

CITY OF HATTIESBURG, MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2010

CITY OF HATTIESBURG, MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2010

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INTRODUCTORY SECTION



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
Dave J. Ware, II

Council - Ward 5
Henry Naylor

June 23, 2011

To the Citizens of Hattiesburg:

The comprehensive annual financial report of the City of Hattiesburg, Mississippi, for the fiscal year ended September 30, 2010 is hereby submitted.

This report consists of management's representations concerning the finances of the City of Hattiesburg. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hattiesburg has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Nicholson and Company, PLLC, Certified Public Accountants, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and disclosures in the financial statements; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Hattiesburg's financial statements for the fiscal year ended September 30, 2010 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial statements.

The independent audit of the financial statements of the City 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. These reports are included as a separate section of the single audit section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of Government

The City of Hattiesburg is located strategically in the Southeast section of Mississippi and, with its traditional designation as the "Hub City," it is a regional center of trade, medical services, educational and industrial activity. The City has been under the Mayor/Council form of government since 1985. The policy-making and legislative authority as well as budgetary responsibilities are vested with the five-member City Council. The City is divided into five wards for the election of council members. 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 are elected to a four-year term.

Factors Affecting the City's Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the local economy and other factors that include livability and the City's financial management.

FY 2010 saw completion and dedication of the Number 1 Fire Station on Main Street, as well as relocation of the Police Dispatch office. Completion of these two projects essentially completed repair of facilities damaged by Hurricane Katrina.

Due to the economic recession, the City Council's budget priority of City-wide paving was drastically reduced from previous years. In response to a continuing decline in sales tax revenue, the decision was made to reduce the General Fund budget wherever possible. The goal was to provide services and preserve the existing City workforce. Budgeted projects already underway were not affected and, as a result, the City was able to complete several projects.

Upgrade of the City's water and sewer system continues with use of funds from the Series 2006 Water & Sewer Revenue Bonds. It is anticipated that the remaining funds will be expended by the end of 2010. Evaluation of the need for continued upgrades throughout the City, especially in the older areas, is ongoing. The installation of an automated water metering system was completed in FY 2010 and has resulted in a more efficient and accurate means of measuring water consumption. The new system has also enhanced revenue, which is being allocated to addressing water and sewer system repairs throughout the City.

Phase I of the downtown lighting project was completed, and plans are underway to continue with Phases II and III. Many positive comments have been received about the sections of the downtown area where the new lighting has been installed. The Hattiesburg Historic Downtown Association continues to encourage downtown development and has seen very successful efforts over the past few years. The Association reports that 86 new jobs were created through downtown development in 2010, and the last 10 years has seen an investment of \$100 million. Renovation of buildings has encouraged new business and residential development, and promoting the mixed-use concept is vital to ensuring continued growth.

The Sanitation Department was able to proceed with leasing automated garbage collection trucks and providing refuse containers to all City residents. Information provided by other cities utilizing such a system has shown an overall decrease in labor costs, injuries, and lost time worked, as well as a reduction in general operational costs. As the City continues to adjust its scheduling in order to determine the optimal cost recovery with the automated system, it is anticipated that there will be a measurable reduction in costs while continuing to provide services.

Plans are underway for another Water & Sewer bond issue to address some immediate needs and to provide a local match for a federally funded sewer improvement program, the plan for which has been awaiting funding at the federal level for several years. Proceeds from this bond issue will be used to erect a water filtration facility in west Hattiesburg, which will remove excess iron and mineral deposits from the water; extend water lines along Veterans Boulevard and increase the flow capacity to accommodate fire service; and make sewer improvements to designated areas of the City and make improvements to the north lagoon. It is anticipated that the funds will be available and projects ready to begin construction in late 2010 or early 2011.

Plans are continuing for widening 4th Street east of Highway 49 and extending the Longleaf Trace to Main Street and, ultimately the Depot. With the assistance of local state representatives, the City was able to secure funding for a connecting pathway from the main Trace to Kamper Park and the Hattiesburg Zoo. In late 2009, the City entered into an agreement with the Hattiesburg Tourism and Convention Commissions to market and operate the Hattiesburg Zoo. The Commissions have focused on improvements to the facility for the animals' benefit as well as increasing visitors and enhancing enjoyment of the zoo. Several capital improvements are planned, which are needed in order to secure accreditation.

Phases I and II of the Chain Park Recreation Facility were completed and dedicated with a grand opening ceremony. The development of this area was an example of innovative use of real estate in flood zones and environmentally protected areas. It is anticipated that this development will contribute to growth and development of the Mobile Street neighborhood. An added bonus will be the eventual connection of the Longleaf Trace to Chain Park and finally, to the Depot.

The City was awarded six grants through the American Recovery and Reinvestment Act, and those projects have been underway throughout 2010. One grant has been used to purchase police vehicles; a second grant through the Federal Transit Authority is providing funds for purchase of a trolley and upgraded communication equipment for the buses; a third grant through the Mississippi Department of Transportation provided funds for paving of Pine Street from Broadway Drive to Highway 49; a fourth grant through the Mississippi Department of Transportation provided funds for improvements to Chain Park; a fifth grant through HUD/CDBG provided funds for sidewalks in the Woodley school district; a sixth grant through the Department of Environmental Quality is providing funds for improvements to the south lagoon; and a seventh grant is providing funds for assistance to victims of domestic abuse. These grants have provided total funding in excess of \$2 million.

Sales tax revenue is a major funding source for the daily operations of the City. Fiscal Year 2010 saw a 4% decrease in sales tax revenues compared to Fiscal Year 2009, continuing a trend attributable to the economic recession. While annual revenues remain well above pre-Katrina levels, there is a growing concern that an economic recovery will be a long-term event, thereby forcing an adjustment in budgeting strategy in order to continue to provide the current level of services to the citizens of Hattiesburg. Equipment replacement and manpower costs have been frozen at 2008 levels; however City officials realize that this approach is but a temporary solution to what may very well be a lengthy recovery spanning the next several years.

Factors Affecting Economic Conditions and Livability

Hattiesburg is the home to the University of Southern Mississippi, William Carey University and other post-secondary education options available to the public. The University of Southern Mississippi is a comprehensive doctoral and research extensive university. Founded in 1910 as Mississippi Normal College, Southern Mississippi has five colleges: College of Arts and Letters; College of Business Administration; College of Education and Psychology; College of Health; and the College of Science and Technology. The University generates millions of dollars annually in economic impact to the region and serves nearly 15,000 students on the main campus in Hattiesburg and at the teaching and research sites on the Mississippi Gulf Coast.

Founded in 1906, the 105-year-old William Carey University (WCU) is South Mississippi's first and only degree-granting private institution of higher learning. It began as South Mississippi College, changing in 1911 to Mississippi Women's College. The year 1954 brought another change to coeducational status and another name change to William Carey College. Having now obtained university status, WCU has been designated one of "America's Best College Buys" and a "Military Friendly School" and appears on the President's Higher Education Community Service Honor Roll for outstanding service to the community. The mission of WCU is to provide quality liberal arts and professional education programs within a caring Christian academic community. With campuses in Hattiesburg, Biloxi, and New Orleans, students have a choice of locations and academic programs. In the fall of 2010, WCU enrolled over 3,600 students on the three campuses.

Incoming freshmen ACT scores are above the national average and significantly above the state average. A student/faculty ratio of 16:1 ensures students a nurturing educational atmosphere where they can choose from many undergraduate programs. Advanced degrees include majors in business administration, education, counseling psychology, music education, biomedical science, and nursing.

William Carey University has a number of new buildings and facilities. In 2009, the university dedicated the new Tradition Campus in Biloxi, expanded the nursing and library buildings, and dedicated the Sarah Ellen Gillespie Museum of Art. The College of Osteopathic Medicine opened in the fall of 2010 with an inaugural class of 110. The College of Osteopathic Medicine is only the second medical school in the state of Mississippi and one of 26 osteopathic medical schools in the United States.

Also new to the Hattiesburg campus is the Joe and Virginia Tatum Theatre, which provides a state-of-the-art black box performance space. Summer dinner theatre productions have long been a major draw to the campus, providing a unique performance opportunity for students, and the new venue will provide much-needed additional space for performers and audiences alike. Other campus enhancements include new batting cages, tennis courts, and concession stand for the soccer field.

WCU's 2010-2011 theme, "Not to be served...but to serve," as well as the university motto, "Expect great things from God...attempt great things for God," exemplifies the institution's commitment to reach out and help others while encouraging growth in scholarship, leadership, and service.

The Area Development Partnership (ADP) serves as the Chamber of Commerce, Community and Economic Development organization for Forrest, Lamar, and Perry Counties, the City of Hattiesburg and the City of petal. The ADP employs 11 and serves a membership of approximately 1,100. The ADP operates on an annual budget of \$1.4 million with 28% public and 72% private funding.

The ADP welcomed 83 new members in 2010 and held 44 ribbon cuttings/grand openings and 1 groundbreaking. The ADP responded to over 800 inquiries from retirees, documented at least 4 relocations, and can boast of a feature article in *Where to Retire*. Recognizing the importance of Camp Shelby to the Hattiesburg area, the ADP hosted a military welcome fair in July for 250 relocating soldiers and their families and held a summer reception for visiting troops, hosted by local residents.

The Chamber of Commerce arm of the ADP coordinates several events for local businesses and residents alike, offering speakers on pertinent topics, inviting legislators to provide updates during the legislative session, and coordinating festivals and events such as Hubfest, The Great Pine Belt Exposition, and the ADP Corporate Golf Challenge.

Part of the ADP's focus is to foster partnerships with local agencies to encourage investment and growth in the Hattiesburg area. The Southeast Mississippi Community Investment Corporation (SEMCIC) is a non-profit corporation dedicated to small business development. The ADP's role in 2010 included initiating a Banker's Roundtable Forum with the SEMCIC member banks, creating partnerships with area educational institutions, closing new SEMCIC loans, and creating a mentoring partnership between SEMCIC and businesses in the Mobile Street Business District.

Another initiative of the ADP, Leadership Pinebelt, just celebrated its 22nd year with 19 graduates. The purpose of Leadership Pinebelt is to cultivate emerging community leaders who can better understand the area's strengths and critical needs. The three projects chosen for the 2010 class were 911 Safety in Numbers, Volunteer House Project, and Celeste Place Park. Each project was designed to assist local residents and agencies assisting local residents with an identified need.

Wesley Medical Center is a 211-bed healthcare facility that is dedicated to providing high quality medical services and personal, compassionate Christian care. Located on a beautiful 85-acre healthcare campus in west Hattiesburg, along one of the most rapidly expanding retail corridors in Lamar County, Wesley Medical Center has more than a century of care behind it. In fact, Wesley Medical Center's roots extend back to 1900, and those traditions of compassion and excellence continue today and into tomorrow. The hospital is fully and unconditionally accredited by the Joint Commission for Accreditation of Healthcare Organizations, and is licensed by the Mississippi State Department of Health.

More than 200 physicians have privileges to practice at Wesley Medical Center. In addition to acute and intensive-care services, Wesley Medical Center offers a variety of specialized services including Women's Services, Emergency Services, Home Health, Rehabilitation Services and complete Cardiac Care.

Wesley Medical Center was the first hospital in the Hattiesburg area to bring faster, state-of-the-art technology for improved care and greater convenience to patients in need of X-Rays and MRIs. Wesley Medical Center was the first hospital in the region to implant a CONTAK RENEWAL 3RF cardiac resynchronization therapy device (CRT-D) into a patient with heart disease.

Wesley Medical Center has an onsite fitness center that offers traditional exercise programs to individuals throughout the community, along with cardiac rehabilitation programs and aquatic rehabilitation and food/nutrition training services for patients.

Every day, the team of professional caregivers at Wesley Medical Center, now more than 1,200 team members strong, strives to uphold the principles upon which this facility was founded: Loving God, Serving Others, Excelling in Healthcare. For more information on the services provided by Wesley Medical Center and a complete listing of Wesley physicians, please visit our website at www.Wesley.com.

Forrest General Hospital is a 512-bed facility providing regional health services to a 17-county area. Generations of Pine Belt residents have counted on Forrest General, and today's generations continue to rely on the comprehensive care offered through the hospital's constantly expanding range of health care services. Forrest General's staff and physicians are committed to showing "We C.A.R.E." by creating positive patient experiences for every patient, every time.

Forrest General provides services for every patient, in every phase of life. Starting from a baby's first breath, Women and Children's Services, including the Family Birthplace, NICU and Pediatrics Department, offers comprehensive care for new generations and their moms. With more than 6,000 members, Forrest General is south Mississippi's exclusive Spirit of Women hospital, recently attaining premiere status in recognition of excellence in their mission to move women to take action for better health.

Forrest General offers expertise in many specialties, including nephrology, pulmonology, family practice, infectious disease, gastroenterology and internal medicine, and also features Hospitalist and Intensivist programs. The hospital's wide range of surgical services includes the specialties of general surgery, urology, plastics and ear, nose and throat. Forrest General offers a wide variety of orthopedic, neurological and neurosurgical services, including treatment for stroke and back and neck injury. Forrest General's Stroke Care Center has been certified by the Joint Commission as an Advanced Primary Stroke Center. In addition to the quality cardiovascular and vascular care offered to Pine Belt residents for decades, several additional cardiology satellite clinics have been developed, thanks to a partnership between Forrest General and Hattiesburg Clinic. As south Mississippi's only Level II Trauma Center, Forrest General was the first hospital in Mississippi to earn designation as a trauma center by the Mississippi Trauma Care System, and provides the highest level of around-the-clock emergency coverage in the area.

Forrest General also features many additional specialized services. The hospital is home to Forrest General's Wound Healing Center, offering comprehensive wound healing services using state-of-the-art equipment and techniques. Pine Grove Behavioral Health and Addiction Services is south Mississippi's largest treatment facility for psychiatric and addictive diseases. Forrest General's Cancer Center ranks among the largest regional cancer centers in south Mississippi, offering a comprehensive program, offered in a warm, comforting environment for the patients and their families. Forrest General Home Care and Hospice provides care for patients of all ages recovering from an illness, injury, or surgery in the comfort of the patient's home, as well as compassionate end-of-life care for those in need, giving peace of mind to the patient and patient's family. The Forrest General Healthcare Foundation, which partners with the hospital to help it achieve present and future goals, is currently focusing on three initiatives for the community: an Inpatient Hospice Home, the Neonatal Intensive Care Unit and the Spiritual Grounds at Pine Grove.

For more information on Forrest General and its available services, call FGH OnCall at 1-800-844-4445, from 2 – 10 p.m. 7 days a week, or visit forrestgeneral.com.

July 2010 marked twelve years the Lake Terrace Convention Center has been serving the residents of the Hattiesburg area with excellence. Since opening in the summer of 1998, almost 2 million people have attended conventions, consumer shows, performances and special events, all contributing new dollars into the local economy and enjoying the wealth of hospitality that Hattiesburg offers. These 2 million new friends have contributed more than \$250 million to Hattiesburg's economy.

In 2010, the Lake Terrace Convention Center was again named "Best of the Best" in the Readers' Choice awards sponsored by ConventionSouth Magazine. This is the sixth time the Center has garnered this top honor, which is voted on by top meeting planners in the United States from more than 2,000 nominees.

A wide range of events serving all segments of our state and community were held in 2010. Some highlight events include the MS Robotics Conference with over 1,000 delegates, the MS Academy of Sciences with 800 delegates, the MS Church of God Convention with 700 attendees, and many others including Dance Teachers United, MS Forestry Association, and the MS/LA Chapter of American Physicians.

In 2010, the Lake Terrace Convention Center produced 1,283 event days which saw over 222,000 guests enjoy Hattiesburg and the Center, and increased the economy by \$25 million.

The Historic Saenger Theater in Downtown Hattiesburg hosted over 123,000 patrons at 331 events during the year. Highlights were the Ballet Magnificat, the Tommy Dorsey Orchestra, Doyle Lawson and Quicksilver, Branson on the Road, Marty Raybon, and a very special lecture by former Secretary of State Madeleine Albright.

The African American Military History Museum at the Historic USO Club opened on May 23, 2009 to great acclaim and substantial visitation. This interest has continued into its second year of operation with more than 7,200 visitors. In addition, several notable special exhibitions have come through including the Native Guard Photographic Exhibit and the African American Barracks Archaeological Dig Exhibit from Camp Shelby. Additionally, the Historic Eureka School Museum project continues to be a work-in-progress. In 2010, several grants were applied for, and finalizing of the parking lot design was completed. Additionally, limited interior work to preserve the various classrooms was completed.

The Hattiesburg Tourism Commission continues to strengthen the award-winning "Hattie" brand. "Hattie" is the spokeswoman for hospitality and helped encourage visitors to spend more than \$241 million in the area in 2010. In addition, the Hattiesburg Visitors Center, located at Hwy 49 and Interstate 59, celebrated its sixth anniversary in March of 2010. Since its opening, the Visitors Center has welcomed more than 70,000 travelers to Hattiesburg, highlighting the City's attractions and encouraging these travelers to shop, eat, stay and play their way through town.

Also, during this fiscal year, the City of Hattiesburg entered into a contract with the Hattiesburg Convention Commission and the Hattiesburg Tourism Commission to market and operate the Hattiesburg Zoo. The Commissions focused on raising customer awareness, increasing efficiency of seasonal operations and developing additional funding sources. Special action was taken on improving visual appeal and constructing new amenities such as shade structures and exhibit fencing. A primary focus was to address summer heat and the needed cooling of visitors to the Zoo in order to extend their stay during the hottest times of the year. Also, special attention was given to improve the aesthetics with the installation of irrigation, and redevelopment of various horticultural areas. Finally, long-term development of the Zoo was also addressed with the designing of various capital projects such as the Quarantine Facility, new Tiger Holding Facility, a new Education Building and a children's Splash Park. These facilities will be constructed and opened in 2011.

The Hattiesburg MSA's unemployment rate was 8.0% as of December 2010 as compared with the state rate of 10.2% and the national rate of 9.6%. It is encouraging to note that Hattiesburg's unemployment rate continues to be well below the state and national levels.

The Future

Although the past couple of years have been difficult from a budgeting standpoint, requiring creative strategies in meeting existing budget needs while continuing to provide services and avoiding staffing reductions, it is a testament to the abilities of Hattiesburg's City officials that the City continues to thrive. Several major capital projects throughout the City are in various stages of completion, thanks to federal and state grant funding, paired with local funds. The City continues to tackle infrastructure repairs and long-term improvements, evaluating current patterns of growth and development.

Hattiesburg's diverse economy is often noted as being the economic savior of the City, with educational and medical facilities abounding and attracting residents of the surrounding communities. Hattiesburg must continue to capitalize on these strengths because they are the driving force behind retail growth and employment opportunities.

Fiscal conservatism has enabled the City to weather a recession, and those efforts have been noted by the bond rating agencies, as evidenced by award of a two-point increase in the bond rating. The higher rating will be advantageous in the City's efforts to issue subsequent bonds, as it should attract more competitive interest rates from institutions competing for Hattiesburg's business, as well as create greater demand from those seeking stable investment opportunities.

With continued support by elected officials of the City's growth in a manner that coordinates conservative fiscal management with a mix of sustainable economies (i.e., industrial, medical, educational, and retail), coupled with its central geographical location, Hattiesburg can truly claim itself as a hub for south Mississippi and one of the state's best places to live.

Sincerely,



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
DAVE J. WARE, III – WARD 4
HENRY E. NAYLOR – WARD 5

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Hattiesburg, Mississippi
Post Office Box 1898
Hattiesburg, Mississippi 39401

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hattiesburg, Mississippi's management. Our responsibility is to express 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity 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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 12 through 22 and 76 through 80 be presented to supplement the basic financial statements. Such information, though 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.

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 as a whole. 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 financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. 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 it.

NICHOLSON & COMPANY, PLLC

Hattiesburg, Mississippi
June 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended September 30, 2010

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, 2010. 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 2010 were as follows:

- Total net assets for 2010 increased \$5,301,342, or 3.42% from 2009.
- Total assets of governmental activities increased \$4,537,440, or 2.67% from 2009.
- Total liabilities decreased \$593,062 or .67% from 2009.
- In total, equity in pooled cash and cash equivalents increased \$1,705,944, or 9.66% from 2009.
- Overall, the book value of capital assets increased by \$3,586,150, or 1.81% from 2009.

Using this Annual Financial Report:

This annual report consists of a series of financial statements and notes to those statements that 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 Assets 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 Assets 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 2010?" The Statement of Net Assets 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 the private sector companies. This basis of accounting takes into account 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 assets and the change in those assets. This change in assets 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 Assets and the Statement of Activities, all of the City's 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 Water & Sewer System.

The government-wide financial statements include not only the City of Hattiesburg itself (known as 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.

Reporting on the City of Hattiesburg's Most Significant Funds:

Fund Financial Statements

The Analysis of the City's major funds begins on page 28. 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 fund is the General Fund.

Governmental Funds

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. By doing so, readers may better understand the long-term impact of government's near-term financing decisions. Both the governmental fund balances and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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.

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 37 through 39. Operating revenues of the Water and Sewer 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.

The City of Hattiesburg as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2010.

Table 2 shows the Changes in Net Assets for the year ended September 30, 2010.

(See Next Pages for Table 1 and Table 2)

TABLE 1

CITY OF HATTIESBURG, MISSISSIPPI

Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
ASSETS						
Current and other assets	\$ 39,670,641	\$ 36,208,024	\$ 7,873,995	\$ 10,214,482	\$ 47,544,636	\$ 46,422,506
Capital assets, net	134,706,200	133,631,377	66,631,930	64,120,603	201,338,130	197,751,980
Total assets	174,376,841	169,839,401	74,505,925	74,335,085	248,882,766	244,174,486
LIABILITIES AND DEFERRED REVENUE						
Long-term liabilities, outstanding:						
Due within one year	5,245,885	5,474,209	2,304,177	2,391,434	7,550,062	7,865,643
Payable after one year	37,292,885	35,424,932	22,185,706	24,489,879	59,478,591	59,914,811
Deferred revenues	16,924,534	16,631,629	-	-	16,924,534	16,631,629
Other liabilities	2,775,842	2,292,448	1,733,425	2,350,985	4,509,267	4,643,433
Total liabilities and deferred revenue	62,239,146	59,823,218	26,223,308	29,232,298	88,462,454	89,055,516
NET ASSETS						
Invested in capital asset, net of related debt	93,714,770	94,294,279	42,142,047	37,239,290	135,856,817	131,533,569
Restricted	7,048,480	6,795,534	-	-	7,048,480	6,795,534
Unrestricted	11,374,445	8,926,370	6,140,570	7,863,497	17,515,015	16,789,867
Total net assets	\$ 112,137,695	\$ 110,016,183	\$ 48,282,617	\$ 45,102,787	\$ 160,420,312	\$ 155,118,970

TABLE 2

CITY OF HATTIESBURG, MISSISSIPPI

Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Charges for services	\$ 8,853,022	\$ 8,467,560	\$ 12,245,747	\$ 9,907,131	\$ 21,098,769	\$ 18,374,691
Operating grants and contributions	5,375,052	7,624,535	-	-	5,375,052	7,624,535
Capital grants and contributions	3,186,741	2,355,657	1,127,211	-	4,313,952	2,355,657
Total program revenues	17,414,815	18,447,752	13,372,958	9,907,131	30,787,773	28,354,883
General Revenues:						
Property taxes	16,978,749	15,273,539	-	-	16,978,749	15,273,539
Other taxes	24,465,639	25,058,748	-	-	24,465,639	25,058,748
Grants and contributions not restricted to specific programs	-	25	-	-	-	25
Other general revenues	1,562,336	1,838,644	129,524	683,923	1,691,860	2,522,567
Total general revenues	43,006,724	42,170,956	129,524	683,923	43,136,248	42,854,879
Total revenues	60,421,539	60,618,708	13,502,482	10,591,054	73,924,021	71,209,762
PROGRAM EXPENSES						
General government	6,592,285	6,414,171	-	-	6,592,285	6,414,171
Public safety	19,961,821	19,507,269	-	-	19,961,821	19,507,269
Public services	18,248,607	19,790,101	-	-	18,248,607	19,790,101
Other services	7,651,093	7,089,375	-	-	7,651,093	7,089,375
Economic development	150,000	150,000	-	-	150,000	150,000
Culture and recreation	4,494,146	4,175,345	-	-	4,494,146	4,175,345
Water and sewer	-	-	10,263,712	8,302,628	10,263,712	8,302,628
Interest and fiscal charges	1,261,015	1,427,014	-	-	1,261,015	1,427,014
Total program expenses	58,358,967	58,553,275	10,263,712	8,302,628	68,622,679	66,855,903

TABLE 2
PAGE 2

CITY OF HATTIESBURG, MISSISSIPPI

Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2008
Increase in net assets before inclusion of transfers	\$ 2,062,572	\$ 2,065,433	\$ 3,238,770	\$ 2,288,426	\$ 5,301,342	\$ 4,353,859
Transfers	58,940	(160,531)	(58,940)	160,531	-	-
Increase in net assets after inclusion of transfers	2,121,512	1,904,902	3,179,830	2,448,957	5,301,342	4,353,859
Net Assets - Beginning	110,016,183	108,111,281	45,102,787	42,653,830	155,118,970	150,765,111
Net Assets - Ending	\$ 112,137,695	\$ 110,016,183	\$ 48,282,617	\$ 45,102,787	\$ 160,420,312	\$ 155,118,970

The City's Funds

Information about the City's major governmental funds begins on page 28. These funds are accounted for using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$55,465,926 and net other financing sources (uses) of \$23,943,830 (including \$18,836,240 in proceeds of long-term debt) and expenditures of \$79,078,719.

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, Fiscal Year 2010 was significant due to the fact that the City experienced a decline in sales tax collections of \$635,661, or 3.12% from Fiscal Year 2009. This decline is reflective of the national economic downturn. While collections continue to decline as a result of the recession, the percent decline is less than the difference between Fiscal Year 2008 and Fiscal Year 2009 by 5.68%. This may be an indicator of economic stabilization.

The 2010 budget of the General Fund continued to experience the effects of a recessionary economy. Employee raises were postponed for yet another year, as the focus was directed toward preserving the existing workforce and maintaining the current level of employee benefits. The Council's budget priority of city-wide street paving was drastically reduced in an effort to preserve and build cash reserves in the General Fund. It is important to note that, in spite of the budget challenges, the City was able to secure a two-point increase in its bond rating, from A2 to Aa3. This upgrade will be advantageous when seeking future funding for capital projects, encouraging more competition among financial institutions during the bid process.

Phase I of the downtown lighting project was completed and Phases II and III are on schedule for Fiscal Year 2011. The Number 1 Fire Station was completed, and a dedication was held early in 2010.

For the eleventh consecutive year, the General Fund property tax rate was set at 31 mills, and the total non-school tax rate was set at 46.92 mills. Installation of automated water meters was completed early in 2010, and plans are underway to establish a maintenance schedule, which will include routine replacement of aging meters and annual testing of large commercial meters to assure the desired level of accuracy.

Finalizing an earlier agreement, the City secured funding through the Mississippi Development Bank to complete the purchase of the former First Baptist Church building and several additional parcels of property. The planned use of the building was to relocate city departments, which the public frequented, to a location providing parking facilities and provide additional space for other city departments. Due to economic restrictions and anticipated renovation expenses, the planned relocation became cost-prohibitive, and the decision was made to sell the building. It was subsequently purchased by Sacred Heart Catholic School.

Efforts to reduce operating costs and lower employee injury rates prompted administrative officials to propose upgrading the sanitation fleet to an automated refuse collection system. Lease financing was obtained for the purchase of a new fleet of trucks with hydraulic equipment to lift and collect household waste from specially designed containers provided by the City. Automation of this aspect of Public Works' responsibilities enabled officials to transfer some workers to other departments to fill vacant slots.

The decision was made to issue general obligation bonds and use the proceeds to refund debt secured through the Mississippi Development Bank. The objective of this decision was to secure a stable interest rate on borrowed funds rather than continue to hold debt with a variable rate of interest. This measure also relieved the General Fund of debt obligations but had no adverse impact on the levy for general obligation debt, since scheduled payments on these bonds will begin after older bond issues are retired.

From a budgetary accounting point of view, the City's original General Fund budget for Fiscal Year 2010 totaled \$53,210,743 (exclusive of projected beginning cash at October 1, 2009 of \$2,200,000). The final revenue budget totaled to \$58,399,443 with actual revenue collections totaling to \$53,958,146 (92% realized). Amendments to the General Fund revenue budget consisted of \$3 million to secure funds for purchase of the First Baptist Church building and related properties; \$2,560,000 in lease proceeds for purchase of sanitation trucks and refuse containers; \$500,000 reduction to the sales tax budget; other miscellaneous adjustments to grant accounts and local revenue sources in the amount of \$128,700.

The original Fiscal Year 2010 General Fund total budget for expenditures was \$53,300,689 and the final amended total was \$60,146,597. Actual expenditures totaled to \$53,522,980 (89% of budget expended). The unexpended budget total of \$6,623,617 is attributable to unexpended personnel costs for some unfilled positions, including those police officers on active military status, and unexpended grant funds for various projects.

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. Significant fund amendments of note include establishment of a fund to document the refunding of Mississippi Development Bank loans with issuance of general obligation bonds. Principal and interest payments on these loans were paid from the General Fund. Debt service on the general obligation bonds was set to begin when previous bonds were retired, thereby avoiding a tax levy increase for debt service. This change relieved the General Fund budget of debt service payments. Significant fund amendments to the Water and Sewer Construction Fund in the amount of \$2,134,737 were possible due to realization of increased utility revenues over the original budgeted amount and receipt of reimbursement for storm repairs from FEMA. These amendments were budgeted for repairs to the lagoons and water and sewer lines throughout the City.

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>2010</u>	<u>2009</u>
Land and construction in progress	\$ 10,192,042	\$ 9,639,411
Buildings and improvements	23,899,051	18,480,510
Infrastructure	159,957,723	161,178,963
Machinery and equipment	<u>7,289,314</u>	<u>8,453,096</u>
Total	<u>\$ 201,338,130</u>	<u>\$ 197,751,980</u>

The increase in the "Land and Construction in progress" category is the result of purchase of property associated with the former First Baptist Church, Wis-Pak facility construction, and water plant renovation. The increase to "Infrastructure" is the result of intersection upgrades, Broadway Drive, sidewalks, Chain Park, and 4th Street. The decrease to "Machinery and equipment" was attributable to retirement and removal of surplus equipment no longer in service.

General Long-Term Debt Obligations

At September 30, 2010, the City of Hattiesburg had \$24,896,513 in outstanding General Obligation Bonds and Notes subject to the City's overall general obligation debt limitations. The City's overall legal debt margin at September 30, 2010 was calculated to be \$36,566,100, 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 Next Page for Table 4)

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

	<u>2010</u>	<u>2009</u>
General Bonded Debt		
General Obligation Bonds	\$ 25,201,513	\$ 15,711,020
Exempt Industrial Bonds	2,030,000	2,320,000
Tax Increment Financing Bonds	6,845,000	7,325,000
Industrial Development Bonds	160,000	210,000
CAP Loans Payable	415,731	572,529
MS Development Bank Bonded Debt	376,294	9,899,683
Equipment Leases	5,962,892	3,298,866
Subtotal General Bonded Debt	<u>40,991,430</u>	<u>39,337,098</u>
Revenue Bonds		
Water and Sewer Revenue Bonds	13,500,000	14,445,000
Water and Sewer General Obligation Bonds	7,140,000	7,500,000
Water and Sewer Industrial Bonds	1,085,000	1,405,000
General Obligation Notes - State Revolving Loan Fund	2,488,684	2,802,255
Energy Lease Payable	276,199	729,058
Subtotal Revenue Bonds	<u>24,489,883</u>	<u>26,881,313</u>
Compensated Absences	<u>1,547,340</u>	<u>1,562,043</u>
Total Long-Term Obligations	<u><u>\$ 67,028,653</u></u>	<u><u>\$ 67,780,454</u></u>

General obligation debt was issued in Fiscal Year 2010 to refund the Mississippi Development Bank loans. The purpose of the refunding was to secure a fixed interest rate on debt rather than be subject to market fluctuations with the variable interest rates on the Development Bank loans. This measure also relieved the General Fund of budgeting for debt service. There were no drawdowns from the Development Bank in Fiscal Year 2010, and no TIF bonds were issued in Fiscal Year 2010.

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:

It is unfortunate that, just as it seemed Hattiesburg was recovering and stabilizing its economy post-Katrina, the effects of a recession began to be felt in the local economy. From late 2008 throughout 2009, sales tax collections dipped lower and lower, and the City was forced to freeze or reduce its budget. The focus became one of preserving the workforce and employee benefits, avoiding layoffs, and postponing scheduled paving projects and equipment purchases unless of a critical nature.

Funds provided from the American Recovery and Reinvestment Act, as well as other federal and state grant awards, allowed the City to proceed with projects in various stages of design and completion. Without these funds, projects such as Fire Station Number 1, water plant renovations, sidewalk construction, Chain Park, Broadway Drive and Hardy Street paving, and sewer lagoon repairs very likely would not have been completed.

Hattiesburg has weathered the recession with minimal effect on its budget, when compared to many other cities across the country. Cash reserves have suffered, but the Administration is dedicated to maintaining a conservative budget in order to restore the General Fund balance to a level sufficient to provide adequate operating capital in the event of another major disaster, as well as resume budgeting for those items put on hold during the recession.

Contacting the City's City Clerk:

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 Eddie R. Myers, City Clerk at 545-4502.

FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Assets
September 30, 2010**

	PRIMARY	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
ASSETS		
Cash and cash equivalents	\$ 14,399,101	\$ 4,962,892
Cash with fiscal agent	-	369,610
Sales tax receivable	1,559,312	-
Property taxes receivable	15,822,716	-
Accounts receivable - Water and Sewer	-	2,174,644
Accounts receivable - Solid Waste Services	458,970	-
Intergovernmental receivable	2,206,776	385,983
Fines receivable, net	1,279,712	-
Other receivables	1,121,137	-
Internal balances	54,508	(54,508)
Notes receivable	2,500,000	-
Due from other agencies	16,060	-
Prepaid expenses	237,422	-
Inventory - food and beverage	-	-
Inventory - gas and oil	14,927	-
Deferred charge - bond issuance cost	-	-
Deferred charge - state loan administrative cost	-	35,374
Capital assets:		
Land and construction in progress	7,090,154	3,101,888
Infrastructure, net	97,686,167	62,271,556
Buildings and improvements, net	23,729,550	169,501
Machinery and equipment, net	6,200,329	1,088,985
Total capital assets	<u>134,706,200</u>	<u>66,631,930</u>
Total assets	<u>\$ 174,376,841</u>	<u>\$ 74,505,925</u>

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

GOVERNMENT	
Total	Component Unit
\$ 19,361,993	\$ 2,714,871
369,610	-
1,559,312	342,796
15,822,716	-
2,174,644	-
458,970	-
2,592,759	-
1,279,712	-
1,121,137	144,187
-	-
2,500,000	-
16,060	-
237,422	-
-	29,436
14,927	-
-	17,379
35,374	-
10,192,042	1,315,877
159,957,723	-
23,899,051	14,198,114
7,289,314	787,788
<u>201,338,130</u>	<u>16,301,779</u>
<u>\$ 248,882,766</u>	<u>\$ 19,550,448</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Assets
September 30, 2010**

	PRIMARY	
	Governmental Activities	Business-type Activities
LIABILITIES		
Accounts payable	\$ 626,322	\$ 563,841
Other liabilities	1,567,468	12,279
Due to other agencies	80,595	-
Accrued interest	501,457	186,657
Deferred revenue	16,924,534	-
Long-term liabilities:		
Portion due or payable within one year:		
General obligation bonds	2,807,314	1,700,000
Industrial development general obligation bonds	50,000	-
Exempt industrial development general obligation bonds	290,000	-
Tax increment limited obligation bonds	505,000	-
General obligation notes payable	21,563	327,978
CAP loans payable	164,872	-
Capital leases	1,175,035	276,199
Compensated absences	232,101	-
Portion due or payable after one year:		
General obligation bonds	22,394,199	20,025,000
Industrial development general obligation bonds	110,000	-
Exempt industrial development general obligation bonds	1,740,000	-
Tax increment limited obligation bonds	6,340,000	-
General obligation notes payable	354,731	2,160,706
CAP loans payable	250,859	-
Capital leases	4,787,857	-
Compensated absences	1,315,239	-
Customer meter deposits	-	970,648
Total liabilities	62,239,146	26,223,308
NET ASSETS		
Invested in capital assets, net of related debt	93,714,770	42,142,047
Restricted for:		
Capital projects	3,047,031	-
Debt service	4,001,449	-
Unrestricted	11,374,445	6,140,570
Total net assets	\$ 112,137,695	\$ 48,282,617

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

<u>GOVERNMENT</u>		
<u>Total</u>	<u>Component Unit</u>	
\$ 1,190,163	\$ 104,301	
1,579,747	67,363	
80,595	-	
688,114	22,503	
16,924,534	-	
4,507,314	630,000	
50,000	-	
290,000	-	
505,000	-	
349,541	-	
164,872	-	
1,451,234	-	
232,101	-	
42,419,199	680,000	
110,000	-	
1,740,000	-	
6,340,000	-	
2,515,437	-	
250,859	-	
4,787,857	-	
1,315,239	-	
970,648	-	
<u>88,462,454</u>	<u>1,504,167</u>	
135,856,817	14,991,779	
3,047,031	-	
4,001,449	-	
<u>17,515,015</u>	<u>3,054,502</u>	
<u>\$ 160,420,312</u>	<u>\$ 18,046,281</u>	

EXHIBIT B

CITY OF HATTIESBURG, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
GOVERNMENTAL:								
General government	\$ 6,592,285	\$ -	\$ -	\$ -	\$ (6,592,285)		\$ (6,592,285)	
Public safety	19,961,821	2,454,724	616,513	786,841	(16,103,743)		(16,103,743)	
Public services	18,248,607	2,230,356	3,050,291	1,709,694	(11,258,266)		(11,258,266)	
Other services	6,090,199	3,980,405	-	14,385	(2,095,409)		(2,095,409)	
Mass transit	993,835	33,305	642,398	50,706	(267,426)		(267,426)	
Culture and recreation	4,494,146	154,232	95,550	474,115	(3,770,249)		(3,770,249)	
Human/social assistance	567,679	-	970,300	151,000	553,621		553,621	
Economic development	150,000	-	-	-	(150,000)		(150,000)	
Interest and fiscal charges	1,261,015	-	-	-	(1,261,015)		(1,261,015)	
Total governmental activities	58,359,587	8,853,022	5,375,052	3,186,741	(40,944,772)		(40,944,772)	
BUSINESS-TYPE:								
Water and sewer system	10,263,712	12,245,747	-	1,127,211	-	\$ 3,109,246	3,109,246	
Total business-type activities	10,263,712	12,245,747	-	1,127,211	-	3,109,246	3,109,246	
Total primary government	\$ 68,623,299	\$ 21,098,769	\$ 5,375,052	\$ 4,313,952	(40,944,772)	3,109,246	(37,835,526)	
COMPONENT UNIT:								
Hattiesburg Convention Commission	\$ 5,058,104	\$ 1,766,591	\$ 62,305	\$ -				\$ (3,229,208)
Total component unit	\$ 5,058,104	\$ 1,766,591	\$ 62,305	\$ -				(3,229,208)
GENERAL REVENUES:								
Taxes:								
Property taxes, levied for general purposes					13,241,925	-	13,241,925	-
Property taxes, levied for debt service					3,736,824	-	3,736,824	-
Sales taxes					19,746,092	-	19,746,092	-
Franchise taxes and other licenses and permits					4,580,971	-	4,580,971	-
Special sales tax					138,576	-	138,576	4,146,669
Grants and contributions not restricted to specific programs					-	-	-	-
Unrestricted investment earnings					357,369	17,758	375,127	3,161
Other local sources					856,501	-	856,501	304,134
Miscellaneous					381,146	111,766	492,912	-
Special item - gain (loss) on sale of assets					(32,060)	-	(32,060)	-
Transfers, net					58,940	(58,940)	-	-
Total general revenues, special items, and transfers					43,066,284	70,584	43,136,868	4,453,964
CHANGES IN NET ASSETS					2,121,512	3,179,830	5,301,342	1,224,756
NET ASSETS - BEGINNING					110,016,183	45,102,787	155,118,970	16,821,525
NET ASSETS - ENDING					\$ 112,137,695	\$ 48,282,617	\$ 160,420,312	\$ 18,046,281

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

EXHIBIT C

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,382,813	\$ 11,016,288	\$ 14,399,101
Sales tax receivable	1,559,312	-	1,559,312
Accounts receivable - solid waste services	177,424	-	177,424
Intergovernmental receivable	2,206,776	-	2,206,776
Fines receivable, net of allowance	1,279,712	-	1,279,712
Other receivables	904,000	228,682	1,132,682
Due from other funds	374,035	87,965	462,000
Property taxes receivable	11,990,535	3,832,181	15,822,716
Due from other agencies	16,060	-	16,060
Prepaid expenses	237,422	-	237,422
Gas and oil inventory	14,927	-	14,927
Total assets	\$ 22,143,016	\$ 15,165,116	\$ 37,308,132
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 455,526	\$ 170,796	\$ 626,322
Due to other funds	87,965	319,527	407,492
Other liabilities	1,280,081	287,387	1,567,468
Due to other agencies	80,595	-	80,595
Deferred revenue	13,161,879	3,798,500	16,960,379
Total liabilities	15,066,046	4,576,210	19,642,256
Fund balances:			
Reserved for:			
Inventories	14,927	-	14,927
Prepaid items	237,422	-	237,422
Unreserved	6,824,621	-	6,824,621
Unreserved, reported in nonmajor:			
Special revenue funds	-	3,540,426	3,540,426
Debt service funds	-	4,001,449	4,001,449
Capital project funds	-	3,047,031	3,047,031
Total fund balances	7,076,970	10,588,906	17,665,876
Total liabilities and fund balances	\$ 22,143,016	\$ 15,165,116	\$ 37,308,132

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

EXHIBIT C.1

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2010**

Total *fund balances* for governmental funds (Exhibit C) \$ 17,665,876

Total *net assets* reported for governmental activities in the statement of net assets 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	\$ 3,682,214	
Construction in progress	3,407,940	
Infrastructure, net of \$56,600,012 accumulated depreciation	97,686,167	
Buildings and improvements, net of \$13,695,966 accumulated depreciation	23,729,550	
Machinery and equipment, net of \$18,412,698 accumulated depreciation	<u>6,200,329</u>	
Total capital assets		134,706,200

Other long-term assets are not available to pay for current period expenditures and therefore are reported as deferred revenue in the funds. 35,845

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

Receivables were not received within thirty (30) days of year end and are therefore not reported in the funds. 281,546

Other long-term assets are not available to pay for current period expenditures and therefore are reported in the funds. 2,500,000

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 assets.

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2010**

Balances for these liabilities at September 30, 2010 are:

Accrued interest on bonds and notes		\$ (501,457)
General obligation bonds	\$ (25,201,513)	
Industrial development general obligation bonds	(160,000)	
Exempt industrial development general obligation bonds	(2,030,000)	
Tax increment limited obligation bonds	(6,845,000)	
General obligation note payable	(376,294)	
CAP loans payable	(415,731)	
Capital leases	(5,962,892)	
Compensated absences	(1,547,340)	
Total long-term liabilities		<u>(42,538,770)</u>
Total <i>net assets</i> of governmental activities (Exhibit A)		<u>\$ 112,137,695</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, 2010**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 12,201,808	\$ 4,776,941	\$ 16,978,749
Sales tax collections	19,746,092	-	19,746,092
Other taxes	24,578	-	24,578
Licenses and permits	4,305,480	-	4,305,480
Fines, forfeitures and penalties	1,524,938	484,119	2,009,057
Interest, rents and concessions	106,189	64,002	170,191
Intergovernmental	3,243,100	6,111,193	9,354,293
Charges for services	2,356,644	294,201	2,650,845
Other revenues	194,513	32,128	226,641
Total revenues	<u>43,703,342</u>	<u>11,762,584</u>	<u>55,465,926</u>
EXPENDITURES			
General government	6,081,588	-	6,081,588
Public safety	18,388,293	47,786	18,436,079
Public services	11,899,786	799,197	12,698,983
Other services	1,346,038	4,579,491	5,925,529
Mass transit	-	773,695	773,695
Culture and recreation	-	4,125,885	4,125,885
Human/social assistance	162,794	382,713	545,507
Economic development	150,000	-	150,000
Capital outlay	8,009,200	4,049,020	12,058,220
Debt service:			
Principal payments	3,811,680	13,370,260	17,181,940
Interest and fiscal charges	295,101	806,812	1,101,913
Total expenditures	<u>50,144,480</u>	<u>28,934,859</u>	<u>79,079,339</u>
Excess (deficiency) of revenues over expenditures	<u>(6,441,138)</u>	<u>(17,172,275)</u>	<u>(23,613,413)</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2010**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>OTHER FINANCING SOURCES (USES)</i>			
Proceeds from long term debt	\$ 8,818,298	\$ 10,017,942	\$ 18,836,240
Operating transfers in	388,873	4,220,701	4,609,574
Operating transfers out	(3,678,323)	-	(3,678,323)
Other sources	168,122	4,008,837	4,176,959
Total other financing sources (uses)	<u>5,696,970</u>	<u>18,247,480</u>	<u>23,944,450</u>
Net change in fund balances	(744,168)	1,075,205	331,037
Fund balances – beginning	<u>7,821,138</u>	<u>9,513,701</u>	<u>17,334,839</u>
Fund balances – ending	<u>\$ 7,076,970</u>	<u>\$ 10,588,906</u>	<u>\$ 17,665,876</u>

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, 2010**

Net change in <i>fund balances</i> - total governmental funds (Exhibit D)		\$	331,037
The change in <i>net assets</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 capital outlays (\$11,391,023) exceeded depreciation (\$7,708,780) in the current period.			
			3,682,243
Intergovernmental revenue recognized on the full-accrual basis in the statement of activities is increased for revenues received after thirty (30) days after year end.			
			14,382
Proceeds from sale of capital assets (\$75,360) are reported in the governmental funds. However, in the statement of net assets the gain (loss) is recorded (\$32,060).			
			(107,420)
Debt issued:			
Notes payable and capital leases payable		\$	(18,836,271)
Repayments:			
To bond, note and lease holders			<u>17,181,940</u>
Net adjustment for debt			(1,654,331)

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, 2010**

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendible 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 combines the net changes of the two balances:

Compensated absences	\$ 14,703	
Accrued interest on bonds and notes	<u>(159,102)</u>	
Combined adjustment		<u>\$ (144,399)</u>
Change in <i>net assets</i> of governmental activities (Exhibit B)		<u><u>\$ 2,121,512</u></u>

EXHIBIT E

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Assets
Proprietary Fund
September 30, 2010**

ASSETS

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

LIABILITIES AND NET ASSETS

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

EXHIBIT F

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenses and Changes In Fund Net Assets
Proprietary Fund
Year Ended September 30, 2010**

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

The notes to 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, 2010**

	Combined Water & Sewer System
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>	
Cash received from customers	\$ 12,439,311
Cash paid to suppliers	(6,202,052)
Cash paid to employees	(2,248,809)
Net cash provided by operating activities	<u>3,988,450</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</i>	
Other cash receipts	111,766
Intergovernmental cash receipts	1,127,211
Cash receipts from government funds	(58,940)
Cash receipts from government funds	<u>1,180,037</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>	
Principal payments - capital lease	(452,859)
Principal payments - bonds	(1,625,000)
Principal payments - loans	(313,571)
Purchase of fixed assets	(3,609,237)
Other receipts (payments)	(122,971)
Interest paid on debt	(1,209,470)
Net cash used by capital and related financing activities	<u>(7,333,108)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>	
Interest received	17,758
Net cash provided by investing activities	<u>17,758</u>
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	(2,146,863)
<i>CASH AND INVESTMENTS - OCTOBER 1, 2009</i>	<u>7,479,365</u>
<i>CASH AND INVESTMENTS - SEPTEMBER 30, 2010</i>	<u>\$ 5,332,502</u>
Displayed as:	
Cash and cash equivalents	\$ 4,962,892
Cash with fiscal agent	<u>369,610</u>
	<u>\$ 5,332,502</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2010**

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

EXHIBIT H

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2010**

	Police/Fireman Disability & Relief Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 106,573	\$ 1,527,090
Cash and investments with fiscal agent	18,598,880	-
Property taxes and fees receivable	15,064	186,254
Sales tax receivable	-	388,470
	<hr/>	<hr/>
Total assets	<u>\$ 18,720,517</u>	<u>\$ 2,101,814</u>
LIABILITIES		
Employee contributions payable	\$ -	\$ 371,549
Due to other agencies	-	1,713,606
Other liabilities	-	16,659
Total liabilities	<hr/>	<hr/>
	-	2,101,814
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 18,720,517</u>	<u>\$ -</u>

EXHIBIT I

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2010**

	<u>Police/Fireman Disability & Relief Pension Trust Fund</u>
<i>ADDITIONS</i>	
Contributions:	
Plan members	\$ 30,029
Total contributions	<u>30,029</u>
Property tax levy	1,794,694
Investment earnings	2,475,170
Total additions	<u>4,299,893</u>
<i>DEDUCTIONS</i>	
Benefits	3,221,821
Administrative expenses	49,966
Total deductions	<u>3,271,787</u>
<i>CHANGE IN NET ASSETS</i>	1,028,106
<i>NET ASSETS - beginning of the year</i>	<u>17,692,411</u>
<i>NET ASSETS - end of the year</i>	<u><u>\$ 18,720,517</u></u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hattiesburg, Mississippi (the City) is a municipal corporation governed by an elected mayor and five (5) member council. The accompanying financial statements present the 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 (7) member board whose members are appointed by the City of Hattiesburg. 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 two percent (2%) sales tax on local food, beverage, and alcoholic beverage package retailer permits. The Commission is presented as a governmental fund type.

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *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 not 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*.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2010

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

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.

C. 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.

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, 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2010

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

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.

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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2010

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

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 enterprise 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.

D. Assets, liabilities, and net assets or equity

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 (3) months or less from the date of acquisition.

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 Capital 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, as well as for its component unit, are reported at cost or amortized cost.

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."

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2010

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

Customer accounts receivable in the Enterprise Fund are attributable to unpaid balances at year-end for charges for services. Accounts receivable are considered fully collectible by City officials; therefore no allowance for uncollectible accounts has been established.

All taxes are collected and remitted to the City by Forrest and Lamar County governments and are due annually on January 1st.

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.

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, 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 (2) 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2010

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

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:

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

Budgets and Budgetary Accounting

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

1. In August, the City Comptroller 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 Comptroller 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, All Special Revenue Funds, Debt Service 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2010

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

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.

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.)

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation, overtime, and holiday pay benefits. There is no liability for unpaid accumulated sick leave since the government 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2010

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

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

Cash and Cash Equivalents

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).

The carrying amount of the City's deposits with financial institutions reported in the government-wide statements was \$19,361,993. The bank balance was \$19,358,795. The City's long standing, although not formally adopted, investment policy is based upon all bank accounts to being fully collateralized (using the above-described procedures) and interest-bearing with rates updated on a quarterly basis and benchmarked using verifiable appropriate Fed funds rates. Interest is calculated using average balances and posted monthly.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2010

***NOTE 2 - CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS, AND INVESTMENTS
(Cont.)***

Custodial Credit Risk - Deposits

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

Cash with Fiscal Agents

The carrying amount of the City's cash with fiscal agents held by financial institutions was \$369,610.

NOTE 3 - NOTE RECEIVABLE

On June 8, 2010 the City Council authorized the execution of a purchase and sales agreement between the City and the Diocese of Biloxi for the sale of the First Baptist Church property located at 510 West Pine Street to be used by 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, Taxable Series 2010 that are to be repaid over a twenty year period with the final bonds maturing July 1, 2030. The purchaser executed a \$2,500,000 promissory note that calls for annual payments not to exceed \$219,000 at an interest rate not to exceed 5.5% in order to coincide with the scheduled principal, interest and servicing fees attributable to the City's Taxable Series 2010 bonds.

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,682,214	\$ -	\$ -	\$ 3,682,214
Construction in progress	4,654,105	1,802,006	(3,048,171)	3,407,940
Total capital assets not being depreciated	<u>8,336,319</u>	<u>1,802,006</u>	<u>(3,048,171)</u>	<u>7,090,154</u>
Capital assets being depreciated:				
Buildings and improvements	30,962,125	6,463,421	-	37,425,546
Machinery and equipment	24,008,796	4,286,841	(3,682,610)	24,613,027
Infrastructure	152,399,253	1,886,926	-	154,286,179
Total capital assets being depreciated	<u>207,370,174</u>	<u>12,637,188</u>	<u>(3,682,610)</u>	<u>216,324,752</u>
Less: accumulated depreciation for:				
Buildings and improvements	12,662,857	1,033,139	-	13,695,996
Machinery and equipment	16,831,191	2,656,697	(1,075,190)	18,412,698
Infrastructure	52,581,068	4,018,944	-	56,600,012
Total accumulated depreciated	<u>82,075,116</u>	<u>7,708,780</u>	<u>(1,075,190)</u>	<u>88,708,706</u>
Total capital assets being depreciated, net	<u>125,295,058</u>	<u>4,928,408</u>	<u>(2,607,420)</u>	<u>127,616,046</u>
Governmental activity capital assets, net	<u>\$ 133,631,377</u>	<u>\$ 6,730,414</u>	<u>\$ (5,655,591)</u>	<u>\$ 134,706,200</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 4 - CAPITAL ASSETS (Cont.)

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 315,243	\$ -	\$ -	\$ 315,243
Construction in progress	987,849	1,798,796	-	2,786,645
Total capital assets not being depreciated:	<u>1,303,092</u>	<u>1,798,796</u>	<u>-</u>	<u>3,101,888</u>
Capital assets being depreciated:				
Buildings and improvements	321,108	-	-	321,108
Machinery and equipment	5,291,328	7,583	-	5,298,911
Infrastructure	74,831,703	1,802,858	-	76,634,561
Total capital assets being depreciated:	<u>80,444,139</u>	<u>1,810,441</u>	<u>-</u>	<u>82,254,580</u>
Less: accumulated depreciation for:				
Buildings and improvements	139,866	11,741	-	151,607
Machinery and equipment	4,015,837	194,089	-	4,209,926
Infrastructure	13,470,925	892,080	-	14,363,005
Total accumulated depreciation	<u>17,626,628</u>	<u>1,097,910</u>	<u>-</u>	<u>18,724,538</u>
Total capital assets being depreciated, net	<u>62,817,511</u>	<u>712,531</u>	<u>-</u>	<u>63,530,042</u>
Business-type activity capital assets, net	<u>\$ 64,120,603</u>	<u>\$ 2,511,327</u>	<u>\$ -</u>	<u>\$ 66,631,930</u>

** Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 423,873
Public Safety	1,217,250
Public Works – which includes the depreciation of infrastructure assets	5,435,322
Health and Welfare	22,172
Other Services	101,711
Culture and Recreation	304,389
Mass Transit	<u>204,063</u>
Total Depreciation Expense	<u>\$ 7,708,780</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 5 - BALANCES DUE TO/FROM OTHER FUNDS

Balances due to/from the various City funds at September 30, 2010, consist of the following:

\$ 300,000	Due to the General Fund from the Community Development Block Grant Fund representing a short-term loan.
33,018	Due to the General Fund from other funds representing reimbursements due for oil and gas expenditures.
74,670	Due to the Ms. Development Bank Fund representing MDOT monies deposited into General Fund on September 30, 2010 (Paymode Item).
10,729	Due to the Parks & Recreation Fund representing MDOT monies deposited into General Fund on September 30, 2010 (Paymode Item).
41,017	Due to the General Fund from Water and Sewer Fund for water and sewer debt service payments.
2,566	Due to the Police Forfeiture Fund and Municipal Fire Protection Fund from the General Fund for fines collected.
<u>\$ 462,000</u>	Total

Summary of balances due from other funds reported in fund financial statements:

\$ 407,492	Due from other funds, Balance Sheet – Governmental Funds
<u>54,508</u>	Due from Water and Sewer Fund to General Fund
<u>\$ 462,000</u>	Total

NOTE 6 - TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds for governmental funds at September 30, 2010 consist of the following:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 6 - TRANSFERS TO/FROM OTHER FUNDS (Cont.)

\$ 2,182,566	From the General Fund to the Parks and Recreation Fund to supplement other fund sources.
140,000	From the General Fund to the Mass Transit Operating Fund for payment of accrued leave expenditures.
737,531	From the General Fund to the Saenger and Community Centers Fund to supplement other fund sources.
500,000	From the General Fund to the Mississippi Development Bank capital projects fund to provide additional funding for projects
1,500	From the General Fund to the Municipal Fire Protection Fund for project expenses.
45,000	From General Fund to the Airport Improvement Fund for projects at the municipal airport.
329,933	From the Tax Collector's Fund to the General Fund for interest and penalties earned and collected.
58,940	From the Water and Sewer Fund to the General Fund for debt service.
71,726	From the General Fund to Kamper Park Improvement Fund for net revenues from ticket sales to be used for improvements at the Zoo.
138,576	From the Special Sales Tax Fund to the City Bond and Interest Fund for debt service payments.
403,802	From the Industrial Park Commission Fund to the City Bond and Interest Fund for debt service payments.
<u>\$ 4,609,574</u>	Total

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.

CITY OF HATTIESBURG, MISSISSIPPI

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

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.

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	51.75
School Bonded Indebtedness	37-59-23	6.43
Library (support, upkeep and maintenance of Hattiesburg Public Library System)	39-3-7	1.95

NOTE 8 - PROPRIETARY FUNDS - LONG-TERM OBLIGATIONS

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

On June 28, 2006 the Governing Authorities of the City entered into a loan agreement with the Mississippi Development Bank for the purpose of providing for the refunding of all of the City's outstanding Water and Sewer System Revenue Bonds (i.e., Series 1995, dated October 1, 1995) and for improvements and expansions to the Water and Sewer System. The series 2006 Bonds, dated August 1, 2006 will be repaid with semi-annual interest payments (February 1 and August 1) and annual principal maturing on August 1 each year from 2007 through 2024. These bonds are payable solely from and secured by a lien on the net revenues attributable to the Water and Sewer System and are not general obligations of the City.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 8 - PROPRIETARY FUNDS - LONG-TERM OBLIGATIONS (Cont.)

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

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 8 - PROPRIETARY FUNDS - LONG-TERM OBLIGATIONS (Cont.)

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

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

In February 2009, the Governing Authorities of the City authorized the issuance of the \$7,500,000 General Obligation Bonds, Series 2009 for the implementation of an automated meter reading system, to be serviced with water and sewer operating revenues. The bonds will be amortized over a fifteen (15) year period, with semi-annual interest (February and August) and annual principal and interest (February) at an interest rate of 3.50% - 3.80%. The average annual debt service is \$649,045. Presented below is a recap of the debt service requirements for these bonds:

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

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 8 - PROPRIETARY FUNDS - LONG-TERM OBLIGATIONS (Cont.)

Debt service attributable to notes payable pursuant to the State Revolving Loan Fund Program requires monthly principal and interest payments to be withheld by the State Tax Commission from the City's monthly sales tax diversion checks. The Water and Sewer System will reimburse the General Fund each year for the SRF debt service withholdings from the sales tax revenues, subject to annual appropriations by the Water and Sewer System during the City's budgetary process.

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

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 8 - PROPRIETARY FUNDS - LONG-TERM OBLIGATIONS (Cont.)

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

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

All three (3) loans are calculated at 4.5% interest for level monthly payments.

NOTE 9 - PROPRIETARY FUNDS - CAPITAL LEASE PAYABLE

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 10 - GOVERNMENTAL FUNDS - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations of the governmental funds for the City for the year ended September 30, 2010:

	Balance September 30, 2009	Additions	Retirements	Balance September 30, 2010
General Obligation Bonds	\$ 15,711,020	\$ 12,510,000	\$ 3,019,507	\$ 25,201,513
Exempt General Obligation Bonds	2,320,000	-	290,000	2,030,000
Exempt CAP loans	572,529	-	156,798	415,731
Industrial Development General Obligation Bonds	210,000	-	50,000	160,000
Limited Obligation TIF Bonds	7,325,000	-	480,000	6,845,000
General Obligation Notes Payable	9,899,683	3,004,973	12,528,362	376,294
Capital leases	3,298,866	3,321,298	657,272	5,962,892
Accrued compensated absences (net)	1,562,043	-	14,703	1,547,340
Total	\$ 40,899,141	\$ 18,836,271	\$ 17,196,642	\$ 42,538,770

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY

YEAR ENDED SEPTEMBER 30, 2010

NOTE 10 - GOVERNMENTAL FUNDS - LONG-TERM OBLIGATIONS (Cont.)

General Obligation Bonds - General obligation bonds are direct obligations and pledge the full faith and credit of the City. Debt service for G.O. Bonds is funded primarily by a bond and interest tax levy. Additional funding is provided by rental income, County-shared revenues, and General Fund transfers may be utilized annually pursuant to the budgetary process. The outstanding general obligation bonds of the City were issued during various years from 1998 to 2002, with interest rates ranging from 3.10% to 4.75% (6.00% for the 2002 Series A Taxable Refunding Bonds). The bonds were generally issued as 15-20 year serial bonds, with principal maturities increasing over the life of the bonds for essentially level annual debt service requirements.

Long-term debt requirements for all general obligation bonds outstanding at September 30, 2010, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,807,314	\$ 880,524
2012	2,821,041	703,544
2013	2,945,727	615,313
2014	2,722,431	525,031
2015	2,490,000	446,149
2016 - 2020	7,865,000	1,291,288
2021 - 2025	2,645,000	455,232
2026 - 2030	<u>905,000</u>	<u>169,500</u>
Total	<u><u>\$ 25,201,513</u></u>	<u><u>\$ 5,086,581</u></u>

Exempt Industrial Development General Obligation MBIA Bonds and CAP Loans - On February 1, 1997, the City issued a \$5,500,000 General Obligation MBIA Bond for the purpose of financing the Kohler Company Project in the Forrest County Industrial Park. This bond is exempt from the statutory debt limitation calculation as allowed by Section 57-61-37, Subsection 2, Mississippi Code of 1972, as amended. This bond, purchased by the State of Mississippi, was issued to evidence a loan from the Mississippi Department of Economic and Community Development in the amount of \$5,500,000 to be used to acquire land and construct an industrial building to be owned by Forrest County Industrial Park Commission (Commission) and subsequently leased to Kohler Company of Wisconsin.

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-ONE
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 10 - GOVERNMENTAL FUNDS - LONG-TERM OBLIGATIONS (Cont.)

The bond bears no interest and becomes due and payable on February 1st of each year commencing on February 1, 1999 in the principal amounts of:

February 1, 1999	\$ 280,000
February 1, 2000-2017	\$ 290,000

The Commission has assigned to the City all its right, title, and interest in and to the lease rentals derived from Kohler which is approximated at \$253,158 annually beginning February 1, 1999 and ending February 1, 2017, for a total of \$4,810,000. Also, pursuant to an Interlocal Agreement between Forrest County and the City, Forrest County will pay approximately one-third (1/3) of the remaining obligation of the bond to the City. At September 30, 2010, principal balance outstanding on the bonds is \$2,030,000.

In conjunction with the Kohler Project, the City applied for two loans through the Capital Improvements Revolving Loan Program that were approved by the Mississippi Department of Economic and Community Development. Each \$1,000,000, 15-year loan bears interest at 4.00%. Proceeds of the loans were used to renovate and expand a building to be leased by Kohler. Long-term debt requirements for the CAP loans are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 164,183	\$ 13,343
2012	170,872	6,654
2013	80,676	3,327
Total	<u>\$ 415,731</u>	<u>\$ 23,324</u>

Industrial Development General Obligation Bonds - On February 19, 2002, the City adopted a bond resolution for the purpose of funding water and sewer improvements. The \$450,000 Mississippi Development Bank Special Obligation Bonds, Series B - "Hattiesburg, Mississippi Water and Sewer Improvements Project" debt service is being repaid from water and sewer operating revenues.

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 10 - GOVERNMENTAL FUNDS - LONG-TERM OBLIGATIONS (Cont.)

The \$450,000 Mississippi Development Bank Special Obligation Bonds, Series B are payable as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 50,000	\$ 6,890
2012	55,000	4,840
2013	<u>55,000</u>	<u>2,475</u>
Total	<u><u>\$ 160,000</u></u>	<u><u>\$ 14,205</u></u>

Tax Increment Financing Bonds - Tax Increment Financing Bonds (TIF bonds) are not used in calculating the City's statutory debt limits. These debt instruments are utilized to fund infrastructure improvements that are needed in order for commercial developments to occur. Property taxes from the new commercial projects are pledged to pay debt service on the TIF bonds. Both Forrest and Lamar County have pledged county property tax collections on various TIF projects.

Long-term debt requirements for all TIF bonds outstanding at September 30, 2010 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 505,000	\$ 302,121
2012	535,000	280,118
2013	545,000	256,840
2014	510,000	232,652
2015	535,000	210,207
2016 - 2020	2,545,000	726,129
2021 - 2025	1,305,000	218,585
2026 - 2027	<u>365,000</u>	<u>24,750</u>
Total	<u><u>\$ 6,845,000</u></u>	<u><u>\$ 2,251,402</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 10 - GOVERNMENTAL FUNDS - LONG-TERM OBLIGATIONS (Cont.)

Mississippi Development Bank Notes - Promissory notes issued by the Mississippi Development Bank (MDB) do not constitute general obligation debts of the City. These notes are secured by the lawfully available revenues of the City's General Fund and also by tax interceptor agreements (sales taxes and other state-shared revenues). Incremental drawdowns are processed in order to provide timely reimbursements to the City as costs are incurred for projects authorized in the closing documents of the respective loans, and these reimbursements are administered by the trustee bank for the MDB Capital Projects and Equipment Program (Hancock Bank). Each drawdown generates a new loan repayment schedule and monthly debt service is paid pursuant to monthly invoices from Hancock Bank that note interest payments that are due in conjunction with the level monthly principal payments that are set based upon each drawdown's amortization period. Most of the Mississippi Development Bank Notes issued in prior years were refunded during fiscal year 2010 from the proceeds of the 2009 and the 2010 General Obligation Refunding Bonds proceeds.

Long-term debt requirements for the MDB promissory notes payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 21,563	\$ 5,827
2012	21,563	5,244
2013	21,563	4,720
2014	21,563	4,248
2015	21,563	3,823
2016 - 2020	107,815	14,090
2021 - 2025	107,815	8,320
2026 - 2028	<u>52,849</u>	<u>2,818</u>
Total	\$ 376,294	\$ 49,090

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 Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Accrued vacation pay	\$ 1,498,297
Accrued overtime pay	4,088
Accrued holiday pay	<u>44,955</u>
	\$ 1,547,340

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-FOUR
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 10 - GOVERNMENTAL FUNDS - LONG-TERM OBLIGATIONS (Cont.)

Revenue Bonds - The City has also issued Water and Sewer System Revenue Bonds, as contained in Note 8, with the revenues of the water and sewer system pledged to provide debt service for those bond issues.

NOTE 11 - GOVERNMENTAL FUNDS - CAPITAL LEASE PAYABLE

During fiscal year 2005, the City finalized an equipment lease agreement with First Continental Leasing for the lease purchase of ten (10) sanitation trucks and two (2) fire trucks at a total lease cost of \$1,488,293. These assets are being amortized using the straight-line method using a historical cost of \$1,240,505. Accumulated amortization totaled \$986,474 at September 30, 2010. Lease principal payments are due annually on January 15th and June 15th. Interest is accrued at 2.74% and is payable on the 15th day of each month.

During fiscal year 2006, the City finalized an equipment lease agreement with Hancock Bank for the lease purchase of a ladder truck and custom pumper truck for the fire department. These assets are being amortized using the straight-line method using the historical cost of \$892,412. Accumulated amortization totaled \$592,272 at September 30, 2010. Lease principal payments are due annually on August 1st. Interest is accrued at 3.68%. Presented below is a recap of the lease principal and interest payments outstanding for the lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 191,610	\$ 7,051
Total	<u>\$ 191,610</u>	<u>\$ 7,051</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 11 - GOVERNMENTAL FUNDS - CAPITAL LEASE PAYABLE (Cont.)

The City entered into an equipment lease with Hancock Bank for the purpose of installing a system of emergency generators throughout the City to allow for uninterrupted water and sewer utility services during emergency situations as well as for City buildings, including City Hall, the fire stations and community centers to remain operational. The lease proceeds are drawn down incrementally as periodic payments are made to the Mississippi Power Company for the procurement and installation of the equipment. As of September 30, 2010, a total of \$3,972,039 in payments had been made to the vendor with corresponding lease proceeds in the form of draw downs being funded to the City from Hancock Bank based upon certification from the City as to the progress billings. The installation of the system was completed during fiscal year 2010, and annual principal and interest payments are scheduled for March 1 each year at an interest rate of 4.33%, to be amortized over a ten (10) year period with annual, principal and interest payments of \$494,674. Presented below are the principal and interest payments on the lease attributable to the cumulative draw downs net of principal paid in fiscal year 2007 (\$364,993) as of September 30, 2010:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 381,388	\$ 113,286
2012	398,284	96,390
2013	415,928	78,746
2014	434,353	60,321
2015	453,595	41,079
2016 - 2020	<u>473,689</u>	<u>20,984</u>
Total	<u>\$ 2,557,237</u>	<u>\$ 410,806</u>

During fiscal year 2010, the City implemented an automated solid waste collection system that allows for mechanized sanitation trucks to pick up residential garbage and yard waste using the two color coded collection containers assigned to each residential location. Capital lease transactions were utilized to finance the purchase of both the sanitation trucks and the containers as components of an automated system. The terms of the sanitation trucks lease executed with BancorpSouth Equipment Finance call for monthly payments in the amount of \$34,543 beginning July 2010 at a 3.34% rate to be amortized over an initial four (4) year period with a \$540,000 balance due on July 15, 2014, as summarized below:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 355,315	\$ 59,199
2012	367,366	47,149
2013	379,825	34,689
2014	<u>831,800</u>	<u>19,085</u>
Total	<u>\$ 1,934,306</u>	<u>\$ 160,122</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 11 - GOVERNMENTAL FUNDS - CAPITAL LEASE PAYABLE (Cont.)

The sanitation containers lease transaction was executed with Trustmark National Bank, with level monthly payments of \$20,261 at a 2.70% interest rate being made over a sixty (60) month period beginning September 2010 as summarized below:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 246,722	\$ 31,515
2012	253,467	24,770
2013	260,395	17,841
2014	267,514	10,723
2015	<u>251,640</u>	<u>3,409</u>
Total	<u>\$ 1,279,738</u>	<u>\$ 88,258</u>

NOTE 12 - 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 \$35,566,100 (the smaller of the two computed margins) as of September 30, 2010:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 12 - SCHEDULE OF STATUTORY DEBT LIMITATIONS (Cont.)

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2010 (\$409,750,752) times applicable percentage [a]	\$ 61,462,613	\$ 81,950,150
Present debt subject to debt limits as of September 30, 2010:		
Total bonds outstanding	34,652,244	34,652,244
Less: Exempt bonds	(9,755,731)	(9,755,731)
Add: Water & sewer general obligation bonds	<u>n/a</u>	<u>7,140,000</u>
 General obligation debt subject to applicable tests [b]	 <u>24,896,513</u>	 <u>32,036,513</u>
 Margin for additional debt [a] minus [b]	 <u>\$ 36,566,100</u>	 <u>\$ 49,913,637</u>

NOTE 13 - 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 (7) 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.

NOTE 14 - 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 (10) member board. The governing authorities of the City of Hattiesburg and the Forrest County Board of Supervisors each appoint five (5) 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-EIGHT

YEAR ENDED SEPTEMBER 30, 2010

NOTE 14 - JOINT VENTURES (Cont.)

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 (5) member board of commissioners, was created to maintain and develop the Authority for the City and aforementioned counties. Each governmental entity appoints one (1) 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 (15) member board appointed by the governments involved as follows: City of Hattiesburg - six (6) members; Forrest County – six (6) members; City of Petal - three (3) 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 15 - 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 (8) member council. The Council is chosen as follows by the following authorities: Mayor of Hattiesburg – one (1); Forrest County Board of Supervisors – one (1); Sheriff of Forrest County – one (1); AAA Ambulance – one (1); Hattiesburg Police Chief – one (1); Hattiesburg Fire Chief – one (1); the University of Southern Mississippi – one (1); and Forrest General Hospital – one (1). Operating funds are provided by state grants, E-911 charges and direct contributions.

NOTE 16 - CONTINGENCIES

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 16 - CONTINGENCIES (Cont.)

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.

NOTE 17 - 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, 2010, 2009 and 2008 were \$2,601,366, \$2,556,272, and \$2,494,589, respectively, equal to the required contributions for each year.

NOTE 18 - 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. PFDR provides retirement and disability benefits and death benefits to plan members and beneficiaries. 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 18 - 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 Funds 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.

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, 2010. 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. At September 30, 2010, the unfunded actuarial accrued liability was determined as follows:

	<u>\$ in Thousands</u>
Actuarial Accrued Liability (AAL):	
Retirees and beneficiaries currently receiving benefits	\$ 36,752
Active members	2,027
	<hr/>
Total actuarial accrued liability	38,779
Actuarial value of assets	22,892
	<hr/>
Unfunded actuarial accrued liability	<u>\$ 15,887</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 18 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

During the year ended September 30, 2010, the plan experienced a net change of \$(387,000) in the Actuarial Accrued Liability.

**Analysis of Funding Progress
(\$ in Thousands)**

Plan Year End	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL As A Percentage Of Covered Payroll (4) / (5)
9/30/01	\$ 25,043	\$ 34,356	72.9%	\$ 9,313	\$ 1,678	555.0%
9/30/02	25,657	34,881	73.6%	9,224	1,478	624.1%
9/30/03	25,803	35,410	72.9%	9,607	1,140	842.7%
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%

Contributions Required and Contributions Made - 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 period of thirty-six (36) years. In practice, the current financing arrangement provides for a contribution determined as a percentage of each city's assessed property valuation. This difference has historically resulted in the actual contribution being less than the annual required contribution.

During the year ended September 30, 2010, contributions totaling \$1,790,022 (\$1,759,993 employer and \$30,029 employee) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of September 30, 2009. The employer contributions consisted of \$34,385 for normal cost and administrative expenses and \$1,725,608 for amortization of the unfunded actuarial accrued liability.

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 18 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

Fiscal Year 10/1 – 9/30	Valuation Date 9/30	Annual Required Contribution	Percentage Contributed
1992-93	1992	\$ 976,891	85.3%
1993-94	1993	1,810,835	47.2%
1994-95	1994	1,368,977	70.3%
1995-96	1995	1,406,064	80.7%
1996-97	1996	1,350,153	94.0%
1997-98	1997	1,140,865	101.7%
1998-99	1998	967,784	100.6%
1999-00	1999	1,025,986	100.9%
2000-01	2000	1,048,598	103.4%
2001-02	2001	952,788	114.7%
2002-03	2002	932,743	120.9%
2003-04	2003	935,623	125.2%
2004-05	2004	1,105,770	114.6%
2005-06	2005	1,229,030	111.4%
2006-07	2006	1,228,267	119.5%
2007-08	2007	1,172,541	129.9%
2008-09	2008	1,115,275	141.1%
2009-10	2009	1,411,127	124.7%
2010-11	2010	1,519,076	

Trend Information - The following table provides an analysis of funding progress for PFDR for the last three fiscal years:

	PFDR		
	2010	2009	2008
Net assets available for benefits as a percentage of pension benefit obligation	59.0%	62.1%	68.4%
Unfunded pension benefit obligation as a percentage of annual covered payroll	4814.9%	4814.9%	4084.4%
Employer contributions as a percentage of annual covered payroll	14.5%	18.6%	18.6%
Annual pension cost	\$ 1,790,022	\$ 1,603,891	\$ 1,557,337

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 18 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

“Employer contributions as a percentage of annual payroll” is calculated by dividing annual compensation for fiscal years 2010, 2009 and 2008 (\$260,057, \$307,833, and \$289,391, respectively) into the annual pension cost for each fiscal year.

In addition to this, the Statement of Plan Net Assets is included in the combining Exhibit H and the Statement of Changes in Plan Net Assets is included in Exhibit I. Actuarial information for the year ended September 30, 2010 can be obtained by contacting the City of Hattiesburg's Chief Financial Officer.

NOTE 19 - 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 20 - 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 and 2010 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 21 - SIGNIFICANT TRANSACTIONS INVOLVING DISCRETELY PRESENTED COMPONENT UNIT

The City entered into a contract with the Hattiesburg Convention Commission (discretely presented component unit) and the Hattiesburg Tourism Commission during fiscal year 2010 for the management of the Hattiesburg Zoo at Kamper Park. The contract calls for monthly payments totaling \$806,437 for fiscal years 2010 and 2011, \$725,793 for 2012, and \$645,150 for 2013. In March 2013, the contract calls for the City and the Hattiesburg Convention Commission to review the terms of this agreement, with the City and the Convention Commission both having the option to negotiate changes or not to renew. The City also remitted a total of \$304,134 from the Kamper Park/Zoo Improvement Fund during fiscal year 2010 to the Convention Commission for improvement projects at the Zoo.

NOTE 22 - SUBSEQUENT EVENTS

Management has evaluated subsequent events after the financial statement date of September 30, 2010 through June 23, 2011, that is the date the financial statements were available to be issued. The following subsequent events were noted:

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

In February 2011, the City Council authorized the execution of a lease purchase agreement with Caterpillar Financial Services Corporation for the lease purchase of a backhoe loader with a purchase price of \$87,849 to be amortized over a five (5) year period at an interest rate of 3.32%. Additionally, on June 7, 2011, the City Council authorized the execution of a lease purchase agreement with BancorpSouth Equipment Finance for the lease purchase of a tractor with a purchase price of \$135,861 to be amortized over a five (5) year period. Financing provisions of these lease purchases had not been finalized as of the date of the financial statements.

In April 2011, the City Council authorized the issuance of the Tax Increment Limited Obligation Bonds, Series 2011 (The Turtle Creek Crossing Project) in an amount not to exceed \$400,000 for infrastructure improvements.

In May 2011, the City Council authorized the issuance of the Tax Increment Financing Limited Obligation Bonds, Series 2011 (Turtle Creek Commons Project) in an amount not to exceed \$2,040,000 for infrastructure improvements.

SUPPLEMENTARY INFORMATION

SCHEDULE 1
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>
REVENUES		
Intergovernmental:		
Federal grants	\$ 7,358,152	\$ 7,428,285
State grants	717,988	780,754
State - shared revenue	20,573,623	19,916,607
County - shared revenue	35,000	75,000
General property taxes	11,700,000	11,700,000
Other taxes	25,600	25,600
Licenses and permits	4,274,600	4,274,600
Charges for services:		
Public safety	128,000	173,817
Streets	11,130	11,130
Sanitation	2,085,110	2,085,110
Fines and forfeitures	1,451,500	1,501,500
Miscellaneous	243,100	243,100
Non-revenue receipts	4,248,000	9,825,000
Total revenues	<u>52,851,803</u>	<u>58,040,503</u>
EXPENDITURES		
General government	6,367,834	6,981,223
Public safety	19,686,748	19,935,317
Public services	11,181,906	11,832,739
Human/social assistance	167,500	170,194
Economic development	150,000	150,000
Other services	1,480,088	1,478,708
Capital outlay	8,720,693	11,664,178
Debt service	2,407,097	4,255,915
Total expenditures	<u>50,161,866</u>	<u>56,468,274</u>
Excess (deficiency) of revenues over expenditures	2,689,937	1,572,229
OTHER FINANCING SOURCES (USES)		
Transfers in	358,940	358,940
Transfers out	(3,138,823)	(3,678,323)
Total other financing sources (uses)	<u>(2,779,883)</u>	<u>(3,319,383)</u>

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 3,356,593	\$ (4,071,692)
178,133	(602,621)
20,222,037	305,430
72,833	(2,167)
12,110,729	410,729
24,578	(1,022)
4,347,030	72,430
196,245	22,428
15,538	4,408
2,200,436	115,326
1,524,938	23,438
220,551	(22,549)
9,066,441	(758,559)
<u>53,536,082</u>	<u>(4,504,421)</u>
6,062,213	919,010
18,240,983	1,694,334
11,801,250	31,489
162,694	7,500
150,000	-
1,347,416	131,292
7,974,113	3,690,065
4,106,781	149,134
<u>49,845,450</u>	<u>6,622,824</u>
3,690,632	2,118,403
422,064	63,124
(3,678,323)	-
<u>(3,256,259)</u>	<u>63,124</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>
NET CHANGE IN FUND BALANCES	\$ (89,946)	\$ (1,747,154)
Fund balances - beginning (Non-GAAP Budgetary Basis)	<u>2,200,000</u>	<u>2,259,580</u>
Fund balances - ending (Non-GAAP Budgetary Basis)	<u><u>\$ 2,110,054</u></u>	<u><u>\$ 512,426</u></u>

ADJUSTMENTS:

- To adjust for sales tax accrual
- To adjust for other receivables/accruals

Fund balances - ending (GAAP Basis)

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 434,373	\$ 2,181,527
<u>2,259,580</u>	
2,259,580	
(4,246)	
<u>438,640</u>	
<u>\$ 2,693,974</u>	

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the budgetary cash basis, and variances between the final budget and the actual data.

NOTE 2 - BUDGET AMENDMENTS AND REVISIONS

The budget is adopted by the City Council through the passage of an ordinance. Amendments can be made on the approval of the Council. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.

SCHEDULE 2

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2010**

	Special Revenue Funds (Schedule 4)	Debt Service Funds (Schedule 6)
ASSETS		
Cash and cash equivalents	\$ 4,024,035	\$ 3,976,495
Due from other funds	13,295	-
Other receivables	228,682	-
Property taxes receivable	<u>1,007,227</u>	<u>2,824,954</u>
Total assets	<u>\$ 5,273,239</u>	<u>\$ 6,801,449</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 127,399	\$ -
Due to other funds	319,527	-
Other liabilities	287,387	-
Deferred revenue	998,500	2,800,000
Total liabilities	<u>1,732,813</u>	<u>2,800,000</u>
Fund balances:		
Unreserved, undesignated	<u>3,540,426</u>	<u>4,001,449</u>
Total fund balances	<u>3,540,426</u>	<u>4,001,449</u>
Total liabilities and fund balances	<u>\$ 5,273,239</u>	<u>\$ 6,801,449</u>

Capital Project Funds (Schedule 8)	Total Nonmajor Governmental Funds (Exhibit C)
\$ 3,015,758	\$ 11,016,288
74,670	87,965
-	228,682
-	3,832,181
<u>\$ 3,090,428</u>	<u>\$ 15,165,116</u>
\$ 43,397	\$ 170,796
-	319,527
-	287,387
-	3,798,500
<u>43,397</u>	<u>4,576,210</u>
<u>3,047,031</u>	<u>10,588,906</u>
<u>3,047,031</u>	<u>10,588,906</u>
<u>\$ 3,090,428</u>	<u>\$ 15,165,116</u>

SCHEDULE 3
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2010**

	Special Revenue Funds (Schedule 5)	Debt Service Funds (Schedule 7)
REVENUES		
General property taxes	\$ 1,040,117	\$ 3,736,824
Fines, forfeitures and penalties	484,119	-
Interest, rents and concessions	17,239	43,087
Intergovernmental	4,595,473	413,036
Charges for services	293,046	-
Other revenues	27,617	4,211
Total revenues	6,457,611	4,197,158
EXPENDITURES		
Public safety	47,786	-
Public services	799,197	-
Other services	4,378,388	201,103
Mass transit	773,695	-
Culture and recreation	3,778,354	-
Human/social assistance	382,713	-
Capital outlay	2,530,482	-
Debt service:		
Principal payments	9,988,463	3,381,797
Interest and fiscal charges	17,235	789,577
Total expenditures	22,696,313	4,372,477
Excess (deficiency) of revenues over expenditures	(16,238,702)	(175,319)

Capital Project Funds (Schedule 9)	Total Nonmajor Governmental Funds (Exhibit D)
\$ -	\$ 4,776,941
-	484,119
3,676	64,002
1,102,684	6,111,193
1,155	294,201
300	32,128
<u>1,107,815</u>	<u>11,762,584</u>
-	47,786
-	799,197
-	4,579,491
-	773,695
347,531	4,125,885
-	382,713
1,518,538	4,049,020
-	13,370,260
-	806,812
<u>1,866,069</u>	<u>28,934,859</u>
(758,254)	(17,172,275)

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2010**

	Special Revenue Funds (Schedule 5)	Debt Service Funds (Schedule 7)
OTHER FINANCING SOURCES (USES)		
Proceeds from long term debt	\$ 9,950,000	\$ -
Operating transfers in	3,106,597	542,378
Other sources	4,004,364	-
<i>Total other financing sources (uses)</i>	<u>17,060,961</u>	<u>542,378</u>
NET CHANGE IN FUND BALANCES	822,259	367,059
Fund balances - beginning	<u>2,718,167</u>	<u>3,634,390</u>
Fund balances - ending	<u><u>\$ 3,540,426</u></u>	<u><u>\$ 4,001,449</u></u>

Capital Project Funds (Schedule 9)	Total Nonmajor Governmental Funds (Exhibit D)
\$ 67,942	\$ 10,017,942
571,726	4,220,701
4,473	4,008,837
<u>644,141</u>	<u>18,247,480</u>
(114,113)	1,075,205
<u>3,161,144</u>	<u>9,513,701</u>
<u>\$ 3,047,031</u>	<u>\$ 10,588,906</u>

SCHEDULE 4

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheets
Nonmajor Special Revenue Funds
September 30, 2010**

	<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	\$ 341,666	\$ 797,796	\$ 95,811	\$ 454,375	\$ 11,334	\$ 1,216,533
Due from other funds	10,729	197	-	2,369	-	-
Other receivables	3,100	-	-	1,828	1,707	16,780
Property taxes receivable	806,475	-	-	-	-	-
Total assets	<u>\$ 1,161,970</u>	<u>\$ 797,993</u>	<u>\$ 95,811</u>	<u>\$ 458,572</u>	<u>\$ 13,041</u>	<u>\$ 1,233,313</u>
LIABILITIES AND FUND BALANCES						
Accounts payable	\$ 71,940	\$ -	\$ -	\$ 45,366	\$ -	\$ 3,671
Due to other funds	7,855	-	-	-	-	-
Other liabilities	19	-	-	264,358	-	-
Deferred revenue	799,500	-	-	-	-	-
Total liabilities	<u>879,314</u>	<u>-</u>	<u>-</u>	<u>309,724</u>	<u>-</u>	<u>3,671</u>
Fund Balances:						
Unreserved, undesignated	<u>282,656</u>	<u>797,993</u>	<u>95,811</u>	<u>148,848</u>	<u>13,041</u>	<u>1,229,642</u>
Total fund balances	<u>282,656</u>	<u>797,993</u>	<u>95,811</u>	<u>148,848</u>	<u>13,041</u>	<u>1,229,642</u>
Total liabilities and fund balances	<u>\$ 1,161,970</u>	<u>\$ 797,993</u>	<u>\$ 95,811</u>	<u>\$ 458,572</u>	<u>\$ 13,041</u>	<u>\$ 1,233,313</u>

MASS TRANSIT OPERATING	COMMUNITY CENTERS	CDBG FUND	2009 G. O. REFUNDING BOND ISSUE	GROUP INSURANCE	TOTAL
\$ 37,787	\$ 288,692	\$ 411,739	\$ -	\$ 368,302	\$ 4,024,035
-	-	-	-	-	13,295
34,381	-	170,886	-	-	228,682
200,752	-	-	-	-	1,007,227
<u>\$ 272,920</u>	<u>\$ 288,692</u>	<u>\$ 582,625</u>	<u>\$ -</u>	<u>\$ 368,302</u>	<u>\$ 5,273,239</u>
\$ 4,521	\$ 687	\$ 1,214	\$ -	\$ -	\$ 127,399
10,942	524	300,206	-	-	319,527
-	23,010	-	-	-	287,387
199,000	-	-	-	-	998,500
<u>214,463</u>	<u>24,221</u>	<u>301,420</u>	<u>-</u>	<u>-</u>	<u>1,732,813</u>
58,457	264,471	281,205	-	368,302	3,540,426
<u>58,457</u>	<u>264,471</u>	<u>281,205</u>	<u>-</u>	<u>368,302</u>	<u>3,540,426</u>
<u>\$ 272,920</u>	<u>\$ 288,692</u>	<u>\$ 582,625</u>	<u>\$ -</u>	<u>\$ 368,302</u>	<u>\$ 5,273,239</u>

SCHEDULE 5

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended September 30, 2010**

	PARKS & RECREATION	MUNICIPAL FIRE PROTECTION	SPECIAL STREET	POLICE FORFEITURES	AIRPORT IMPROVEMENT	MUNICIPAL ROAD & BRIDGE
REVENUES						
General property taxes	\$ 831,019	\$ -	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures and penalties	-	4,029	-	480,090	-	-
Interest, rents and concessions	1,083	8,230	918	5,500	58	459
Intergovernmental	125,939	243,883	52,395	-	17,592	2,494,481
Charges for services	121,175	95,652	-	11,889	-	-
Other revenues	1,512	-	-	1,196	23,142	1,767
Total revenues	1,080,728	351,794	53,313	498,675	40,792	2,496,707
EXPENDITURES						
Public safety	-	2,318	-	45,468	-	-
Public services	-	-	-	-	-	799,197
Other services	-	-	-	-	-	-
Mass transit	-	-	-	-	-	-
Culture and recreation	3,089,469	-	-	-	-	-
Human/social assistance	-	-	-	-	-	-
Capital outlay	264,371	21,119	132,186	375,953	98,900	844,124
Debt service:						
Principal payments	-	194,996	-	-	-	-
Interest and fiscal charges	-	16,735	-	-	-	-
Total expenditures	3,353,840	235,168	132,186	421,421	98,900	1,643,321
Excess (deficiency) of revenues over expenditures	(2,273,112)	116,626	(78,873)	77,254	(58,108)	853,386
OTHER FINANCING SOURCES						
Proceeds from long-term debt	-	-	-	-	-	-
Operating transfers in	2,182,566	1,500	-	-	45,000	-
Other sources	2,291	-	-	2,646	-	128
Total other financing sources	2,184,857	1,500	-	2,646	45,000	128
NET CHANGE IN FUND BALANCES	(88,255)	118,126	(78,873)	79,900	(13,108)	853,514
Fund balances - beginning	370,911	679,867	174,684	68,948	26,149	376,128
Fund balances - ending	\$ 282,656	\$ 797,993	\$ 95,811	\$ 148,848	\$ 13,041	\$ 1,229,642

MASS TRANSIT OPERATING	COMMUNITY CENTERS	CDBG FUND	2009 G. O. REFUNDING BOND ISSUE	GROUP INSURANCE	TOTAL
\$ 209,098	\$ -	\$ -	\$ -	\$ -	\$ 1,040,117
-	-	-	-	-	484,119
82	185	-	-	724	17,239
484,220	-	1,176,963	-	-	4,595,473
33,305	31,025	-	-	-	293,046
-	-	-	-	-	27,617
<u>726,705</u>	<u>31,210</u>	<u>1,176,963</u>	<u>-</u>	<u>724</u>	<u>6,457,611</u>
-	-	-	-	-	47,786
-	-	-	-	-	799,197
-	-	-	156,033	4,222,355	4,378,388
773,695	-	-	-	-	773,695
-	688,885	-	-	-	3,778,354
-	-	382,713	-	-	382,713
97,607	49,950	646,272	-	-	2,530,482
-	-	-	9,793,467	-	9,988,463
-	-	-	500	-	17,235
<u>871,302</u>	<u>738,835</u>	<u>1,028,985</u>	<u>9,950,000</u>	<u>4,222,355</u>	<u>22,696,313</u>
(144,597)	(707,625)	147,978	(9,950,000)	(4,221,631)	(16,238,702)
-	-	-	9,950,000	-	9,950,000
140,000	737,531	-	-	-	3,106,597
104	1,496	4	-	3,997,695	4,004,364
<u>140,104</u>	<u>739,027</u>	<u>4</u>	<u>9,950,000</u>	<u>3,997,695</u>	<u>17,060,961</u>
(4,493)	31,402	147,982	-	(223,936)	822,259
62,950	233,069	133,223	-	592,238	2,718,167
<u>\$ 58,457</u>	<u>\$ 264,471</u>	<u>\$ 281,205</u>	<u>\$ -</u>	<u>\$ 368,302</u>	<u>\$ 3,540,426</u>

SCHEDULE 6

CITY OF HATTIESBURG, MISSISSIPPI

Combining Balance Sheets
Nonmajor Debt Service Funds
September 30, 2010

	<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>TOTAL</u>
ASSETS								
Cash and cash equivalents	\$ 68,207	\$ 3,366,824	\$ 60,006	\$ 123,791	\$ 71,912	\$ 200,646	\$ 85,109	\$ 3,976,495
Other receivables	-	-	-	-	-	-	-	-
Property taxes receivable	-	2,824,954	-	-	-	-	-	2,824,954
Total assets	<u>\$ 68,207</u>	<u>\$ 6,191,778</u>	<u>\$ 60,006</u>	<u>\$ 123,791</u>	<u>\$ 71,912</u>	<u>\$ 200,646</u>	<u>\$ 85,109</u>	<u>\$ 6,801,449</u>
LIABILITIES AND FUND BALANCES								
Deferred revenue	\$ -	\$ 2,800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,800,000
Total liabilities	<u>-</u>	<u>2,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,800,000</u>
Fund balances:								
Unreserved, undesignated	68,207	3,391,778	60,006	123,791	71,912	200,646	85,109	4,001,449
Total fund balances	<u>68,207</u>	<u>3,391,778</u>	<u>60,006</u>	<u>123,791</u>	<u>71,912</u>	<u>200,646</u>	<u>85,109</u>	<u>4,001,449</u>
Total liabilities and fund balances	<u>\$ 68,207</u>	<u>\$ 6,191,778</u>	<u>\$ 60,006</u>	<u>\$ 123,791</u>	<u>\$ 71,912</u>	<u>\$ 200,646</u>	<u>\$ 85,109</u>	<u>\$ 6,801,449</u>

SCHEDULE 7

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended September 30, 2010**

	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	TOTAL
REVENUES								
General property taxes	\$ 62,850	\$ 2,974,047	\$ 58,642	\$ 59,941	\$ 222,610	\$ 293,927	\$ 64,807	\$ 3,736,824
Interest, rents and concessions	52	2,799	39,692	96	84	286	78	43,087
Other revenues	-	4,211	-	-	-	-	-	4,211
Intergovernmental	35,000	261,363	-	19,153	-	97,520	-	413,036
Total revenues	<u>97,902</u>	<u>3,242,420</u>	<u>98,334</u>	<u>79,190</u>	<u>222,694</u>	<u>391,733</u>	<u>64,885</u>	<u>4,197,158</u>
EXPENDITURES								
Other services	-	201,068	35	-	-	-	-	201,103
Debt service:								
Principal payments	80,000	2,821,797	75,000	65,000	80,000	230,000	30,000	3,381,797
Interest and fiscal charges	21,670	437,197	14,738	17,955	111,387	162,580	24,050	789,577
Total expenditures	<u>101,670</u>	<u>3,460,062</u>	<u>89,773</u>	<u>82,955</u>	<u>191,387</u>	<u>392,580</u>	<u>54,050</u>	<u>4,372,477</u>
Excess (deficiency) of revenues over expenditures	(3,768)	(217,642)	8,561	(3,765)	31,307	(847)	10,835	(175,319)
OTHER FINANCING SOURCES								
Operating transfers in	-	542,378	-	-	-	-	-	542,378
Total other financing sources	<u>-</u>	<u>542,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>542,378</u>
NET CHANGE IN FUND BALANCES								
Fund balances - beginning	71,975	3,067,042	51,445	127,556	40,605	201,493	74,274	3,634,390
Fund balances - ending	<u>\$ 68,207</u>	<u>\$ 3,391,778</u>	<u>\$ 60,006</u>	<u>\$ 123,791</u>	<u>\$ 71,912</u>	<u>\$ 200,646</u>	<u>\$ 85,109</u>	<u>\$ 4,001,449</u>

SCHEDULE 8

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheets
Nonmajor Capital Project Funds
September 30, 2010**

	2009 DOWNTOWN LIGHTING PROJECT	MISSISSIPPI DEVELOPMENT BANK PROJECT	2001 BOND CONSTRUCTION	KAMPER PARK/ ZOO IMPROVEMENTS	TOTAL
ASSETS					
Cash and cash equivalents	\$ 2,357,621	\$ 49,309	\$ 205,781	\$ 403,047	\$ 3,015,758
Due from other funds	-	74,670	-	-	74,670
Total assets	\$ 2,357,621	\$ 123,979	\$ 205,781	\$ 403,047	\$ 3,090,428
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 43,397	\$ -	\$ -	\$ 43,397
Due to other funds	-	-	-	-	-
Total liabilities	-	43,397	-	-	43,397
Fund balances:					
Unreserved, undesignated	2,357,621	80,582	205,781	403,047	3,047,031
Total fund balances	2,357,621	80,582	205,781	403,047	3,047,031
Total liabilities and fund balances	\$ 2,357,621	\$ 123,979	\$ 205,781	\$ 403,047	\$ 3,090,428

SCHEDULE 9

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended September 30, 2010**

	2009 DOWNTOWN LIGHTING PROJECT	MISSISSIPPI DEVELOPMENT BANK PROJECT	2001 BOND CONSTRUCTION	KAMPER PARK/ ZOO IMPROVEMENTS	TOTAL
REVENUES					
Interest, rents and concessions	\$ 2,492	\$ 320	\$ 318	\$ 546	\$ 3,676
Intergovernmental	-	706,014	-	396,670	1,102,684
Charges for services	-	-	-	1,155	1,155
Other revenues	-	-	-	300	300
Total revenues	<u>2,492</u>	<u>706,334</u>	<u>318</u>	<u>398,671</u>	<u>1,107,815</u>
EXPENDITURES					
Capital outlay	384,398	1,109,826	24,237	77	1,518,538
Culture and recreations	-	43,397	-	304,134	347,531
Total expenditures	<u>384,398</u>	<u>1,153,223</u>	<u>24,237</u>	<u>304,211</u>	<u>1,866,069</u>
Excess (deficiency) of revenues over expenditures	(381,906)	(446,889)	(23,919)	94,460	(758,254)
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt	-	67,942	-	-	67,942
Other sources	620	-	-	3,853	4,473
Operating transfers in	-	500,000	-	71,726	571,726
Total other financing sources (uses)	<u>620</u>	<u>567,942</u>	<u>-</u>	<u>75,579</u>	<u>644,141</u>
NET CHANGE IN FUND BALANCES	(381,286)	121,053	(23,919)	170,039	(114,113)
Fund balances - beginning	<u>2,738,907</u>	<u>(40,471)</u>	<u>229,700</u>	<u>233,008</u>	<u>3,161,144</u>
Fund balances - ending	<u>\$ 2,357,621</u>	<u>\$ 80,582</u>	<u>\$ 205,781</u>	<u>\$ 403,047</u>	<u>\$ 3,047,031</u>

SCHEDULE 10
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2010**

	PERSONAL SERVICES	SUPPLIES & EXPENSES
GENERAL GOVERNMENT		
City Council	\$ 169,251	\$ 3,253
Mayor/Administration	513,571	13,975
Elections	-	-
Municipal Clerk	141,892	3,124
Accounting Division	262,539	3,586
Purchasing Division	128,246	4,197
City Attorney	91,823	-
Human Resources Division	189,436	5,630
Loss Control Division	100,759	2,707
Planning Division	445,160	15,822
Data Processing	391,646	44,153
Metro Planning	198,723	13,837
General Government Building	-	30,785
General Government - Other	3,991	2,340
Intermodal Facility	-	8,242
Federal Grant Administration	129,277	4,906
City Court	885,878	15,164
Total General Government	3,652,192	171,721
PUBLIC SAFETY		
Police Department	8,318,712	836,281
Police and Fire Training	32,909	134,333
Fire Department	6,207,493	351,457
Land Use Code	471,885	22,976
Contractual Services	173,647	-
Total Public Safety	15,204,646	1,345,047
PUBLIC SERVICE		
Traffic Maintenance	343,511	101,401
Street Division	1,363,479	451,787
Street Lights	-	-
Engineering	305,719	15,575
Shop Division	434,308	29,481
Garage and Office	302,885	20,205
Drainage Division	151,900	59,293
Construction Division	553,159	71,696
Sanitation Division	1,747,831	249,004
Street Cleaning Division	55,126	13,406
Public Works – Health Division	388,703	131,316
Total Public Service	5,646,621	1,143,164

OTHER SERVICES/ CHARGES	CAPITAL OUTLAYS	DEBT SERVICE	TOTAL
\$ 91,407	\$ -	\$ -	\$ 263,911
72,925	-	-	600,471
969	-	-	969
21,245	-	-	166,261
1,149	12,500	-	279,774
758	-	-	133,201
5,227	-	-	97,050
2,237	-	-	197,303
2,776	-	-	106,242
22,076	-	-	483,058
139,761	100,379	-	675,939
11,019	449	-	224,028
153,917	2,911,450	-	3,096,152
1,570,017	-	-	1,576,348
63,637	-	-	71,879
7,632	160,190	-	302,005
71,548	-	-	972,590
<u>2,238,300</u>	<u>3,184,968</u>	<u>-</u>	<u>9,247,181</u>
517,663	543,425	-	10,216,081
114,629	66,125	-	347,996
202,782	1,487,140	-	8,248,872
48,497	-	-	543,358
808,849	-	-	982,496
<u>1,692,420</u>	<u>2,096,690</u>	<u>-</u>	<u>20,338,803</u>
47,383	23,980	-	516,275
376,423	31,903	-	2,223,592
1,058,768	-	-	1,058,768
210,829	459,397	-	991,520
39,321	3,378	-	506,488
16,292	3,509	-	342,891
145,363	-	-	356,556
837,622	89,594	-	1,552,071
947,876	3,328,936	-	6,273,647
15,169	-	-	83,701
7,546	22,704	-	550,269
<u>3,702,592</u>	<u>3,963,401</u>	<u>-</u>	<u>14,455,778</u>

SCHEDULE 10
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2010**

	<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	90,013	18,319
Airport	92,596	42,710
Cemetery	571,426	75,627
Parking Operations	188,405	3,730
Total Other Services	<u>942,440</u>	<u>140,386</u>
DEBT SERVICE	<u>-</u>	<u>-</u>
TOTAL DEPARTMENTAL EXPENDITURES	<u>\$ 25,445,899</u>	<u>\$ 2,800,318</u>

<u>OTHER SERVICES/ CHARGES</u>	<u>CAPITAL OUTLAYS</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
\$ 162,694	\$ -	\$ -	\$ 162,694
<u>162,694</u>	<u>-</u>	<u>-</u>	<u>162,694</u>
150,000	-	-	150,000
<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
115,800	-	-	224,132
58,170	-	-	193,476
48,616	26,797	-	722,466
39,827	10,000	-	241,962
<u>262,413</u>	<u>36,797</u>	<u>-</u>	<u>1,382,036</u>
-	-	4,106,781	4,106,781
<u>\$ 8,208,419</u>	<u>\$ 9,281,856</u>	<u>\$ 4,106,781</u>	<u>\$ 49,843,273</u>

SCHEDULE 11

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Other Fiduciary Funds, Assets, and Liabilities
Agency Funds
September 30, 2010**

	<u>Payroll Withholding Fund</u>
ASSETS	
Cash and cash equivalents	\$ 374,003
Property taxes and fees receivable	-
Sales tax receivable	-
	<hr/>
Total assets	\$ 374,003
LIABILITIES	
Employee contributions payable	\$ 371,549
Due to other agencies	-
Other liabilities	2,454
	<hr/>
Total liabilities	\$ 374,003

<u>Tax Collectors Fund</u>	<u>Hattiesburg Special Sales Tax</u>	<u>Total</u>
\$ 1,153,087	\$ -	\$ 1,527,090
186,254	-	186,254
<u>-</u>	<u>388,470</u>	<u>388,470</u>
<u>\$ 1,339,341</u>	<u>\$ 388,470</u>	<u>\$ 2,101,814</u>
\$ -	\$ -	\$ 371,549
1,325,136	388,470	1,713,606
<u>14,205</u>	<u>-</u>	<u>16,659</u>
<u>\$ 1,339,341</u>	<u>\$ 388,470</u>	<u>\$ 2,101,814</u>

SCHEDULE 12

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule Of Surety Bonds For Municipal Officials
Year Ended September 30, 2010**

<u>Name</u>	<u>Position</u>	<u>Insurance Company</u>	<u>Amount</u>
Kim Bradley	Council Member	Fidelity & Deposit Co.	\$ 100,000
Deborah Denard Delgado	Council Member	Fidelity & Deposit Co.	100,000
Carter Carroll	Council Member	Fidelity & Deposit Co.	100,000
Dave J. Ware III	Council Member	Fidelity & Deposit Co.	100,000
Henry E. Naylor	Council Member	Fidelity & Deposit Co.	100,000
Eddie R. Myers	City Clerk	Fidelity & Deposit Co.	100,000
Frazier Bolton	Police Chief	Fidelity & Deposit Co.	100,000

SCHEDULE 13

CITY OF HATTIESBURG, MISSISSIPPI

**Full Cost Accounting
Solid Waste Management Services
Year Ended September 30, 2010**

EXPENSES - Sanitation Cost Center (General Fund):

Personnel costs	\$ 1,747,832
Supplies	249,005
Other services and charges	947,876
Total expenses (other than capital outlay) Sanitation Cost Center	<u>2,944,713</u>

Interest on capital leases - sanitation trucks and containers 19,464

Depreciation expense 302,877

Allocation of certain expenses in Other Cost Centers:

50% of shop cost center - Repair and maintenance	253,245
Indirect cost allocation - 10% of administration cost centers	309,309
	<u>562,554</u>

Total calculated expenses - full cost basis \$ 3,829,608

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

Sanitation trucks:	
Garbage (tons)	11,044 tons
Trash (tons)	6,802 tons
	<u>17,846 tons</u>

Total tons solid waste 17,846 tons

Distribution of residential and non-residential costs:

Residential (84%)	\$ 3,216,871
Non-residential (16%)	612,737
	<u>3,829,608</u>

Total distribution \$ 3,829,608

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.

SINGLE AUDIT SECTION

SCHEDULE 14
PAGE 1 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of Housing and Urban Development</i>			
Pass-Through Programs From:			
Governor's Department of Housing and Urban Development			
<u>CDBG Entitlement Grants Cluster</u>			
Community Development Block Grants/Entitlement Grants	14.218	MC-28-0006	\$ 473,638
ARRA - CDBG Entitlement Grant	14.253	MY-28-0006	123,528
Total - CDBG Entitlement Cluster			<u>597,166</u>
HOME Investment Partnerships Program	14.239	MC-28-0201	<u>404,882</u>
Pass-Through Programs From:			
Mississippi Development Authority			
Katrina Supplemental Community Development Block Grant	14.219	R-110-205-01-GZ	500,056
Katrina Supplemental Community Development Block Grant	14.219	R-110-205-02-GZ	721,663
Katrina Supplemental Community Development Block Grant	14.219	R-103-205-01-KED	174,485
			<u>1,396,204</u>
Emergency Shelter Grants Program	14.231	ESG-205-09	<u>67,865</u>
Total U.S. Department of Housing and Urban Development			<u>2,466,117</u>

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of the Interior/National Park Service</i>			
Pass-Through Program From:			
Mississippi Department of Archives and History			
Historic Preservation Fund Grants-in-Aid:			
2009 Certified Local Government Grant	15.904	00LGHATT	\$ 6,000
Hurricane Relief Grant for Historic Preservation	15.904		<u>89,550</u>
Total U.S. Department of the Interior/National Park Service			<u>95,550</u>
<i>U.S. Department of Justice</i>			
Pass-Through Programs From:			
Office of Justice Programs			
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2008-JP-FX-0045	<u>5,788</u>
Edward Byrne Memorial Formula Grant	16.579	09-DJ-BX-0787	<u>67,665</u>
ARRA - Violence Against Women Formula Grants	16.588	09-EF-S6-0003	<u>11,945</u>
Bulletproof Vest Partnership Program	16.607		<u>10,853</u>
Public Safety Partnership and Community Policing Grant	16.710	2008CKWX0884	129,286
Public Safety Partnership and Community Policing Grant	16.710	2007CKWX0247	<u>69,076</u>
			<u>198,362</u>

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of Justice (Cont.)</i>			
Pass-Through Programs From:			
Office of Justice Programs			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0654	<u>\$ 21,444</u>
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2009MOBX0033	<u>37,195</u>
ARRA - Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	2009-SB-B9-3215	<u>235,271</u>
Total U.S. Department of Justice			<u>588,523</u>
<i>Federal Aviation Administration</i>			
Airport Improvement Program	20.106	3-28-0031-0017-2009	<u>14,385</u>
Total Federal Aviation Administration			<u>14,385</u>
<i>U.S. Department of Transportation:</i>			
<u>Federal Transit Cluster</u>			
Pass-Through Programs From:			
Federal Transit Administration			
ARRA - Federal Transit Capital Investment Grants	20.500	MS-96-X001	<u>32,317</u>

SCHEDULE 14
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CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of Transportation (Cont.):</i>			
Pass-Through Programs From:			
Federal Transit Administration			
Federal Transit Formula Grants:			
Mass Transit Preventative	20.507	MS-90-0076/0079	\$ 157,042
Mass Transit Operating	20.507	MS-90-4079	276,472
Mass Transit Capital	20.507	MS-90-X076	18,389
Total - Federal Transit Formula Grants			<u>451,903</u>
Total - Federal Transit Cluster			<u>484,220</u>
Pass-Through Programs From:			
Mississippi Department of Transportation			
Highway Planning and Construction:			
Urban Youth Corps. Transportation Enhancement Project	20.205	STP-9999-09(007)/105310-704	33,040
Chain Park Trail Construction	20.205	STP-0210-00(021)/105245-702000	628,569
Interchange Landscaping Project	20.205	-	115,939
Safe Routes to Schools Project (Rowan)	20.205	SRSP-0210-00(020)	46,543
ARRA - Highway Planning and Construction	20.205	STP-0210-00(016)/105245-701	77,445
Metropolitan Planning Organization	20.205	MS-80-X011/0001/0002 and 76-0080-12-003-12 and 105365-013100	208,884
ARRA - Highway Planning and Construction	20.205	-	<u>467,257</u>
Total - Highway Planning and Construction			<u>1,577,677</u>

SCHEDULE 14
PAGE 5 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of Transportation (Cont.):</i>			
Pass-Through Programs From:			
Office of Highway Safety			
Alcohol Countermeasures Incentives	20.605	10-K8-2151	<u>\$ 80,488</u>
Total U.S. Department of Transportation			<u>2,142,385</u>
<i>Environmental Protection Agency</i>			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-95441009	<u>169,540</u>
Total Environmental Protection Agency			<u>169,540</u>
<i>U.S. Department of Homeland Security</i>			
Pass-Through Program From:			
Forrest County, Mississippi:			
Hazard Mitigation Grant	97.039		<u>328,634</u>
Pass-Through Programs From:			
Mississippi Office of Homeland Security			
Homeland Security Grant Program	97.067	S8HS205T	44,080
Homeland Security Grant Program	97.067	A8HS205T	<u>50,100</u>
			<u>94,180</u>
Total U.S. Department of Homeland Security			<u>422,814</u>
Total Federal Financial Assistance			<u>\$ 5,899,314</u>

CITY OF HATTIESBURG

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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Schedule 15

**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
Post Office Box 1898
Hattiesburg, Mississippi 39401

We have audited 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 23, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hattiesburg, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hattiesburg, Mississippi's internal control over financial reporting.

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

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 combination of significant 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hattiesburg, Mississippi's financial statements are free of 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

We identified certain matters that we reported to management of the City of Hattiesburg, Mississippi in a separate letter dated June 23, 2011.

The City of Hattiesburg, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hattiesburg, Mississippi's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, others within the organization, the City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

NICHOLSON & COMPANY, PLLC

Hattiesburg, Mississippi
June 23, 2011

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Schedule 16

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of the City Council
City of Hattiesburg
Post Office Box 1898
Hattiesburg, Mississippi 39401

Compliance

We have audited the compliance of the City of Hattiesburg, Mississippi, 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 its major federal programs for the year ended September 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Hattiesburg, Mississippi's management. Our responsibility is to express an opinion on the City of Hattiesburg, Mississippi's compliance based on our audit.

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. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Hattiesburg, Mississippi's compliance with those requirements.

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

As described in item 2010-1 in the accompanying schedule of findings and questioned costs, the City of Hattiesburg, Mississippi did not comply with requirements regarding procurement applicable to the ARRA - Federal Transit Formula Program. Compliance with such requirements is necessary, in our opinion, for the City of Hattiesburg, Mississippi to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Hattiesburg, Mississippi complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

The management of the City of Hattiesburg, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hattiesburg, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control 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, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-2 and 2010-3 to be material weaknesses.

A significant deficiency in internal control over compliance is a control deficiency, or 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 over compliance, yet important enough to merit attention by those charged with governance that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. None of the findings that were identified in the accompanying schedule of findings and questioned costs are considered to be significant deficiencies.

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

The City of Hattiesburg, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hattiesburg, Mississippi's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

NICHOLSON & COMPANY, PLLC

Hattiesburg, Mississippi
June 23, 2011

SCHEDULE 17
PAGE 1 OF 7

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
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?	Yes
Significant deficiency identified not considered to be a material weakness?	None reported
Type of auditor's report issued on compliance for major programs:	
CDBG Entitlement Cluster	Qualified
Katrina Supplemental Community Development Block Grant	Unqualified
Violence Against Women Formula Grant ARRA	Unqualified
Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	Qualified
Federal Transit Cluster	Qualified
Hazard Mitigation Grant	Unqualified
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 Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG Entitlement Cluster Community Development Block Grants/Entitlement Grants

SCHEDULE 17
PAGE 2 OF 7

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010**

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

Federal Awards (Cont.)

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.253	AARA – CDBG Entitlement Grant
14.219	Katrina Supplemental Community Development Block Grant
16.588	Violence Against Women Formula Grant ARRA
16.804	ARRA – Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government
	<i>Federal Transit Cluster</i>
20/205	Highway Planning and Construction ARRA
20.500	Federal Transit Capital Investment Grants ARRA
20.507	Federal Transit Formula Grants
97.039	Hazard Mitigation Grant

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

Auditee qualified as low-risk auditee? Yes

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010**

Section II - Financial Statement Findings

Finding 2010-1 Finding

Compliance Requirement: Mississippi Main Purchase Law Compliance

The Mississippi Main Purchase Law (Section 31-7-13 Ms. Code) and the American Recovery and Reinvestment Act of 2009 require purchases in excess of \$25,000 shall be bid using prescribed procedures. During fiscal year ended September 30, 2010, the City initiated a purchase transaction that did not comply with the State of Mississippi purchase laws or with applicable Federal law and regulations and standards identified in 48 CFR 18 for its purchase of equipment in the amount of \$27,422 for the City's Mass Transit System using funds provided by the American Recovery and Reinvestment Act of 2009 (ARRA). Presented in Section III, Finding 2010-1 are the conclusions pertaining to this financial statement audit finding and as well as findings relative to procurement and suspension and debarment compliance requirements applicable to this expenditure.

Section III - Federal Awards Findings and Questioned Costs

Finding 2010-1 Finding

CFDA No. 20.500 ARRA - Federal Transit Capital Investment Grants
U.S. Department of Transportation
Grant Number - MS-96-X001
Passed through the Federal Transit Administration

Compliance Requirement:

Procurement, Suspension, and Debarment – Compliance with applicable purchase laws and regulations

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010**

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

Finding 2010-1 Finding (Cont.)

During fiscal year ended September 30, 2010, the City initiated a purchase transaction that did not comply with the State of Mississippi purchase laws or with applicable Federal law and regulations and standards identified in 48 CFR 18 for its purchase of equipment in the amount of \$27,422 for the City's Mass Transit System using fund provided by the American Recovery and Reinvestment Act of 2009 (ARRA). The City made this procurement through receiving two quotes when the purchase prices exceeded \$25,000. The American Recovery and Reinvestment Act of 2009 and Mississippi Main Purchase Law (Section 31-7-13 Ms. Code) require purchases in excess of \$25,000 shall be bid using prescribed procedures.

Questioned Cost:

The above noted purchase resulted in a questioned cost in the amount of \$27,422 due to the failure to obtain two sealed bids. Because of the failure to comply with the ARRA procurement requirements, the above-noted purchase was determined to have not been made in accordance with grant requirements.

Recommendation:

The City should implement procedures that will ascertain required ARRA procurement laws and regulations are followed.

Auditee's Response:

The City will stress the importance of following all purchasing policies and procedures and communications.

SCHEDULE 17
PAGE 5 OF 7

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010**

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

Finding 2010-2 Finding

CFDA No. 14.253	ARRA – CDBG Entitlement Grant U. S. Department of Housing and Urban Development Grant Number – MY-28-006 Passed through from Governor’s Department of Housing and Urban Development
CFDA No. 16.804	ARRA – Recovery Act Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government U. S. Department of Justice Grant Number – 2009-SB-B9-3215 Passed through from Office of Justice Programs
CFDA No. 20.500	ARRA – Federal Transit Capital Investment Grants U.S. Department of Transportation MS-96-X001 Passed through the Federal Transit Administration

Material Weakness

Compliance Requirement:

Reporting - Controls that include the documentation of a timely review of the grant reporting function should be strengthened.

24 CFR 85, 28 CFR 66.36, and 48 CFR 18 prescribe the applicable requirements for general grant reporting compliance. The American Reinvestment and Recovery Act of 2009 prescribes the applicable requirements pertaining to ARRA Section 1512 reporting for the various financial fields and job calculations. The City did not have an internal control function in place that allows for the review of grant reporting in general or of the Section 1512 reporting (ARRA), in particular. This review function should ascertain that the various

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010**

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

Finding 2010-2 Finding (Cont.)

financial fields and jobs calculations for Section 1512 reports for the City's grants are prepared and documented by one person and then subsequently reviewed and approved by another appropriately assigned staff member (as evidenced by initialing the appropriate supporting documentation).

Recommendation:

The City should implement procedures that will allow for the systematic review and documentation procedures in the routine performance of the grant reporting function.

Auditee's Response:

The City agrees with the finding and the recommendation

Finding 2010-3 Finding

CFDA No. 14.253 ARRA – CDBG Entitlement Grant
U. S. Department of Housing and Urban Development
Grant Number – MY-28-006
Passed through from Governor's Department of Housing and
Urban Development

Material Weakness

Compliance Requirement

Special Tests and Provisions - Controls that require the inclusion of ARRA-specific language in contract documents pertaining to ARRA-funded projects. The City's professional services (engineering and project management) for the Woodley Sidewalk ARRA project did not include all applicable ARRA-specific contract terms and conditions as contained in the American Reinvestment and Recovery Act of 2009.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010**

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

Finding 2010-3 Finding (Cont.)

Recommendation:

The City should amend all professional services contracts in order to add all applicable ARRA-specific language that was not included in the original contract. Additionally, the City should have policies and procedures in place that will provide reasonable assurance that specific ARRA terms and conditions are included in future professional services contracts executed pursuant to ARRA-funded projects.

Auditee's Response:

The City agrees with the finding and the recommendation

CITY OF HATTIESBURG, MISSISSIPPI

CORRECTIVE ACTION PLAN

Fiscal Ended September 30, 2010



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
Dave J. Ware, II

Council - Ward 5
Henry Naylor

Finding 2010-1

Program: ARRA – Federal Transit Capital Investment Grants
CFDA No.: 20.500
Federal Agency: U.S. Department of Transportation
Passed Through: Federal Transit Administration
Award Year: Fiscal Year 2009-2010
Compliance Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$27,422

Department’s Response:

The Department of Administration concurs with the finding.

Corrective Action Plan:

Response from the Department of Administration:

Procedures have been implemented in order to ascertain that required American Recovery and Reinvestment Act (ARRA) procurement laws and regulations are followed. The City has established procedures pursuant to the purchasing process that appropriately identifies grant purchases as they are initiated as well as procedures that will ascertain compliance with the procurement requirements that are particular to ARRA. In particular, these procedures will ascertain that purchases in excess of \$25,000 shall be bid using the prescribed procedures.

Name of Responsible Person: Eddie R. Myers, Director of Administration/City Clerk
Name of Department Contact: Verlina Underwood, Division Manager, Purchasing Department
Expected date of Completion: March 1, 2011

CITY OF HATTIESBURG, MISSISSIPPI

CORRECTIVE ACTION PLAN

Page Two

Year Ended September 30, 2010

Finding 2010-2

Programs: ARRA – CDBG Entitlement Grant
ARRA – Recovery Act Edward Byrne Memorial Justice Assistance Grant
(JAG) Program / Grants to Units of Local Government
ARRA – Federal Transit Capital Investment Grants

CFDA No.: 14.218, 16.804, and 20.500

Federal Agency: U.S. Department of Housing and Urban Development, U.S. Department
of Justice, and U.S. Department of Transportation

Passed Through: Governor's Department of Housing and Urban Development, Office of
Justice Programs, and Federal Transit Administration

Award Year: Fiscal Year 2009-2010

Compliance Requirement: Reporting

Questioned Costs: None

Department's Response:

The Department of Federal and State Programs concurs with the finding.

Corrective Action Plan:

The Department of Federal and State Programs will implement internal control procedures that will allow for the systematic review and documentation procedures in the routine performance of the grant reporting function. These procedures will emphasize the need for accurate and timely preparation of Section 1512 reporting that includes all required financial fields and job calculations.

Name of Responsible Person: Franklyn Tate, Director of Federal and State Programs

Name of Department Contact: Brett Benson, Grants Coordinator

Expected date of Completion: March 1, 2011

CITY OF HATTIESBURG, MISSISSIPPI

CORRECTIVE ACTION PLAN

Page Three

Year Ended September 30, 2010

Finding 2010-3

Program: ARRA – CDBG Entitlement Grant
CFDA No.: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Passed Through: Governor's Department of Housing and Urban Development
Award Year: Fiscal Year 2009-2010
Compliance Requirement: Reporting
Questioned Costs: None

Department's Response:

The Department of Federal and State Programs concurs with the finding.

Corrective Action Plan:

Internal control procedures will be implemented by the Department of Federal and State Programs in order to ascertain that all applicable ARRA-specific requirements are included in existing and future professional services contracts that are executed pursuant to ARRA-funded projects. Additionally, the Department will review all existing contracts for ARRA projects and require that any necessary amendments are made in order for these contracts to contain the ARRA-specific contract terms and conditions.

Name of Responsible Person: Franklyn Tate, Director of Federal and State Programs

Name of Department Contact: Andrew Ellard, Governmental Accounting Specialist

Expected date of Completion: March 1, 2011

STATISTICAL INFORMATION

TABLE 1

CITY OF HATTIESBURG, MISSISSIPPI

**NET ASSETS BY COMPONENTS
LAST SIX FISCAL YEARS**

	FISCAL YEAR					
	2010	2009	2008	2007	2006	2005
GOVERNMENTAL ACTIVITIES:						
Invested in capital assets, net of related debt	\$ 93,714,770	\$ 94,294,279	\$ 94,307,180	\$ 93,482,416	\$ 85,543,514	\$ 79,339,867
Restricted for:						
Capital projects	3,047,031	3,161,144	277,340	421,986	355,132	236,730
Debt service	4,001,449	3,634,390	2,831,189	2,361,894	1,711,307	1,556,481
Unrestricted	11,374,445	8,926,370	10,695,572	12,335,482	11,324,642	7,549,683
Governmental activities net assets	<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	\$ 42,142,047	\$ 37,239,290	\$ 32,131,585	\$ 26,516,342	\$ 22,705,571	\$ 34,161,132
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Unrestricted	6,140,570	7,863,497	10,522,245	13,847,699	15,874,687	2,540,385
Business-type activities net assets	<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	\$ 135,856,817	\$ 131,533,569	\$ 126,438,765	\$ 119,998,758	\$ 108,249,085	\$ 113,500,999
Restricted for:						
Capital projects	3,047,031	3,161,144	277,340	421,986	355,132	236,730
Debt service	4,001,449	3,634,390	2,831,189	2,361,894	1,711,307	1,556,481
Unrestricted	17,515,015	16,789,867	21,217,817	26,183,181	27,199,329	10,090,068
Primary government net assets	<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>

TABLE 2

CITY OF HATTIESBURG, MISSISSIPPI

**CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS**

	FISCAL YEAR					
	2010	2009	2008	2007	2006	2005
GOVERNMENTAL ACTIVITIES:						
General government	\$ 6,592,285	\$ 6,414,171	\$ 6,415,817	\$ 5,518,515	\$ 5,266,006	\$ 5,032,688
Public safety	19,961,821	19,507,269	18,985,991	17,937,458	15,474,025	14,670,081
Public services	18,248,607	19,790,101	20,398,976	16,846,291	20,251,044	14,417,361
Other services	6,089,579	5,594,820	5,727,212	5,596,293	4,921,694	4,052,402
Mass transit	993,835	925,506	1,054,153	753,752	718,518	602,119
Cultural and recreation	4,494,146	4,175,345	4,247,864	3,902,787	3,818,198	2,560,224
Human/social assistance	567,679	569,049	617,544	635,505	831,362	658,356
Economic development	150,000	150,000	159,502	196,000	196,000	210,280
Interest and fiscal charges	1,261,015	1,427,014	1,718,149	1,740,731	1,664,988	1,364,028
Total governmental activities expenses	<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>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><u>\$ 68,622,679</u></u>	<u><u>\$ 66,855,903</u></u>	<u><u>\$ 67,643,878</u></u>	<u><u>\$ 60,560,622</u></u>	<u><u>\$ 60,142,704</u></u>	<u><u>\$ 49,637,743</u></u>
PROGRAM REVENUES:						
Governmental Activities:						
Charges for services	\$ 8,853,022	\$ 8,467,560	\$ 7,773,432	\$ 2,693,409	\$ 3,008,496	\$ 2,781,965
Operating grants and contributions	5,375,052	7,624,535	6,262,995	10,480,188	11,175,693	7,528,426
Capital grants and contributions	3,186,741	2,355,657	5,098,683	4,179,064	5,681,530	5,880,728
Total governmental activities program revenues	<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	<u>12,245,747</u>	<u>9,907,131</u>	<u>9,197,894</u>	<u>8,537,545</u>	<u>8,660,771</u>	<u>8,075,288</u>
Total program revenues	<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 ASSETS
LAST SIX FISCAL YEARS**

	FISCAL YEAR					
	2010	2009	2008	2007	2006	2005
Net Revenues (Expenses):						
Governmental activities	\$(40,944,152)	\$(40,105,523)	\$(40,190,098)	\$(35,774,671)	\$(33,276,116)	\$(27,376,420)
Business-type activities	3,109,246	1,604,503	879,224	1,104,255	1,659,902	2,005,084
Total primary government net (expenses)	<u>(37,834,906)</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 ASSETS:						
Governmental Activities:						
Property taxes	16,978,749	15,273,539	13,753,217	15,103,579	12,216,587	12,223,041
Sales taxes	19,746,092	20,520,329	22,350,027	22,446,221	24,717,190	17,873,911
Franchise and other taxes	4,719,547	4,538,419	4,602,087	4,324,217	4,089,915	3,592,591
Grants and contributions (not restricted)		25	1,600	1,325	1,325	2,825
Unrestricted investment earnings	357,369	382,761	757,656	1,003,549	895,411	498,403
Miscellaneous revenues	1,263,907	1,295,352	1,231,625	936,361	1,607,522	582,419
Total governmental activities	<u>43,065,664</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	17,758	34,590	240,797	637,473	215,478	52,480
Miscellaneous revenues	52,826	809,864	1,169,768	42,055	3,361	165,694
Total business-type activities	<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>43,136,248</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 ASSETS:						
Governmental activities	2,121,512	1,904,902	2,506,114	8,040,581	10,251,834	7,396,770
Business-type activities	3,179,830	2,448,957	2,289,789	1,783,783	1,878,741	2,223,258
Total primary government	<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>

TABLE 3

CITY OF HATTIESBURG, MISSISSIPPI

**FUND BALANCES ⁽¹⁾
LAST TEN FISCAL YEARS**

	FISCAL YEAR									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General Fund:										
Reserved for:										
Inventories	\$ 14,927	\$ 82,057	\$ 65,400	\$ 53,763	\$ 21,533	\$ 33,131	\$ 39,842	\$ 20,686	\$ 4,063	\$ 10,564
Prepaid items	237,422	-	-	-	-	218,973	252,684	-	196,835	-
Unreserved	6,824,621	7,739,081	8,484,316	10,165,200	8,910,441	6,138,963	6,613,676	5,465,362	4,771,727	3,600,435
Total general fund	<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>	<u>5,486,048</u>	<u>4,972,625</u>	<u>3,610,999</u>
% Change from Prior Year	-9.5%	-8.5%	-16.3%	14.4%	39.8%	-7.5%	25.9%	10.3%	37.7%	-4.5%
Other Governmental Funds:										
Reserved for:										
Encumbrances	-	-	-	-	-	-	-	-	-	-
Unreserved	-	-	-	(42,138)	(68,635)	193,217	-	-	-	-
Unreserved Reported In:										
Special Revenue Funds	3,540,426	2,718,167	3,683,691	3,569,062	3,536,711	2,465,587	2,139,449	1,879,905	1,461,685	1,151,650
Debt Service Funds	4,001,449	3,634,390	2,831,189	2,361,894	1,711,307	1,556,481	1,348,064	1,153,197	1,058,024	1,706,141
Capital Project Funds	3,047,031	3,161,144	277,340	421,986	355,132	236,730	(710,590)	5,074,208	7,399,076	224,916
Total other governmental funds	<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>	<u>8,107,310</u>	<u>9,918,785</u>	<u>3,082,707</u>
Total governmental funds	<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>	<u>\$ 13,593,358</u>	<u>\$ 14,891,410</u>	<u>\$ 6,693,706</u>
% Change from Prior Year	1.9%	13.0%	-7.2%	14.3%	33.4%	12.0%	-28.8%	-8.7%	122.5%	-8.7%

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

TABLE 4

CITY OF HATTIESBURG, MISSISSIPPI

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

	LAST TEN FISCAL YEARS									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
REVENUE:										
Property taxes	\$ 16,978,749	\$ 15,273,539	\$ 13,753,217	\$ 15,103,579	\$ 12,327,064	\$ 12,173,753	\$ 12,481,682	\$ 10,848,352	\$ 10,652,879	\$ 10,297,520
Sales taxes	19,746,092	20,381,753	22,350,027	22,446,221	24,717,190	17,873,911	16,862,144	15,152,998	15,654,754	14,645,579
Licenses and permits	4,305,480	4,296,709	4,188,526	3,901,213	3,697,193	2,831,557	3,317,134	2,822,965	2,578,742	2,658,521
Fines and forfeitures	2,009,057	1,589,861	1,554,656	1,065,269	1,018,354	971,467	1,105,848	1,054,032	941,015	1,158,609
Interest, rents, concessions	170,191	211,214	582,741	807,617	598,136	261,132	386,754	523,465	677,237	866,839
Intergovernmental	9,354,293	10,291,647	8,073,409	8,570,904	10,692,038	10,054,395	4,481,157	7,024,299	3,806,004	4,407,644
Charges for services	2,650,845	2,763,676	2,359,464	1,667,251	1,804,014	1,762,323	1,742,228	1,848,685	1,685,187	1,280,842
Other revenues	251,219	888,749	4,389,090	2,798,041	3,956,796	676,246	934,067	178,505	139,894	224,265
Total revenues	55,465,926	55,697,148	57,251,130	56,360,095	58,810,785	46,604,784	41,311,014	39,453,301	36,135,712	35,539,819
% Change from prior year	-0.4%	-2.7%	1.6%	-4.2%	26.2%	12.8%	4.7%	9.2%	1.7%	-5.0%
EXPENDITURES:										
General government	6,081,588	5,679,589	5,674,985	5,235,266	5,246,079	4,897,698	4,850,407	4,716,913	4,493,432	4,868,164
Public safety	18,436,079	18,269,998	17,309,920	16,319,725	14,299,637	14,227,840	13,640,172	12,428,574	12,359,931	12,238,596
Public services	12,698,983	13,739,073	14,567,346	12,494,900	16,326,824	10,651,948	9,264,327	8,544,755	8,805,775	9,340,918
Other services	5,924,909	5,463,648	5,619,828	5,692,145	4,866,672	4,019,276	4,222,829	3,503,582	1,240,979	803,364
Mass transit	773,695	719,882	787,422	677,515	652,909	554,888	506,310	565,838	471,134	460,802
Cultural and recreation	4,125,885	3,877,083	3,783,572	3,547,792	3,546,341	3,010,508	2,828,225	2,659,198	2,407,405	2,382,366
Human/Social assistance	545,507	547,544	595,945	604,661	1,005,953	437,146	355,586	1,194,559	238,196	716,006
Economic development	150,000	150,000	159,502	196,000	196,000	210,280	200,370	196,000	144,000	489,978
Capital outlays	12,058,220	7,299,488	9,160,136	17,111,494	13,270,430	14,498,353	14,027,343	9,745,037	4,195,841	2,614,065
Debt Service:										
Principal	17,181,940	11,440,741	10,462,369	4,215,614	3,407,540	3,470,925	3,166,611	2,875,718	2,482,714	2,197,663
Interest and fiscal charges	1,101,913	1,376,530	1,744,949	1,690,106	1,625,228	1,383,084	1,300,556	1,291,180	1,260,872	1,655,980
Total expenditures	79,078,719	68,563,576	69,865,974	67,785,218	64,443,613	57,361,946	54,362,736	47,721,354	38,100,279	37,767,902
% Change from prior year	15.3%	-1.9%	3.1%	5.2%	12.3%	5.5%	13.9%	25.3%	0.9%	-15.5%
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(23,612,793)	(12,866,428)	(12,614,844)	(11,425,123)	(5,632,828)	(10,757,162)	(13,051,722)	(8,268,053)	(1,964,567)	(2,228,083)
OTHER FINANCING SOURCES (USES):										
Proceeds from long-term debt	18,836,240	10,112,970	6,733,377	8,394,533	5,019,686	7,559,737	3,781,219	1,770,000	8,950,000	168,969
Transfers from other funds	4,609,574	4,671,908	4,862,491	5,416,316	4,333,268	4,482,512	4,132,919	3,882,614	3,841,314	3,489,497
Transfers to other funds	(3,678,323)	(3,977,272)	(3,939,037)	(4,411,343)	(3,346,379)	(3,222,425)	(2,635,861)	(2,609,360)	(2,794,451)	(2,071,181)
Other sources	4,176,339	4,051,725	3,770,182	4,088,895	3,249,660	3,097,295	3,863,212	3,490,917	165,408	-
Net other financing sources	23,943,830	14,859,331	11,427,013	13,488,401	9,256,235	11,917,119	9,141,489	6,534,171	10,162,271	1,587,285
NET CHANGE IN FUND BALANCES	\$ 331,037	\$ 1,992,903	\$ (1,187,831)	\$ 2,063,278	\$ 3,623,407	\$ 1,159,957	\$ (3,910,233)	\$ (1,733,882)	\$ 8,197,704	\$ (640,798)
Debt service as % of non-capital expenditures	37.5%	26.5%	25.2%	13.2%	10.9%	12.8%	12.5%	12.3%	12.4%	12.3%

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 Tax Commission)
2010	\$ 16,978,749	\$ 19,746,092	\$ 36,724,841	\$ 1,624,585,790
2009	15,273,539	20,381,753	35,655,292	1,706,858,672
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	1,642,486,919
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
2003	10,848,352	15,152,998	26,001,350	1,248,352,898
2002	10,652,879	15,654,754	26,307,633	1,261,693,015
2001	10,297,520	10,645,579	20,943,099	1,196,108,464
% Change in Dollars over the 10 Year Period	64.9%	85.5%	75.4%	35.8%

(1) This schedule reports using the modified accrual basis of accounting.

Gross Sales Subject to Sales By County - Forrest		(%)	Gross Sales Subject to Sales By County - Lamar		(%)	Component Unit - 2% Food & Beverage Tax
\$	866,344,980	53%	\$	780,912,173	48%	\$ 4,625,748
	899,713,933	53%		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	50%		827,893,728	50%	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
	744,424,173	60%		503,928,725	40%	2,597,330
	754,492,423	60%		507,200,592	40%	2,491,315
	710,488,428	59%		485,620,036	41%	2,404,673

92.4%

TABLE 6

CITY OF HATTIESBURG, MISSISSIPPI

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

FORREST COUNTY:

Year Ended Sept. 30,	Tax Roll Year	City of Hattiesburg			City - Total	Hattiesburg School District			Forrest County Taxes	Total
		Operations	City Bond & Interest	Other (Library & Pension Fund)		Hattiesburg School District Operations	School Bond & Interest Taxes	Total- Schools		
2000	1999	31.50	9.58	6.57	47.65	52.99	7.68	60.67	55.26	163.58
2001	2000	33.50	9.58	6.47	49.55	52.74	7.43	60.17	55.73	165.45
2002	2001	33.50	7.58	6.47	47.55	56.22	6.84	63.06	54.67	165.28
2003	2002	33.50	7.58	6.47	47.55	58.30	7.08	65.38	54.58	167.51
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

LAMAR COUNTY:

Year Ended Sept. 30,	Tax Roll Year	City of Hattiesburg			City - Total	Hattiesburg School District			Lamar County Taxes	Total
		Operations	City Bond & Interest	Other (Library & Pension Fund)		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

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

TABLE 7

CITY OF HATTIESBURG, MISSISSIPPI

**COMPUTATION OF LEGAL DEBT MARGIN USING MOST CURRENT TAX ROLLS
SEPTEMBER 30, 2010**

	<u>15% Test</u>	<u>20% Test</u>
Property tax base valuation as prepared by Tax Assessors during the summer months of 2009 for property taxes to be collected in fiscal year 2010	\$ 409,750,752	\$ 409,750,752
Times Applicable %	<u>X 15%</u>	<u>X 20%</u>
Product of Tax Base Times Applicable Percentage	(a) <u>61,462,613</u>	<u>81,950,150</u>
Present General Obligation Debt Subject to Statutory Debt Limits:		
General obligation bonds outstanding at September 30, 2010	34,652,244	34,652,244
Less: exempt bonds	(9,755,731)	(9,755,731)
Add: water & sewer general obligation bonds	n/a	7,140,000
Total general obligation debt outstanding	(b) <u>24,896,513</u>	<u>32,036,513</u>
Margin for Additional General Obligation Debt - (a) minus (b)	<u>\$ 36,566,100</u>	<u>\$ 49,913,637</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, 2010 the 15% test would apply with a calculated margin for additional general obligation debt in the amount of \$36,566,100.

TABLE 8

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>
2001	45,088	\$ 251,313,479	\$ 23,960,000	\$ 1,151,650	\$ 22,808,350	9.08%	505.86
2002	45,538	260,045,410	28,650,000	1,058,024	27,591,976	10.61%	605.91
2003	45,779	268,186,182	25,135,000	1,153,197	23,981,803	8.94%	523.86
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

TABLE 9

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
2001	\$ 6,854,345	\$ 4,734,355	\$ 2,119,990	115% of P & I for FY 2002	\$ 1,778,995	1.19
2002	6,661,270	4,423,520	2,237,750	115% of P & I for FY 2003	1,783,457	1.25
2003	7,061,287	4,818,082	2,243,205	115% of P & I for FY 2004	1,789,989	1.25
2004	8,262,525	4,999,288	3,263,237	115% of P & I for FY 2005	1,785,389	1.83
2005	8,127,768	4,967,317	3,160,451	115% of P & I for FY 2006	1,782,026	1.77
2006	8,831,622	6,316,769	2,514,853	105% of P & I for FY 2007 ⁽¹⁾	1,652,024	1.52
2007	8,495,274	6,481,746	2,013,528	105% of P & I for FY 2008	1,652,024	1.22
2008	9,107,728	5,796,631	3,311,097	105% of P & I for FY 2009	1,646,744	2.01
2009	9,907,131	6,797,027	3,110,104	105% of P & I for FY 2010	2,392,824	1.30
2010	12,245,747	7,006,259	5,239,488	105% of P & I for FY 2011	2,605,062	2.01

(1) Calculation based upon the highest remaining year of debt service (FY 2008) for the 2006 bonds.

TABLE 10

CITY OF HATTIESBURG, MISSISSIPPI

CITY EMPLOYEES BY FUNCTION
LAST SIX FISCAL YEARS⁽¹⁾

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

(1) Information based upon last payroll processed in the month of September. Information not available for last ten years or 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 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

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

Demographic Age Groupings Are Projections Based On Census 2000 Totals:

<u>Age</u>	<u>Hattiesburg 2000</u>	<u>Forrest County 2000</u>
0 - 17 Years	9,705	17,900
18 - 44 Years	22,855	33,462
45 - 64 Years	7,195	13,370
Over 65 Years	5,334	8,256
Median Age	27.1 Years	29.7 Years
% Population under 18 Years	78.50%	75.50%
% Population over 18 Years	11.80%	11.30%

Source: U.S. Bureau of Census. July 1, 2009 information is provided as the most recent year for which data is available.

TABLE 12

CITY OF HATTIESBURG, MISSISSIPPI

**TOP TEN PROPERTY TAXPAYERS
PROPERTY TAXES ASSESSED IN FISCAL YEAR 2009, COLLECTED FISCAL YEAR 2010**

<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	\$ 10,927,615	2.7%	\$ 1,239,082
Bellsouth	Public Utility	7,937,243	1.9%	900,004
Hattiesburg Clinic	Health Care	5,345,631	1.3%	603,353
Western Container	Industrial	8,676,163	2.1%	571,239
Kohler Company	Industrial	8,664,629	2.1%	570,479
W. R. Fairchild	Industrial	4,834,208	1.2%	547,532
Wal-Mart	Retail	7,839,959	1.9%	543,701
Bennett York	Commercial	5,402,706	1.3%	513,085
Wesley Health Systems	Health Care	8,954,185	2.2%	428,772
Hudson's	Retail	<u>2,726,608</u>	0.7%	309,170
Total of top ten taxpayers		71,308,947	17.4%	
Tax roll total - all other taxpayers		<u>337,802,729</u>	82.6%	
Total taxable assessed values for FY 2010		<u><u>\$ 409,111,676</u></u>	100.0%	

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	Total assessed Valuation
	Permits Issued	Value	Permits Issued	Value	Bank Deposits (000's omitted)	
2001	45	\$ 16,882,690	91	\$ 7,654,443	\$ 1,489,821	\$ 251,313,479
2002	75	15,492,046	137	25,267,086	1,494,116	260,045,410
2003	44	30,521,453	66	9,226,451	1,540,166	268,186,182
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

TABLE 14

CITY OF HATTIESBURG, MISSISSIPPI

CAPITAL ASSET AND INFRASTRUCTURE STATISTICS BY FUNCTION

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Police:					
Stations	1	1	1	1	1
Sub-stations	4	4	4	4	2
Fire:					
Stations	8	8	8	8	8
Hydrants	1950	1950	1950	1850	1750
Solid Waste Management:					
Trucks	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
Soccer/tennis/softball complex	1	1	1	1	1
Baseball/softball facilities	4	4	4	4	4
Water:					
Pumping capacity (gallons per minute)	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
Average daily water pumped (gallons)	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"	292 miles	292 miles	292 miles	278 miles	272 miles
Miles of water mains - 4" or less	48 miles	48 miles	48 miles	30 miles	30 miles
Number of wells	13	13	13	13	14
Water storage tanks	9	9	9	7	7
Sewer:					
Miles of sewer collection mains	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	10.8 MGD	10.5 MGD
North lagoon	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	12.4 MGD	12.1 MGD
Permitted treatment capacity	24 MGD	24 MGD	24 MGD	24 MGD	24 MGD
Streets:					
Miles of paved streets	350 miles	350 miles	350 miles	350 miles	350 miles
Miles of unpaved streets	1 mile	1 mile	1 mile	1 mile	1 mile
Area of City - square miles	55.4	55.4	55.4	55	54