

CITY OF HATTIESBURG, MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2013

CITY OF HATTIESBURG, MISSISSIPPI

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED SEPTEMBER 30, 2013

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***INTRODUCTORY SECTION
(UNAUDITED)***



Mayor
Johnny L. DuPree, Ph.D.

Council - Ward 1
Kim Bradley

Council - Ward 2
Deborah Denard Delgado

Council - Ward 3
Carter Carroll

Council - Ward 4
Mary Dryden

Council - Ward 5
Henry Naylor

March 26, 2014

To the Honorable Mayor, Members of the City Council, and
Citizens of the City of Hattiesburg

The Department of Administration is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Hattiesburg, Mississippi, prepared in accordance with accounting principles generally accepted in the United States of America for the fiscal year ended September 30, 2013. These accompanying financial statements are prepared and presented in conformity with GASB Statement No 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The format, which includes Government-wide and Major Fund presentations, provides citizens, investors and creditors, grantor agencies, and other interested parties with reliable financial information about the City. Management assumes full responsibility for the completeness and reliability of the information contained in this report, and we believe the report is accurate in all material respects.

The Comprehensive Annual Financial Report includes the following: this transmittal letter, the financial section consisting of Management's Discussion and Analysis, the basic financial statements (government-wide and fund statements), notes to the financial statements, combining and individual fund financial statements and schedules and the independent auditors' report on the financial statement schedules, and a statistical section consisting of several tables of unaudited data describing the financial history of the City, as well as other miscellaneous statistics, presented on a multi-year basis.

Profile of Government

The City of Hattiesburg has a land area of 55.4 square miles and is located strategically in the southeast section of Mississippi. It has historically been designated as the "Hub City," since its location is within a 100-mile radius of Jackson, Mississippi, New Orleans, Louisiana, Mobile, Alabama, and the Mississippi Gulf Coast. Because of its location, it is a regional center of trade, medical services, and educational and industrial activity. The City operates under the Mayor/Council form of government. The policy-making and legislative authority, as well as budgetary responsibilities, are vested with the five-member City Council, each of whom is elected from one of the five wards into which the City is divided. The Mayor is responsible for the day-to-day operations of City government, and much of his work is accomplished through the delegation of duties to his department directors and chiefs, who are appointed by the Mayor and approved by the City Council. All elected officials serve four-year terms.

Services provided include police and fire protection, water and sewer services, construction and maintenance of streets and infrastructure, sanitation, parks and recreation, planning and zoning, and general administrative functions.

Current Economic Conditions

Hattiesburg ended the fiscal year with a 4.8% increase in sales tax revenue for fiscal year 2013. There was a 6% decrease in the ending cash balance of the General Fund. In a continuing effort to raise the base starting pay for City employees, the hourly rates of pay were increased fifty cents per hour for those employees earning less than \$10.00 per hour. This accomplished the objective of raising the base starting rate to \$9.00 per hour. Additional efforts to increase pay rates for City employees will be reviewed during the upcoming fiscal year.

Property valuations increased from the prior year, another indicator of improvement in the local economy. Property tax revenue increased as a result by 6.5%.

Hattiesburg's diverse economic base continues to minimize the impact of a cyclical economy. Many of the industrial, medical, and educational facilities represent the largest employers, as well as having the largest tax base, and the list of those entities has remained virtually unchanged for a number of years, as noted in the supplementary information contained in this audit.

Future Economic Outlook

The Midtown District plan is continuing to progress and it has expanded to include another district to the west, called the Midtown Market. The plans include revitalization of the shopping center on Hardy Street at 38th Avenue. The Twin Forks Rising development is also continuing to progress and is still in the design phase.

Downtown Hattiesburg revitalization efforts are continuing at a steady pace, with the completed renovations of the Carter and America buildings. Residential space was opened to tenants in late summer 2013, and tenants for ground-floor retail space are being recruited. Plans are underway for improvements to the land alongside Gordon's Creek downtown, to create walking paths and footbridges crossing the creek. It is anticipated to increase walkability in the area and connectivity to the downtown area from the universities.

Tax increment financing projects have been discussed and approved for projects in south Hattiesburg. Phase II of the Southern Pointe TIF area is now complete, and bonds are anticipated to be issued during FY 2014 to repay infrastructure development costs. Construction on the Whispering Pines Retirement area is continuing.

City officials continue to meet with attorneys and engineers to address concerns for the City's lagoon system. A request for proposals for a land application sewer treatment system was issued, and negotiations with Groundworx were authorized in June 2013. The City's efforts to meet all waste water treatment system regulatory requirements are ongoing.

Financial and Budgetary Information

The City maintains budgetary controls to ensure compliance with legal provisions specified by state statute. Activities of the City are included in budget appropriations approved by the City Council. The legal level of budgetary control is established by major expenditure classification and approved by the Council. Adjustments within a classification may be approved by the Department Director.

The Mayor and Council have established the goal and desire to maintain an ending cash balance in the General Fund of \$4 million to cover operating costs and unanticipated emergencies in the months prior to receipt of property tax revenues. While this was not possible in 2008 and 2009 due to the recession, the City has been able to reach this goal since 2011. Improving economic conditions and continued careful management of budgeted funds has enabled the city to reach and maintain this goal.

Water and sewer projects funded with the \$12.5 million revenue bonds issued in 2012 are nearly complete, and engineering designs are underway for Phase II of the water and sewer improvements. It is anticipated that bonds for Phase II will be sold in late 2013, for an estimated \$28 million. The increased cost of Phase II improvements will include repaving of streets impacted by the water and sewer work.

Enterprise Funds

Hattiesburg's enterprise operation is the Water and Sewer Fund. All revenues and costs associated with delivering potable water to the City's residential and commercial customers and treatment of residential and industrial waste are reported in this group of funds. Financial statements for this operation are contained in this report.

Debt Administration

The City maintains the Municipal Bond and Interest Fund to retire debt associated with general obligation bonds. The funding source comes from levy and collection of ad valorem property taxes. Mississippi law limits the amount of general obligation debt a municipality may issue to 15% of total assessed value. As of September 30, 2013, the City's remaining margin for further debt issuance stands at \$45,646,176. Upon issuance of the City's latest general obligation bonds in 2010, Moody's bond rating service issued an Aa3 rating. Moody's issues a rating each time a bond issue is sold, and the most recent revenue bond issue, the 2012 Water and Sewer Bonds, was awarded an A1 rating. This is one step below the rating given for the 2010 general obligation bonds, and this is a typical procedure for Moody's, as there is more risk to the investor with a revenue issue. Nevertheless, this is considered to be an excellent rating for a municipality.

Risk Management

The City is self-insured for group health insurance, and is a member of the Municipal Workers Compensation Group and the Municipal Liability Plan, a self-insured plan for member municipalities across the State of Mississippi. The City has a Risk Manager who monitors safety procedures with departments and reviews and reports all accidents and claims to the self-insured group administrators.

Independent Auditors

The City's financial statements have been audited by Nicholson and Company, PLLC, Certified Public Accountants, a firm of licensed certified public accountants. The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and

compliance with legal requirements, with special emphasis on internal controls and compliance with legal requirements involving the administration of federal awards. The independent auditor's report is located at the front of the financial section of this report, and the single audit reports are presented in the single audit section of this report.

Acknowledgments

The preparation of this report was made possible with the assistance of the dedicated staff of the Accounting Division of the Department of Administration. Appreciation is also extended to other City departments for their cooperation in providing information for preparation of this report.

Sincerely,

Connie Everett

Connie Everett
Chief Financial Officer

PUBLIC OFFICIALS

JOHNNY L. DUPREE
MAYOR

COUNCIL MEMBERS

KIM BRADLEY – WARD 1
DEBORAH DENARD DELGADO – WARD 2
CARTER CARROLL – WARD 3
MARY DRYDEN – WARD 4
HENRY E. NAYLOR – WARD 5

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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

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

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Qualified
Discretely Presented Component Unit	Unmodified
General Fund	Unmodified
Aggregate Remaining Governmental Funds	Unmodified
Combined Water and Sewer System	Qualified

Basis for Qualified Opinions on Governmental Activities and Business-type Activities

As discussed in Note 18 to the financial statements, the City has not recorded a liability for other postemployment benefits in the governmental activities or the business-type activities, which represents the City's major proprietary fund, 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 increase liabilities, reduce the net position and change the expenses of the governmental activities and the business-type activities. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities and the business-type activities is not reasonably determinable.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on Governmental Activities and Business-type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major proprietary fund of the City of Hattiesburg, Mississippi, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit, the major governmental fund, and the aggregate remaining governmental fund information of the City of Hattiesburg, Mississippi, as of September 30, 2013, and the respective changes in financial position, and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

As described in Note 1 to the financial statements, in 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 17 and 24, the City of Hattiesburg's efforts to comply with regulations applicable to the City's wastewater treatment facilities in conjunction with meeting the 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 17, where disclosure is made that substantial water and sewer rate increases may be necessary pursuant to funding compliance with these requirements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 10 through 20 and 82 through 94 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

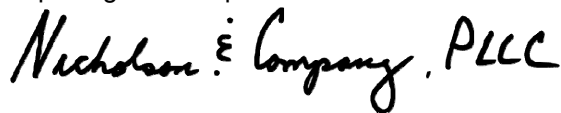
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hattiesburg, Mississippi's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014, on our consideration of the City of Hattiesburg, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hattiesburg, Mississippi's internal control over financial reporting and compliance.



Hattiesburg, Mississippi
June 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
Year Ended September 30, 2013

The Discussion and Analysis of the City of Hattiesburg's financial performance provides an overview of the City's financial activities of the fiscal year ended September 30, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the City's financial statements in conjunction with the transmittal letter in order to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 were as follows:

- Total net position for 2013 increased \$10,713,693, or 5.76% from 2012.
- Total assets of governmental activities increased \$58,977, or .03% from 2012.
- Total liabilities decreased \$4,521,929 or 4.79% from 2012.
- In total, equity in pooled cash and cash equivalents decreased \$10,397,747, or 36.2% from 2012.
- Overall, the book value of capital assets increased by \$17,126,747, or 7.71% from fiscal year 2012.

Using this Annual Financial Report:

This annual report consists of a series of financial statements and notes to those statements are organized so that the reader can understand the City of Hattiesburg as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Hattiesburg as a Whole:

Statement of Net Position and the Statement of Activities

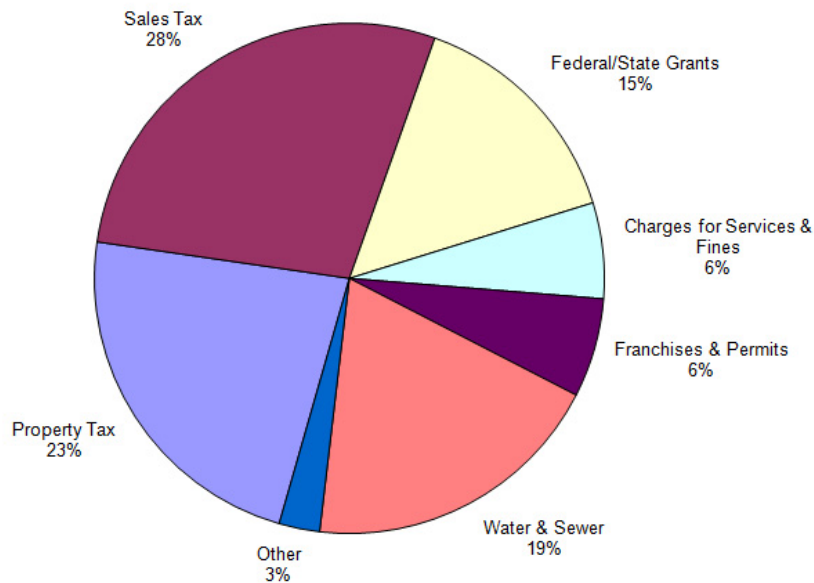
While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The Statement of Net Position and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the City's net position and the change in net position. This change in net position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

In the Statement of Net Position and the Statement of Activities, all of the City's departmental activities are reported as Governmental Activities, which include all of the City's services such as police, fire, administration, public services, and all other departments. The Business-Type Activities of the City of Hattiesburg consist of the City's Combined Water & Sewer System.

The government-wide financial statements include not only the City Of Hattiesburg itself (the *primary government*), but also a legally separate component unit, the Hattiesburg Convention Commission. Financial information presented for the component unit is reported separately from the financial information presented for the primary government itself.

Sources of City Revenue



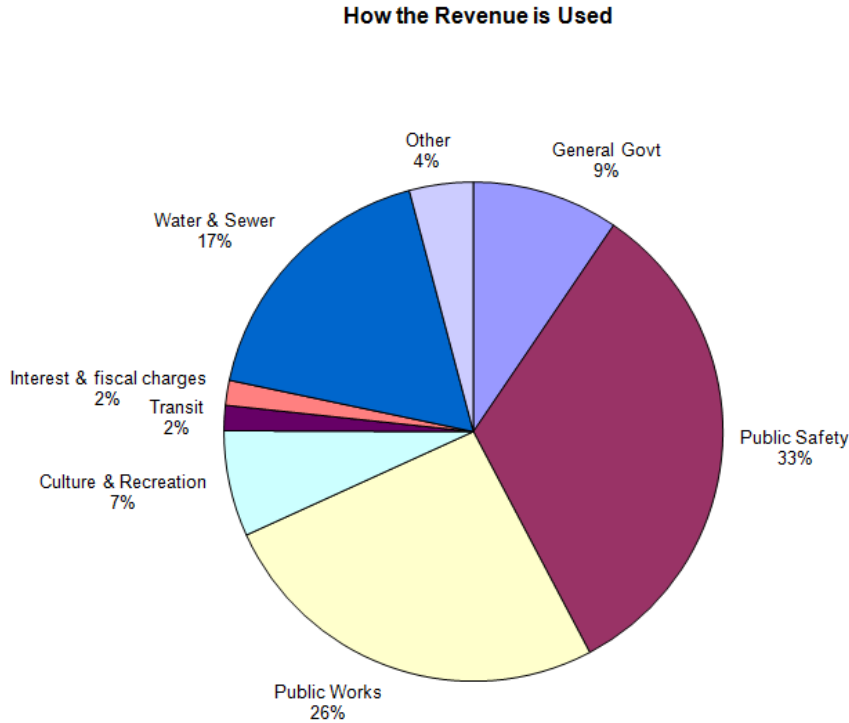
Revenues

Net Revenues exceeded expenses by \$9.1 million for the 2013 year. This is a decrease of \$246,757 from the net revenues of FY 2012. Much of this decrease occurred due to an increase in government activities expenditures in public safety for prisoner housing and an upgrade to a digital radio communication system.

Property Tax – One of the major sources of revenue for the City, at 23% of total revenues, property tax revenue reflected an increase of \$715,582 from FY 2012. County adjustments to the property tax roll based upon increasing sales prices of homes were a significant factor in the increase in property tax revenue.

Sales Tax – Another major source of revenue for the City is sales tax, at 28% of total revenues. FY 2013 revenue increased from FY 2012, by \$886,396, or 4.3%. Revenue had remained virtually unchanged for two years in a row, signifying that the economy might be stabilizing. The increase in FY 2013 provides a tangible measure of steady growth in the local economy.

Grants – Operating and capital grant revenues represent 14.8% of total revenues, and there was a \$3.5 million decrease in this category of revenue for FY 2013. This is attributable to completion of capital projects for the Water & Sewer system, as well as a decrease in funds received through the Community Development Block Grant program.



Expenses

The City’s government-wide expenses totaled \$67.9 million in FY 2013 and \$70.7 million in FY 2012, or a 4% decrease. Expenses for Governmental Activities decreased \$3,814,367, while expenses for Business-Type Activities increased \$1,011,120.

The largest categories of expenses are Public Works at 26%, Public Safety at 33% and Water & Sewer at 17%. The Statement of Activities shows total costs of the major spending categories, and net costs. The net cost is derived by subtracting associated program revenues from the expenditure totals for each category. This net cost is the financial burden that must be covered by property taxes, sales taxes, and other miscellaneous revenue.

Reporting on the City Of Hattiesburg’s Most Significant Funds:

Fund Financial Statements

The Analysis of the City’s major funds begins on page 26. Fund financial reports provide detailed information about the City’s major funds. Based on restrictions on the use of monies, the City has established many funds which account for the multitude of services provided by the City’s residents. However, these fund financial statements focus on the City’s most significant funds. In the case of the City of Hattiesburg, the City’s major funds are the General Fund and the Combined Water & Sewer Fund.

Governmental Funds

Information about the City's major governmental funds begins on page 26. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$57,616,423, net other financing sources of \$1,138,400, and expenditures of \$59,044,416.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

The General Fund is the primary governmental operating fund, containing expenditures for public safety, public works, economic development, health and welfare, and general government. The governmental funds account for 77% of total revenues, with the General Fund alone accounting for 78% of total revenues. The governmental funds account for 82% of total expenses, and the General Fund alone accounts for 72% of total expenses.

Total expenditures for the General Fund increased by \$331,933, or by .79% from FY 2012. The decrease in the ending fund balance of the General Fund from \$7,748,255 in FY 2012 to \$7,676,619 in FY 2013 was a negligible .92%. There were no significant changes in department operations during FY 2013.

Proprietary Funds:

The City of Hattiesburg maintains one type of proprietary fund, an *enterprise fund* that is used to report *business-type activities* in the government-wide financial statements. The City uses enterprise fund accounting in order to account for the Water & Sewer System (System).

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 34 through 38. Operating revenues of the System are utilized to fund operation and maintenance expenses and debt service, with any residual net revenues being transferred into the Water & Sewer Construction Fund, a component of the consolidated enterprise fund.

Operating expenses for the System were \$753,663, or 7.5% more in FY 2013 than FY 2012. Most of this increase occurred due to repair projects by outside contractors in FY 2013 of water lines, sewer lines, water treatment plant, and ongoing lagoon upgrades.

Operating revenues increased in FY 2013 from FY 2012 by \$1,592,241. Revenue increases resulted from replacement of aging meters, commercial meter testing and repair, and a rate increase initiated to support a bond issue for major water and sewer projects.

The City of Hattiesburg as a Whole:

Recall that the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for FY 2013.

Table 2 shows the Changes in Net Position for the year ended September 30, 2013.

**TABLE I
CITY OF HATTIESBURG'S NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	\$ 39,528,212	\$ 39,006,428	\$ 7,767,465	\$ 19,219,891	\$ 47,295,677	\$ 58,226,319
Capital assets, net	140,049,664	140,512,471	99,148,235	81,558,681	239,197,899	222,071,152
Total assets	179,577,876	179,518,899	106,915,700	100,778,572	286,493,576	280,297,471
DEFERRED OUTFLOWS OF RESOURCES						
Prepaid bond insurance	-	-	82,485	86,826	82,485	86,826
Total deferred outflows of resources	-	-	82,485	86,826	82,485	86,826
LIABILITIES						
Long-term liabilities, outstanding:						
Due within one year	6,033,009	6,014,428	2,521,462	2,834,980	8,554,471	8,849,408
Payable after one year	25,791,002	31,581,551	35,101,046	34,574,056	60,892,048	66,155,607
Unearned revenues	-	36,721	-	-	-	36,721
Other liabilities	3,337,196	2,562,306	823,610	625,212	4,160,806	3,187,518
Total liabilities	35,161,207	40,195,006	38,446,118	38,034,248	73,607,325	78,229,254
DEFERRED INFLOWS OF RESOURCES						
Unearned revenues - property taxes	16,185,000	16,085,000	-	-	16,185,000	16,085,000
Total deferred inflows of resources	16,185,000	16,085,000	-	-	16,185,000	16,085,000
NET POSITION						
Net investment in capital assets	114,040,889	108,901,420	62,627,053	45,223,694	176,667,942	154,125,114
Restricted	3,403,781	535,670	-	-	3,403,781	535,670
Unrestricted	10,786,999	13,801,803	5,925,014	17,607,456	16,712,013	31,409,259
Total net position	\$ 128,231,669	\$ 123,238,893	\$ 68,552,067	\$ 62,831,150	\$ 196,783,736	\$ 186,070,043

**TABLE 2
CITY OF HATTIESBURG'S CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	\$ 4,654,384	\$ 8,558,345	\$ 14,811,137	\$ 13,218,896	\$ 19,465,521	\$ 21,777,241
Operating grants and contributions	4,988,000	4,982,172	-	-	4,988,000	4,982,172
Capital grants and contributions	3,185,681	2,813,432	3,152,032	7,053,303	6,337,713	9,866,735
Total program revenues	12,828,065	16,353,949	17,963,169	20,272,199	30,791,234	36,626,148
General revenues:						
Property taxes	17,528,265	16,812,683	-	-	17,528,265	16,812,683
Other taxes	26,416,487	24,687,250	-	-	26,416,487	24,687,250
Grants and contributions not restricted to specific programs	4,795	-	-	-	4,795	-
Other general revenues	2,207,286	1,523,295	79,247	427,942	2,286,533	1,951,237
Total general revenues	46,156,833	43,023,228	79,247	427,942	46,236,080	43,451,170
Total revenues	58,984,898	59,377,177	18,042,416	20,700,141	77,027,314	80,077,318
PROGRAM EXPENSES						
General government	6,424,709	7,329,898	-	-	6,424,709	7,329,898
Public safety	22,162,945	20,763,051	-	-	22,162,945	20,763,051
Public services	17,533,037	17,341,042	-	-	17,533,037	17,341,042
Other services	1,751,307	6,281,474	-	-	1,751,307	6,281,474
Mass transit	1,104,428	1,176,837	-	-	1,104,428	1,176,837
Economic development	160,000	160,000	-	-	160,000	160,000
Culture and recreation	4,636,434	3,916,227	-	-	4,636,434	3,916,227
Human/social assistance	889,795	1,310,363	-	-	889,795	1,310,363
Water & Sewer	-	-	12,178,164	11,167,044	12,178,164	11,167,044
Interest and fiscal charges	1,089,410	1,287,540	-	-	1,089,410	1,287,540
Total program expenses	55,752,065	59,566,432	12,178,164	11,167,044	67,930,229	70,733,476

**TABLE 2
CITY OF HATTIESBURG'S CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Increase in net position before inclusion of transfers	\$ 3,232,833	\$ (189,255)	\$ 5,864,252	\$ 9,533,097	\$ 9,097,085	\$ 9,343,842
Transfers	257,475	259,840	(257,475)	(259,840)	-	-
<i>Increase in net position after inclusion of transfers</i>	3,490,308	70,585	5,606,777	9,273,257	9,097,085	9,343,842
Net position - Beginning	123,238,893	112,639,681	62,831,150	53,557,893	186,070,043	166,197,574
Prior period adjustment	1,502,468	10,528,627	114,140	-	1,616,608	10,528,627
Net position - Beginning, as restated	124,741,361	123,168,308	62,945,290	53,557,893	187,686,651	176,726,201
Net position - Ending	\$ 128,231,669	\$ 123,238,893	\$ 68,552,067	\$ 62,831,150	\$ 196,783,736	\$ 186,070,043

General Fund Budgetary Highlights

The City's budget is prepared according to Mississippi Law and is based on accounting for certain transactions of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From a budgetary accounting point of view, sales tax collections increased by \$818,643, or 3.9% from Fiscal Year 2012.

The 2013 budget of the General Fund realized an increase in ending fund balance, due to continued stringent fiscal management and an improving local economy. Employee raises were implemented in October for the Fiscal Year 2013 budget.

For the first time in 13 years, the General Fund property tax rate was increased to 32.15 mills, but the total non-school tax rate remained at 47.42 mills. The shift in millage occurred as a result of a revised funding formula used by the Public Employees Retirement System for the closed municipal retirement systems, which are supported by property taxes levied by the affected municipalities. This revision allowed for a reduction in the levy required and certified by the actuaries to pay benefits to retirees and their beneficiaries.

The automated sanitation trucks have now been in use for 3 years, and the lease on those trucks will end in FY 2014. Due to increasing repair costs for some of the trucks, the City Council asked the Administration to begin a review of expenses and invite proposals from private waste haulers to determine if privatization of the sanitation function could generate a cost savings. A request for proposals is scheduled for release in October.

Administration officials also retained local architects to perform an assessment of the Police Department complex in order to develop a plan for renovation of the structure. A needs assessment for department operations was conducted along with a review of the structure itself. Visits to area public safety complexes in the state were also conducted to gain additional insight as to how those entities had addressed their departments' needs. Preliminary design plans are to be introduced to the City Council in November.

From a budgetary accounting point of view, the City's original General Fund budget for Fiscal Year 2013 totaled \$44,317,516 (exclusive of projected beginning cash at October 1, 2012 of \$4,600,000). The final revenue budget totaled to \$47,378,294 with actual revenue collections totaling to \$46,561,944 (98.5% realized). Amendments to the General Fund revenue budget included increases of \$3,057,778 for federal and state grant funds, an adjustment for sales tax revenue, and an adjustment for insurance proceeds resulting from tornado damage to City facilities.

The original FY 2013 General Fund total budget for expenditures was \$46,649,557 and the final amended total was \$51,011,188. Actual expenditures totaled to \$44,844,603 (87.9% of budget expended). The unexpended budget total of \$6,166,585 is attributable to unexpended personnel costs for some unfilled positions, including those police officers on active military status, unexpended grant funds for various projects, and unexpended funds for capital purchases which were not completed prior to the end of the fiscal year.

Budgets for other governmental funds were amended to adjust projected beginning fund balances to actual balances on hand at the beginning of the fiscal year. Amendments to budgeted expenditures for other governmental funds included completion of water and sewer bond projects, water plant renovation, dredging of the south lagoon, and continuing street improvements such as sidewalk improvements, bike lanes, traffic signal upgrades, 4th Street, and Longleaf Trace.

Most of the other amendments to the expenditure budgets were either routine in nature or were adjustments directly tied to grant programs. Budgets are typically amended three to four times each year with the Council members being provided with appropriate supporting documentation pertaining to the proposed amended budgets. All recommendations for budget amendments are compiled by the City's Chief Financial Officer and reviewed by the Mayor and the City Clerk prior to submission to the City Council. The City Council members typically review proposed budget amendments prior to their inclusion on an agenda for approval at a City Council Meeting, and final adjustments to the compilation are made as a result of this review process. Pursuant to legal requirements, cumulative amendments of more than 10% to the original expenditure budgets are published in the local newspaper. The City does not allow budget changes that modify adopted line items within departments without council approval.

Capital Assets and General Long-Term Obligations

Capital Assets

Table 3 provides an overview of the City's Capital Assets net of accumulated depreciation:

**Table 3
Capital Assets (Net of Depreciation)**

	<u>2013</u>	<u>2012</u>
Land and construction in progress	\$ 20,653,436	\$ 16,337,376
Buildings and improvements	22,085,139	20,802,225
Infrastructure	188,002,688	175,855,747
Machinery and equipment	<u>8,456,636</u>	<u>9,075,804</u>
Total	<u>\$ 239,197,899</u>	<u>\$ 222,071,152</u>

The increase in the "Land and construction in progress" category is the result of ongoing water and sewer improvements, water plant renovation, and acquisition of land in connection with the 4th Street widening and Long Leaf Trace extension. The increase to Building and Improvements is due in part to repairs to one of the community centers which suffered tornado damage. The increases to Infrastructure and Machinery and Equipment are the result of water and sewer system improvements and purchase of capital equipment.

General Long-Term Debt Obligations

At September 30, 2013, the City of Hattiesburg had \$19,013,158 in outstanding General Obligation Bonds subject to the City's overall general obligation debt limitations. The City's overall legal debt margin at September 30, 2012 was calculated to be \$41,526,630, and this number is based on the city's most current property tax rolls in conjunction with existing general obligation debt. In addition to traditional general obligation debt, certain debt issues are secured by tax interceptor agreements with the State of Mississippi. Tax Increment Financing Bonds are secured by the incremental increase in property taxes at various taxing districts. The City has opted to maintain a margin of at least \$10 million as a matter of policy. Table 4 summarizes the total outstanding long-term debt obligations of the City.

(See Table on Next Page)

Table 4
Outstanding Bonds, Notes and Long-Term Obligations at Year End

	<u>2013</u>	<u>2012</u>
Governmental Funds		
General Obligation Bonds	\$ 16,507,431	\$ 19,398,158
Economic Development Bonds and Notes	3,410,136	3,919,785
Tax Increment Financing Bonds	6,300,000	6,990,000
Equipment Leases	4,024,740	5,688,108
Subtotal governmental funds	<u>30,242,307</u>	<u>35,996,051</u>
Proprietary Fund		
Water and Sewer Revenue Bonds	22,465,000	24,385,000
Unamortized Bond Premium	402,325	423,500
Water and Sewer General Obligation Bonds and Notes	12,195,000	9,730,000
State Revolving Loan Funds	1,458,857	1,817,661
Subtotal proprietary fund	<u>36,521,182</u>	<u>36,356,161</u>
Compensated Absences	<u>1,581,704</u>	<u>1,599,928</u>
Total Long-Term Obligations	<u>\$ 68,345,193</u>	<u>\$ 73,952,140</u>

A general obligation note in the amount of \$3,000,000 was secured in 2013 to pay for additional dredging at the south lagoon. Another revenue bond issue for water and sewer improvements is planned for FY 2014 in the amount of \$28,000,000. A portion of the bond proceeds will be used to repay the general obligation note secured for lagoon dredging.

The compensated absences liability identified above refers to the current balance of what has been earned as a termination benefit that will be paid over time as people leave or retire.

Current Financial Related Activities:

Sales tax collections, a major source of revenue for the General Fund, have been a strong indicator of the local economy, showing an approximate 4% increase in FY 2013. The small but steady increase in sales tax revenue over the last couple of years has returned it nearly to the FY 2009 level. Economic changes at the national level trickle down to the local economy, and it appears that the current rate of growth will continue into FY 2014.

Property tax values did, in fact, increase from 2011 valuations, and this resulted in a 4.26% increase in property tax revenues for FY 2013. The real estate market in Hattiesburg saw an increase in activity during 2013, as the federal and local economy continued to improve. Low mortgage lending rates added impetus, and a decreasing supply of homes available for sale contributed to the increase in home values.

Contacting the City of Hattiesburg:

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. Copies of this report will be on file at both the Hattiesburg Library and the USM Library. If you have any questions about this report or need additional financial information, contact the City Clerk's Office at 601-545-4552.

FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
September 30, 2013**

	PRIMARY	
	Governmental Activities	Business-type Activities
ASSETS		
Cash and cash equivalents	\$ 11,231,556	\$ 5,674,392
Cash with fiscal agent	-	1,391,719
Sales tax receivable	1,755,986	-
Property taxes receivable	16,340,349	-
Accounts receivable - Water and Sewer, net	-	863,666
Accounts receivable - Solid Waste Services	458,147	-
Intergovernmental receivable	2,017,402	758,956
Fines receivable, net	1,620,048	-
Other receivables	911,663	-
Internal balances	921,268	(921,268)
Notes receivable	4,233,532	-
Due from other agencies	7,311	-
Inventory - food and beverage	-	-
Inventory - gas and oil	30,950	-
Capital assets not being depreciated:		
Land and construction in progress	6,694,907	13,958,529
Capital assets, net of accumulated depreciation:		
Infrastructure	104,730,509	83,272,179
Buildings and improvements	21,963,179	121,960
Machinery and equipment	6,661,069	1,795,567
Total assets	179,577,876	106,915,700
DEFERRED OUTFLOWS OF RESOURCES		
Prepaid bond insurance	-	82,485
Total deferred outflows of resources	-	82,485

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

GOVERNMENT	
Total	Component Unit
\$ 16,905,948	\$ 3,917,579
1,391,719	-
1,755,986	396,829
16,340,349	-
863,666	-
458,147	-
2,776,358	12,994
1,620,048	-
911,663	53,613
-	-
4,233,532	-
7,311	24,679
-	50,331
30,950	-
20,653,436	3,060,491
188,002,688	-
22,085,139	12,059,059
8,456,636	272,770
<u>286,493,576</u>	<u>19,848,345</u>
82,485	-
<u>82,485</u>	<u>-</u>

EXHIBIT A
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
September 30, 2013**

	PRIMARY	
	Governmental Activities	Business-type Activities
LIABILITIES		
Accounts payable	\$ 924,679	\$ 615,094
Other liabilities	2,028,027	14,098
Due to other agencies	89,671	-
Accrued interest	294,819	194,418
Non-current liabilities:		
Portion due or payable within one year:		
General obligation bonds	2,662,431	560,000
Revenue bonds	-	1,565,000
Unamortized bond premium	-	21,175
Limited obligation tax increment financing bonds	660,000	-
Economic development limited obligation bonds and notes	394,966	-
General obligation notes payable	-	375,287
Capital leases	2,078,356	-
Compensated absences	237,256	-
Portion due or payable after one year:		
General obligation bonds	13,845,000	11,635,000
Revenue bonds	-	20,900,000
Unamortized bond premium	-	381,150
Limited obligation tax increment financing bonds	5,640,000	-
Economic development limited obligation bonds and notes	3,015,170	-
General obligation notes payable	-	1,083,570
Capital leases	1,946,384	-
Compensated absences	1,344,448	-
Customer meter deposits	-	1,101,326
Total liabilities	35,161,207	38,446,118
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue - property taxes	16,185,000	-
Total deferred inflows of resources	16,185,000	-
NET POSITION		
Net investment in capital assets	114,040,889	62,627,053
Restricted for:		
Debt service	3,403,781	-
Capital projects	-	-
Unrestricted	10,786,999	5,925,014
Total net position	\$ 128,231,669	\$ 68,552,067

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

GOVERNMENT		
Total	Component Unit	
\$ 1,539,773	\$ 736,935	
2,042,125	81,676	
89,671	49,602	
489,237	-	
3,222,431	-	
1,565,000	-	
21,175	-	
660,000	-	
394,966	-	
375,287	-	
2,078,356	11,579	
237,256		
25,480,000	-	
20,900,000	-	
381,150	-	
5,640,000	-	
3,015,170	-	
1,083,570	-	
1,946,384	6,754	
1,344,448	-	
1,101,326	-	
<u>73,607,325</u>	<u>886,546</u>	
<u>16,185,000</u>	-	
<u>16,185,000</u>	-	
176,667,942	15,373,987	
3,403,781		
	111,544	
<u>16,712,013</u>	<u>3,476,268</u>	
<u>\$ 196,783,736</u>	<u>\$ 18,961,799</u>	

EXHIBIT B

CITY OF HATTIESBURG, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	\$ 6,424,709	\$ -	\$ -	\$ -	\$ (6,424,709)		\$ (6,424,709)	
Public safety	22,162,945	2,142,161	749,790	264,086	(19,006,908)		(19,006,908)	
Public services	17,533,037	2,417,761	2,783,412	2,196,469	(10,135,395)		(10,135,395)	
Other services	1,751,307	-	125,996	468,708	(1,156,603)		(1,156,603)	
Mass transit	1,104,428	43,828	780,351	256,132	(24,117)		(24,117)	
Culture and recreation	4,636,434	50,634	-	286	(4,585,514)		(4,585,514)	
Human/social assistance	889,795	-	539,809	-	(349,986)		(349,986)	
Economic development	160,000	-	8,642	-	(151,358)		(151,358)	
Interest and fiscal charges	1,089,410	-	-	-	(1,089,410)		(1,089,410)	
Total governmental activities	55,752,065	4,654,384	4,988,000	3,185,681	(42,924,000)		(42,924,000)	
Business-Type Activities:								
Water and sewer system	12,178,164	14,811,137	-	3,152,032	-	\$ 5,785,005	5,785,005	
Total business-type activities	12,178,164	14,811,137	-	3,152,032	-	5,785,005	5,785,005	
Total primary government	\$ 67,930,229	\$ 19,465,521	\$ 4,988,000	\$ 6,337,713	(42,924,000)	5,785,005	(37,138,995)	
COMPONENT UNIT:								
Hattiesburg Convention Commission	\$ 7,295,257	\$ 1,906,576	\$ -	\$ -				\$ (5,388,681)
Total component unit	\$ 7,295,257	\$ 1,906,576	\$ -	\$ -				(5,388,681)
GENERAL REVENUES:								
Taxes:								
Property taxes, levied for general purposes					13,821,467	-	13,821,467	-
Property taxes, levied for debt service					3,706,798	-	3,706,798	-
Sales taxes					21,470,956	-	21,470,956	-
Franchise taxes and other licenses and permits					4,820,407	-	4,820,407	-
Special sales tax					125,124	-	125,124	4,619,521
Grants and contributions not restricted to specific programs					4,795	-	4,795	-
Unrestricted investment earnings					171,405	7,949	179,354	2,318
Other local sources					544,200	-	544,200	126,169
Miscellaneous					1,033,691	71,298	1,104,989	-
Gain (loss) on sale of assets					(15,116)	-	(15,116)	-
TRANSFERS:								
Transfers, component unit					473,106	-	473,106	(473,106)
Transfers, net					257,475	(257,475)	-	-
Total general revenues and transfers					46,414,308	(178,228)	46,236,080	4,274,902
CHANGE IN NET POSITION					3,490,308	5,606,777	9,097,085	(1,113,779)
NET POSITION - BEGINNING					123,238,893	62,831,150	186,070,043	21,325,216
Prior period adjustment					1,502,468	114,140	1,616,608	(1,249,638)
NET POSITION - BEGINNING, AS ADJUSTED					124,741,361	62,945,290	187,686,651	20,075,578
NET POSITION - ENDING					\$ 128,231,669	\$ 68,552,067	\$ 196,783,736	\$ 18,961,799

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

EXHIBIT C
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 4,571,156	\$ 6,660,400	\$ 11,231,556
Sales tax receivable	1,755,986	-	1,755,986
Accounts receivable - solid waste services	184,379	-	184,379
Intergovernmental receivable	1,116,895	900,507	2,017,402
Fines receivable, net of allowance	1,620,048	-	1,620,048
Other receivables	900,220	22,988	923,208
Due from other funds	1,066,512	816,886	1,883,398
Property taxes receivable	12,512,656	3,827,693	16,340,349
Due from other agencies	7,311	-	7,311
Gas and oil inventory	30,950	-	30,950
Advances to other funds	300,000	-	300,000
	<u>\$ 24,066,113</u>	<u>\$ 12,228,474</u>	<u>\$ 36,294,587</u>
LIABILITIES			
Accounts payable	\$ 637,369	\$ 287,312	\$ 924,681
Due to other funds	679,899	282,231	962,130
Other liabilities	977,507	1,050,520	2,028,027
Due to other agencies	89,671	-	89,671
Advances from other funds	-	300,000	300,000
Total liabilities	<u>2,384,446</u>	<u>1,920,063</u>	<u>4,304,509</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	12,385,000	3,800,000	16,185,000
Unavailable revenue - fines	1,620,048	-	1,620,048
Total deferred inflows of resources	<u>14,005,048</u>	<u>3,800,000</u>	<u>17,805,048</u>
FUND BALANCES			
Nonspendable:			
Inventories	30,950	-	30,950
Long-term interfund advance	300,000	-	300,000
Restricted:			
Fire protection	-	30,951	30,951
Street improvements and repairs	-	611,106	611,106
Law enforcement	-	215,249	215,249
Airport projects	-	264,625	264,625
Mass transit	-	304,614	304,614

EXHIBIT C
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>FUND BALANCES (Cont.)</i>			
Restricted: (Cont.)			
Debt service	\$ -	\$ 3,403,781	\$ 3,403,781
Parks and recreation projects	-	257,395	257,395
Committed:			
Parks and recreation	-	576,971	576,971
Fire protection	-	855,318	855,318
Street improvements and repairs	-	3,629	3,629
Law enforcement	-	30,332	30,332
Assigned:			
General government	193,304	-	193,304
Public safety	88,248	-	88,248
Public services	366,844	-	366,844
Other services	72,583	-	72,583
Unassigned	<u>6,624,690</u>	<u>(45,560)</u>	<u>6,579,130</u>
Total fund balances	<u>7,676,619</u>	<u>6,508,411</u>	<u>14,185,030</u>
 <i>Total liabilities, deferred inflows of resources, and fund balances</i>	 <u>\$ 24,066,113</u>	 <u>\$ 12,228,474</u>	 <u>\$ 36,294,587</u>

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

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
September 30, 2013**

Total *fund balances* for governmental funds (Exhibit C) \$ 14,185,030

Total *net position* reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 3,621,214	
Construction in progress	3,073,693	
Infrastructure, net of \$75,240,382 accumulated depreciation	104,730,509	
Buildings and improvements, net of \$21,503,293 accumulated depreciation	21,963,179	
Machinery and equipment, net of \$25,683,008 accumulated depreciation	<u>6,661,069</u>	
Total capital assets		140,049,664

Other long-term assets are not available to pay for current period expenditures and therefore are reported as deferred revenue in the funds. 1,620,048

Fiduciary funds are not included in the government-wide statements, therefore internal balances attributed to those funds are not included. (11,545)

Receivables not received within thirty days of year end are not reported in the funds. 273,770

Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds. 4,233,532

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

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
September 30, 2013**

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. All liabilities – both current and long-term – are reported in the statement of net position.

Balances for these liabilities at September 30, 2013 are:

Accrued interest on bonds and notes		\$ (294,819)
General obligation bonds	\$ (16,507,431)	
Limited obligation tax increment financing bonds	(6,300,000)	
Limited obligation economic development bonds and notes	(3,410,136)	
Capital leases	(4,024,740)	
Compensated absences	<u>(1,581,704)</u>	
Total long-term liabilities		<u>(31,824,011)</u>
Total <i>net position</i> of governmental activities (Exhibit A)		<u>\$ 128,231,669</u>

EXHIBIT D
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
General property taxes	\$ 12,431,389	\$ 4,734,778	\$ 17,166,167
Sales tax collections	21,470,956	-	21,470,956
Other taxes	31,287	-	31,287
Licenses and permits	4,526,547	-	4,526,547
Fines, forfeitures and penalties	1,717,456	69,504	1,786,960
Interest, rents and concessions	108,884	49,226	158,110
Intergovernmental	2,028,926	6,451,983	8,480,909
Charges for services	2,387,726	198,791	2,586,517
Other revenues	229,295	1,179,675	1,408,970
Total revenues	44,932,466	12,683,957	57,616,423
EXPENDITURES			
Current:			
General government	6,227,218	-	6,227,218
Public safety	21,197,343	235,797	21,433,140
Public services	11,378,948	4,301,448	15,680,396
Other services	1,506,375	636,630	2,143,005
Mass transit	-	1,110,275	1,110,275
Culture and recreation	-	4,512,676	4,512,676
Human/social assistance	152,293	718,030	870,323
Economic development	160,000	-	160,000
Debt service:			
Principal payments	1,628,555	4,125,189	5,753,744
Interest and fiscal charges	176,630	977,009	1,153,639
Total expenditures	42,427,362	16,617,054	59,044,416
Excess (deficiency) of revenues over expenditures	2,505,104	(3,933,097)	(1,427,993)

EXHIBIT D
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2013**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>OTHER FINANCING SOURCES (USES)</i>			
Transfers in	\$ 619,573	\$ 3,706,618	\$ 4,326,191
Transfers out	(3,307,234)	(49)	(3,307,283)
Other sources	110,921	8,571	119,492
<i>Total other financing sources (uses)</i>	<u>(2,576,740)</u>	<u>3,715,140</u>	<u>1,138,400</u>
<i>NET CHANGE IN FUND BALANCES</i>	(71,636)	(217,957)	(289,593)
Fund balances – beginning	7,748,255	6,925,747	14,674,002
Prior period adjustment	-	(199,379)	(199,379)
Fund balances – beginning, as adjusted	<u>7,748,255</u>	<u>6,726,368</u>	<u>14,474,623</u>
Fund balances – ending	<u>\$ 7,676,619</u>	<u>\$ 6,508,411</u>	<u>\$ 14,185,030</u>

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

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2013**

Net change in <i>fund balances</i> - governmental funds (Exhibit D)		\$ (289,593)
The change in <i>net position</i> reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$9,187,163) exceeded capital outlays (\$7,116,421) in the current period.		(2,070,742)
Intergovernmental revenue recognized on the full-accrual basis in the statement of activities is increased for revenues received thirty days after year end.		(3,466)
Fine revenue deferred in the funds for the modified accrual basis during the current year decreased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.		203,292
Proceeds from the sale of capital assets (\$18,796) are reported in the governmental funds. However, in the statement of net position the loss is recorded (\$15,116).		(33,912)
Proceeds from issuance of long-term debt are reported in the governmental funds. However, in the statement of net position a long-term liability is recorded. Repayments of long-term debt are reported as expenses in the governmental funds but are recorded against the liability in the statement of net position. The following adjustment combines the net changes for long-term debt:		
Repayments:		
To bond, note and lease holders	\$ 5,753,744	
Net adjustment for debt		5,753,744

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2013**

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The following adjustments combine the net changes of the two balances:

Compensated absences	\$ 18,224	
Accrued interest on bonds and notes	<u>64,229</u>	
Combined adjustment		\$ 82,453
Governmental funds report annual note repayment received (\$308,344) as the installment receipt of the sale of real estate. In the statement of activities, only the portion of these payments attributable to interest is reported as interest revenue (\$156,876).		<u>(151,468)</u>
Change in <i>net position</i> of governmental activities (Exhibit B)		<u><u>\$ 3,490,308</u></u>

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

EXHIBIT E
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
Proprietary Fund
September 30, 2013**

	Combined Water & Sewer System
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	<u>107,836,968</u>
DEFERRED OUTFLOW 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>

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

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
Proprietary Fund
September 30, 2013**

	Combined Water & Sewer System
<i>NON-CURRENT LIABILITIES</i>	
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>
<i>Total liabilities</i>	<u>39,367,386</u>
<i>NET POSITION</i>	
Net investment in capital assets	62,627,053
Unrestricted	<u>5,925,014</u>
Total net position	<u>\$ 68,552,067</u>

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

EXHIBIT F

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenses, and Changes In Net Position
Proprietary Fund
Year Ended September 30, 2013**

	Combined Water & Sewer System
OPERATING REVENUES	
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>
OPERATING EXPENSES	
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>
OPERATING INCOME	<u>4,054,722</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	7,949
Interest expense	(1,421,749)
Other revenues	71,298
Total non-operating revenues (expenses)	<u>(1,342,502)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	2,712,220
Intergovernmental capital contributions	3,152,032
Transfers out	<u>(257,475)</u>
CHANGE IN NET POSITION	5,606,777
NET POSITION - beginning	62,831,150
Prior period adjustment	114,140
NET POSITION - beginning, as adjusted	<u>62,945,290</u>
NET POSITION - ending	<u>\$ 68,552,067</u>

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

EXHIBIT G
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2013**

	Combined Water & Sewer System
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>	
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>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</i>	
Other cash receipts	71,298
Transfers to other funds	(257,475)
Net cash used by noncapital financing activities	<u>(186,177)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>	
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>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>	
Interest income	7,949
Net cash provided by investing activities	<u>7,949</u>
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	(9,586,037)
<i>CASH AND CASH EQUIVALENTS - Beginning</i>	<u>16,652,148</u>
<i>CASH AND CASH EQUIVALENTS - Ending</i>	<u><u>\$ 7,066,111</u></u>
Displayed on Exhibit E as:	
Cash and cash equivalents	\$ 5,674,392
Cash with fiscal agent	<u>1,391,719</u>
	<u><u>\$ 7,066,111</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2013**

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

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

EXHIBIT H

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013**

	Police/Fireman Disability & Relief Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 77,922	\$ 2,193,621
Cash and investments with fiscal agent	21,093,740	325,992
Property taxes and fees receivable	11,143	-
Sales tax receivable	-	418,331
	<hr/>	<hr/>
Total assets	21,182,805	\$ 2,937,944
LIABILITIES		
Employee contributions payable	-	354,607
Due to other agencies	-	1,719,238
Other liabilities	-	32,652
Amounts held in custody for others	-	831,447
	<hr/>	<hr/>
Total liabilities	-	\$ 2,937,944
NET POSITION		
Net position restricted for pension benefits	\$ 21,182,805	
	<hr/>	

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

EXHIBIT I

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2013**

	<u>Police/Fireman Disability & Relief Pension Trust Fund</u>
<i>ADDITIONS</i>	
Contributions:	
Plan members	\$ 14,819
Total contributions	<u>14,819</u>
Property tax levy	1,585,463
Investment earnings	<u>2,584,768</u>
Total additions	<u>4,185,050</u>
<i>DEDUCTIONS</i>	
Benefits	3,326,782
Administrative expenses	<u>78,139</u>
Total deductions	<u>3,404,921</u>
<i>CHANGE IN NET POSITION</i>	780,129
<i>NET POSITION - beginning</i>	<u>20,402,676</u>
<i>NET POSITION - ending</i>	<u><u>\$ 21,182,805</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Information

The City of Hattiesburg, Mississippi (the City) was incorporated in 1884 under the laws of the State of Mississippi and presently operates under a Mayor/Council form of government. It is the third largest municipality in the state with nearly 50,000 residents. The policy-making and legislative authority, as well as budgetary responsibilities, are vested with the City Council. The following services are provided by the City: Public safety (Police, Fire, and Code Enforcement), Public Works, Engineering, Solid Waste Collection, Water and Sewer, Social and Recreational, Mass Transit, Federal Programs, Urban Development, and General Administrative Services.

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities.

B. Reporting Entity

The City is a charter city in which citizens elect the mayor at large and five council members by wards. The accompanying financial statements present the City's primary government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component unit - The Hattiesburg Convention Commission (the Commission) is composed of a seven member board whose members are appointed by the Hattiesburg City Council. The purpose of the Commission is to promote conventions and tourism. The Commission has the authority over all matters relating to the establishment, development, construction, furnishing, and equipping of convention and tourism related facilities. The Commission is primarily funded by a 2% sales tax on local food, beverage, and alcoholic beverage package retailer permits. The Commission is presented as a governmental fund type. Pursuant to component unit criteria guidelines prescribed in GASB 61 "The Financial Reporting Entity", the convention commission is presented as a discretely presented component unit based upon the budgetary oversight provided by the city in conjunction with other related criteria including, but not limited to, the city's ability to make board appointments and, the convention commission's status as a legally separate entity.

A separate financial statement of the Commission can be obtained by contacting the Hattiesburg Convention Commission, 1 Convention Center Plaza, Hattiesburg, Mississippi 39401.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2013

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

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from a certain legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund and the major individual enterprise fund are reported as separate columns in the fund financial statements. Internal activities, including interfund transfers and due to/due from balances attributable to governmental activities have been eliminated for government-wide financial statement presentation purposes.

D. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2013

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

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within thirty (30) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

General Fund - The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Activities accounted for in the general fund include police and fire protection, public services, general government, sanitation, city courts, urban development, and other services.

The City reports the following major proprietary fund:

Combined Water and Sewer System Fund - The *Combined Water and Sewer System Fund* accounts for the activities of the water and sewer system. The City operates the sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

Additionally, the City reports the following fund types:

Police/Fireman Disability and Relief Pension Trust Fund - The *Police/Fireman Disability and Relief Pension Trust Fund* is used to account for resources legally held in trust for use by the City's uniformed police officers and firefighters that were employed prior to July 1, 1987. This fund provides retirement and disability benefits and death benefits to plan members and beneficiaries.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2013

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

Agency Funds - The City's agency funds account for employee payroll tax withholdings, initial tax deposits from the county tax collectors, initial special sales tax receipts, and the Forrest County Industrial Park Commission's fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements 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 business-type activities and 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 interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer system enterprise fund are charges to customers for sales and services. The water and sewer 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 for proprietary funds 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.

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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2013

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

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

To maximize interest earnings, the City's cash resources are combined to form a cash pool. Excluded from this pool is the cash of the Water and Sewer Fund, the 1999 Tax Increment Financing Bond and Interest and Construction Funds, the Water and Sewer USA Yeast Bond and Interest and Construction Funds, the Community Development Block Grant Fund for Entitlement and HOME Entitlement, the 2001 Bond Construction Fund, the 1998 Infrastructure Fund, the Group Insurance Trust Fund, the Series 2006 Water and Sewer Bond Funds, and certain other legally restricted funds.

Investments for the City and its component unit are reported at fair value.

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" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All sales, property tax, and notes receivables are considered collectible; therefore no reduction has been made for an allowance for these receivables. Fines receivable is reported net of allowance for uncollectible accounts in the amount of \$9,092,799 at September 30, 2013.

Customer accounts receivable in the enterprise fund are attributable to 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2013

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

Property taxes are levied annually as of October 1st on property values assessed as of the same date. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received. All taxes are collected and remitted to the City on a monthly basis by Forrest and Lamar County governments. Property tax statements on real property are typically mailed in December each year with the taxes due annually on February 1st. Property taxes on vehicles are annually and become due throughout the year on based upon the month of acquisition.

Inventories and prepaid items

All inventories are valued at the lower of cost using the first-in/first-out (FIFO) method or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, street lights, sewer and water lines, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component unit, is depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	20 – 50 years
Infrastructure	18 – 50 years
Machinery and equipment	5 – 10 years

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

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

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports prepaid insurance on the Water & Sewer Revenue Bond in the government-wide and the proprietary statements of net position 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.

In addition to liabilities, the statement of net position or the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports property taxes levied for the next fiscal year as *unearned revenue* in the government-wide statement of net position. The governmental funds balance sheet reports *unavailable revenues* from two sources: property taxes and fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay, overtime, and holiday pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the government. All vacation, overtime, and holiday pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations

In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2013

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

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other services.

Net Position

The government-wide statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflow/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 improvements of those assets, and adding back any unspent proceeds. Net position reported as restricted when there are limitations imposed on their use either through enabling creditors, grantors, or laws or regulations of other governments.

Fund balance policies

The City has implemented GASB Statement 54 *Fund Balance reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories in order to more accurately report the nature and extent of the constraints placed on a government's fund balances. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form, such as inventories and prepaid items, or are legally or contractually required to remain intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance – the residual amounts that are available for any purpose; positive amounts are reported only in the general fund.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

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

The City Council (the City's highest level of decision-making authority) establishes (and modifies or rescinds) fund balance commitments by passage of resolutions that also establish the City's spending policy that prescribes that restricted fund balance amounts are to be spent first, followed by committed, assigned and, lastly, unassigned fund balances.

The City does not have a formal minimum fund balance policy; however, the State of Mississippi Code does not allow deficit fund balances. There are no individual funds reported with deficit fund balances.

F. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In August, the City's Chief Financial Officer submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to September 15, the budget is legally enacted through the passage of an ordinance.
3. The City's Chief Financial Officer is authorized to transfer budgeted amounts within departments within the published expenditure categories; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
4. All funds, with the exception of Trust and Agency Funds, are budgeted. (General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds are budgeted.) These budgets are prepared on a cash basis. The comparison of original and final budget to actual for the General Fund is presented in Schedule 1.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Pursuant to the Mississippi State Department of Audit's prescribed format, expenditures are budgeted by department and class as follows: personal services, supplies, other services and charges, capital outlays, transfers, debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final approval of the City Council. Cumulative increases to departmental expenditures in excess of 10% must also be published in the local newspaper.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2013

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

Encumbrance accounting is used for the General Fund, Special Revenue Funds, and Capital Projects 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 prior year encumbrances.)

G. Changes in Accounting Standards

The City implemented GASB Statement No. 62, Codification of Accounting. The provisions of these standards have been incorporated into the financial statements and the notes. Pursuant to GASB Statement No. 61 *The Financial Reporting Entity: Omnibus an amendment to GASB Statements No. 14 and No. 34*, the City's continued presentation of the Hattiesburg Convention Center as a discretely presented component unit was considered to be appropriate based upon the City's budgetary oversight in conjunction with other pertinent criteria, including board appointments and the Commission's status as a legally separate entity.

H. Other Information

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 City's financial exhibits is presented below:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 - PRIOR PERIOD ADJUSTMENTS (Cont.)

<u>Explanation</u>	<u>Amount</u>
Exhibit B (Governmental Activities)	
To adjust governmental capital assets	\$ 388,463
To adjust for capital asset previously reported as owned by component unit, net of accumulated depreciation	1,253,384
To adjust for health insurance claims liability	(199,379)
To adjust notes receivable balance	60,000
	<u>\$ 1,502,468</u>
Exhibit D	
To adjust for health insurance claims liability	\$ (199,379)
	<u>\$ (199,379)</u>
Exhibit B (Business-Type Activities) and Exhibit F	
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 entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC).

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWELVE

YEAR ENDED SEPTEMBER 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (Cont.)

The carrying amount of the City's deposits with financial institutions reported in the government-wide statements was \$16,905,948. The bank balance was \$19,780,187. The City's long standing, although not formally adopted, investment policy is based upon all bank accounts being fully collateralized (using the above-described procedures) and interest-bearing with rates updated on a quarterly basis and benchmarked using verifiable appropriate federal funds rates. Interest is calculated using average balances and recorded monthly.

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 City and its component unit do not have a deposit policy for custodial credit risk. As of September 30, 2013, the City's bank balance was not exposed to custodial credit risk. The component unit has a repurchase agreement with a carrying value of \$211,506 that is not covered by FDIC.

Cash with Fiscal Agents

The carrying amount of the City's cash with fiscal agents held by financial institutions was \$1,391,719.

Investments

State statutes authorize local governments to invest in direct obligations of the U.S. Government and political subdivisions, repurchase agreements, and other instruments prescribed in the State Code.

The component unit holds an investment in an open repurchase agreement with Trustmark Bank that is collateralized by Fannie Mae securities. At September 30, 2013, the fair value of this investment was \$211,506.

Interest Rate Risk

The City and its component unit do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Investments

State law limits investments to those prescribed as allowed in the State Code. The City and its component unit do not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED SEPTEMBER 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (Cont.)

Custodial Credit Risk - Investments

Custodial credit risk is defined as the risk that, in the event of a financial institution's failure, the government would not be able to recover the value of its investments. The City and its component unit do not have a formal investment policy that addresses custodial credit risk. As of September 30, 2013, the component unit's investment balance was not exposed to custodial credit risk.

NOTE 4 - NOTES RECEIVABLE

On June 8, 2010, the City Council authorized a purchase and sales agreement between the City and the Diocese of Biloxi for the sale of property located at 510 West Pine Street for the Sacred Heart Catholic Parish. Pursuant to the terms of this agreement, the City financed the purchase price of \$2,500,000 through the issuance of the City's General Obligation Pool Loan Refunding Bonds, Series 2010, to be repaid over 20 years with the final bonds maturing July 1, 2030. The Diocese executed a \$2,500,000 promissory note requiring annual payments not to exceed \$219,000 at an interest rate not to exceed 5.5% to coincide with the scheduled principal, interest and servicing fees attributable to the City's Series 2010 bonds. At September 30, 2013, the balance of this note receivable was \$2,295,000.

On July 24, 2012, the City Council authorized the second closing documents of the Hub City Lofts Downtown Development Project, HCL Leverage Lender LLC (formerly Hub City Lofts, LLC). These documents included a loan agreement and promissory note for \$2,000,000 to be repaid over 20 years, at a rate of 2% in monthly installments of \$10,118, commencing February 1, 2013 and continuing until February 1, 2033. This arrangement was executed pursuant to Katrina Supplemental CDBG Program grant agreements that resulted in loan funding for site acquisition for two historic downtown buildings, with monthly repayments required from the City to the Mississippi Development Authority (MDA). Under the terms of the loan agreement, HCL Leverage Lender LLC will remit the above-noted monthly payments to the City, and after the receipt of these payments, the City will in turn remit the resulting payments to MDA. At September 30, 2013, the balance of this note receivable was \$1,938,532.

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 5 - CAPITAL ASSETS

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

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments	
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 3,621,214	\$ -	\$ -	\$ -	\$ 3,621,214
Construction in progress	978,568	4,854,257	(2,759,132)	-	3,073,693
Total capital assets not being depreciated	<u>4,599,782</u>	<u>4,854,257</u>	<u>(2,759,132)</u>	<u>-</u>	<u>6,694,907</u>
Capital assets being depreciated:					
Buildings and improvements	40,652,942	1,418,459	-	1,395,071	43,466,472
Machinery and equipment	31,547,146	1,211,612	(644,421)	229,740	32,344,077
Infrastructure	177,579,666	2,391,225	-	-	179,970,891
Total capital assets being depreciated	<u>249,779,754</u>	<u>5,021,296</u>	<u>(644,421)</u>	<u>1,624,811</u>	<u>255,781,440</u>
Less accumulated depreciation for:					
Buildings and improvements	19,982,435	1,379,171	-	141,687	21,503,293
Machinery and equipment	23,958,080	2,494,160	(610,509)	(158,723)	25,683,008
Infrastructure	69,926,550	5,313,832	-	-	75,240,382
Total accumulated depreciated	<u>113,867,065</u>	<u>9,187,163</u>	<u>(610,509)</u>	<u>(17,036)</u>	<u>122,426,683</u>
Total capital assets being depreciated, net	<u>135,912,689</u>	<u>(4,165,867)</u>	<u>(33,912)</u>	<u>1,641,847</u>	<u>133,354,757</u>
Governmental activities capital assets, net	<u>\$ 140,512,471</u>	<u>\$ 688,390</u>	<u>\$ (2,793,044)</u>	<u>\$ 1,641,847</u>	<u>\$ 140,049,664</u>

Note: Adjustments represent the correction of errors in the depreciation schedule and inclusion of prior year infrastructure previously expensed.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2013

NOTE 5 - CAPITAL ASSETS (Cont.)

	Primary Government				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business-type Activities:					
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	15,945,487	-	589,760	101,411,040
Total capital assets being depreciated	<u>91,307,861</u>	<u>16,268,477</u>	<u>-</u>	<u>2,912,593</u>	<u>110,488,931</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	1,465,700	-	-	18,138,862
Total accumulated depreciation	<u>21,486,774</u>	<u>1,967,809</u>	<u>-</u>	<u>1,844,642</u>	<u>25,299,225</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>
Business-type activities capital assets, net	<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

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 5 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental Activities:

General government	\$ 642,217
Public safety	1,199,588
Public works – which includes the depreciation of infrastructure assets	6,372,068
Health and welfare	19,472
Other services	224,842
Culture and recreation	493,067
Mass transit	235,909

Total depreciation expense - governmental activities \$ 9,187,163

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 210,144
General fund	Combined water and sewer system	856,368
Nonmajor governmental fund	Nonmajor governmental fund	72,086
Nonmajor governmental fund	Combined water and sewer system	64,900
Nonmajor governmental fund	General fund	679,900
Total		<u><u>\$ 1,883,398</u></u>

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Cont.)

Advances to/from other funds for governmental funds at September 30, 2013, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	<u>\$ 300,000</u>

The amount payable to the General fund from the nonmajor governmental fund is attributable to working capital loans made to the Community Development Block Grant fund. None of the balance shown is scheduled to be collected in the subsequent year.

The composition of interfund transfers for the year ended September 30, 2013, is as follows:

<u>Transfers out:</u>	<u>Transfers In:</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General fund	\$ -	\$ 3,307,234	\$ 3,307,234
Nonmajor governmental funds	362,098	399,384	761,482
Combined water and sewer system	257,475	-	257,475
Total	<u>\$ 619,573</u>	<u>\$ 3,706,618</u>	<u>\$ 4,326,191</u>

Interfund transfers are authorized components of the budget and are typically the result of special revenue or debt service funds requiring additional financing sources for budgetary purposes.

NOTE 7 - AD VALOREM TAXES LEVIED FOR OTHER GOVERNMENTAL ENTITIES

Section 35-57-1 et seq., Mississippi Code 1972, requires that the City levy and collect all taxes for and on behalf of the municipal separate school district. Section 39-3-7, Mississippi Code 1972, authorizes the City to levy and collect a tax not in excess of three mills for the support of any public library system located within the municipality.

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 7 - AD VALOREM TAXES LEVIED FOR OTHER GOVERNMENTAL ENTITIES (Cont.)

For the reported fiscal year, the following ad valorem tax levies were made in accordance with the applicable statutory requirements and authorizations:

<u>Entity/Purpose of Levy</u>	<u>Applicable State Law</u>	<u>Mills Levied</u>
School District:		
Operational Support	37-57-105	58.50
School Bonded Indebtedness	37-59-23	7.73
Library (support, upkeep and maintenance of Hattiesburg Public Library System)	39-3-7	1.95

NOTE 8 - CLAIMS AND JUDGMENTS

The City provides employee health and accident coverage through a self-insurance program that utilizes a plan administrator as its claims-servicing organization with the City retaining the risk of loss on all claims to which the City is exposed. Premium payments into the plan are established as a part of the City's budgetary process. Actuarial recommendations are provided by the plan administrator, but the City has opted to set premium rates for individual and family coverage at somewhat lower levels, with supplemental transfers into the City's Group Insurance Fund from payroll budgets into the self-insurance special revenue fund being remitted when necessary based upon the claims paid during the fiscal year. The City has reinsurance which functions on two separate stop loss coverages: specific and aggregate, and these coverages are provided by an outside commercial carrier. For the fiscal year 2013, the specific coverage begins when an individual participant's claim exceeds \$100,000, and the aggregate policy covers all submitted claims in excess of 125% of expected claims. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The following table provides changes in the balances of claims liabilities for fiscal year 2013:

	<u>2013</u>
Unpaid claims, beginning of fiscal year	\$ -
Plus: Incurred claims (including IBNRs)	4,091,692
Less: Claims payments	<u>(3,095,490)</u>
Unpaid claims, end of fiscal year	<u>\$ 996,202</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 8 - CLAIMS AND JUDGMENTS (Cont.)

Cash on deposit in the Group Insurance Fund at year end was \$181,583. Based upon the above projection of net unpaid claims in excess of cash on deposit, interfund receivables from the respective operating funds were recognized at year end in this fund.

NOTE 9 - LEASE OBLIGATIONS

The City has entered into various lease agreements as lessee for financing equipment purchases. The equipment has useful lives ranging from four to ten years. For fiscal year 2013, the assets recorded under capital leases are as follows:

Governmental Activities:	
Machinery and equipment	\$ 9,283,668
Accumulated depreciation	<u>(6,695,497)</u>
Total	<u>\$ 2,588,171</u>

These leases qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013 are as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>
2014	\$ 2,195,329
2015	951,792
2016	785,012
2017	172,087
2018	<u>143,407</u>
Total minimum lease payments	4,247,627
Less: amount representing interest	<u>(222,887)</u>
Present value of minimum lease payments	<u>\$ 4,024,740</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 10 - LONG-TERM LIABILITIES

General Obligation Bonds and Notes

The City 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 both governmental and business-type activities. Notes are generally issued with a five-year maturity. The City has no special assessment bonds or anticipation notes at September 30, 2013. 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 notes and bonds outstanding at September 30, 2013 are as follows:

General Obligation Bonds and Notes

Governmental Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/13
Public Improvements	2007	\$ 6,025,000	4.00%	2018	\$ 3,290,000
Public Improvements	2009	3,000,000	2.98%	2013	327,431
Public Improvements	2009	6,575,000	3.00%	2016	2,780,000
Public Improvements	2009	9,950,000	2.00-3.00%	2021	7,815,000
Public Improvements	2010	2,560,000	6.00%	2030	2,295,000
					<u>\$ 16,507,431</u>
<u>Business-type Activities:</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	3,000,000
					<u>\$ 12,195,000</u>

Limited Obligation Economic Development Bonds and Notes

The City also has issued limited obligation debt for economic development purposes that is repaid from revenues pledged under the terms of the respective contractual agreements made pursuant to the authorization for these projects by the governing authorities. These limited obligation bonds and notes are generally issued with essentially level annual principal and interest payments with maturities that range from 10 to 20 years. Limited obligation notes and bonds outstanding at September 30, 2013 are as follows:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Economic Development Limited Obligation Bonds and Notes

Governmental Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/13
Kohler Exempt G.O. Bond	1998	\$ 5,500,000	0.00%	2017	\$ 1,160,000
MDB Limited Obligation Bonds (Church)	2009	2,937,000	2.90 - 6.00%*	2030	311,604
Hub City Lofts	2012	2,000,000	2.00%	2033	1,938,532
					<u>\$ 3,410,136</u>

*Variable rate for MDB debt is adjusted weekly using the SIFMA Muni-Index plus 1.2%.

Limited Obligation Tax Increment Financing (TIF) Bonds

Tax increment financing (TIF) bonds are issued by the City to provide funds for the acquisition and construction of infrastructure and related improvements in conjunction with commercial development projects. 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. These bonds are secured by the payment of the incremental increase in City property taxes from each project's TIF taxing district as authorized under the TIF plan document approved by the governing authorities. These bonds may also be secured by county participation as authorized by executed interlocal agreements pledging incremental increase in county property taxes in the TIF taxing district. Limited obligation TIF bonds outstanding at September 30, 2013 are as follows:

Limited Obligation TIF Bonds

Governmental Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/13
Walmart	1999	\$ 900,000	5.00 - 5.75%	2014	\$ 120,000
Chauvet Square	2003	1,100,000	4.50 - 5.35%	2023	720,000
Home Depot	2004	700,000	4.12%	2014	165,000
Chauvet Square	2007	1,400,000	4.50%	2027	1,220,000
Turtle Crossing	2007	4,100,000	4.35%	2021	2,705,000
Lincoln Center	2008	610,000	4.00%	2023	450,000
Turtle Creek Crossing	2011	400,000	5.68%	2025	340,000
Kohls	2012	715,000	5.00%	2021	580,000
					<u>\$ 6,300,000</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Business-type Activities (Water and Sewer) Revenue Bonds

The City issues water and sewer revenue bonds to provide funds for the acquisition and construction of water and sewer system infrastructure and related improvements. These bonds are secured by water and sewer 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:

Revenue Bonds

<u>Business-type Activities:</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	12,025,000
					<u>\$ 22,465,000</u>

Business-type Activities (Water and Sewer) State Revolving Loan Fund (SRF) Notes

In addition to water and sewer revenue bonds, the City has utilized three State Revolving Loan Fund (SRF) program to provide funds for qualified sewer 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

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

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

State Revolving Loan Funds

Business-type Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/2012
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	464,332
					<u>\$ 1,458,857</u>

Compensated Absences

Vested or accumulated vacation leave, holiday leave, and accrued overtime that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave, holiday leave, and accrued overtime that are not expected to be liquidated with expendable available financial resources are reported as noncurrent liabilities. In accordance with the provisions of ASC 710-10-20, *Compensation*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Compensated absences at September 30, 2013 are as follows:

Accrued vacation pay	\$ 1,521,427
Accrued overtime pay	4,395
Accrued holiday pay	<u>55,882</u>
Total	<u>\$ 1,581,704</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Changes in Long-Term Liabilities

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

Governmental Activities:	Balance September 30, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Bonds and notes payable					
General obligation bonds and notes	\$ 19,398,158	\$ -	\$ (2,890,727)	\$ 16,507,431	\$ 2,662,431
Limited obligation TIF bonds	6,990,000	-	(690,000)	6,300,000	660,000
Economic development limited obligation bonds and notes	3,919,785	-	(509,649)	3,410,136	394,966
Total bonds and notes payable	30,307,943	-	(4,090,376)	26,217,567	3,717,397
Capital leases	5,688,108	-	(1,663,368)	4,024,740	2,078,356
Compensated absences	1,599,928	-	(18,224)	1,581,704	237,256
Governmental activities long-term liabilities	\$ 37,595,979	\$ -	\$ (5,771,968)	\$ 31,824,011	\$ 6,033,009
Business-type Activities:	Balance September 30, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Bonds and notes payable					
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	423,500	-	(21,175)	402,325	21,175
Total bonds and notes payable	36,356,162	3,000,000	(2,834,980)	36,521,182	2,521,462
Business-type activities long-term liabilities	\$ 36,356,162	\$ 3,000,000	\$ (2,834,980)	\$ 36,521,182	\$ 2,521,462

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

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

Governmental Activities:

Year ending September 30,	G.O. Bonds and Notes		Limited Obligation TIF Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 2,662,431	\$ 518,731	\$ 660,000	\$ 287,264
2015	2,430,000	442,999	690,000	256,965
2016	2,515,000	367,388	560,000	227,127
2017	1,620,000	301,388	580,000	201,501
2018	1,680,000	246,656	615,000	174,829
2019-2023	4,400,000	696,344	2,455,000	449,163
2024-2028	805,000	268,244	740,000	83,910
2029-2033	395,000	36,000	-	-
Total	\$ 16,507,431	\$ 2,877,750	\$ 6,300,000	\$ 1,680,759

Year ending September 30,	Economic Development Limited Obligation Bonds and Notes		Total Governmental Activities	
	Principal	Interest	Principal	Interest
2014	\$ 394,966	\$ 42,257	\$ 3,717,397	\$ 848,252
2015	396,650	40,148	3,516,650	740,112
2016	398,367	38,049	3,473,367	632,564
2017	400,119	35,953	2,600,119	538,842
2018	111,907	33,855	2,406,907	455,340
2019-2023	587,633	137,515	7,442,633	1,283,022
2024-2028	626,209	82,457	2,171,209	434,611
2029-2033	494,285	21,717	889,285	57,717
Total	\$ 3,410,136	\$ 431,951	\$ 26,217,567	\$ 4,990,460

(Table Continued on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Business-type Activities:

Year ending September 30,	G.O. Bonds and Notes		State Revolving Loan Funds	
	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	-	-
2029-2033	520,000	25,384	-	-
Total	\$ 12,195,000	\$ 2,442,846	\$ 1,458,857	\$ 133,814

Year ending September 30,	Revenue Bonds		Total Business-type Activities	
	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
2029-2033	3,195,000	226,341	3,715,000	251,725
Total	\$ 22,465,000	\$ 6,380,399	\$ 36,118,857	\$ 8,957,059

During the year ended September 30, 2013, interest expense paid for governmental activities and business-type activities was \$1,261,786 and \$1,144,021, respectively.

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 11 - SCHEDULE OF STATUTORY DEBT LIMITATIONS

The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Mississippi Code 1972. No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$41,526,630 (the smaller of the two computed margins) as of September 30, 2013:

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2013 (\$414,357,378) times applicable percentage	[a] \$ 62,153,607	\$ 82,871,476
Present debt subject to debt limits as of September 30, 2013:		
Total bonds and notes other than water and sewer	26,217,567	26,217,567
Less: Bonds exempt from debt limitation calculations	(9,710,136)	(9,710,136)
Add: Water & sewer debt other than revenue bonds	<u>n/a</u>	<u>13,653,857</u>
General obligation debt subject to applicable tests	[b] <u>16,507,431</u>	<u>30,161,288</u>
Margin for additional debt [a] minus [b]	<u>\$ 45,646,176</u>	<u>\$ 52,710,188</u>

NOTE 12 - RELATED ORGANIZATION

The following related organization is excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the organization.

Hattiesburg Tourism Commission - The Commission consists of seven members appointed by the Mayor and ratified by the City Council. Funding is from a special tax levied upon the gross proceeds from hotel and motel overnight room rentals.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 13 - JOINT VENTURES

The City of Hattiesburg is a participant with Forrest County in a joint venture authorized by Section 57-31-1, Mississippi Code Annotated (1972), to operate the Forrest County Industrial Park Commission. The joint venture was created to develop and operate an industrial park complex for citizens of Forrest County and the City of Hattiesburg. The Commission is governed by a ten member board. The governing authorities of the City of Hattiesburg and the Forrest County Board of Supervisors each appoint five members. Each entity is obligated to provide equal funding for the ongoing financial support of the Commission. A separate financial statement of the Forrest County Industrial Park Commission can be obtained by contacting the Commission at Post Office Box 1898, Hattiesburg, Mississippi 39403.

The City of Hattiesburg is a participant with Forrest County, Jones County, and the State of Mississippi to operate the Hattiesburg/Laurel Regional Airport Authority authorized by Section 61-3-5, Mississippi Code Annotated (1972). The joint venture, governed by a five member board of commissioners, was created to maintain and develop the Authority for the City and aforementioned counties. Each governmental entity appoints one board member. A separate financial statement of the Hattiesburg/Laurel Regional Airport Authority can be obtained by contacting the Authority at 1002 Terminal Drive, Moselle, Mississippi 39459.

The City of Hattiesburg is a participant with Forrest County and the City of Petal in a joint venture authorized by Section 39-3-38, Mississippi Code Annotated (1972) to operate the Library of Hattiesburg, Petal, and Forrest County. The joint venture was created to provide free public library service to the citizens of Forrest County and the Cities of Hattiesburg and Petal. The library is governed by a fifteen member board appointed by the governments involved as follows: City of Hattiesburg - six members; Forrest County - six members; and City of Petal - three members. Each entity is obligated by contract to levy not less than 1.25 mills as authorized by Sections 39-3-35 and 39-3-37, Mississippi Code Annotated (1972), for the ongoing financial support of the library. A separate financial statement of the library can be obtained by contacting the Library at 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

The Emergency Management District provides emergency services to the City of Hattiesburg and Forrest County. The entity is controlled by an eight member council. The Council is chosen as follows by the following authorities: Mayor of Hattiesburg - one; Forrest County Board of Supervisors - one; Sheriff of Forrest County - one; AAA Ambulance - one; Hattiesburg Police Chief - one; Hattiesburg Fire Chief - one; the University of Southern Mississippi - one; and Forrest General Hospital - one. Operating funds are provided by state grants, E-911 charges and direct contributions.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 15 - COMMITMENTS

At September 30, 2013, the outstanding balance on the USA Yeast Pretreatment Facility was \$2,463,090 and the balance on the 4th Street Expansion Phase I project was \$2,378,117. Miscellaneous outstanding water and sewer projects totaled \$2,267,766. Other miscellaneous projects outstanding contracts in progress at September 30, 2013 totaled \$1,443,832.

Significant encumbrances at September 30, 2013, included \$135,544 for paving projects, \$80,762 for electronic timekeeping equipment, \$109,890 for drainage pipes, and \$57,994 for emergency generator maintenance costs.

NOTE 16 - DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

At September 30, 2013, the City's CDBG Fund reported a \$45,560 deficit in fund balance that is attributable to the cumulative effect of program expenditures in excess of grant reimbursements.

NOTE 17 - CONTINGENCIES

Compliance with Amended Order No. 6034 11 - In February 2012, the City and 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 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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 17 - CONTINGENCIES (Cont.)

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.

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's lawsuit with the City of Petal over proposed rate increases for the acceptance and treatment of Petal's wastewater 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 unpaid balance for the City of Petal's wastewater treatment that will ultimately be paid is not readily determinable.

The City is party to various legal other 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.

Federal Grants - In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 18 - 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. 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 postemployment healthcare benefits 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 19 - DEFINED BENEFIT PENSION PLANS

Plan Description - The City of Hattiesburg contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005, or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary (adjusted to 9.00% effective July 1, 2010) and the City of Hattiesburg is required to contribute at an actuarially determined rate. The current rate is 12.00% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Hattiesburg contributions to PERS for the years ended September 30, 2013, 2012 and 2011 were \$3,086,123, \$2,692,920, and \$2,499,657, respectively, equal to the required contributions for each year.

NOTE 20 - PENSION PLAN FOR POLICEMEN AND FIREMEN

Plan Description - The City of Hattiesburg contributes to the Police and Fire Disability and Relief Fund (PFDR), an agent multiple-employer defined benefit pension plan administered by the Public Employees' Retirement System of Mississippi. The City's uniformed police officers and firefighters employed prior to July 1, 1987, participate in PFDR. Firefighters and police officers employed subsequent to July 1, 1987 are members of the Public Employees' Retirement System of the State as previously described.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 20 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

All assets existing in the City's Police and Firemen's Disability and Relief Fund at July 1, 1987, were transferred to PERS. Those assets were placed into an investment pool with the assets from the other Police and Firemen's Disability and Relief Fund, and the City's book value of its share of these assets was set at the market value of the transferred assets as of July 1, 1987. In June of each year, the monthly statement from the PERS contains a pro-rata distribution of the City's earnings from the investment pool. Prior to the yearly distribution of such earnings, the City's balance sheet is reconciled monthly which, at that point in time, reflects the balance at the beginning of the Plan year (July 1) plus tax collections and payroll contributions, less pension benefits paid, refunds and administrative fee. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PFDR. That information can be obtained by contacting PERS at the address and telephone number mentioned above.

The PFDR retirement allowance is payable under this plan to any member who retires and has completed at least 20 years of creditable service, regardless of age. The retirement benefits are calculated in an amount equal to 50% of the employee's average compensation, plus 1.7% of average compensation for each year of credited service over 20 with an aggregate amount not to exceed 66-2/3%. Disability and death benefits are also provided under the plan.

Funding Status and Progress - The actuarial accrued liability is a measure intended to (i) help users assess the System's funding status on a going-concern basis and (ii) assess progress being made in accumulating sufficient assets to pay benefits when due. For the years ended September 30, 1994 and prior, the actuarial value of assets was equal to book value. Beginning with the September 30, 1995 actuarial valuation, the actuarial value of assets is determined on a market related basis that recognizes 20% of the previously unrecognized and unanticipated gains and losses (both realized and unrealized). Allocation of the actuarial present value of projected benefits between past and future service was based on service using the entry age actuarial cost method. Assumptions, including projected pay increases, were the same as those used to determine the System's annual required contribution between entry age and assumed exit age. Entry age was established by subtracting credited service from current age on the valuation date.

The entry age actuarial accrued liability was determined as part of an actuarial valuation of the System (but not used for funding purposes) as of September 30, 2013. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually including price inflation at 3.50%, (b) projected salary increases of 4.25% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of up to 1.75% per year compounded annually, attributable to merit and seniority. Additionally, local and private legislation, enacted by the Mississippi Legislature, has authorized annual cost of living adjustments (COLA) of 2.50% per year, not to exceed 30% of annual pension benefits.

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 20 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

Statements Nos. 25 and 27 of the Governmental Accounting Standards Board (GASB) set forth certain items of information to be disclosed in the financial statements of the system and the employer. One such item is a distribution of the number of employees by type of membership, as presented below:

<u>Group</u>	<u>Number</u>
Retired participants and beneficiaries currently receiving benefits	151
Terminated participants and beneficiaries entitled to benefits but not receiving benefits	-
Active participants	2
Inactive participants	-
Total	<u><u>153</u></u>

Active member information based upon the most current actuarial study consists of the following:

Active members	2
Annual payroll	\$ 94,300
Average annual payroll	\$ 47,150
Average age in years	56.4
Average service in years	31.8

Retired lives based upon the most current actuarial study consists of the following:

<u>Type of Benefit Payment</u>	<u>Number</u>	<u>Annual Benefits</u>	<u>Average Benefit</u>	<u>Average Age</u>
Retirement	111	\$ 2,744,684	\$ 24,727	63.8
Disability	6	78,455	13,076	61.6
Survivor	34	500,539	14,722	69
Total	<u><u>151</u></u>	<u><u>\$ 3,323,678</u></u>	22,011	64.8

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 20 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

At September 30, 2013, the actuarial accrued liability was determined as follows:

	<u>\$ in Thousands</u>
Actuarial Accrued Liability (AAL):	
Retirees and beneficiaries currently receiving benefits	\$ 36,374
Active members	<u>731</u>
Total actuarial accrued liability	37,105
Actuarial value of assets	<u>19,968</u>
Unfunded actuarial accrued liability	<u>\$ 17,137</u>

During the year ended September 30, 2013, the plan experienced a net change of \$(454,000) in the Actuarial Accrued Liability.

The schedule of funding progress, presented as required supplementary information at Schedule 2 following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funding Policy - The funding policy for PFDR provides for periodic employer contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. In developing the annual required contribution shown on the next page, the normal cost and actuarial accrued liability are determined using the entry age actuarial cost method. Unfunded actuarial accrued liability is being amortized on a closed basis as a level dollar amount over a remaining amortization period of twenty-three years. The asset valuation method used is a 5-year smoothed market method. The City has the option to set property tax rates to allow for extended contributions beyond 2020 under a funding policy adopted by the PERS Board of Trustees in February 2011. Under this new policy, contributions, expressed as a property tax millage rate, are established beginning in fiscal year 2012 that will generate an ultimate asset reserve level equal to a reasonable percentage (initially 100% - 150%) of the next year's projected benefit payment. At that point, employer contributions will be set equal to the fiscal year's projected benefit payments and adjusted as necessary to maintain the assets at the established reserve level. The millage rates certified as of September 30, 2012 under the Pre-2011 and Post-2011 Funding Policy rates are 7.21 mills and 3.87 mills, respectively. The actual tax levy set for the pension fund for policemen and firemen as of September 30, 2012 was 3.82 mills.

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 20 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

During the year ended September 30, 2013, contributions totaling \$1,943,912 (\$1,923,732 employer and \$20,180 employee) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of September 30, 2012. The employer contributions consisted of \$23,715 for normal cost and administrative expenses and \$1,900,017 for amortization of the unfunded actuarial accrued liability, and the employer's annual required contributions (ARC) was determined to be \$1,695,623 (consisting of \$19,492 normal ARC and \$1,676,131 accrued liability ARC). Presented below is a schedule of annual required contributions for the past ten (10) years:

Fiscal Year 10/1 – 9/30	Valuation Date	Annual Required Contribution	Percentage Contributed
2003-04	9/30/2003	\$ 935,623	125.2%
2004-05	9/30/2004	1,105,770	114.6%
2005-06	9/30/2005	1,229,031	111.4%
2006-07	9/30/2006	1,228,267	119.5%
2007-08	9/30/2007	1,172,541	129.9%
2008-09	9/30/2008	1,115,275	141.1%
2009-10	9/30/2009	1,411,127	124.7%
2010-11	9/30/2010	1,519,076	116.9%
2011-12	9/30/2011	1,579,521	121.8%
2012-13	9/30/2012	1,695,623	N/A

Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information, for which three years is required, is presented as follows:

Three-Year Trend Information

Valuation Date	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed
9/30/2011	\$ 1,579,521	\$ 1,923,732	121.8%
9/30/2012	1,695,623	N/A	N/A
6/30/2013 *	1,695,790	N/A	N/A

* Valuation date changed in FY 2013 to conform with the Public Employee Retirement System's year-end date of June 30, 2013.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 20 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

In addition to this, the Statement of Plan Net Position is included in Exhibit H and the Statement of Changes in Plan Net Position is included in Exhibit I. Actuarial information for the year ended September 30, 2013, can be obtained by contacting the City of Hattiesburg's Chief Financial Officer.

NOTE 21 - BUDGETARY BASIS VS. GAAP

The accompanying Budgetary Comparison Schedule – General Fund presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since the budgetary and GAAP presentations of actual data differ, a reconciliation of the results of operations for the year is included at the end of the statement.

NOTE 22 - HURRICANE KATRINA

On August 29, 2005, Hurricane Katrina caused extensive damage to the southeastern United States, including the City of Hattiesburg. The City has worked with federal and state officials as well as with the City's property insurance providers throughout fiscal years 2007, 2008, 2009, 2010, and 2011 in an effort to recover damages resulting from the storm. Project worksheets have been completed on virtually all of the City's unreimbursed expenses, and the City is continuing to work with governmental agencies in an effort to secure substantial reimbursement for these expenses. The City has opted to include future reimbursements attributable to these amounts into the operating budgets for future years as they are received.

There are certain recovery projects that are expected to continue on into future fiscal years. These include repairs to streets damaged as a result of the extraordinary hauling of heavy debris using heavy equipment during the fall months of 2005, repairs to signals and signs, and damages incurred at various City buildings and facilities. The final resolutions of these reimbursement requests are subject to ongoing discussions between the City and FEMA officials.

NOTE 23 - DISCRETELY PRESENTED COMPONENT UNIT

Capital asset activity for the Hattiesburg Convention Commission for the year ended September 30, 2013 was as follows:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 23 - DISCRETELY PRESENTED COMPONENT UNIT (Cont.)

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,315,877	\$ -	\$ -	\$ -	\$ 1,315,877
Construction in progress - Eureka	972,628	535,524	-	(37,025)	1,471,127
Construction in progress - Zoo projects	356,145	349,677	473,106	40,771	273,487
Total capital assets not being depreciated	<u>2,644,650</u>	<u>885,201</u>	<u>473,106</u>	<u>3,746</u>	<u>3,060,491</u>
Capital assets being depreciated:					
Buildings, parking lot, etc.	19,528,656	-	-	(1,395,071)	18,133,585
Furniture and fixtures	474,945	-	-	-	474,945
Equipment and vehicles	1,583,349	-	-	-	1,583,349
Assets acquired under capital lease	34,737	-	-	-	34,737
Total capital assets being depreciated	<u>21,621,687</u>	<u>-</u>	<u>-</u>	<u>(1,395,071)</u>	<u>20,226,616</u>
Less accumulated depreciation for:					
Buildings, parking lot, etc.	5,807,423	408,790	-	(141,687)	6,074,526
Furniture and fixtures	414,281	7,131	-	-	421,412
Equipment and vehicles	1,245,410	137,035	-	-	1,382,445
Assets acquired under capital lease	4,825	11,579	-	-	16,404
Total accumulated depreciated	<u>7,471,939</u>	<u>564,535</u>	<u>-</u>	<u>(141,687)</u>	<u>7,894,787</u>
Total capital assets being depreciated, net	<u>14,149,748</u>	<u>(564,535)</u>	<u>-</u>	<u>(1,253,384)</u>	<u>12,331,829</u>
 Governmental activity capital assets, net	 <u>\$ 16,794,398</u>	 <u>\$ 320,666</u>	 <u>\$ 473,106</u>	 <u>\$ (1,249,638)</u>	 <u>\$ 15,392,320</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 23 - DISCRETELY PRESENTED COMPONENT UNIT (Cont.)

The schedule below details the changes in the Commission's long-term debt during the year ended September 30, 2013:

	<u>Balance September 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2013</u>
Capital leases	\$ 29,912	\$ -	\$ 11,579	\$ 18,333
Total amounts	<u>\$ 29,912</u>	<u>\$ -</u>	<u>\$ 11,579</u>	<u>\$ 18,333</u>

The future minimum lease payments are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>
2014	\$ 11,579
2015	<u>6,754</u>
	<u>\$ 18,333</u>

The City entered into a contract with the Hattiesburg Convention Commission and the Hattiesburg Tourism Commission during fiscal year 2010 for the management of the Hattiesburg Zoo at Kamper Park. During fiscal year 2012, the City paid \$799,124 in management fees through the month of May pursuant to this agreement. In May 2012, a new agreement was entered into with the Convention Commission that allowed for the Commission to accept full financial responsibility for any subsidy requirement necessary for operations of the Hattiesburg Zoo, thus ending the monthly management fee as contained in the original contract. Six months prior to the end date of the contract (September 30, 2015), all parties agree to review the financial status of the Zoo operations and work out a new financial plan if necessary.

NOTE 24 - SUBSEQUENT EVENTS

Management has evaluated subsequent events after the financial statement date of September 30, 2013 through June 26, 2014, which is the date the financial statements were available to be issued. The following subsequent events were noted:

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 24 - SUBSEQUENT EVENTS (Cont.)

Major Purchases - In September 2011, the City Council authorized a \$100,000 down payment on the purchase of InterAct Public Safety software that will allow for the City to achieve interoperability with other law enforcement agencies as well as allowing for improved accountability, efficiencies and access to information by law enforcement personnel. The total cost of the system is projected to be \$796,589, and the City anticipates the utilization of lease-purchase financing, with monthly principal and interest payments projected to begin during fiscal year 2014 after the installation of the system.

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).

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 24 - SUBSEQUENT EVENTS (Cont.)

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.

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.

Contracts for TIF Financing - In March 2014 the City Council authorized the issuance of TIF bonds not to exceed \$2,990,000 for the Southern Pointe Project. Additionally, on May 6, 2014 a TIF financing plan for the Midtown Hattiesburg Project, a proposed mixed-use district located in the area of Forrest General Hospital, Hattiesburg Clinic, and the University of Southern Mississippi. This financing plan authorizes the issuance of up to \$15 million in bonds for infrastructure improvements in the area.

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 twenty-five 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%.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 24 - SUBSEQUENT EVENTS (Cont.)

Litigation - In October 2013, the City paid a \$15,000 sum as a result of litigation that was settled in federal court. As a result of this case, the City subsequently paid a total of approximately \$168,000 in legal fees and court costs.

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.

***REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)***

SCHEDULE 1
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CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>
REVENUES		
Intergovernmental:		
Federal grants	\$ 718,771	\$ 2,121,823
State grants	278,420	446,600
State - shared revenue	20,456,000	20,881,754
County - shared revenue	66,000	66,000
General property taxes	12,285,000	12,355,000
Other taxes	28,000	31,000
Licenses and permits	4,440,000	4,445,000
Charges for services:		
Public safety	190,000	219,680
Streets	20,100	20,100
Sanitation	2,220,000	2,220,000
Fines and forfeitures	1,602,000	1,602,000
Miscellaneous	200,350	205,350
Non-revenue receipts	1,021,400	1,949,512
Total revenues	<u>43,526,041</u>	<u>46,563,819</u>
EXPENDITURES		
General government:		
Personnel	3,836,918	3,861,293
Supplies and expenses	194,638	215,059
Other services and charges	2,938,572	3,114,815
Capital outlays	319,500	759,854
Total general government	<u>7,289,628</u>	<u>7,951,021</u>
Police Department:		
Personnel	9,150,415	9,167,295
Supplies and expenses	746,641	815,021
Other services and charges	484,291	517,825
Capital outlays	564,440	909,311
Total police department	<u>10,945,787</u>	<u>11,409,452</u>
Police and fire training:		
Personnel	33,433	33,395
Supplies and expenses	146,368	179,378
Other services and charges	122,764	133,287
Capital outlays	-	74,694
Total police and fire training	<u>302,565</u>	<u>420,754</u>

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 878,700	\$ (1,243,123)
509,238	62,638
21,885,920	1,004,166
69,075	3,075
12,387,189	32,189
31,287	287
4,459,098	14,098
235,337	15,657
14,957	(5,143)
2,202,980	(17,020)
1,717,456	115,456
581,098	375,748
1,028,987	(920,525)
<u>46,001,322</u>	<u>(562,497)</u>
3,494,207	367,086
166,354	48,705
2,387,200	727,615
446,398	313,456
<u>6,494,159</u>	<u>1,456,862</u>
8,514,128	653,167
758,424	56,597
453,690	64,135
869,361	39,950
<u>10,595,603</u>	<u>813,849</u>
31,932	1,463
148,145	31,233
116,730	16,557
74,694	-
<u>371,501</u>	<u>49,253</u>

SCHEDULE 1
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CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>
EXPENDITURES (Cont.)		
Fire Department:		
Personnel	\$ 6,606,588	\$ 6,710,708
Supplies and expenses	368,855	373,855
Other services and charges	317,095	307,895
Capital outlays	-	23,000
Total fire department	<u>7,292,538</u>	<u>7,415,458</u>
Land development administration:		
Personnel	542,694	551,104
Supplies and expenses	31,397	35,069
Other services and charges	55,572	57,722
Capital outlays	42,000	40,000
Total land development administration	<u>671,663</u>	<u>683,895</u>
Public safety contractual services:		
Personnel	162,940	211,950
Supplies and expenses	-	-
Other services and charges	1,512,445	2,253,379
Capital outlays	-	-
Total public safety contractual services	<u>1,675,385</u>	<u>2,465,329</u>
Public services:		
Personnel	5,732,959	5,721,286
Supplies and expenses	1,412,283	1,651,063
Other services and charges	3,229,737	4,574,987
Capital outlays	1,030,845	1,349,249
Total public services	<u>11,405,824</u>	<u>13,296,585</u>
Animal Control:		
Personnel	126,599	126,809
Supplies and expenses	23,950	23,950
Other services and charges	123,073	123,073
Capital outlays	-	-
Total animal control	<u>273,622</u>	<u>273,832</u>

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 6,489,542	\$ 221,166
293,361	80,494
264,414	43,481
20,380	2,620
<u>7,067,697</u>	<u>347,761</u>
520,525	30,579
29,528	5,541
35,985	21,737
35,084	4,916
<u>621,122</u>	<u>62,773</u>
193,297	18,653
-	-
1,939,376	314,003
-	-
<u>2,132,673</u>	<u>332,656</u>
5,031,703	689,583
1,400,296	250,767
4,000,060	574,927
663,675	685,574
<u>11,095,734</u>	<u>2,200,851</u>
103,159	23,650
15,735	8,215
121,014	2,059
-	-
<u>239,908</u>	<u>33,924</u>

SCHEDULE 1
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CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>
EXPENDITURES (Cont.)		
Human/social assistance:		
Personnel	\$ -	\$ -
Supplies and expenses	-	-
Other services and charges	159,500	159,500
Capital outlays	-	-
Total human/social assistance	<u>159,500</u>	<u>159,500</u>
Economic development:		
Personnel	-	-
Supplies and expenses	-	-
Other services and charges	160,000	160,000
Capital outlays	-	-
Total economic development	<u>160,000</u>	<u>160,000</u>
Airport:		
Personnel	96,630	100,513
Supplies and expenses	56,198	56,198
Other services and charges	72,975	61,975
Capital outlays	-	11,000
Total airport	<u>225,803</u>	<u>229,686</u>
Cemetery:		
Personnel	613,452	640,773
Supplies and expenses	89,350	110,113
Other services and charges	53,350	53,350
Capital outlays	79,500	79,500
Total cemetery	<u>835,652</u>	<u>883,736</u>
Parking garages:		
Personnel	191,979	193,692
Supplies and expenses	7,250	7,250
Other services and charges	82,402	85,539
Capital outlays	10,000	80,000
Total parking garages	<u>291,631</u>	<u>366,481</u>

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ -	\$ -
-	-
152,293	7,207
-	-
<u>152,293</u>	<u>7,207</u>
-	-
-	-
160,000	-
-	-
<u>160,000</u>	<u>-</u>
97,807	2,706
36,640	19,558
41,275	20,700
10,082	918
<u>185,804</u>	<u>43,882</u>
610,935	29,838
100,212	9,901
45,042	8,308
15,916	63,584
<u>772,105</u>	<u>111,631</u>
182,470	11,222
4,272	2,978
40,061	45,478
10,000	70,000
<u>236,803</u>	<u>129,678</u>

SCHEDULE 1
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CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>
EXPENDITURES (Cont.)		
Debt service:		
Principal payments	\$ 1,741,550	\$ 1,792,550
Interest payments	191,175	195,675
Total debt service	<u>1,932,725</u>	<u>1,988,225</u>
Total expenditures	<u>43,462,323</u>	<u>47,703,954</u>
Excess (deficiency) of revenues over expenditures	63,718	(1,140,135)
OTHER FINANCING SOURCES (USES)		
Transfers in	794,475	814,475
Transfers out	<u>(3,187,234)</u>	<u>(3,307,234)</u>
Total other financing sources (uses)	<u>(2,392,759)</u>	<u>(2,492,759)</u>
NET CHANGE IN FUND BALANCES	(2,329,041)	(3,632,894)
Fund balances - beginning (Non-GAAP Budgetary Basis)	<u>4,600,000</u>	<u>4,831,301</u>
Fund balances - ending (Non-GAAP Budgetary Basis)	<u>\$ 2,270,959</u>	<u>\$ 1,198,407</u>
ADJUSTMENTS:		
To adjust for sales tax accrual		
To adjust for other receivables/accruals		
Fund balances - ending (GAAP Basis)		

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 1,628,555	\$ 163,995
176,630	19,045
<u>1,805,185</u>	<u>183,040</u>
<u>41,930,587</u>	<u>5,773,367</u>
4,070,735	5,210,870
650,622	(163,853)
(2,914,016)	393,218
<u>(2,263,394)</u>	<u>229,365</u>
1,807,341	<u>\$ 5,440,235</u>
<u>4,831,301</u>	
6,638,642	
82,532	
<u>955,445</u>	
<u>\$ 7,676,619</u>	

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2013**

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedule (the Schedule) presents the original legally adopted budget, the final legally adopted budget, the actual amounts on the budgetary cash basis, and variances between the final budget and the actual amounts. The Schedule is a part of required supplementary information. As disclosed in Note 1, Section F to the financial statements, the Schedule is presented in the Mississippi State Department of Audit's prescribed format.

NOTE 2 - BUDGET/GAAP RECONCILIATION

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The budget to GAAP reconciliation is shown at the bottom of Schedule 1.

SCHEDULE 2

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule of Funding Progress
Policemen & Firemen Retirement System
Last Ten Fiscal Years
Year Ended September 30, 2013
(\$ in Thousands)**

<u>Plan Year Ended</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Liability (AAL) Entry Age</u>	<u>(3) Percent Funded (1) / (2)</u>	<u>(4) Unfunded AAL (2) - (1)</u>	<u>(5) Annual Covered Payroll</u>	<u>(6) Unfunded AAL As A Percentage Of Covered Payroll (4) / (5)</u>
9/30/04	\$ 25,229	\$ 37,084	68.0%	\$ 11,855	\$ 793	1495.0%
9/30/05	24,095	36,792	65.5%	12,697	695	1826.9%
9/30/06	24,458	37,377	65.4%	12,919	510	2533.1%
9/30/07	25,345	37,638	67.3%	12,293	442	2781.2%
9/30/08	25,543	37,347	68.4%	11,804	289	4084.4%
9/30/09	24,340	39,166	62.1%	14,826	308	4813.6%
9/30/10	22,892	38,779	59.0%	15,887	260	6110.4%
9/30/11	21,940	38,274	57.3%	16,334	210	7778.1%
9/30/12	20,487	37,820	54.2%	17,333	156	11110.9%
9/30/13	19,968	37,105	53.8%	17,137	94	18172.8%

The accompanying notes are an integral part of this schedule.

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE SCHEDULE OF FUNDING PROGRESS –
POLICEMEN & FIREMEN RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2013**

NOTE 1 - ACTUARIAL ASSUMPTIONS

Presented below are the actuarial assumptions used for the most recent five years presented in the analysis of funding progress:

Actuarial Assumptions 2009

Actuarial Cost Method	Entry age
Amortization Method	Level dollar closed
Remaining Amortization Period	25 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return	8.00%
Projected Salary Increases	4.50% - 6.00%
Includes Price Inflation At	3.50%
Includes Wage Inflation At	4.25%

Actuarial Assumptions 2010

Actuarial Cost Method	Entry age
Amortization Method	Level dollar closed
Remaining Amortization Period	24 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return	8.00%
Projected Salary Increases	4.50% - 6.00%
Includes Price Inflation At	3.50%
Includes Wage Inflation At	4.25%

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE SCHEDULE OF FUNDING PROGRESS –
POLICEMEN & FIREMEN RETIREMENT SYSTEM**

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - ACTUARIAL ASSUMPTIONS (Cont.)

Actuarial Assumptions 2011

Actuarial Cost Method	Entry age
Amortization Method	Level dollar closed
Remaining Amortization Period	23 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return	8.00%
Projected Salary Increases	4.50% - 6.00%
Includes Price Inflation At	3.50%
Includes Wage Inflation At	4.25%

Actuarial Assumptions 2012

Actuarial Cost Method	Entry age
Amortization Method	Level dollar closed
Remaining Amortization Period	22 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return	8.00%
Projected Salary Increases	4.50% - 6.00%
Includes Price Inflation At	3.50%
Includes Wage Inflation At	4.25%

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE SCHEDULE OF FUNDING PROGRESS –
POLICEMEN & FIREMEN RETIREMENT SYSTEM**

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - ACTUARIAL ASSUMPTIONS (Cont.)

Actuarial Assumptions 2013

Actuarial Cost Method	Entry age
Amortization Method	Level dollar closed
Remaining Amortization Period	21 years
Asset Valuation Method	5-year smoothed market
Investment Rate of Return	8.00%
Projected Salary Increases	4.50% - 6.00%
Includes Price Inflation At	3.50%
Includes Wage Inflation At	4.25%
Cost of living adjustments	2.50% per year, not to exceed 30%.

SUPPLEMENTARY INFORMATION

SCHEDULE 3

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2013**

	Special Revenue Funds (Schedule 5)	Debt Service Funds (Schedule 7)
ASSETS		
Cash and cash equivalents	\$ 3,019,631	\$ 3,383,374
Due from other funds	816,886	-
Intergovernmental receivable	900,507	-
Other receivables	22,988	-
Property taxes receivable	1,007,286	2,820,407
Total assets	\$ 5,767,298	\$ 6,203,781
LIABILITIES		
Accounts payable	\$ 287,312	\$ -
Due to other funds	282,231	-
Other liabilities	1,050,520	-
Advances from other funds	300,000	-
Total liabilities	1,920,063	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	1,000,000	2,800,000
	1,000,000	2,800,000
FUND BALANCES		
Restricted:		
Fire protection	30,951	-
Street improvements and repairs	611,106	-
Law enforcement	215,249	-
Airport projects	264,625	-
Mass transit	304,614	-
Debt service	-	3,403,781
Parks and recreation projects	-	-
Committed:		
Parks and recreation	576,971	-
Fire protection	855,318	-
Street improvements and repairs	3,629	-
Law enforcement	30,332	-
Unassigned	(45,560)	-
Total fund balances	2,847,235	3,403,781
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,767,298	\$ 6,203,781

Capital Project Funds (Schedule 9)	Total Nonmajor Governmental Funds (Exhibit C)
\$ 257,395	\$ 6,660,400
-	816,886
-	900,507
-	22,988
-	3,827,693
<u>\$ 257,395</u>	<u>\$ 12,228,474</u>
\$ -	\$ 287,312
-	282,231
-	1,050,520
-	300,000
<u>-</u>	<u>1,920,063</u>
-	3,800,000
<u>-</u>	<u>3,800,000</u>
-	30,951
-	611,106
-	215,249
-	264,625
-	304,614
-	3,403,781
257,395	257,395
-	576,971
-	855,318
-	3,629
-	30,332
-	(45,560)
<u>257,395</u>	<u>6,508,411</u>
<u>\$ 257,395</u>	<u>\$ 12,228,474</u>

SCHEDULE 4

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2013**

	Special Revenue Funds (Schedule 6)	Debt Service Funds (Schedule 8)
REVENUES		
General property taxes	\$ 1,027,980	\$ 3,706,798
Fines, forfeitures and penalties	69,504	-
Interest, rents and concessions	7,365	41,557
Intergovernmental	6,214,942	230,695
Charges for services	198,791	-
Other revenues	962,390	217,285
Total revenues	8,480,972	4,196,335
EXPENDITURES		
Current:		
Public safety	235,797	-
Public services	4,301,448	-
Other services	530,042	106,588
Mass transit	1,110,275	-
Culture and recreation	4,381,016	-
Human/social assistance	718,030	-
Debt service:		
Principal payments	172,844	3,952,345
Interest and fiscal charges	29,227	947,782
Total expenditures	11,478,679	5,006,715
Excess (deficiency) of revenues over expenditures	(2,997,707)	(810,380)
OTHER FINANCING SOURCES (USES)		
Transfers in	3,307,234	399,384
Transfers out	-	-
Other sources	8,571	-
Total other financing sources (uses)	3,315,805	399,384
NET CHANGE IN FUND BALANCES	318,098	(410,996)
Fund balances - beginning	2,728,516	3,814,777
Prior period adjustment	(199,379)	-
Fund balances - beginning, as adjusted	2,529,137	3,814,777
Fund balances - ending	\$ 2,847,235	\$ 3,403,781

Capital Project Funds (Schedule 10)	Total Nonmajor Governmental Funds (Exhibit D)
\$ -	\$ 4,734,778
-	69,504
304	49,226
6,346	6,451,983
-	198,791
-	1,179,675
<u>6,650</u>	<u>12,683,957</u>
-	235,797
-	4,301,448
-	636,630
-	1,110,275
131,660	4,512,676
-	718,030
-	4,125,189
-	977,009
<u>131,660</u>	<u>16,617,054</u>
(125,010)	(3,933,097)
-	3,706,618
(49)	(49)
-	8,571
<u>(49)</u>	<u>3,715,140</u>
(125,059)	(217,957)
382,454	6,925,747
-	(199,379)
<u>382,454</u>	<u>6,726,368</u>
<u>\$ 257,395</u>	<u>\$ 6,508,411</u>

SCHEDULE 5

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Special Revenue Funds
September 30, 2013**

	<u>PARKS & RECREATION</u>	<u>MUNICIPAL FIRE PROTECTION</u>	<u>SPECIAL STREET</u>	<u>POLICE FORFEITURES</u>	<u>AIRPORT IMPROVEMENT</u>	<u>MUNICIPAL ROAD & BRIDGE</u>
ASSETS						
Cash and cash equivalents	\$ 558,391	\$ 886,080	\$ 102,281	\$ 271,514	\$ 58,877	\$ 278,442
Due from other funds	-	189	-	2,078	-	-
Intergovernmental receivables	-	-	-	-	385,386	460,912
Other receivables	-	-	-	850	5,362	16,776
Property taxes receivable	805,834	-	-	-	-	-
Total assets	<u>\$ 1,364,225</u>	<u>\$ 886,269</u>	<u>\$ 102,281</u>	<u>\$ 274,442</u>	<u>\$ 449,625</u>	<u>\$ 756,130</u>
LIABILITIES						
Accounts payable	\$ 11,533	\$ -	\$ -	\$ -	\$ -	\$ 243,676
Due to other funds	49,408	-	-	-	185,000	-
Other liabilities	-	-	-	28,861	-	-
Advances from other funds	-	-	-	-	-	-
Total liabilities	<u>60,941</u>	<u>-</u>	<u>-</u>	<u>28,861</u>	<u>185,000</u>	<u>243,676</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	800,000	-	-	-	-	-
Total deferred inflows of resources	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Restricted:						
Fire protection	-	30,951	-	-	-	-
Street improvements and repairs	-	-	98,652	-	-	512,454
Law enforcement	-	-	-	215,249	-	-
Airport projects	-	-	-	-	264,625	-
Mass transit	-	-	-	-	-	-
Committed:						
Parks and recreation	503,284	-	-	-	-	-
Fire protection	-	855,318	-	-	-	-
Street improvements and repairs	-	-	3,629	-	-	-
Law enforcement	-	-	-	30,332	-	-
Unassigned						
Total fund balances	<u>503,284</u>	<u>886,269</u>	<u>102,281</u>	<u>245,581</u>	<u>264,625</u>	<u>512,454</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,364,225</u>	<u>\$ 886,269</u>	<u>\$ 102,281</u>	<u>\$ 274,442</u>	<u>\$ 449,625</u>	<u>\$ 756,130</u>

<u>MASS TRANSIT OPERATING</u>	<u>COMMUNITY CENTERS</u>	<u>CDBG FUND</u>	<u>GROUP INSURANCE</u>	<u>TOTAL</u>
\$ 298,075	\$ 112,543	\$ 271,845	\$ 181,583	\$ 3,019,631
-	-	-	814,619	816,886
37,665	-	16,544	-	900,507
-	-	-	-	22,988
201,452	-	-	-	1,007,286
<u>\$ 537,192</u>	<u>\$ 112,543</u>	<u>\$ 288,389</u>	<u>\$ 996,202</u>	<u>\$ 5,767,298</u>
\$ 3,854	\$ 184	\$ 28,065	\$ -	\$ 287,312
28,724	13,215	5,884	-	282,231
-	25,457	-	996,202	1,050,520
-	-	300,000	-	300,000
<u>32,578</u>	<u>38,856</u>	<u>333,949</u>	<u>996,202</u>	<u>1,920,063</u>
<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
-	-	-	-	30,951
-	-	-	-	611,106
-	-	-	-	215,249
-	-	-	-	264,625
304,614	-	-	-	304,614
-	73,687	-	-	576,971
-	-	-	-	855,318
-	-	-	-	3,629
-	-	-	-	30,332
-	-	(45,560)	-	(45,560)
<u>304,614</u>	<u>73,687</u>	<u>(45,560)</u>	<u>-</u>	<u>2,847,235</u>
<u>\$ 537,192</u>	<u>\$ 112,543</u>	<u>\$ 288,389</u>	<u>\$ 996,202</u>	<u>\$ 5,767,298</u>

SCHEDULE 6

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended September 30, 2013**

	<u>PARKS & RECREATION</u>	<u>MUNICIPAL FIRE PROTECTION</u>	<u>SPECIAL STREET</u>	<u>POLICE FORFEITURES</u>	<u>AIRPORT IMPROVEMENT</u>	<u>MUNICIPAL ROAD & BRIDGE</u>
REVENUES						
General property taxes	\$ 823,113	\$ -	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures and penalties	-	1,730	-	67,774	-	-
Interest, rents and concessions	1,376	3,956	1,235	79	118	2
Intergovernmental	88,147	245,107	54,522	-	524,573	3,907,221
Charges for services	33,882	95,652	-	9,602	-	-
Other revenues	344,820	275	-	-	25,985	181,000
Total revenues	<u>1,291,338</u>	<u>346,720</u>	<u>55,757</u>	<u>77,455</u>	<u>550,676</u>	<u>4,088,223</u>
EXPENDITURES						
Current:						
Public safety	-	149,614	-	86,183	-	-
Public services	-	-	159,472	-	-	4,141,976
Other services	-	-	-	-	520,786	-
Mass transit	-	-	-	-	-	-
Culture and recreation	3,089,535	-	-	-	-	-
Human/social assistance	-	-	-	-	-	-
Debt service:						
Principal payments	-	148,551	-	-	-	24,293
Interest and fiscal charges	-	23,537	-	-	-	5,690
Total expenditures	<u>3,089,535</u>	<u>321,702</u>	<u>159,472</u>	<u>86,183</u>	<u>520,786</u>	<u>4,171,959</u>
Excess (deficiency) of revenues over expenditures	(1,798,197)	25,018	(103,715)	(8,728)	29,890	(83,736)
OTHER FINANCING SOURCES						
Transfers in	2,102,234	-	-	-	100,000	-
Other sources	-	-	-	-	-	1,132
Total other financing sources	<u>2,102,234</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>1,132</u>
NET CHANGE IN FUND BALANCES	304,037	25,018	(103,715)	(8,728)	129,890	(82,604)
Fund balances - beginning	199,247	861,251	205,996	254,309	134,735	595,058
Prior period adjustment	-	-	-	-	-	-
Fund balances - beginning, as adjusted	<u>199,247</u>	<u>861,251</u>	<u>205,996</u>	<u>254,309</u>	<u>134,735</u>	<u>595,058</u>
Fund balances - ending	<u>\$ 503,284</u>	<u>\$ 886,269</u>	<u>\$ 102,281</u>	<u>\$ 245,581</u>	<u>\$ 264,625</u>	<u>\$ 512,454</u>

<u>MASS TRANSIT OPERATING</u>	<u>COMMUNITY CENTERS</u>	<u>CDBG FUND</u>	<u>GROUP INSURANCE</u>	<u>TOTAL</u>
\$ 204,867	\$ -	\$ -	\$ -	\$ 1,027,980
-	-	-	-	69,504
292	307	-	-	7,365
729,567	-	665,805	-	6,214,942
43,828	15,827	-	-	198,791
-	410,310	-	-	962,390
<u>978,554</u>	<u>426,444</u>	<u>665,805</u>	<u>-</u>	<u>8,480,972</u>
-	-	-	-	235,797
-	-	-	-	4,301,448
-	-	9,256	-	530,042
1,110,275	-	-	-	1,110,275
-	1,291,481	-	-	4,381,016
-	-	718,030	-	718,030
-	-	-	-	172,844
-	-	-	-	29,227
<u>1,110,275</u>	<u>1,291,481</u>	<u>727,286</u>	<u>-</u>	<u>11,478,679</u>
(131,721)	(865,037)	(61,481)	-	(2,997,707)
335,000	770,000	-	-	3,307,234
7,414	25	-	-	8,571
<u>342,414</u>	<u>770,025</u>	<u>-</u>	<u>-</u>	<u>3,315,805</u>
210,693	(95,012)	(61,481)	-	318,098
93,921	168,699	15,921	199,379	2,728,516
-	-	-	(199,379)	(199,379)
<u>93,921</u>	<u>168,699</u>	<u>15,921</u>	<u>-</u>	<u>2,529,137</u>
<u>\$ 304,614</u>	<u>\$ 73,687</u>	<u>\$ (45,560)</u>	<u>\$ -</u>	<u>\$ 2,847,235</u>

SCHEDULE 7

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Debt Service Funds
September 30, 2013**

	<u>1999 TIF BOND AND INTEREST</u>	<u>CITY BOND AND INTEREST</u>	<u>2002 TIF BOND AND INTEREST SOUTHERN POINTE</u>	<u>2004 TIF BOND AND INTEREST HOME DEPOT</u>	<u>2003 TIF BOND AND INTEREST CHAUVET SQUARE</u>	<u>2007 TIF BOND AND INTEREST TURTLE CROSSING</u>	<u>2008 TIF BOND AND INTEREST LINCOLN CENTER</u>	<u>2012 TIF BOND AND INTEREST KOHL'S</u>	<u>TOTAL</u>
ASSETS									
Cash and cash equivalents	\$ 74,590	\$ 2,616,326	\$ 14,629	\$ 122,495	\$ 151,289	\$ 251,063	\$ 130,456	\$ 22,526	\$ 3,383,374
Property taxes receivable	-	2,820,407	-	-	-	-	-	-	2,820,407
Total assets	<u>\$ 74,590</u>	<u>\$ 5,436,733</u>	<u>\$ 14,629</u>	<u>\$ 122,495</u>	<u>\$ 151,289</u>	<u>\$ 251,063</u>	<u>\$ 130,456</u>	<u>\$ 22,526</u>	<u>\$ 6,203,781</u>
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue-property taxes	\$ -	\$ 2,800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,800,000
Total deferred inflows of resources	-	2,800,000	-	-	-	-	-	-	2,800,000
FUND BALANCES									
Restricted:									
Debt service	74,590	2,636,733	14,629	122,495	151,289	251,063	130,456	22,526	3,403,781
Total fund balances	<u>74,590</u>	<u>2,636,733</u>	<u>14,629</u>	<u>122,495</u>	<u>151,289</u>	<u>251,063</u>	<u>130,456</u>	<u>22,526</u>	<u>3,403,781</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 74,590</u>	<u>\$ 5,436,733</u>	<u>\$ 14,629</u>	<u>\$ 122,495</u>	<u>\$ 151,289</u>	<u>\$ 251,063</u>	<u>\$ 130,456</u>	<u>\$ 22,526</u>	<u>\$ 6,203,781</u>

SCHEDULE 8

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended September 30, 2013**

	1999 TIF BOND AND INTEREST	CITY BOND AND INTEREST	2002 TIF BOND AND INTEREST SOUTHERN POINTE	2004 TIF BOND AND INTEREST HOME DEPOT	2003 TIF BOND AND INTEREST CHAUVET SQUARE	2007 TIF BOND AND INTEREST TURTLE CROSSING	2008 TIF BOND AND INTEREST LINCOLN CENTER	2012 TIF BOND AND INTEREST KOHL'S	TOTAL
REVENUES									
General property taxes	\$ 68,300	\$ 2,880,980	\$ -	\$ 57,051	\$ 203,625	\$ 360,899	\$ 67,533	\$ 68,410	\$ 3,706,798
Interest, rents and concessions	35	1,623	39,310	83	123	262	103	18	41,557
Intergovernmental	-	63,617	-	26,184	-	108,694	-	32,200	230,695
Other revenues	-	217,285	-	-	-	-	-	-	217,285
Total revenues	68,335	3,163,505	39,310	83,318	203,748	469,855	67,636	100,628	4,196,335
EXPENDITURES									
Current:									
Other services	-	106,553	35	-	-	-	-	-	106,588
Debt service:									
Principal payments	55,000	3,262,345	85,000	75,000	95,000	285,000	35,000	60,000	3,952,345
Interest and fiscal charges	10,928	616,708	4,375	9,095	99,210	153,276	20,250	33,940	947,782
Total expenditures	65,928	3,985,606	89,410	84,095	194,210	438,276	55,250	93,940	5,006,715
Excess (deficiency) of revenues over expenditures	2,407	(822,101)	(50,100)	(777)	9,538	31,579	12,386	6,688	(810,380)
OTHER FINANCING SOURCES									
Transfers in	-	399,335	-	-	-	-	-	49	399,384
Total other financing sources	-	399,335	-	-	-	-	-	49	399,384
NET CHANGE IN FUND BALANCES	2,407	(422,766)	(50,100)	(777)	9,538	31,579	12,386	6,737	(410,996)
Fund balances - beginning	72,183	3,059,499	64,729	123,272	141,751	219,484	118,070	15,789	3,814,777
Fund balances - ending	\$ 74,590	\$ 2,636,733	\$ 14,629	\$ 122,495	\$ 151,289	\$ 251,063	\$ 130,456	\$ 22,526	\$ 3,403,781

SCHEDULE 9

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Capital Project Funds
September 30, 2013**

	<u>MISSISSIPPI DEVELOPMENT BANK PROJECT</u>	<u>2001 BOND CONSTRUCTION</u>	<u>2011 TURTLE CROSSING CONSTRUCTION</u>	<u>KAMPER PARK/ZOO IMPROVEMENTS</u>	<u>TOTAL</u>
ASSETS					
Cash and cash equivalents	\$ 109,797	\$ 145,361	\$ -	\$ 2,237	\$ 257,395
Total assets	<u>\$ 109,797</u>	<u>\$ 145,361</u>	<u>\$ -</u>	<u>\$ 2,237</u>	<u>\$ 257,395</u>
LIABILITIES	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES					
Restricted:					
Parks and recreation projects	109,797	145,361	-	2,237	257,395
Total fund balances	<u>109,797</u>	<u>145,361</u>	<u>-</u>	<u>2,237</u>	<u>257,395</u>
Total liabilities and fund balances	<u>\$ 109,797</u>	<u>\$ 145,361</u>	<u>\$ -</u>	<u>\$ 2,237</u>	<u>\$ 257,395</u>

SCHEDULE 10

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended September 30, 2013**

	<u>MISSISSIPPI DEVELOPMENT BANK PROJECT</u>	<u>2001 BOND CONSTRUCTION</u>	<u>2011 TURTLE CROSSING CONSTRUCTION</u>	<u>KAMPER PARK/ZOO IMPROVEMENTS</u>	<u>TOTAL</u>
REVENUES					
Interest, rents and concessions	\$ 93	\$ 180	\$ -	\$ 31	\$ 304
Intergovernmental	6,346	-	-	-	6,346
Total revenues	<u>6,439</u>	<u>180</u>	<u>-</u>	<u>31</u>	<u>6,650</u>
EXPENDITURES					
Current:					
Culture and recreation	5,492	42,268	-	83,900	131,660
Total expenditures	<u>5,492</u>	<u>42,268</u>	<u>-</u>	<u>83,900</u>	<u>131,660</u>
Excess (deficiency) of revenues over expenditures	947	(42,088)	-	(83,869)	(125,010)
OTHER FINANCING SOURCES (USES)					
Transfers out	-	-	(49)	-	(49)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(49)</u>	<u>-</u>	<u>(49)</u>
NET CHANGE IN FUND BALANCES	947	(42,088)	(49)	(83,869)	(125,059)
Fund balances - beginning	108,850	187,449	49	86,106	382,454
Fund balances - ending	<u>\$ 109,797</u>	<u>\$ 145,361</u>	<u>\$ -</u>	<u>\$ 2,237</u>	<u>\$ 257,395</u>

SCHEDULE 11
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2013**

	PERSONAL SERVICES	SUPPLIES & EXPENSES
GENERAL GOVERNMENT		
City Council	\$ 198,040	\$ 2,029
Mayor/Administration	544,637	8,120
Elections	-	3,833
Municipal Clerk	150,804	3,541
Accounting Division	260,417	3,662
Purchasing Division	133,325	3,578
City Attorney	92,826	-
Human Resources Division	165,404	7,352
Loss Control Division	104,650	3,673
Planning Division	401,748	22,871
Data Processing	382,533	51,917
Metro Planning	200,795	9,006
General Government Building	-	16,445
General Government - Other	1,961	820
Intermodal Facility	-	10,906
Federal Grant Administration	75,706	2,175
City Court	781,361	16,426
Total General Government	3,494,207	166,354
PUBLIC SAFETY		
Police Department	8,514,128	758,424
Police and Fire Training	31,932	148,145
Fire Department	6,489,542	293,361
Land Use Code	520,525	29,528
Contractual Services	193,297	-
Total Public Safety	15,749,424	1,229,458
PUBLIC SERVICE		
Traffic Maintenance	302,873	184,586
Street Division	1,381,252	419,644
Street Lights	-	-
Engineering	323,674	17,119
Shop Division	408,327	40,867
Garage and Office	264,796	11,027
Drainage Division	174,932	53,126
Construction Division	595,465	191,832
Sanitation Division	1,147,483	325,288
Street Cleaning Division	63,446	13,200
Public Works – Health Division	369,455	143,607
Total Public Service	5,031,703	1,400,296

OTHER SERVICES/ CHARGES	CAPITAL OUTLAYS	DEBT SERVICE	TOTAL
\$ 102,981	\$ 41,521	\$ -	\$ 344,571
75,830	-	-	628,587
94,239	-	-	98,072
22,219	-	-	176,564
775	-	-	264,854
720	-	-	137,623
7,842	-	-	100,668
4,009	-	-	176,765
2,151	-	-	110,474
121,613	-	-	546,232
222,084	404,877	-	1,061,411
69,353	-	-	279,154
90,437	-	-	106,882
1,482,547	-	-	1,485,328
49,601	-	-	60,507
2,002	-	-	79,883
38,797	-	-	836,584
<u>2,387,200</u>	<u>446,398</u>	<u>-</u>	<u>6,494,159</u>
453,690	869,361	-	10,595,603
116,730	74,694	-	371,501
264,414	20,380	-	7,067,697
35,985	35,084	-	621,122
1,939,376	-	-	2,132,673
<u>2,810,195</u>	<u>999,519</u>	<u>-</u>	<u>20,788,596</u>
129,992	119,048	-	736,499
148,335	10,438	-	1,959,669
1,069,183	-	-	1,069,183
459,180	-	-	799,973
40,142	-	-	489,336
12,460	454	-	288,737
412,549	308,423	-	949,030
77,913	20,519	-	885,729
1,642,145	-	-	3,114,916
5,396	204,793	-	286,835
2,765	-	-	515,827
<u>4,000,060</u>	<u>663,675</u>	<u>-</u>	<u>11,095,734</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2013**

	<u>PERSONAL SERVICES</u>	<u>SUPPLIES & EXPENSES</u>
HEALTH AND WELFARE		
Human/Social Assistance	\$ -	\$ -
Total Health and Welfare	<u>-</u>	<u>-</u>
ECONOMIC DEVELOPMENT		
Economic Development	-	-
Total Economic Development	<u>-</u>	<u>-</u>
OTHER SERVICES		
Animal Control	103,159	15,735
Airport	97,807	36,640
Cemetery	610,935	100,212
Parking Operations	182,470	4,272
Total Other Services	<u>994,371</u>	<u>156,859</u>
DEBT SERVICE	<u>-</u>	<u>-</u>
TOTAL DEPARTMENTAL EXPENDITURES	<u>\$ 25,269,705</u>	<u>\$ 2,952,967</u>

<u>OTHER SERVICES/ CHARGES</u>	<u>CAPITAL OUTLAYS</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
\$ 152,293	\$ -	\$ -	\$ 152,293
<u>152,293</u>	<u>-</u>	<u>-</u>	<u>152,293</u>
160,000	-	-	160,000
<u>160,000</u>	<u>-</u>	<u>-</u>	<u>160,000</u>
121,014	-	-	239,908
41,275	10,082	-	185,804
45,042	15,916	-	772,105
40,061	10,000	-	236,803
<u>247,392</u>	<u>35,998</u>	<u>-</u>	<u>1,434,620</u>
-	-	1,805,185	1,805,185
<u>\$ 9,757,140</u>	<u>\$ 2,145,590</u>	<u>\$ 1,805,185</u>	<u>\$ 41,930,587</u>

SCHEDULE 12

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Other Fiduciary Funds, Assets, and Liabilities
Agency Funds
September 30, 2013**

	Payroll Withholding Fund
ASSETS	
Cash and cash equivalents	\$ 355,336
Property taxes and fees receivable	-
Sales tax receivable	-
	<hr/>
Total assets	\$ 355,336
	<hr/> <hr/>
LIABILITIES	
Employee contributions payable	\$ 354,607
Due to other agencies	-
Other liabilities	729
Amounts held in custody for others	-
	<hr/>
Total liabilities	\$ 355,336
	<hr/> <hr/>

Tax Collectors Fund	Hattiesburg Special Sales Tax	Industrial Park Fund	Total
\$ 1,006,838	\$ -	\$ 831,447	\$ 2,193,621
325,992	-	-	325,992
-	418,331	-	418,331
<u>\$ 1,332,830</u>	<u>\$ 418,331</u>	<u>\$ 831,447</u>	<u>\$ 2,937,944</u>
\$ -	\$ -	\$ -	\$ 354,607
1,300,907	418,331	-	1,719,238
31,923	-	-	32,652
-	-	831,447	831,447
<u>\$ 1,332,830</u>	<u>\$ 418,331</u>	<u>\$ 831,447</u>	<u>\$ 2,937,944</u>

SCHEDULE 13

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule Of Surety Bonds For Municipal Officials
September 30, 2013**

<u>Name</u>	<u>Position</u>	<u>Insurance Company</u>	<u>Amount</u>
Kim Bradley	Council Member	Brierfield Insurance Co.	\$ 100,000
Deborah Denard Delgado	Council Member	Brierfield Insurance Co.	100,000
Carter Carroll	Council Member	Brierfield Insurance Co.	100,000
Mary Dryden	Council Member	Brierfield Insurance Co.	100,000
Henry E. Naylor	Council Member	Brierfield Insurance Co.	100,000
Eddie R. Myers	City Clerk	Brierfield Insurance Co.	100,000
Frazier Bolton	Police Chief	Brierfield Insurance Co.	50,000

SCHEDULE 14

CITY OF HATTIESBURG, MISSISSIPPI

**Full Cost Accounting
Solid Waste Management Services
Year Ended September 30, 2013**

EXPENSES - Sanitation Cost Center (General Fund):

Personnel costs	\$ 1,147,483
Supplies	325,288
Other services and charges	1,642,145
Total expenses (other than capital outlay) Sanitation Cost Center	<u>3,114,916</u>

Interest on capital leases - sanitation trucks and containers 52,530

Depreciation expense 667,576

Allocation of certain expenses in Other Cost Centers:

50% of shop cost center - Repair and maintenance	244,668
Indirect cost allocation - 10% of administration cost centers	320,319

Total calculated expenses - full cost basis \$ 4,400,009

Number of tons of solid waste collected and disposed of by City:

Sanitation trucks:	
Garbage (tons)	12,324 tons
Trash (tons)	<u>4,110 tons</u>

Total tons solid waste 16,434 tons

Distribution of residential and non-residential costs:

Residential (84%)	\$ 3,696,009
Non-residential (16%)	<u>704,000</u>

Total distribution \$ 4,400,009

NOTES:

Pursuant to Section 17-17-347 of the Mississippi Code, this schedule is presented to provide a full cost accounting of sanitation services. "Residential" solid waste service includes routine household garbage and yard waste collections and disposal. Additionally, duplexes and smaller apartments with individual water meters are also considered to be "residential" customers. "Non-residential" would include garbage and trash service to City-owned facilities, overgrown lot and demolition debris, waste generated by tree crews or other city departments. The City "Commercial" solid waste service was discontinued in the fall months of 2000. The distribution of "Residential" and "Non-residential" at 84/16 is based upon regularly scheduled direct labor hours. Unusual occurrences, such as severe storm damage or demolition of large structures will cause significant fluctuations both in labor hours and debris removal costs. Calculations in this schedule include changes in methodology first utilized in fiscal year 1996 as a result of State Department of Audit performance audit recommendations.

SCHEDULE 15

CITY OF HATTIESBURG, MISSISSIPPI

**Water & Sewer Budget Basis Operation and Maintenance Cost Centers
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	209,769	289,772	1,250,780	3,646	1,753,967
<i>Total expenses</i>	<u><u>\$ 2,243,196</u></u>	<u><u>\$ 909,752</u></u>	<u><u>\$ 3,854,843</u></u>	<u><u>\$ 353,354</u></u>	<u><u>\$ 7,361,145</u></u>

SCHEDULE 16

CITY OF HATTIESBURG, MISSISSIPPI

**Water & Sewer Budget Basis Balance Sheets
Year Ended September 30, 2013**

	WATER & SEWER REVENUE FUND	WATER & SEWER O & M FUND	WATER & SEWER CONSTRUCTION FUND
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,712,012	\$ 756,558	\$ 1,313,490
Cash with fiscal agent	-	-	-
Due from other funds	-	664,358	11,598
Total current assets	<u>2,712,012</u>	<u>1,420,916</u>	<u>1,325,088</u>
Total assets	<u>\$ 2,712,012</u>	<u>\$ 1,420,916</u>	<u>\$ 1,325,088</u>
LIABILITIES AND RETAINED EARNINGS			
CURRENT LIABILITIES			
Accounts payable	\$ -	\$ 17,302	\$ 11,240
Due to other funds	-	-	-
Total current liabilities	<u>-</u>	<u>17,302</u>	<u>11,240</u>
Total liabilities	<u>-</u>	<u>17,302</u>	<u>11,240</u>
RETAINED EARNINGS	<u>2,712,012</u>	<u>1,403,614</u>	<u>1,313,848</u>
Total liabilities and retained earnings	<u>\$ 2,712,012</u>	<u>\$ 1,420,916</u>	<u>\$ 1,325,088</u>

<u>WATER & SEWER BOND & INTEREST FUND</u>	<u>WATER & SEWER USA YEAST B & I FUND</u>	<u>2012 WATER & SEWER CONSTRUCTION FUND</u>	<u>2010 WATER & SEWER CONSTRUCTION FUND</u>	<u>2009 WATER & SEWER CONSTRUCTION FUND</u>
\$ 1,146,869	\$ 18,082	\$ -	\$ -	\$ 33,869
598,974	-	789,168	359,361	-
307,038	25,833	-	-	-
<u>2,052,881</u>	<u>43,915</u>	<u>789,168</u>	<u>359,361</u>	<u>33,869</u>
<u>\$ 2,052,881</u>	<u>\$ 43,915</u>	<u>\$ 789,168</u>	<u>\$ 359,361</u>	<u>\$ 33,869</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	600,000	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>600,000</u>	<u>-</u>
-	-	-	600,000	-
<u>2,052,881</u>	<u>43,915</u>	<u>789,168</u>	<u>(240,639)</u>	<u>33,869</u>
<u>\$ 2,052,881</u>	<u>\$ 43,915</u>	<u>\$ 789,168</u>	<u>\$ 359,361</u>	<u>\$ 33,869</u>

SCHEDULE 17

CITY OF HATTIESBURG, MISSISSIPPI

**Water & Sewer Budget Basis Statements of Revenues, Expenses, and Changes in Fund Balances
Year Ended September 30, 2013**

	WATER & SEWER REVENUE FUND	WATER & SEWER O & M FUND	WATER & SEWER CONSTRUCTION FUND
OPERATING REVENUES	<u>\$ 14,622,093</u>	<u>\$ -</u>	<u>\$ -</u>
OPERATING EXPENSES			
Personal services	-	2,243,189	-
Supplies and expenses	-	3,854,850	-
Other services and charges	15,783	909,752	453,443
Capital outlays	-	353,354	10,737,611
Total operating expenses	<u>15,783</u>	<u>7,361,145</u>	<u>11,191,054</u>
OPERATING INCOME (LOSS)	<u>14,606,310</u>	<u>(7,361,145)</u>	<u>(11,191,054)</u>
NON-OPERATING REVENUES (EXPENSES)			
Principal payments on notes	(358,804)	-	-
Interest expense	(74,454)	-	-
Bonds redeemed	-	-	-
Interest revenue	2,496	2,656	1,810
Rents	-	-	65,003
Proceeds from general obligation note	-	-	3,000,000
Intergovernmental revenues	-	-	2,484,331
Other revenue	1,900	29,405	-
Total non-operating revenues (expenses)	<u>(428,862)</u>	<u>32,061</u>	<u>5,551,144</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>14,177,448</u>	<u>(7,329,084)</u>	<u>(5,639,910)</u>
OPERATING TRANSFERS			
Operating transfers in	-	7,972,296	1,973,719
Operating transfers out	<u>(14,197,950)</u>	<u>-</u>	<u>-</u>
Total operating transfers	<u>(14,197,950)</u>	<u>7,972,296</u>	<u>1,973,719</u>
NET INCOME (LOSS)	<u>(20,502)</u>	<u>643,212</u>	<u>(3,666,191)</u>
RETAINED EARNINGS, beginning of year	<u>2,732,514</u>	<u>760,402</u>	<u>4,980,039</u>
RETAINED EARNINGS, end of year	<u>\$ 2,712,012</u>	<u>\$ 1,403,614</u>	<u>\$ 1,313,848</u>

WATER & SEWER BOND & INTEREST FUND	WATER & SEWER USA YEAST B & I FUND	2012 WATER & SEWER CONSTRUCTION FUND	2010 WATER & SEWER CONSTRUCTION FUND	2009 WATER & SEWER CONSTRUCTION FUND
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	10,500
-	-	7,206,664	841,227	5,395
-	-	7,206,664	841,227	15,895
-	-	(7,206,664)	(841,227)	(15,895)
-	-	-	-	-
(1,214,316)	(23,100)	-	-	-
(2,070,000)	(385,000)	-	-	-
697	174	544	427	47
-	-	-	-	-
-	-	-	-	-
-	-	-	781,453	-
-	-	-	-	-
(3,283,619)	(407,926)	544	781,880	47
(3,283,619)	(407,926)	(7,206,120)	(59,347)	(15,848)
3,684,460	310,000	-	-	-
-	-	-	-	-
3,684,460	310,000	-	-	-
400,841	(97,926)	(7,206,120)	(59,347)	(15,848)
1,652,040	141,841	7,995,288	(181,292)	49,717
\$ 2,052,881	\$ 43,915	\$ 789,168	\$ (240,639)	\$ 33,869

SCHEDULE 18
PAGE 1 OF 5

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture</i>			
Natural Resources Conservation Service			
U.S. Army Corp of Engineers			
Emergency Watershed Protection Program - Mississippi Environmental Infrastructure Section 592	10.923	280351103, 280351108	<u>\$ 143,869</u>
Total U.S. Department of Agriculture			<u>143,869</u>
<i>U.S. Department of Housing and Urban Development</i>			
Pass-Through Programs From:			
Governor's Department of Housing and Urban Development			
<i>CDBG Entitlement Grants - Cluster:</i>			
Community Development Block Grants/Entitlement Grants	14.218	MC-28-0006	<u>484,863</u>
Total - <i>CDBG Entitlement Grants Cluster</i>			<u>484,863</u>
HOME Investment Partnerships Program	14.239	MC-28-0201	<u>265,242</u>
Pass-Through Programs From:			
Mississippi Development Authority			
Community Development Block Grants/State's Program:			
Katrina Community Revitalization - Water Plant #2	14.228	R-110-205-02-GZ	77,809
Katrina Community Revitalization - USA Yeast Wastewater Pretreatment	14.228	R-103-205-03-KED	<u>3,066,844</u>
Total Community Development Block Grants/State's Program			<u>3,144,653</u>
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-10-SP-MS-0101	<u>5,206</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 18
PAGE 2 OF 5

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Housing and Urban Development (cont.)</i>			
Pass-Through Programs From:			
Community Challenge Planning Grants and Department of Transportation's Tiger II Planning Grants	14.704	CCPMS001410	<u>\$ 8,642</u>
Total U.S. Department of Housing and Urban Development Pass-Through Programs			<u>3,908,606</u>
<i>U.S. Department of Justice</i>			
Pass-Through Programs From:			
Office of Justice Programs			
Juvenile Accountability Block Grants	16.523	2010-JB-FX-0090	<u>10,746</u>
Pass-Through Programs From:			
Office of Justice Programs			
OVW Technical Assistance Initiative	16.526	11-WF-AX-0046	17,895
OVW Technical Assistance Initiative	16.526	12-WF-AX-0056	<u>4,838</u>
			<u>22,733</u>
Bulletproof Vest Partnership Program	16.607		<u>11,205</u>
Project Safe Neighborhoods	16.609	2008-GP-CX-4077	<u>10,031</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3393	36,721
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-1161	24,051
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0444	<u>62,642</u>
			<u>123,414</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 18
PAGE 3 OF 5

CITY OF HATTIESBURG, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice (Cont.)			
<i>Office of Justice Programs (Cont.)</i>			
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2009MOBX0033	<u>\$ 17,741</u>
Total U.S. Department of Justice Pass-Through Programs			<u>195,870</u>
U.S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-28-0031-0020-2013	385,386
Airport Improvement Program	20.106	3-28-0031-0019-2012	<u>83,322</u>
			<u>468,708</u>
Federal Transit Administration			
<i>Federal Transit Cluster:</i>			
ARRA - Federal Transit Capital Investment Grants	20.500	MS-96-X001	<u>233,438</u>
Federal Transit Formula Grants:			
Mass Transit Preventative	20.507	MS-90-X078	31,591
Mass Transit Operating	20.507	MS-90-4082	66,671
Mass Transit Capital	20.507	MS-90-X086	14,034
Mass Transit Capital	20.507	MS-90-4086	213,205
Mass Transit Capital	20.507	MS-90-0086	<u>173,325</u>
Total - Federal Transit Formula Grants			<u>498,826</u>
Total - Federal Transit Cluster			<u>732,264</u>
Total U.S. Department of Transportation Direct Programs			<u>1,200,972</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 18
PAGE 4 OF 5

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Transportation (Cont.)</i>			
Federal Highway Administration			
Pass-Through Programs From:			
Mississippi Department of Transportation			
Highway Planning and Construction:			
Metropolitan Planning Organization	20.205	MS-80-0002/502304-101000	\$ 306,916
Urban Youth Corps Transportation Enhancement Project	20.205	STP-9999-09(032)/106638-308000	28,428
Fourth Street Improvements	20.205	HPP-8750-00(003)/104873/801000	1,140,714
Safe Routes to Schools Project (Woodley)	20.205	SRSP-0210-00(024)	3,036
Safe Routes to Schools Project (Rowan)	20.205	SRSP-0210-00(020) & (019)	11,279
Traffic Signal -Bonhomie/Tatum	20.205	STP-8791-00(001)/106430-701000	12,823
Traffic Signal US Hwy 11/Parkway Blvd.	20.205	STP-9339-00(008)/106005-701000	15,057
Western Beltway	20.205	STPD-8776-00(004)/105844/811000	97,362
Hardy Street Widening	20.205	HPP-6098-00(007)/105194-801000	556,165
ARRA - Chain Park Trail Phase II Enhancement Project	20.205	STP-0210-00(021)/105245-702000	286
Total - Highway Planning and Construction			<u>2,172,066</u>
National Highway Traffic Safety Administration			
Pass-Through Programs From:			
Office of Highway Safety			
Alcohol Open Container Requirements	20.607	13-TA-2151	<u>82,184</u>
Total U.S. Department of Transportation Pass-Through Programs			<u>2,254,250</u>
Total U.S. Department of Transportation			<u>3,455,222</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 18
PAGE 5 OF 5

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Homeland Security</i>			
Pass-Through Program From:			
Mississippi Office of Homeland Security			
Homeland Security Grant Program	97.067	E10HS205T	\$ 21,382
Homeland Security Grant Program	97.067	A10HS205T	45,000
Homeland Security Grant Program	97.067	11HS205T	10,020
			<u>76,402</u>
Pass-Through Programs From:			
Mississippi Emergency Management Agency			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4101-DR-MS	1,264,649
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4081-DR-MS	27,935
			<u>1,292,584</u>
Total U.S. Department of Homeland Security Pass-Through Programs			<u>1,368,986</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 9,072,553</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF HATTIESBURG

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Hattiesburg under programs of the federal government for the year ended September 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Hattiesburg, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Hattiesburg.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures - Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Pass-Through Entity Identifying Numbers - Pass-through entity identifying numbers are presented when available.

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Schedule 19

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Hattiesburg, Mississippi's basic financial statements and have issued our report thereon dated June 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hattiesburg, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hattiesburg, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hattiesburg, Mississippi's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hattiesburg, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, certain instances of state law non-compliance are reported in the Report on Compliance with State Laws and Regulations.

City of Hattiesburg's Response to Findings

The City of Hattiesburg, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Hattiesburg, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 27, 2014

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Schedule 20

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hattiesburg, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hattiesburg, Mississippi's major federal programs for the year ended September 30, 2013. The City of Hattiesburg, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hattiesburg, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hattiesburg, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Hattiesburg, Mississippi's compliance.

Basis for Qualified Opinion on the Federal Transit Formula Grant Program

As described in the accompanying schedule of findings and questioned costs, the City of Hattiesburg, Mississippi did not comply with requirements regarding CFDA 20.507 Federal Transit Formula Grants Program as described in Finding 2013-02 for Cash Management. Compliance with such requirement is necessary, in our opinion, for the City of Hattiesburg, Mississippi to comply with the requirements applicable to that program.

Qualified Opinion on the Federal Transit Formula Grant Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Hattiesburg, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Federal Transit Formula Grants Program for the year ended September 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Hattiesburg, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2013.

Other Matters

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Hattiesburg, Mississippi's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Hattiesburg, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hattiesburg, Mississippi's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hattiesburg, Mississippi's internal control over compliance.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2013-02. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Hattiesburg, Mississippi's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Hattiesburg, Mississippi's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 27, 2014

SCHEDULE 21
PAGE 1 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

<u>Opinion Unit</u>	<u>Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Qualified
Discretely Presented Component Unit	Unmodified
General Fund	Unmodified
Aggregate Remaining Governmental Funds	Unmodified
Combined Water and Sewer System	Qualified

Internal control over financial reporting:

Material weakness identified?	Yes
Significant deficiency identified not considered to be a material weakness?	None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	Yes

Type of auditor's report issued on compliance for major programs:

Unmodified for all major programs, except for the Federal Transit Formula Grant which was Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program

SCHEDULE 21
PAGE 2 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

Section I - Summary of Auditor's Results (Cont.)

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	<i>Federal Transit Cluster:</i>
20.500	ARRA-Federal Transit Capital Investment Grants
20.507	Federal Transit Formula Grants
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II - Financial Statement Findings

Finding:

Finding 2013-01
Material Weakness

Criteria - Utilization of appropriate service cut-off requirements is an inherent component of the revenue billings and collections function for municipal utility systems. The City should have procedures in place that require consistent application of cut-off procedures for delinquent water services billings.

Condition - The policy in place did not consistently require the termination of water services nor the payment of past due amounts prior to the resumption of services due to management override of internal controls. The City did have an informally adopted policy in place (due to obsolete or inaccurate provisions included in the applicable ordinance), but this policy was not uniformly enforced.

Context - Pursuant to our fiscal year 2013 audit procedures that included interviews with water and sewer department employees as well as the examination of specific account histories, we noted significant inconsistencies with the City's enforcement of the existing water cut-off policies.

Effect - The City's consistent enforcement of water services cut-off policies is an important component of its ability to realize water and sewer budgetary projections and to ensure compliance with applicable contractual and statutory requirements.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

Section II - Financial Statement Findings (Cont.)

Finding 2013-01: (Cont.)

Cause - The City's internal control policies and procedures failed to require consistent enforcement of existing water services cut-off policies because of management overrides of internal controls.

Recommendation - With the adoption of an updated water services cut-off ordinance, the City should implement procedures that will ensure consistent enforcement of the adopted policy. These procedures should include appropriate segregation of duties that will allow for the water billing function to independently facilitate these procedures as authorized by the adopted ordinance.

Views of Responsible Officials - On February 18, 2014, the City updated its water and sewer ordinance that is to be applied consistently to all water and sewer accounts.

Section III - Federal Awards Findings and Questioned Costs

Finding:

Finding 2013-02
Significant Deficiency

CFDA No. 20.507 Federal Transit Formula Grants
 U.S. Department of Transportation
 Federal Transit Administration
 Pass-Through Entity Identifying Numbers:

Criteria - The requirements for cash management are contained in the A-102 Common Rule ((§____.21), OMB Circular A-110 (2 CFR section 215.22), 45 CFR 74.22, 45 CFR 92.21, Treasury regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and conditions of the award. Non-federal entities shall include in their internal controls policies and procedures designed to allow for compliance with applicable cash management requirements.

Condition - During fiscal year ended September 30, 2013, the City inadvertently included in cash reimbursement requests transactions that had been initiated but not yet paid by the City.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2013**

Section III - Federal Awards Findings and Questioned Costs (Cont.)

Finding 2013-02: (Cont.)

Context - Pursuant to our fiscal year 2013 audit procedures which included examination of cash management compliance documentation, we noted that the City had utilized expenditure reports that included both cash transactions and items that had not yet been paid for as the basis for reimbursement requests.

Effect - The City received reimbursements for the above-described transactions prematurely based upon the reimbursement methodology that was applicable to this grant.

Cause - The City's internal control policies and procedures that was being utilized to compile reimbursement requests failed to delineate items that were received but not yet paid for.

Recommendation - The City's Accounting Department should implement procedures that will ascertain that reimbursement requests are compiled based upon reliable expenditure reports that accurately identify transaction that have been paid for in order to allow for reimbursements to be made exclusively on those transactions.

Views of Responsible Officials - The City's Corrective Action Plan is presented on page 134.

CITY OF HATTIESBURG, MISSISSIPPI

AUDITEE CORRECTIVE ACTION PLAN

Year Ended September 30, 2013



Mayor
Johnny L. DuPree, Ph.D.

Council - Ward 1
Kim Bradley

Council - Ward 2
Deborah Denard Delgado

Council - Ward 3
Carter Carroll

Council - Ward 4
Mary Dryden

Council - Ward 5
Henry Naylor

Auditee Corrective Action Plan

Finding 2013-01

Program: Federal Transit Formula Grants
CFDA No.: 20.507
Federal Agency: U.S. Department of Transportation
Award Year: Fiscal Year 2012-2013
Compliance Requirement: Cash Management
Questioned Costs: None

Department's Response:

The Department of Administration concurs with the finding.

Corrective Action Plan:

Response from the Department of Administration:

The City of Hattiesburg Administration will ensure that only expenditures that have actually been paid will be submitted for reimbursement. The City was using our expenditure report, which is on the accrual basis of accounting to prepare for our monthly draw down. However, we are now using the docket of expenditures paid, to compile our monthly draw down request. By using the docket we are ensuring that all expenditures included in the reimbursement request have been paid at the time of the request.

Name of Responsible Person: Connie Everett, CFO

Name of Department Contact: Lisa Hanson, Comptroller

Expected date of Completion: December 1, 2013

CITY OF HATTIESBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2013



Mayor
Johnny L. DuPree, Ph.D.

Council - Ward 1
Kim Bradley

Council - Ward 2
Deborah Denard Delgado

Council - Ward 3
Carter Carroll

Council - Ward 4
Mary Dryden

Council - Ward 5
Henry Naylor

**Summary Schedule of Prior Audit Findings
Year Ended September 30, 2013**

The following is an update of the prior audit finding and is prepared in accordance with the Office of Management and Budget Circular A-133, Section .315(b).

2012-1 Summary of prior audit finding - Controls over Davis-Bacon compliance procedures should be implemented, when applicable, in order to ascertain that construction contracts financed with federal funds include the prevailing wage rate clause required by the Davis-Bacon Act.

CFDA 12.UNKNOWN U.S. Department of Defense/U.S. Army Corps of Engineers

Status - FULLY CORRECTED

The City has emphasized the importance of the Davis-Bacon compliance, when applicable, with the awarding of construction contracts financed with federal funds. Procedures have been implemented that include the prevailing wage rate clause required by the Davis-Bacon Act by utilizing a checklist for all new construction contracts. The checklist will ensure that the Davis-Bacon provisions have been considered and are being properly applied when applicable. Additionally, a letter will be sent out to all City contracted engineers that are overseeing construction projects using federal dollars. The letter will serve as a reminder that they must make a determination as to whether Davis-Bacon provisions apply, and if so, they must require all contractors and subcontractors to submit weekly certified payrolls.

Contact: Lisa Hanson, Comptroller

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Schedule 22

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

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

We were engaged to audit the basic financial statements of City of Hattiesburg, Mississippi for the year ended September 30, 2013, and have issued our report dated June 27, 2014. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not the objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information disclosed the following instances of noncompliance with laws and regulations:

CITY CLERK'S OFFICE

1. All ordinances have been entered into the ordinance book and included in the minutes, but a determination was made that the City's water and sewer rate ordinance contains obsolete or misstated provisions.

Finding

Mississippi Code Ann. (1972) Sections 21-13-13, requires that all ordinances be entered into the ordinance book and included in the minutes. Section 28-14 of the City's Ordinance Book specifies that the "...failure to pay any water bill on or before 15 days of statement shall subject the customer, consumer or user of the water to the loss and discontinuance of his water service and supply without notice." The ordinance also requires full payment of the balance due along with a recontinuance charge of \$30.00 before water service and supply can be resumed. Whereas this ordinance has been properly recorded, it was found to contain language that was either obsolete or erroneous when compared to the City's existing water and sewer billings and collection policies and procedures.

Recommendation

The Administration should ascertain that all adopted ordinances accurately reflect the City's existing policies and procedures that have been implemented pursuant to the timely collection of the City's water and sewer billing function.

City Clerk's Response

The City Administration agrees with this finding, and on February 18, 2014 the water and sewer ordinance was amended to reflect the City's policies and procedures applicable to the water and sewer billing function.

2. The city court's accounting procedures do not allow for accurate and timely aging reports for cases for which partial payments have been authorized.

Finding

Mississippi Code Section 21-23-11 explains that the municipal court clerk shall administer the collection and settlement of collections. Mississippi law requires the Office of the State Auditor to prescribe procedures for the handling of certain court funds, including partial payment accounting. When partial payment basis is allowed, the municipal court must maintain receivable records that include all pertinent information along with running totals of amounts due. The prescribed Municipal Court Procedures require that "...periodically, analysis should be made to determine such things as the age of accounts. Reports should be made to the judge and board/council containing such information as they may require. It is important that a record be kept to account for each defendant's charges, payments, balances due and status; and that the information be used." The City was not able to readily produce reliable aging reports of outstanding fines as of September 30, 2013 (approximated at \$21.4 million), and, accordingly, the determination was made that the requirement for periodic reports are not being processed in order to monitor partial payment collections.

Recommendation

The Administration should ascertain that the accounting software in use by the Municipal Courts is being properly utilized in order to allow for reliable periodic reports of outstanding fines to be processed. Additionally, policies and procedures should be implemented to allow for an appropriate administrative review function as required by state law.

City Clerk's Response

The Administration will ascertain that the Municipal Courts software is being properly utilized, and that policies and procedures are in place to allow for periodic reviews of reports of outstanding balances.

This report is intended for the information of the City of Hattiesburg, Mississippi's management, Honorable Mayor and the City Council, and the Mississippi Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 27, 2014

STATISTICAL INFORMATION
(UNAUDITED)

TABLE 1

CITY OF HATTIESBURG, MISSISSIPPI

**NET POSITION BY COMPONENTS ⁽¹⁾
LAST NINE FISCAL YEARS**

	FISCAL YEAR								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
GOVERNMENTAL ACTIVITIES:									
Invested in capital assets, net of related debt	\$ 112,905,526	\$ 108,901,420	\$ 94,987,280	\$ 93,714,770	\$ 94,294,279	\$ 94,307,180	\$ 93,482,416	\$ 85,543,514	\$ 79,339,867
Restricted for:									
Capital projects			915,715	3,047,031	3,161,144	277,340	421,986	355,132	236,730
Debt service	3,403,781	535,670	4,202,271	4,001,449	3,634,390	2,831,189	2,361,894	1,711,307	1,556,481
Unrestricted	10,786,997	13,801,803	12,534,415	11,374,445	8,926,370	10,695,572	12,335,482	11,324,642	7,549,683
Governmental activities net position	<u>\$ 127,096,304</u>	<u>\$ 123,238,893</u>	<u>\$ 112,639,681</u>	<u>\$ 112,137,695</u>	<u>\$ 110,016,183</u>	<u>\$ 108,111,281</u>	<u>\$ 108,601,778</u>	<u>\$ 98,934,595</u>	<u>\$ 88,682,761</u>
BUSINESS-TYPE ACTIVITIES:									
Invested in capital assets, net of related debt	\$ 63,029,378	\$ 45,223,694	\$ 44,616,923	\$ 42,142,047	\$ 37,239,290	\$ 32,131,585	\$ 26,516,342	\$ 22,705,571	\$ 34,161,132
Unrestricted	5,522,689	17,607,456	8,940,970	6,140,570	7,863,497	10,522,245	13,847,699	15,874,687	2,540,385
Business-type activities net position	<u>\$ 68,552,067</u>	<u>\$ 62,831,150</u>	<u>\$ 53,557,893</u>	<u>\$ 48,282,617</u>	<u>\$ 45,102,787</u>	<u>\$ 42,653,830</u>	<u>\$ 40,364,041</u>	<u>\$ 38,580,258</u>	<u>\$ 36,701,517</u>
PRIMARY GOVERNMENT:									
Invested in capital assets, net of related debt	\$ 175,934,904	\$ 154,125,114	\$ 139,604,203	\$ 135,856,817	\$ 131,533,569	\$ 126,438,765	\$ 119,998,758	\$ 108,249,085	\$ 113,500,999
Restricted for:									
Capital projects	-	-	915,715	3,047,031	3,161,144	277,340	421,986	355,132	236,730
Debt service	3,403,781	535,670	4,202,271	4,001,449	3,634,390	2,831,189	2,361,894	1,711,307	1,556,481
Unrestricted	16,309,686	31,409,259	21,475,385	17,515,015	16,789,867	21,217,817	26,183,181	27,199,329	10,090,068
Primary government net position	<u>\$ 195,648,371</u>	<u>\$ 186,070,043</u>	<u>\$ 166,197,574</u>	<u>\$ 160,420,312</u>	<u>\$ 155,118,970</u>	<u>\$ 150,765,111</u>	<u>\$ 148,965,819</u>	<u>\$ 137,514,853</u>	<u>\$ 125,384,278</u>

(1) Information not available for the last ten years of reporting, but will be accuulated over time as it becomes available.

TABLE 2

CITY OF HATTIESBURG, MISSISSIPPI

**CHANGES IN NET POSITION ⁽¹⁾
LAST NINE FISCAL YEARS**

	FISCAL YEAR								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
GOVERNMENTAL ACTIVITIES:									
General government	\$ 6,424,709	\$ 7,329,898	\$ 6,925,636	\$ 6,592,285	\$ 6,414,171	\$ 6,415,817	\$ 5,518,515	\$ 5,266,006	\$ 5,032,688
Public safety	21,339,689	20,763,051	20,097,532	19,961,821	19,507,269	18,985,991	17,937,458	15,474,025	14,670,081
Public services	18,356,293	17,341,042	17,767,209	18,248,607	19,790,101	20,398,976	16,846,291	20,251,044	14,417,361
Other services	1,751,307	6,281,474	5,384,474	6,089,579	5,594,820	5,727,212	5,596,293	4,921,694	4,052,402
Mass transit	1,104,428	1,176,837	1,145,590	993,835	925,506	1,054,153	753,752	718,518	602,119
Cultural and recreation	4,481,390	3,916,227	4,421,402	4,494,146	4,175,345	4,247,864	3,902,787	3,818,198	2,560,224
Human/social assistance	889,795	1,310,363	1,864,618	567,679	569,049	617,544	635,505	831,362	658,356
Economic development	160,000	160,000	150,000	150,000	150,000	159,502	196,000	196,000	210,280
Interest and fiscal charges	1,089,410	1,287,540	1,299,623	1,261,015	1,427,014	1,718,149	1,740,731	1,664,988	1,364,028
Total governmental activities expenses	<u>55,597,021</u>	<u>59,566,432</u>	<u>59,056,084</u>	<u>58,358,967</u>	<u>58,553,275</u>	<u>59,325,208</u>	<u>53,127,332</u>	<u>53,141,835</u>	<u>43,567,539</u>
BUSINESS-TYPE ACTIVITIES:									
Water and Sewer System	<u>11,870,152</u>	<u>11,167,044</u>	<u>9,582,704</u>	<u>10,263,712</u>	<u>8,302,628</u>	<u>8,318,670</u>	<u>7,433,290</u>	<u>7,000,869</u>	<u>6,070,204</u>
Total primary government expenses	<u>\$ 67,467,173</u>	<u>\$ 70,733,476</u>	<u>\$ 68,638,788</u>	<u>\$ 68,622,679</u>	<u>\$ 66,855,903</u>	<u>\$ 67,643,878</u>	<u>\$ 60,560,622</u>	<u>\$ 60,142,704</u>	<u>\$ 49,637,743</u>
PROGRAM REVENUES:									
Governmental Activities:									
Charges for services	\$ 4,654,384	\$ 8,558,345	\$ 8,287,847	\$ 8,853,022	\$ 8,467,560	\$ 7,773,432	\$ 2,693,409	\$ 3,008,496	\$ 2,781,965
Operating grants and contributions	4,988,000	4,982,172	5,956,487	5,375,052	7,624,535	6,262,995	10,480,188	11,175,693	7,528,426
Capital grants and contributions	3,185,681	2,813,432	2,800,969	3,186,741	2,355,657	5,098,683	4,179,064	5,681,530	5,880,728
Total governmental activities program revenues	<u>12,828,065</u>	<u>16,353,949</u>	<u>17,045,303</u>	<u>17,414,815</u>	<u>18,447,752</u>	<u>19,135,110</u>	<u>17,352,661</u>	<u>19,865,719</u>	<u>16,191,119</u>
Business-Type Activities:									
Charges for services	14,811,137	13,218,896	11,734,715	12,245,747	9,907,131	9,197,894	8,537,545	8,660,771	8,075,288
Capital grants and contributions	3,152,032	7,053,303	3,023,224	-	-	-	-	-	-
Total business-type activities program revenues	<u>17,963,169</u>	<u>20,272,199</u>	<u>14,757,939</u>	<u>29,660,562</u>	<u>28,354,883</u>	<u>28,333,004</u>	<u>25,890,206</u>	<u>28,526,490</u>	<u>24,266,407</u>

TABLE 2
PAGE TWO

CITY OF HATTIESBURG, MISSISSIPPI

CHANGES IN NET POSITION ⁽¹⁾
LAST NINE FISCAL YEARS

	FISCAL YEAR								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net Revenues (Expenses):									
Governmental activities	\$ (42,768,956)	\$ (43,212,483)	\$ (42,010,781)	\$ (40,944,772)	\$ (40,105,523)	\$ (40,190,098)	\$ (35,774,671)	\$ (33,276,116)	\$ (27,376,420)
Business-type activities	6,093,017	9,105,155	5,175,235	3,109,246	1,604,503	879,224	1,104,255	1,659,902	2,005,084
Total primary government net (expenses)	<u>(36,675,939)</u>	<u>(34,107,328)</u>	<u>(36,835,546)</u>	<u>(37,835,526)</u>	<u>(38,501,020)</u>	<u>(39,310,874)</u>	<u>(34,670,416)</u>	<u>(31,616,214)</u>	<u>(25,371,336)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION:									
Governmental Activities:									
Property taxes	17,528,265	16,812,683	17,261,796	16,978,749	15,273,539	13,753,217	15,103,579	12,216,587	12,223,041
Sales taxes	21,596,080	20,709,684	19,902,590	19,746,092	20,520,329	22,350,027	22,446,221	24,717,190	17,873,911
Franchise and other taxes	4,820,407	3,977,566	4,493,197	4,719,547	4,538,419	4,602,087	4,324,217	4,089,915	3,592,591
Grants and contributions (not restricted)	4,795	-	126,500	-	25	1,600	1,325	1,325	2,825
Unrestricted investment earnings	171,405	145,510	149,627	357,369	382,761	757,656	1,003,549	895,411	498,403
Miscellaneous revenues	2,256,331	1,637,625	1,348,789	1,264,527	1,295,352	1,231,625	936,361	1,607,522	582,419
Total governmental activities	<u>46,377,283</u>	<u>43,283,068</u>	<u>43,282,499</u>	<u>43,066,284</u>	<u>42,010,425</u>	<u>42,696,212</u>	<u>43,815,252</u>	<u>43,527,950</u>	<u>34,773,190</u>
Business-type Activities:									
Unrestricted investment earnings	7,949	11,101	21,264	17,758	34,590	240,797	637,473	215,478	52,480
Miscellaneous revenues	(494,189)	157,001	78,777	52,826	809,864	1,169,768	42,055	3,361	165,694
Total business-type activities	<u>(486,240)</u>	<u>168,102</u>	<u>100,041</u>	<u>70,584</u>	<u>844,454</u>	<u>1,410,565</u>	<u>679,528</u>	<u>218,839</u>	<u>218,174</u>
Total primary government	<u>45,891,043</u>	<u>43,451,170</u>	<u>43,382,540</u>	<u>43,136,868</u>	<u>42,854,879</u>	<u>44,106,777</u>	<u>44,494,780</u>	<u>43,746,789</u>	<u>34,991,364</u>
CHANGE IN NET POSITION									
Governmental activities	3,608,327	70,585	1,271,718	2,121,512	1,904,902	2,506,114	8,040,581	10,251,834	7,396,770
Business-type activities	5,606,777	9,273,257	5,275,276	3,179,830	2,448,957	2,289,789	1,783,783	1,878,741	2,223,258
Total primary government	<u>\$ 9,215,104</u>	<u>\$ 9,343,842</u>	<u>\$ 6,546,994</u>	<u>\$ 5,301,342</u>	<u>\$ 4,353,859</u>	<u>\$ 4,795,903</u>	<u>\$ 9,824,364</u>	<u>\$ 12,130,575</u>	<u>\$ 9,620,028</u>

(1) Information not available for the last ten years of reporting, but will be acculated over time as it becomes available.

TABLE 3

CITY OF HATTIESBURG, MISSISSIPPI
FUND BALANCES - GOVERNMENTAL FUNDS ⁽¹⁾
LAST TEN FISCAL YEARS

	FISCAL YEAR									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Fund:										
Nonspendable	\$ 330,950	\$ 332,300	\$ 30,750	\$ 252,349	\$ 82,057	\$ 65,400	\$ 53,763	\$ 21,533	\$ 252,104	\$ 292,526
Assigned	720,979	452,842	386,144	-	-	-	-	-	-	-
Unassigned	6,624,690	6,963,113	7,661,673	-	-	-	-	-	-	-
Unreserved	-	-	-	6,824,621	7,739,081	8,484,316	10,165,200	8,910,441	6,138,963	6,613,676
Total general fund	<u>7,676,619</u>	<u>7,748,255</u>	<u>8,078,567</u>	<u>7,076,970</u>	<u>7,821,138</u>	<u>8,549,716</u>	<u>10,218,963</u>	<u>8,931,974</u>	<u>6,391,067</u>	<u>6,906,202</u>
% Change from Prior Year	-0.9%	-4.1%	14.2%	-9.5%	-8.5%	-16.3%	14.4%	39.8%	-7.5%	25.9%
Other Governmental Funds:										
Debt service funds										
Restricted	3,403,781	3,814,777	4,202,271	4,001,449	2,718,167	3,683,691	3,569,062	3,536,711	2,465,587	2,139,449
Special revenue funds										
Restricted	1,638,380	1,596,461	2,616,964	-	-	-	-	-	-	-
Committed	1,466,250	1,132,055	1,019,456	-	-	-	-	-	-	-
Unreserved	-	-	-	3,540,426	3,634,390	2,831,189	2,361,894	1,711,307	1,556,481	1,348,064
Capital projects funds										
Restricted	-	382,454	915,715	3,047,031	3,161,144	277,340	379,848	286,497	429,947	(710,590)
Total other governmental funds	<u>6,508,411</u>	<u>6,925,747</u>	<u>8,754,406</u>	<u>10,588,906</u>	<u>9,513,701</u>	<u>6,792,220</u>	<u>6,310,804</u>	<u>5,534,515</u>	<u>4,452,015</u>	<u>2,776,923</u>
Total governmental funds	<u>\$ 14,185,030</u>	<u>\$ 14,674,002</u>	<u>\$ 16,832,973</u>	<u>\$ 17,665,876</u>	<u>\$ 17,334,839</u>	<u>\$ 15,341,936</u>	<u>\$ 16,529,767</u>	<u>\$ 14,466,489</u>	<u>\$ 10,843,082</u>	<u>\$ 9,683,125</u>
% Change from Prior Year	-3.3%	-12.8%	-4.7%	1.9%	13.0%	-7.2%	14.3%	33.4%	12.0%	-28.8%

(1) This schedule reports using the modified accrual basis of accounting. See Table 4 for changes in fund balances from year to year.

(2) Under GASB Statement No. 54 the balance sheet reporting categories are based upon a hierarchy of classifications based upon the constraints on resources reported in the funds.

With the City's implementation of this reporting format in fiscal year 2011, prior year components of fund balances are presented based upon prior reporting classifications on this table for special revenue funds as unreserved. The City's debt service and capital project fund balances are, however, presented as restricted due to the underlying statutory spending requirements in Mississippi applicable to debt repayment resources and debt proceeds.

TABLE 4

CITY OF HATTIESBURG, MISSISSIPPI

**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS**

	FISCAL YEAR									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
REVENUE:										
Property taxes	\$ 17,166,167	\$ 16,892,639	\$ 16,892,639	\$ 16,978,749	\$ 15,273,539	\$ 13,753,217	\$ 15,103,579	\$ 12,327,064	\$ 12,173,753	\$ 12,481,682
Sales taxes	21,502,243	19,925,608	19,925,608	19,746,092	20,381,753	22,350,027	22,446,221	24,717,190	17,873,911	16,862,144
Licenses and permits	4,526,547	4,114,371	4,114,371	4,305,480	4,296,709	4,188,526	3,901,213	3,697,193	2,831,557	3,317,134
Fines and forfeitures	1,786,960	1,846,516	1,846,516	2,009,057	1,589,861	1,554,656	1,065,269	1,018,354	971,467	1,105,848
Interest, rents, concessions	158,110	170,965	170,965	170,191	211,214	582,741	807,617	598,136	261,132	386,754
Intergovernmental	8,480,909	9,281,209	9,281,209	9,354,293	10,291,647	8,073,409	8,570,904	10,692,038	10,054,395	4,481,157
Charges for services	2,586,517	2,572,647	2,572,647	2,650,845	2,763,676	2,359,464	1,667,251	1,804,014	1,762,323	1,742,228
Other revenues	1,408,970	512,591	512,591	251,219	888,749	4,389,090	2,798,041	3,956,796	676,246	934,067
Total revenues	<u>57,616,423</u>	<u>55,316,546</u>	<u>55,316,546</u>	<u>55,465,926</u>	<u>55,697,148</u>	<u>57,251,130</u>	<u>56,360,095</u>	<u>58,810,785</u>	<u>46,604,784</u>	<u>41,311,014</u>
% Change from prior year	4.2%	0.0%	-0.3%	-0.4%	-2.7%	1.6%	-4.2%	26.2%	12.8%	4.7%
EXPENDITURES:										
General government	6,227,218	6,930,283	6,271,409	6,081,588	5,679,589	5,674,985	5,235,266	5,246,079	4,897,698	4,850,407
Public safety	21,433,140	20,330,009	18,632,140	18,436,079	18,269,998	17,309,920	16,319,725	14,299,637	14,227,840	13,640,172
Public services	15,680,396	14,350,951	11,454,151	12,698,983	13,739,073	14,567,346	12,494,900	16,326,824	10,651,948	9,264,327
Other services	2,143,005	7,681,825	5,175,661	5,924,909	5,463,648	5,619,828	5,692,145	4,866,672	4,019,276	4,222,829
Mass transit	1,110,275	1,408,435	858,601	773,695	719,882	787,422	677,515	652,909	554,888	506,310
Cultural and recreation	4,512,676	4,796,921	3,840,540	4,125,885	3,877,083	3,783,572	3,547,792	3,546,341	3,010,508	2,828,225
Human/Social assistance	870,323	1,291,384	740,165	545,507	547,544	595,945	604,661	1,005,953	437,146	355,586
Economic development	160,000	2,160,000	150,000	150,000	150,000	159,502	196,000	196,000	210,280	200,370
Capital outlays		-	8,364,094	12,058,220	7,299,488	9,160,136	17,111,494	13,270,430	14,498,353	14,027,343
Debt service:										
Principal	5,753,744	5,257,186	5,044,999	17,181,940	11,440,741	10,462,369	4,215,614	3,407,540	3,470,925	3,166,611
Interest and fiscal charges	1,153,639	1,281,791	1,447,781	1,101,913	1,376,530	1,744,949	1,690,106	1,625,228	1,383,084	1,300,556
Total expenditures	<u>59,044,416</u>	<u>65,488,785</u>	<u>61,979,541</u>	<u>79,078,719</u>	<u>68,563,576</u>	<u>69,865,974</u>	<u>67,785,218</u>	<u>64,443,613</u>	<u>57,361,946</u>	<u>54,362,736</u>
% Change from prior year	-9.8%	5.7%	-21.6%	15.3%	-1.9%	3.1%	5.2%	12.3%	5.5%	13.9%
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(1,427,993)	(10,172,239)	(6,662,995)	(23,612,793)	(12,866,428)	(12,614,844)	(11,425,123)	(5,632,828)	(10,757,162)	(13,051,722)
OTHER FINANCING SOURCES (USES):										
Proceeds from long-term debt	-	3,588,096	1,718,710	18,836,240	10,112,970	6,733,377	8,394,533	5,019,686	7,559,737	3,781,219
Transfers from other funds	4,326,191	5,075,412	3,854,721	4,609,574	4,671,908	4,862,491	5,416,316	4,333,268	4,482,512	4,132,919
Transfers to other funds	(3,307,283)	(3,966,924)	(2,914,020)	(3,678,323)	(3,977,272)	(3,939,037)	(4,411,343)	(3,346,379)	(3,222,425)	(2,635,861)
Other sources	119,492	4,292,047	3,940,413	4,176,339	4,051,725	3,770,182	4,088,895	3,249,660	3,097,295	3,863,212
Net other financing sources	<u>1,138,400</u>	<u>8,988,631</u>	<u>6,599,824</u>	<u>23,943,830</u>	<u>14,859,331</u>	<u>11,427,013</u>	<u>13,488,401</u>	<u>9,256,235</u>	<u>11,917,119</u>	<u>9,141,489</u>
NET CHANGE IN FUND BALANCES	<u>\$ (289,593)</u>	<u>\$ (1,183,608)</u>	<u>\$ (63,171)</u>	<u>\$ 331,037</u>	<u>\$ 1,992,903</u>	<u>\$ (1,187,831)</u>	<u>\$ 2,063,278</u>	<u>\$ 3,623,407</u>	<u>\$ 1,159,957</u>	<u>\$ (3,910,233)</u>
Debt service as % of non-capital expenditures	13.2%	11.1%	13.8%	37.5%	26.5%	25.2%	13.2%	13.1%	12.8%	12.5%

TABLE 5

CITY OF HATTIESBURG, MISSISSIPPI

**GOVERNMENTAL FUNDS - TAX REVENUES BY SOURCE⁽¹⁾
LAST TEN FISCAL YEARS**

Fiscal Year	Property Taxes	Sales Taxes (City's Share)	Total - Property and Sales Taxes	Gross Sales Subject to Sales Taxes (Per State Sales Tax Bureau)
2013	\$ 17,166,167	\$ 21,474,084	\$ 38,640,251	\$ 1,777,513,216
2012	16,455,997	20,612,267	37,068,264	1,725,142,031
2011	16,892,639	19,902,590	36,795,229	1,662,704,275
2010	16,978,749	19,746,092	36,724,841	1,624,585,790
2009	15,273,539	20,381,753	35,655,292	1,720,117,514
2008	13,753,217	22,350,027	36,103,244	1,823,222,841
2007	15,103,579	22,446,221	37,549,800	1,892,188,843
2006	12,327,064	24,717,190	37,044,254	1,942,486,919
2005	12,173,753	17,873,911	30,047,664	1,479,451,805
2004	12,481,682	16,862,144	29,343,826	1,397,922,230
% Change in Dollars over the 10 Year Period	37.5%	27.4%	31.7%	27.2%

(1) This schedule reports using the modified accrual basis of accounting. State Sales Tax Bureau totals are based upon the State's June 30th fiscal year.

Gross Sales Subject to Sales By County - Forrest		(%)	Gross Sales Subject to Sales By County - Lamar		(%)	Component Unit - 2% Food & Beverage Tax
\$	907,039,107	51%	\$	870,474,109	49%	\$ 4,981,959
	889,634,286	52%		835,507,745	48%	4,463,604
	877,852,622	53%		784,851,653	47%	4,254,485
	866,344,980	53%		780,912,173	48%	4,625,748
	899,713,933	52%		807,144,739	47%	4,627,244
	978,033,753	54%		845,189,088	46%	4,566,654
	1,043,502,246	55%		848,686,597	45%	4,345,317
	814,593,191	42%		827,893,728	43%	3,916,424
	836,057,117	57%		643,394,688	43%	3,145,585
	807,788,636	58%		590,133,594	42%	2,910,575
		12.3%			47.5%	71.2%

TABLE 6

CITY OF HATTIESBURG, MISSISSIPPI

**DIRECT AND OVERLAPPING PROPERTY TAX RATES - FORREST AND LAMAR COUNTIES
LAST TEN FISCAL YEARS**

FORREST COUNTY:		City of Hattiesburg				Hattiesburg School District			Forrest County Taxes	Total
Year Ended Sept. 30,	Tax Roll Year	Operations	City Bond & Interest	Other (Library & Pension Fund)	City - Total	Hattiesburg School District Operations	School Bond & Interest Taxes	Total- Schools		
2004	2003	33.50	7.58	6.47	47.55	58.30	7.34	65.64	53.98	167.17
2005	2004	33.50	7.58	6.47	47.55	58.30	7.34	65.64	55.44	168.63
2006	2005	33.50	7.58	6.47	47.55	58.30	7.54	65.84	56.96	170.35
2007	2006	33.50	7.58	6.47	47.55	58.30	7.54	65.84	56.82	170.21
2008	2007	33.50	7.58	6.47	47.55	58.30	7.54	65.84	60.86	174.25
2009	2008	33.50	7.58	6.47	47.55	58.30	7.54	65.84	60.86	174.25
2010	2009	33.50	7.15	6.27	46.92	51.75	6.43	58.18	55.09	160.19
2011	2010	33.50	7.15	6.27	46.92	54.13	7.52	61.65	55.09	163.66
2012	2011	33.50	7.15	6.77	47.42	57.23	6.08	63.31	55.09	165.82
2013	2012	34.65	7.00	5.77	47.42	58.50	7.73	66.23	57.08	170.73

LAMAR COUNTY:		City of Hattiesburg				Hattiesburg School District			Lamar County Taxes	Total
Year Ended Sept. 30,	Tax Roll Year	Operations	City Bond & Interest	Other (Library & Pension Fund)	City - Total	Hattiesburg School District Operations	School Bond & Interest Taxes	Total- Schools		
2004	2003	33.50	7.58	6.47	47.55	58.30	7.34	65.64	52.14	165.33
2005	2004	33.50	7.58	6.47	47.55	58.30	7.34	65.64	52.14	165.33
2006	2005	33.50	7.58	6.47	47.55	58.30	7.54	65.84	51.37	164.76
2007	2006	33.50	7.58	6.47	47.55	58.30	7.54	65.84	51.37	164.76
2008	2007	33.50	7.58	6.47	47.55	58.30	7.54	65.84	50.87	164.26
2009	2008	33.50	7.58	6.47	47.55	58.30	7.54	65.84	50.87	164.26
2010	2009	33.50	7.15	6.27	46.92	51.75	6.43	58.18	50.86	155.96
2011	2010	33.50	7.15	6.27	46.92	54.13	7.52	61.65	50.86	159.43
2012	2011	33.50	7.15	6.77	47.42	57.23	6.08	63.31	50.85	161.58
2013	2012	34.65	7.00	5.77	47.72	58.50	7.73	66.23	50.83	164.48

TABLE 7

CITY OF HATTIESBURG, MISSISSIPPI

**TOP TEN PROPERTY TAXPAYERS
PROPERTY TAXES ASSESSED IN FISCAL YEAR 2012, COLLECTED FISCAL YEAR 2013**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessment</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Taxes</u>
Mississippi Power	Public Utility	\$ 13,540,400	3.3%	\$ 1,538,866
Wesley Health Systems	Health Care	8,897,186	2.1%	421,905
Wal-Mart	Retail	7,947,853	1.9%	541,444
Kohler Company	Industrial	7,675,638	1.9%	543,790
Western Container	Industrial	7,346,322	1.8%	527,596
Bell South	Public Utility	7,036,841	1.7%	799,737
Hattiesburg Clinic	Health Care	6,846,312	1.7%	759,025
Rexam	Industrial	5,374,848	1.3%	355,976
W.R. Fairchild, et al	Industrial	3,687,344	0.9%	419,067
Bennett York	Commercial	<u>3,160,843</u>	0.8%	324,961
Total of top ten taxpayers		71,513,587	17.3%	
Tax roll total - all other taxpayers		<u>342,843,791</u>	82.7%	
Total taxable assessed values for FY 2012		<u><u>\$ 414,357,378</u></u>	100.0%	

TABLE 8

CITY OF HATTIESBURG, MISSISSIPPI

**COMPUTATION OF LEGAL DEBT MARGIN USING MOST CURRENT TAX ROLLS
SEPTEMBER 30, 2013**

	<u>15% Test</u>	<u>20% Test</u>
Property tax base valuation as prepared by Tax Assessors during the summer months of 2012 for property taxes to be collected in fiscal year 2013	\$ 414,357,378	\$ 414,357,378
Times Applicable %	<u>X 15%</u>	<u>X 20%</u>
Product of Tax Base Times Applicable Percentage	(a) <u>62,153,607</u>	<u>82,871,476</u>
Present General Obligation Debt Subject to Statutory Debt Limits:		
General obligation bonds outstanding at September 30, 2013	26,217,567	26,217,567
Less: exempt bonds	(9,710,136)	(9,710,136)
Add: water & sewer general obligation bonds	n/a	13,653,857
Total general obligation debt outstanding	(b) <u>16,507,431</u>	<u>30,161,288</u>
Margin for Additional General Obligation Debt - (a) minus (b)	<u>\$ 45,646,176</u>	<u>\$ 52,710,188</u>

The City is subject to the limitations of indebtedness prescribed by MS Code Section 21-33-303. No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bonded indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in that Code Section. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of municipal debt excluded from the authorized debt limit tests. Excluded from this test would be tax increment financing bonds, water and sewer revenue bonds, debt secured by tax intercept agreements (sales tax collections, as opposed to the property tax base) and leases subject to annual appropriations.

The municipality is limited to the smaller of the two calculated percentages, and as of September 30, 2013, the 15% test would apply with a calculated margin for additional general obligation debt in the amount of \$45,646,176.

TABLE 9

CITY OF HATTIESBURG, MISSISSIPPI

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

<u>Year Ended Sept. 30,</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Bonded General Obligation Debt</u>	<u>Less: Bonded Debt Service Funds Available</u>	<u>Net Bonded General Obligation Debt</u>	<u>Ratio of G.O. Bonded Debt to Assessed Values</u>	<u>Net General Obligation Debt Per Capita</u>
2004	45,988	\$ 285,319,298	\$ 22,870,000	\$ 1,113,006	\$ 21,756,994	7.63%	\$ 473.10
2005	47,598	310,609,766	20,590,000	1,321,947	19,268,053	6.20%	404.81
2006	47,598	331,105,907	18,690,000	1,569,644	17,120,356	5.17%	359.69
2007	47,598	350,838,275	16,660,000	2,207,580	14,452,420	4.12%	303.64
2008	47,598	351,031,031	14,640,000	2,297,231	12,342,769	3.52%	259.31
2009	48,012	409,111,676	26,138,549	3,048,077	23,090,472	5.64%	480.93
2010	53,582	409,750,752	34,652,244	3,366,824	31,285,420	7.64%	583.88
2011	45,989	395,386,255	32,952,977	3,529,802	29,423,175	7.44%	639.79
2012	46,626	403,598,585	30,307,943	3,040,255	27,267,688	6.76%	584.82
2013	47,169	414,357,378	26,217,567	2,616,326	23,601,241	5.70%	500.35

TABLE 10

CITY OF HATTIESBURG, MISSISSIPPI

**WATER AND SEWER REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Year Ended Sept. 30,	Gross Revenues	Expenses	Net Revenues Available for Debt Service	Required Ratio Based Upon Applicable % Times Prescribed Annual P & I	Debit Service Requirement Calculated with Applicable %	Coverage Ratio
2004	\$ 8,262,525	\$ 4,999,288	\$ 3,263,237	115% of P & I	\$ 1,785,389	1.83
2005	8,127,768	4,967,317	3,160,451	115% of P & I	1,782,026	1.77
2006	8,831,622	6,316,769	2,514,853	105% of P & I	(1) 1,652,024	1.52
2007	8,495,274	6,481,746	2,013,528	105% of P & I	(1) 1,652,024	1.22
2008	9,107,728	5,796,631	3,311,097	105% of P & I	(1) 1,650,640	2.01
2009	9,907,131	6,797,027	3,110,104	105% of P & I	(1) 1,650,640	1.88
2010	12,245,747	7,006,259	5,239,488	105% of P & I	(1) 1,650,640	3.17
2011	11,734,715	8,937,208	2,797,507	105% of P & I	(1) 1,650,640	1.69
2012	13,218,896	9,700,671	3,518,225	105% of P & I	(2) 2,555,155	1.38
2013	14,726,058	9,416,826	5,309,232	105% of P & I	(2) 2,585,546	2.05

(1) Calculations upon calculations for the 2006 Revenue Bonds.

(2) Calculations upon calculations for the 2006 and 2012 revenue Bonds.

"Expenses" includes all operating expenses, including principal and interest on indebtedness, exclusive of depreciation and principal and interest on the 2006 and 2012 bond issues.

TABLE 11

CITY OF HATTIESBURG, MISSISSIPPI

DEMOGRAPHIC STATISTICS

<u>Year</u>	<u>Hattiesburg</u>	<u>Forrest County</u>	<u>Hattiesburg MSA</u>
1975	39,553	64,659	n/a
1980	40,829	66,018	n/a
1985	41,356	67,166	n/a
1986	41,463	67,396	n/a
1987	41,570	67,625	n/a
1988	41,678	67,855	n/a
1989	14,785	68,084	n/a
1990	41,885	68,314	98,738
1991	42,174	68,743	99,656
1992	42,465	69,175	100,172
1993	42,758	69,609	101,215
1994	43,053	70,046	102,492
1995	43,350	70,486	104,705
1996	43,649	70,929	106,443
1997	43,950	71,374	107,806
1998	44,254	71,822	109,556
1999	44,559	72,274	110,650
2000	44,779	72,727	111,674
2001	45,088	73,184	113,179
2002	45,538	73,916	114,438
2003	45,779	73,465	115,849
2004	45,988	74,565	117,599
2005	47,598	76,056	119,135
2006	48,012	76,372	123,102
2007	48,012	78,241	126,259
2008	48,012	79,425	128,546
2009	48,012	81,078	143,093
2010	53,582	81,078	143,093
2011	45,989	74,934	144,666
2012	46,626	75,842	142,842
2013	47,169	76,894	148,675

(West Hattiesburg-Lamar County portion has population of 6,305 included in 2005 Hattiesburg total.)

Demographic Age Groupings Are Projections Based On Census 2010 Totals:

<u>Age</u>	<u>Hattiesburg 2010</u>	<u>Forrest County 2010</u>
0 - 17 Years	9,696	17,703
18 - 44 Years	18,360	23,285
45 - 64 Years	12,983	25,282
Over 65 Years	4,950	8,664
Median Age	27.1 Years	29.7 Years
% Population under 18 Years	68.10%	64.82%
% Population over 18 Years	10.80%	11.56%

Source: U.S. Bureau of Census. July 1, 2010 information is provided as the most recent year for which data is available.

TABLE 12

CITY OF HATTIESBURG, MISSISSIPPI

CITY EMPLOYEES BY FUNCTION
LAST NINE FISCAL YEARS⁽¹⁾

	2013	2012	2011	2010	2009	2008	2007	2006	2005
	Employees	Employees	Employees	Employees	Employees	Employees	Employees	Employees	Employees
Governmental Activities:									
<i>The General Fund:</i>									
City Council	8	7	6	6	6	6	6	7	7
Department of Administration	33	35	37	36	32	32	33	32	33
Urban Planning:									
Planning	9	8	10	11	11	14	14	11	13
Intermodal Facility	-	-	-	-	-	-	3	-	-
MPO	4	5	4	5	5	4	3	4	4
Federal Programs Administraton	1	1	2	2	-	-	-	-	-
Code Enforcement	13	14	12	13	13	13	11	10	10
Public Safety:									
City Courts	19	25	27	25	26	27	24	21	25
Police - Officers	111	120	120	124	132	122	129	99	102
Police Department - Non-Sworn	61	62	64	61	69	69	70	50	58
Fire Department - Firefighters	112	114	119	114	118	106	111	124	118
Fire Department - Other than Firefighters	6	4	5	6	6	5	4	6	6
Other	1	1	1	1	1	1	1	1	1
Public Services:									
Traffic Maintenance	7	8	8	9	9	7	7	7	9
Streets	42	42	46	38	40	40	40	38	43
Engineering	7	7	7	5	7	8	8	9	8
Shop	11	12	11	12	13	11	13	11	12
Construction	16	13	15	15	14	12	13	15	16
Sanitation	34	33	34	51	58	60	58	56	61
Other Public Services	26	29	31	28	29	33	32	32	33
Animal Control	4	2	4	3	4	3	3	4	4
Cemetery and Forestry	18	18	18	17	17	17	16	17	18
Parking Operations	8	8	8	8	9	9	9	9	10
Total General Fund	551	568	589	590	619	599	608	563	591
<i>Other Governmental Funds:</i>									
Parks and Recreation	34	37	32	38	69	63	66	65	67
Community Centers	14	14	13	15	14	14	13	13	13
Mass Transit	15	14	15	14	14	14	13	14	14
CDBG	5	5	6	6	5	6	6	5	6
Total Governmental Activities	619	638	655	663	721	696	706	660	691
Business-type Activities:									
<i>Water and Sewer System:</i>									
Customer Accounts	10	7	7	7	7	7	7	7	7
Water - Plant and Transmission	31	31	32	37	38	41	45	44	46
Sewers and Lagoons	21	20	24	24	26	27	25	24	24
Total Business-type Activities	62	58	63	68	71	75	77	75	77
Total Primary Government	681	696	718	731	792	771	783	735	768

(1) Information based upon last payroll processed in the month of September. Information not available for last ten years of reporting but will be accumulated over time as it becomes available. This schedule is based upon full-time and part-time employees for whom checks were processed as of the last September payroll.

TABLE 13

CITY OF HATTIESBURG, MISSISSIPPI

**CONSTRUCTION, BANK DEPOSITS, AND ASSESSED PROPERTY VALUES
LAST TEN FISCAL YEARS**

Year Ended Sept. 30,	Commercial Construction		Residential Construction		Hattiesburg MSA Bank Deposits (000's omitted)	Total assessed Valuation
	Permits Issued	Value	Permits Issued	Value		
2004	56	\$ 30,387,693	146	\$ 21,440,459	\$ 1,567,676	\$ 285,319,298
2005	87	52,893,843	100	21,985,228	1,744,946	310,609,766
2006	180	70,375,827	144	18,386,947	2,133,000	331,905,907
2007	106	55,150,982	232	36,446,885	2,191,240	351,031,031
2008	98	59,356,851	218	16,707,346	2,100,716	362,674,772
2009	42	83,256,364	67	7,417,942	2,282,467	409,111,676
2010	187	29,397,654	395	7,214,963	2,429,065	409,750,752
2011	247	53,929,531	493	17,926,574	2,495,371	395,386,255
2012	215	85,713,105	430	11,346,201	2,510,860	403,598,585
2013	272	62,005,982	643	13,806,903	2,516,268	414,357,378

TABLE 14

CITY OF HATTIESBURG, MISSISSIPPI

CAPITAL ASSET AND INFRASTRUCTURE STATISTICS BY FUNCTION
LAST EIGHT FISCAL YEARS ⁽¹⁾

	2013	2012	2011	2010	2009	2008	2007	2006
Police:								
Stations	1	1	1	1	1	1	1	1
Sub-stations	4	4	4	4	4	4	4	2
Fire:								
Stations	8	8	8	8	8	8	8	8
Hydrants	1950	1950	1950	1950	1950	1950	1850	1750
Solid Waste Management:								
Trucks	24	24	24	24	24	24	24	24
<i>(The City is a member of a regional landfill authority)</i>								
Parks and Recreation:								
Zoo	1	1	1	1	1	1	1	1
Soccer/tennis/softball complex	1	1	1	1	1	1	1	1
Baseball/softball facilities	4	4	4	4	4	4	4	4
Water:								
Pumping capacity (gallons per minute)	17,500 GPM	17,500 GPM	17,500 GPM	17,500 GPM	17,050 GPM	17,050 GPM	17,050 GPM	17,050 GPM
Average daily water pumping capacity (gallons)	22,000,000 GPD	22,000,000 GPD	22,000,000 GPD	22,000,000 GPD	22,000,000 GPD	22,000,000 GPD	22,000,000 GPD	22,000,000 GPD
Average daily water pumped (gallons)	10,800,000 GPD	10,800,000 GPD	10,800,000 GPD	10,800,000 GPD	10,800,000 GPD	10,800,000 GPD	10,500,000 GPD	9,700,000 GPD
Miles of water mains - 6" through 20"	295 miles	295 miles	292 miles	292 miles	292 miles	292 miles	278 miles	272 miles
Miles of water mains - 4" or less	50 miles	50 miles	48 miles	48 miles	48 miles	48 miles	30 miles	30 miles
Number of wells	13	13	13	13	13	13	13	14
Water storage tanks	9	9	9	9	9	9	7	7
Sewer:								
Miles of sewer collection mains	352 miles	352 miles	350 miles	350 miles	350 miles	350 miles	350 miles	350 miles
Average daily treatment (million gallons per day):								
South lagoon	11.1 MGD	11.1 MGD	11.1 MGD	11.1 MGD	11.1 MGD	11.1 MGD	10.8 MGD	10.5 MGD
North lagoon	1.6 MGD	1.6 MGD	1.6 MGD	1.6 MGD	1.6 MGD	1.6 MGD	1.6 MGD	1.6 MGD
Total average daily treatment	12.7 MGD	12.7 MGD	12.7 MGD	12.7 MGD	12.7 MGD	12.7 MGD	12.4 MGD	12.1 MGD
Permitted treatment capacity	24 MGD	24 MGD	24 MGD	24 MGD	24 MGD	24 MGD	24 MGD	24 MGD
Streets:								
Miles of paved streets	351 miles	351 miles	350 miles	350 miles	350 miles	350 miles	350 miles	350 miles
Miles of unpaved streets	1 mile	1 mile	1 mile	1 mile	1 mile	1 mile	1 mile	1 mile
Area of City - square miles	55.4	55.4	55.4	55.4	55.4	55.4	55	54

(1) Information not available for the last ten years of reporting, but will be accuulated over time as it becomes available.