	\$	108,116
Due from other funds		33,725
Total current assets		<u>141,841</u>

***DEFERRED TO FUTURE REVENUES***

Amount to be provided in future years for retirement of indebtedness		<u>385,000</u>
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***Total assets***

\$ 526,841

**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Current maturities of long-term debt	\$	385,000
Total liabilities		<u>385,000</u>

***RETAINED EARNINGS***

141,841

***Total liabilities and retained earnings***

\$ 526,841

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, 2012**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	190
Bonds redeemed	(360,000)
Interest expense	(44,700)
Other expense	(3,000)
Total non-operating revenues (expenses)	<u>(407,510)</u>
<b>LOSS BEFORE OPERATING TRANSFERS</b>	<u>(407,510)</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers in	404,700
Total operating transfers	<u>404,700</u>
<b>NET LOSS</b>	(2,810)
<b>RETAINED EARNINGS, beginning of year</b>	<u>144,651</u>
<b>RETAINED EARNINGS, end of year</b>	<u><u>\$ 141,841</u></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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash with fiscal agent

\$ 7,995,648

***Total assets***

\$ 7,995,648

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ 360

***RETAINED EARNINGS***

7,995,288

***Total liabilities and retained earnings***

\$ 7,995,648

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, 2012**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Capital outlay	3,944,633
Other services and charges	<u>169,405</u>
Total operating expenses	<u>4,114,038</u>
<b>OPERATING LOSS</b>	<u>(4,114,038)</u>
<b>NON-OPERATING REVENUES</b>	
Proceeds from long term debt	12,500,000
Interest revenue	<u>354</u>
Total non-operating revenues	<u>12,500,354</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>8,386,316</u>
<b>OPERATING TRANSFERS</b>	
Operating transfers out	<u>391,028</u>
Total operating transfers	<u>391,028</u>
<b>NET LOSS</b>	7,995,288
<b>RETAINED EARNINGS, beginning of year</b>	<u>-</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 7,995,288</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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash and cash equivalents

\$ 49,717

***Total assets***

\$ 49,717

**LIABILITIES AND RETAINED EARNINGS**

***LIABILITIES***

\$ -

***RETAINED EARNINGS***

49,717

***Total liabilities and retained earnings***

\$ 49,717

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, 2012**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Other services and charges	211,033
Capital outlay	<u>589,760</u>
Total operating expenses	<u>800,793</u>
<b>OPERATING LOSS</b>	<u>(800,793)</u>
<b>NON-OPERATING REVENUES</b>	
Interest revenue	<u>572</u>
Total non-operating revenues	<u>572</u>
<b>NET LOSS</b>	(800,221)
<b>RETAINED EARNINGS, beginning of year</b>	<u>849,938</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 49,717</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, 2012**

**ASSETS**

***CURRENT ASSETS***

Cash with fiscal agent \$ 118,708

***Total assets*** \$ 118,708

**LIABILITIES AND RETAINED EARNINGS**

***CURRENT LIABILITIES***

Due to other funds \$ 300,000

Total current liabilities 300,000

***Total liabilities*** 300,000

***RETAINED EARNINGS***

(181,292)

***Total liabilities and retained earnings*** \$ 118,708

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, 2012**

<b>OPERATING REVENUES</b>	<u>\$ -</u>
<b>OPERATING EXPENSES</b>	
Capital outlay	4,719,020
Total operating expenses	<u>4,719,020</u>
<b>OPERATING LOSS</b>	<u>(4,719,020)</u>
<b>NON-OPERATING REVENUES</b>	
Intergovernmental	2,719,267
Interest revenue	829
Total non-operating revenues	<u>2,720,096</u>
<b>LOSS BEFORE OTHER SOURCES (USES)</b>	<u>(1,998,924)</u>
<b>NET INCOME</b>	(1,998,924)
<b>RETAINED EARNINGS, beginning of year</b>	<u>1,817,632</u>
<b>RETAINED EARNINGS, end of year</b>	<u>\$ (181,292)</u>