

CITY OF HATTIESBURG, MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2012

CITY OF HATTIESBURG, MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2012

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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

April 24, 2013

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

The Department of Administration is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Hattiesburg, Mississippi, prepared in accordance with accounting principles generally accepted in the United States of America for the fiscal year ended September 30, 2012. These accompanying financial statements are prepared and presented in conformity with GASB Statement #34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The format, which includes Government-wide and Major Fund presentations, provides citizens, investors and creditors, grantor agencies, and other interested parties with reliable financial information about the City. Management assumes full responsibility for the completeness and reliability of the information contained in this report, and we believe the report is accurate in all material respects.

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

Profile of Government

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

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

Current Economic Conditions

Hattiesburg ended the fiscal year with a 3% increase in sales tax revenue for fiscal year 2012. There was also a modest increase in the ending cash balance of the General Fund. For the first time in four years, the City increased hourly rates of employees by fifty cents per hour, the intent being to raise the base starting pay from \$8.00 per hour to \$8.50 per hour. This was the first step in an effort to eventually raise the base starting pay to \$9.00 per hour. Conservative cash management and budgetary practices, such as lease purchase financing of equipment, combined with revenue increases, contributed to the City's ability to fund the wage adjustments.

Economic indicators at the national level suggest a slight improvement in the economy, and Hattiesburg also seems to be following suit, as evidenced by the increase in sales tax revenue. Home prices are stabilizing somewhat, and property assessments for tax purposes have increased slightly.

Hattiesburg's diverse economy has most likely contributed to lessening the severity of a lagging economy. Many of the industrial, medical, and educational facilities represent the largest employers, as well as having the largest tax base, and the list of those entities has remained virtually unchanged for a number of years, as noted in the supplementary information contained in this audit.

Future Economic Outlook

The Midtown District plan is continuing to progress, and more detailed renderings are scheduled for presentation to the City Council in early 2013. Public interest and participation in the design process has been significant, and some of the infrastructure changes could begin within the next year. The Twin Forks Rising development is also continuing to progress and is still in the design phase.

Downtown Hattiesburg revitalization efforts are continuing at a steady pace, with the renovation of two major structures, and interest in other, smaller structures in the downtown area is increasing as a result. Other areas of the City are slated for revitalization through public participation in design charrettes, including the Broadway Drive corridor and Hardy Street from Highway 49 to Pine Street.

Tax increment financing projects have been discussed and approved for projects in south Hattiesburg. The current Southern Pointe TIF plan has been amended to allow for additional development of medical facilities along the Veterans Boulevard corridor, and a new TIF plan was approved for the Whispering Pines Retirement Community.

As Department of Environmental Quality regulations continue to increase with respect to the City's lagoon system, research has been ongoing to determine an optimum solution for a sewer treatment facility. While this will certainly translate into additional costs for Hattiesburg residents, every attempt is being made to determine the most advantageous solution with the least impact to ratepayers. A decision must be made and implementation begun in 2013 to maintain compliance with DEQ guidelines.

Financial and Budgetary Information

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

The Mayor and Council have established the goal and desire to maintain an ending cash balance in the General Fund of \$4 million to cover operating costs and unanticipated emergencies in the months prior to receipt of property tax revenues. While this was not possible in 2008 and 2009 due to the recession, the City has been able to reach this goal in 2011 and 2012. Improving economic conditions and continued careful management of budgeted funds has enabled the City to reach and maintain this goal.

The passage of a \$12.5 million revenue bond issue for water and sewer improvements has enabled the City to replace aging service lines. The list of planned improvements will necessitate two further bond issues over the next five to seven years, and a new sewer treatment facility will be part of the planned improvements. Until studies are complete, the cost and type of sewer treatment facility has yet to be determined.

Enterprise Funds

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

Debt Administration

The City maintains the Municipal Bond and Interest Fund to retire debt associated with general obligation bonds. The funding source comes from levy and collection of ad valorem property taxes. Mississippi law limits the amount of general obligation debt a municipality may issue to 15% of total assessed value. As of September 30, 2012, the City's remaining margin for further debt issuance stands at \$41,526,630. Upon issuance of the City's latest general obligation bonds in 2010, Moody's bond rating service issued an A3 rating. Moody's issues a rating each time a bond issue is sold, and the most recent revenue bond issue, the 2012 Water and Sewer Bonds, was awarded an A1 rating. This is one step below the rating given for the 2010 general obligation bonds, and this is a typical procedure for Moody's, as there is more risk to the investor with a revenue issue. Nevertheless, this is considered to be an excellent rating for a municipality.

Risk Management

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

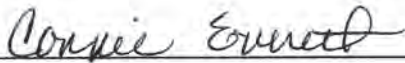
Independent Auditors

The City's financial statements have been audited by Nicholson and Company, PLLC, Certified Public Accountants, a firm of licensed certified public accountants. They have concluded that, based upon the audit, 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, 2012 are fairly presented in conformity with GAAP. The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and compliance with legal requirements involving the administration of federal awards. The independent auditor's report is located at the front of the financial section of this report, and the single audit reports are presented in the single audit section of this report.

Acknowledgments

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

Sincerely,



Connie Everett
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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate 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, 2012, 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 the 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows 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 April 24, 2013, on our consideration of the City of Hattiesburg, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 and pension information on pages 8 through 19 and 75 through 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hattiesburg, Mississippi's 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 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 to 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 them.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
April 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended September 30, 2012

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, 2012. 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 2012 were as follows:

- Total net position for 2012 increased \$19,872,469, or 12.0% from 2011.
- Total assets of governmental activities increased \$8,200,055, or 4.8% from 2011 and total liabilities of governmental activities decreased \$2,399,157 or 4.1% from 2011. Total business-type assets increased \$18,552,960, or 22.6% from 2011 and total liabilities increased \$9,366,529, or 32.7%.
- Total liabilities increased \$7,433,362 or 11% from 2011.
- In total, equity in pooled cash and cash equivalents increased \$6,055,918, or 2.7% from 2011.
- Overall, the book value of capital assets increased by \$17,705,302, or 8.66% from fiscal year 2011.

Using this Annual Financial Report:

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

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

Reporting the City of Hattiesburg as a Whole:

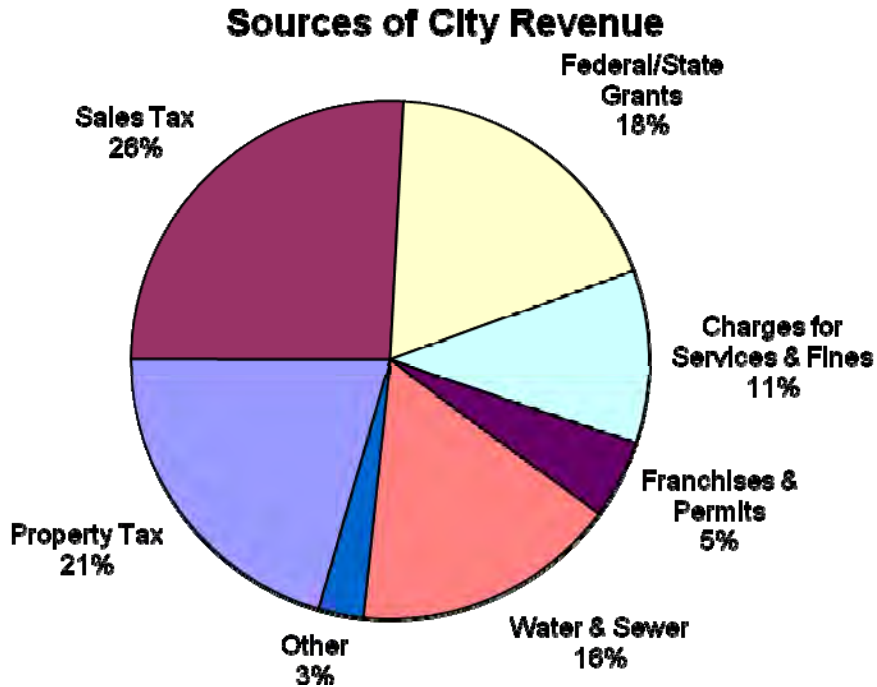
Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Position and the Statement of Activities answer this question in a manner similar to a private-sector business.

The Statement of Net Position presents financial information of all of the City's assets, liabilities, and deferred outflows and inflows of resources, with the difference reported as net position. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods (e.g., uncollected property taxes and earned but unused vacation leave). This change in net position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

Both of these statements distinguish functions that are supported principally by property taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees (*business-type activities*). Governmental activities include services such as police, fire, administration, public services, and all other departments. The business-type activity of the City of Hattiesburg consists of the City's Combined 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.



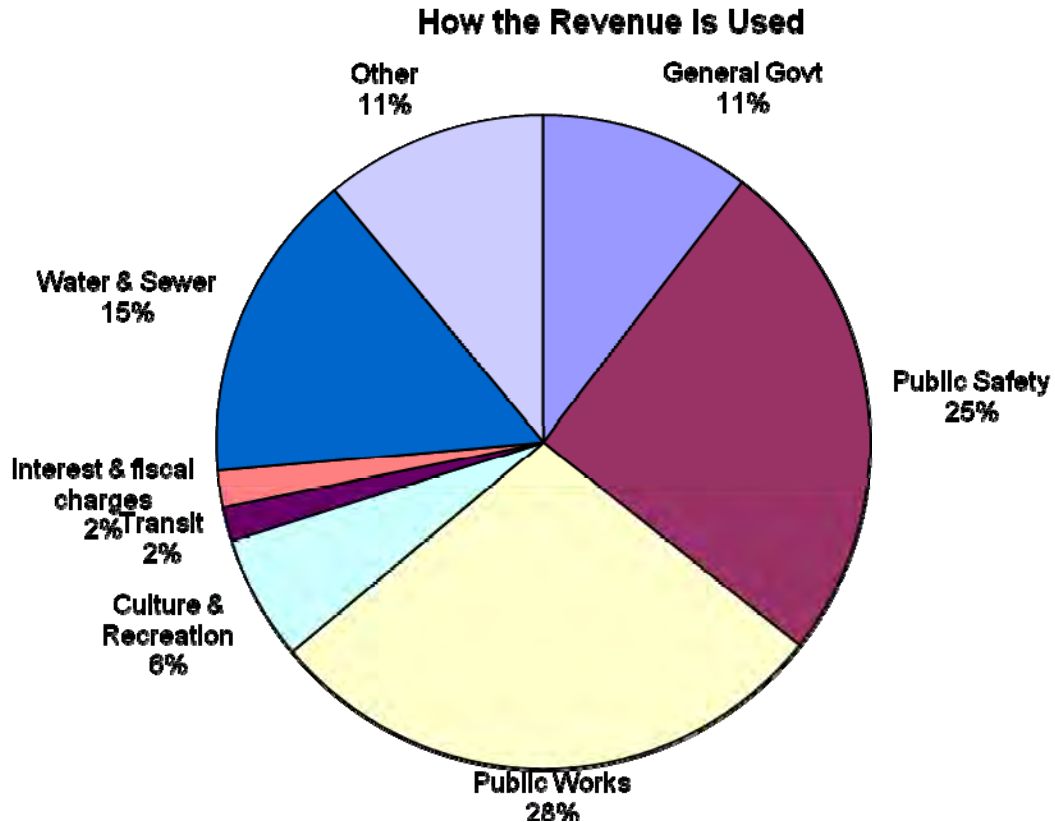
Revenues

Net Revenues exceeded expenses by \$9.3 million for the 2012 year. This is an increase of \$2.8 million from the net revenues of FY 2011. Much of this increase occurred in the water and sewer system net revenues, derived from charges for water and sewer services and capital grants for water plant renovations and lagoon improvements.

Property Tax – One of the major sources of revenue for the City, at 21% of total revenues, property tax revenue reflected a decrease of \$449,113 from FY 2011. County adjustments to the property tax roll based upon declining sales prices of homes were a significant factor in the decrease in property tax revenue.

Sales Tax – Another major source of revenue for the City is sales, at 26% of total revenues. FY 2012 revenue increased from FY 2011, by \$709,677, or 3.6%. Revenue had remained virtually unchanged for two years in a row, signifying that the economy might be stabilizing. The increase in FY 2012 provides a tangible measure of an improving local economy.

Grants – Operating and capital grant revenues represent 18.5% of total revenues, and there was a \$3 million increase in this category of revenue for FY 2012. This is attributable to capital grants for Water & Sewer system projects, as well as funds made available for downtown revitalization through the Community Development Block Grant program.



Expenses

The City's government-wide expenses were \$70.7 million in FY 2012 and \$68.6 million in FY 2011, with only a 3% change. Expenses for Governmental Activities increased \$510,348, while expenses for Business-Type Activities increased \$1,584,340.

The largest categories of expenses are Public Works at 28%, Public Safety at 25%, and Water & Sewer at 15%. The Statement of Activities shows total costs of the major spending categories, and net costs. The net cost is derived by subtracting associated program revenues from the expenditure totals for each category. This net cost is the financial burden that must be covered by property taxes, sales taxes, and other miscellaneous revenue.

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

Fund Financial Statements

The analysis of the City's major funds begins on page 25. 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 for 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

Information about the City's major governmental funds begins on page 25. These funds are accounted for using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$54,341,183 and net other financing sources (uses) of \$8,988,631 (including \$3,588,096 in proceeds of long-term debt) and expenditures of \$65,488,785.

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

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

The General Fund is the primary governmental operating fund, containing expenditures for public safety, public works, economic development, health and welfare, and general government. The Governmental Funds account for 68% of total revenues, with the General Fund alone accounting for 54% of total revenues. The Governmental Funds account for 93% of total expenses, and the General Fund alone accounts for 55% of total expenses.

Total expenditures for the General Fund increased by \$3.1 million, or 7.9% from FY 2011. The increase was attributable to a \$2 million loan through the Community Development Block Grant program for renovation of two downtown buildings, the Carter building and the America building, to mixed-use residential and retail structures; purchase of vehicles for several City departments, and grant expenditures. Debt service payments increased to finance some of the vehicle purchases. This resulted in a decrease in the ending fund balance of the General Fund from \$8,078,567 in FY 2011 to \$7,748,255 in FY 2012.

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 Combined 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 33 – 37. Operating revenues of the System are utilized to fund operation and maintenance expenses and debt service, with any residual net revenues being transferred into the Water & Sewer Construction Fund, a component of the consolidated enterprise fund.

Operating expenses for the Water & Sewer enterprise funds were \$1,584,340, or 16.5% more in FY 2012 than FY 2011. Most of this increase occurred due to repair projects by outside contractors in FY 2012 of water lines, sewer lines, water treatment plant, and ongoing lagoon upgrades.

Operating revenues increased in FY 2012 from FY 2011 by \$1,484,181. Revenue increases resulted from replacement of aging meters, commercial meter testing and repair, and a rate increase initiated to support a bond issue for major water and sewer projects.

The City of Hattiesburg as a Whole:

Recall that the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2012. Table 2 shows the Changes in Net Position for the year ended September 30, 2012.

(See Next Three Pages for Tables 1 and 2)

TABLE I
CITY OF HATTIESBURG'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	\$ 39,006,428	\$ 38,666,423	\$ 19,219,891	\$ 10,512,183	\$ 58,226,319	\$ 49,178,606
Capital assets, net	140,512,471	132,652,421	81,558,681	71,713,429	222,071,152	204,365,850
Total assets	179,518,899	171,318,844	100,778,572	82,225,612	280,297,471	253,544,456
DEFERRED OUTFLOWS OF RESOURCES						
Prepaid bond insurance	-	-	86,826	-	86,826	-
Total deferred outflows of resources	-	-	86,826	-	86,826	-
LIABILITIES						
Long-term liabilities, outstanding:						
Due within one year	6,014,428	4,775,173	2,834,980	2,304,177	8,849,408	7,079,350
Payable after one year	31,581,551	34,429,058	34,574,056	24,792,329	66,155,607	59,221,387
Unearned revenues	36,721	17,011,210	-	-	36,721	17,011,210
Other liabilities	2,562,306	2,463,722	625,212	1,571,212	3,187,518	4,034,934
Total liabilities	40,195,006	58,679,163	38,034,248	28,667,718	78,229,254	87,346,881
DEFERRED INFLOWS OF RESOURCES						
Unearned revenues - property taxes	16,085,000	-	-	-	16,085,000	-
Total deferred inflows of resources	16,085,000	-	-	-	16,085,000	-
NET POSITION						
Net investment in capital assets	108,901,420	94,987,280	45,223,694	44,616,923	154,125,114	139,604,203
Restricted	535,670	5,117,986	-	-	535,670	5,117,986
Unrestricted	13,801,803	12,534,415	17,607,456	8,940,971	31,409,259	21,475,386
Total net position	\$ 123,238,893	\$ 112,639,681	\$ 62,831,150	\$ 53,557,894	\$ 186,070,043	\$ 166,197,575

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program revenues:						
Charges for services	\$ 8,558,345	\$ 8,287,847	\$ 13,218,896	\$ 11,734,715	\$ 21,777,241	\$ 20,022,562
Operating grants and contributions	4,982,172	5,956,487	-	-	4,982,172	5,956,487
Capital grants and contributions	2,813,432	2,800,969	7,053,303	3,023,224	9,866,735	5,824,193
Total program revenues	16,353,949	17,045,303	20,272,199	14,757,939	36,626,148	31,803,242
General revenues:						
Property taxes	16,812,683	17,261,796	-	-	16,812,683	17,261,796
Other taxes	24,687,250	24,395,787	-	-	24,687,250	24,395,787
Grants and contributions not restricted to specific programs	-	126,500	-	-	-	126,500
Other general revenues	1,523,295	1,441,526	427,942	156,931	1,951,237	1,598,457
Total general revenues	43,023,228	43,225,609	427,942	156,931	43,451,170	43,382,540
Total revenues	59,377,177	60,270,912	20,700,141	14,914,870	80,077,318	75,185,782
PROGRAM EXPENSES						
General government	7,329,898	6,925,636	-	-	7,329,898	6,925,636
Public safety	20,763,051	20,097,532	-	-	20,763,051	20,097,532
Public services	17,341,042	17,767,209	-	-	17,341,042	17,767,209
Other services	6,281,474	5,384,474	-	-	6,281,474	5,384,474
Mass transit	1,176,837	1,145,590	-	-	1,176,837	1,145,590
Economic development	160,000	4,421,402	-	-	160,000	4,421,402
Culture and recreation	3,916,227	1,864,618	-	-	3,916,227	1,864,618
Human/social assistance	1,310,363	150,000	-	-	1,310,363	150,000
Water & Sewer	-	-	11,167,044	9,582,704	11,167,044	9,582,704
Interest and fiscal charges	1,287,540	1,299,623	-	-	1,287,540	1,299,623
Total program expenses	59,566,432	59,056,084	11,167,044	9,582,704	70,733,476	68,638,788

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Increase in net position before inclusion of transfers	\$ (189,255)	\$ 1,214,828	\$ 9,533,097	\$ 5,332,166	\$ 9,343,842	\$ 6,546,994
Transfers	259,840	56,890	(259,840)	(56,890)	-	-
<i>Increase in net position after inclusion of transfers</i>	70,585	1,271,718	9,273,257	5,275,276	9,343,842	6,546,994
Net position - Beginning	112,639,681	112,137,695	53,557,893	48,282,617	166,197,574	160,420,312
Prior period adjustment	10,528,627	(769,732)	-	-	10,528,627	(769,732)
Net position - Beginning, as restated	123,168,308	111,367,963	53,557,893	48,282,617	176,726,201	159,650,580
Net position - Ending	\$ 123,238,893	\$ 112,639,681	\$ 62,831,150	\$ 53,557,893	\$ 186,070,043	\$ 166,197,574

General Fund Budgetary Highlights

The City's budget is prepared according to Mississippi Law and is based on accounting for certain transactions of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From a budgetary accounting point of view, sales tax collections increased by \$709,677, or 3.6% from Fiscal Year 2011.

The 2012 budget of the General Fund realized an increase in ending fund balance, due to continued stringent fiscal management and an improving local economy. Employee raises were discussed and approved for the Fiscal Year 2013 budget. Aging vehicles were replaced in several departments.

For the twelfth consecutive year, the General Fund property tax rate was set at 31 mills, and the total non-school tax rate was set at 47.42 mills. The ½ mill increase was allocated to the Police and Fire Disability and Relief Fund, as per recommendation of the Public Employees Retirement System, which now manages the closed municipal systems. The automation of the water metering system has produced additional revenue in the form of payroll savings and more accurate measurement of actual water consumption. A scheduled maintenance plan has been implemented to routinely test and replace aging and malfunctioning meters, as per the guidelines of the energy performance contract initiated in 2009.

The automated sanitation trucks have now been in use for 2 years, and the sanitation department has had a budget reduction of approximately 20%, attributed to personnel savings and maintenance costs. Evaluation of cost savings continues as truck warranties end and the City assumes maintenance costs of these vehicles.

From a budgetary accounting point of view, the City's original General Fund budget for Fiscal Year 2012 totaled \$45,852,029 (exclusive of projected beginning cash at October 1, 2011 of \$2,550,000). The final revenue budget totaled to \$48,298,303 with actual revenue collections totaling to \$45,695,935 (95% realized). Amendments to the General Fund revenue budget included increases of \$2,274,024 for federal and state grant funds, mostly for renovation of downtown buildings with CDBG grant funds.

The original FY 2012 General Fund total budget for expenditures was \$46,265,437 and the final amended total was \$51,049,687. Actual expenditures totaled to \$45,549,084 (89% of budget expended). The unexpended budget total of \$5,500,603 is attributable to unexpended personnel costs for some unfilled positions, including those police officers on active military status, unexpended grant funds for various projects, and unexpended funds for capital purchases which were not completed prior to the end of the fiscal year.

Budgets for other governmental funds were amended to adjust projected beginning fund balances to actual balances on hand at the beginning of the fiscal year. Significant amendments to budgeted expenditures for other governmental funds included increases for water and sewer projects in connection with a \$12.5 million bond issue, and continuing street improvements such as 4th Street and the adjacent Long Leaf Trace.

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

Capital Assets and General Long-Term Obligations

Capital Assets

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

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

	<u>2012</u>	<u>2011</u>
Land and construction in progress	\$ 16,337,376	\$ 14,572,783
Buildings and improvements	20,802,225	23,285,696
Infrastructure	175,855,747	159,295,145
Machinery and equipment	<u>9,075,804</u>	<u>7,212,226</u>
Total	<u>\$ 222,071,152</u>	<u>\$ 204,365,850</u>

The increase in the "Land and construction in progress" category is the result of ongoing construction on the WIS-Pak facility, construction of a water treatment plant in western Hattiesburg, water plant renovation, and acquisition of land in connection with the 4th Street widening and Long Leaf Trace extension. The decrease to Building and Improvements is the result of depreciation. The increases to Infrastructure and Machinery and Equipment are the result of water and sewer system improvements and purchase of capital equipment.

General Long-Term Debt Obligations

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

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

	<u>2012</u>	<u>2011</u>
Governmental Funds		
General Obligation Bonds	\$ 19,398,158	\$ 22,169,199
Economic Development Bonds and Notes	3,919,785	2,456,958
Tax Increment Financing Bonds	6,990,000	6,965,000
Equipment Leases	5,688,108	6,073,983
Subtotal governmental funds	<u>35,996,051</u>	<u>37,665,140</u>
Proprietary Fund		
Water and Sewer Revenue Bonds	24,385,000	13,265,000
Unamortized bond premium	423,500	-
Water and Sewer General Obligation Bonds and Notes	9,730,000	11,670,800
State Revolving Loan Funds	1,817,661	2,160,706
Subtotal proprietary fund	<u>36,356,161</u>	<u>27,096,506</u>
Compensated Absences	<u>1,599,928</u>	<u>1,539,090</u>
Total Long-Term Obligations	<u>\$ 73,952,140</u>	<u>\$ 66,300,736</u>

Proprietary Fund debt was issued in FY 2012 for \$12.5M for rehabilitation of water lines, sewer lines, pumping stations, and water wells. TIF bonds were issued in FY 2012 in the amount of \$715,000 for the Turtle Creek Crossing complex.

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

Current Financial Related Activities:

Sales tax collections, a major source of revenue for the General Fund, have been a strong indicator of the local economy, showing an approximate 3% increase in FY 2012. The small but steady increase in sales tax revenue over the last couple of years has returned it nearly to the FY 2009 level. Economic changes at the national level trickle down to the local economy, and it appears that the current rate of growth will continue into FY 2013.

As indicated in the FY 2011 audit comments, the FY 2012 property tax revenue did see a decline, due to adjustment of property values by Forrest County, based upon sales data in select areas of the City. As sales prices of homes dipped nationally, so have they declined locally, and this adjustment resulted in a 3% reduction in property tax revenue in FY 2012. National and local sales data are now reflecting an increase in the number of home sales as well as the sales prices, and preliminary data from both counties indicates a slight increase in the property values for FY 2013.

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. Copies of the financial report of the City's component unit are on file in the City Clerk's office. 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 Position
September 30, 2012**

	PRIMARY	
	Governmental Activities	Business-type Activities
ASSETS		
Cash and cash equivalents	\$ 12,043,266	\$ 8,414,272
Cash with fiscal agent	-	8,237,876
Investments	-	-
Sales tax receivable	1,624,558	-
Property taxes receivable	16,225,487	-
Accounts receivable - Water and Sewer	-	2,241,169
Accounts receivable - Solid Waste Services	456,019	-
Intergovernmental receivable	1,258,859	872,708
Fines receivable, net	1,416,756	-
Other receivables	1,068,254	-
Internal balances	546,134	(546,134)
Notes receivable	4,325,000	-
Due from other agencies	9,795	-
Inventory - food and beverage	-	-
Inventory - gas and oil	32,300	-
Capital assets not being depreciated:		
Land and construction in progress	4,599,782	11,737,594
Capital assets, net of accumulated depreciation:		
Infrastructure	107,653,116	68,202,631
Buildings and improvements	20,670,507	131,718
Machinery and equipment	7,589,066	1,486,738
Total assets	179,518,899	100,778,572
DEFERRED OUTFLOWS OF RESOURCES		
Prepaid bond insurance	-	86,826
Total deferred outflows of resources	-	86,826

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

GOVERNMENT	
Total	Component Unit
\$ 20,457,538	\$ 4,022,007
8,237,876	-
-	211,506
1,624,558	362,438
16,225,487	-
2,241,169	-
456,019	-
2,131,567	-
1,416,756	-
1,068,254	207,702
-	-
4,325,000	-
9,795	-
-	44,619
32,300	-
16,337,376	2,644,650
175,855,747	-
20,802,225	13,721,233
9,075,804	428,515
<u>280,297,471</u>	<u>21,642,670</u>
<u>86,826</u>	<u>-</u>
<u>86,826</u>	<u>-</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
September 30, 2012**

	PRIMARY	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
LIABILITIES		
Accounts payable	\$ 570,089	\$ 520,331
Other liabilities	1,027,941	13,022
Due to other agencies	605,228	-
Accrued interest	359,048	91,859
Unearned revenues	36,721	-
Non-current liabilities:		
Portion due or payable within one year:		
General obligation bonds	2,890,727	535,000
Revenue bonds	-	1,920,000
Unamortized bond premium	-	21,175
Limited obligation tax increment financing bonds	690,000	-
Economic development limited obligation bonds and notes	530,344	-
General obligation notes payable	-	358,805
Capital leases	1,663,367	-
Compensated absences	239,990	-
Portion due or payable after one year:		
General obligation bonds	16,507,431	9,195,000
Revenue bonds	-	22,867,325
Limited obligation tax increment financing bonds	6,300,000	-
Economic development limited obligation bonds and notes	3,389,441	-
General obligation notes payable	-	1,458,857
Capital leases	4,024,741	-
Compensated absences	1,359,938	-
Customer meter deposits	-	1,052,874
Total liabilities	<u>40,195,006</u>	<u>38,034,248</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue - property taxes	16,085,000	-
Total deferred inflows of resources	<u>16,085,000</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	108,901,420	45,223,694
Restricted for:		
Debt service	535,670	-
Unrestricted	13,801,803	17,607,456
Total net position	<u>\$ 123,238,893</u>	<u>\$ 62,831,150</u>

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

GOVERNMENT		
Total	Component Unit	
\$ 1,090,420	\$ 210,541	
1,040,963	58,054	
605,228	18,946	
450,907	-	
36,721	-	
3,425,727	-	
1,920,000	-	
21,175	-	
690,000	-	
530,344	-	
358,805	-	
1,663,367	11,579	
239,990	-	
25,702,431	-	
22,867,325	-	
6,300,000	-	
3,389,441	-	
1,458,857	-	
4,024,741	18,333	
1,359,938	-	
1,052,874	-	
<u>78,229,254</u>	<u>317,453</u>	
<u>16,085,000</u>	<u>-</u>	
<u>16,085,000</u>	<u>-</u>	
154,125,114	16,764,486	
535,670	430,902	
<u>31,409,259</u>	<u>4,129,829</u>	
<u>\$ 186,070,043</u>	<u>\$ 21,325,217</u>	

EXHIBIT B

CITY OF HATTIESBURG, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	\$ 7,329,898	\$ -	\$ -	\$ -	\$ (7,329,898)		\$ (7,329,898)	
Public safety	20,763,051	2,082,922	616,040	183,088	(17,881,001)		(17,881,001)	
Public services	17,341,042	2,211,247	2,234,648	1,081,338	(11,813,809)		(11,813,809)	
Other services	6,281,474	4,118,486	-	1,110,591	(1,052,397)		(1,052,397)	
Mass transit	1,176,837	41,943	643,814	432,814	(58,266)		(58,266)	
Culture and recreation	3,916,227	103,747	5,919	5,601	(3,800,960)		(3,800,960)	
Human/social assistance	1,310,363	-	1,293,727	-	(16,636)		(16,636)	
Economic development	160,000	-	188,024	-	28,024		28,024	
Interest and fiscal charges	1,287,540	-	-	-	(1,287,540)		(1,287,540)	
Total governmental activities	<u>59,566,432</u>	<u>8,558,345</u>	<u>4,982,172</u>	<u>2,813,432</u>	<u>(43,212,483)</u>		<u>(43,212,483)</u>	
Business-Type Activities:								
Water and sewer system	11,167,044	13,218,896	-	7,053,303	-	\$ 9,105,155	9,105,155	
Total business-type activities	<u>11,167,044</u>	<u>13,218,896</u>	<u>-</u>	<u>7,053,303</u>	<u>-</u>	<u>9,105,155</u>	<u>9,105,155</u>	
Total primary government	<u>\$ 70,733,476</u>	<u>\$ 21,777,241</u>	<u>\$ 4,982,172</u>	<u>\$ 9,866,735</u>	<u>(43,212,483)</u>	<u>9,105,155</u>	<u>(34,107,328)</u>	
COMPONENT UNIT:								
Hattiesburg Convention Commission	\$ 5,957,635	\$ 2,616,838	\$ -	\$ -				\$ (3,340,797)
Total component unit	<u>\$ 5,957,635</u>	<u>\$ 2,616,838</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(3,340,797)</u>
GENERAL REVENUES:								
Taxes:								
Property taxes, levied for general purposes					13,010,667	-	13,010,667	-
Property taxes, levied for debt service					3,802,016	-	3,802,016	-
Sales taxes					20,612,267	-	20,612,267	-
Franchise taxes and other licenses and permits					3,977,566	-	3,977,566	-
Special sales tax					97,417	-	97,417	4,479,089
Unrestricted investment earnings					145,510	11,101	156,611	1,972
Other local sources					686,288	-	686,288	149,217
Miscellaneous					675,807	416,841	1,092,648	-
Gain (loss) on sale of assets					568	-	568	-
TRANSFERS:								
Transfers, component unit					15,122	-	15,122	(15,122)
Transfers, net					259,840	(259,840)	-	-
Total general revenues and transfers					<u>43,283,068</u>	<u>168,102</u>	<u>43,451,170</u>	<u>4,615,156</u>
CHANGE IN NET POSITION					70,585	9,273,257	9,343,842	1,274,359
NET POSITION - BEGINNING					112,639,681	53,557,893	166,197,574	20,050,858
Prior period adjustment					10,528,627	-	10,528,627	-
NET POSITION - BEGINNING, AS ADJUSTED					<u>123,168,308</u>	<u>53,557,893</u>	<u>176,726,201</u>	<u>20,050,858</u>
NET POSITION - ENDING					<u>\$ 123,238,893</u>	<u>\$ 62,831,150</u>	<u>\$ 186,070,043</u>	<u>\$ 21,325,217</u>

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

EXHIBIT C
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 4,875,512	\$ 7,167,754	\$ 12,043,266
Sales tax receivable	1,624,558	-	1,624,558
Accounts receivable - solid waste services	178,783	-	178,783
Intergovernmental receivable	1,205,905	52,954	1,258,859
Fines receivable, net of allowance	1,416,756	-	1,416,756
Other receivables	820,509	259,290	1,079,799
Due from other funds	553,071	5,603	558,674
Property taxes receivable	12,399,505	3,825,982	16,225,487
Due from other agencies	9,795	-	9,795
Gas and oil inventory	32,300	-	32,300
Advances to other funds	300,000	-	300,000
	<u>\$ 23,416,694</u>	<u>\$ 11,311,583</u>	<u>\$ 34,728,277</u>
Total assets			
LIABILITIES			
Accounts payable	\$ 345,461	\$ 224,628	\$ 570,089
Due to other funds	5,603	6,937	12,540
Other liabilities	973,670	54,271	1,027,941
Due to other agencies	605,228	-	605,228
Advances from other funds	-	300,000	300,000
Unearned revenue - other	36,721	-	36,721
Total liabilities	<u>1,966,683</u>	<u>585,836</u>	<u>2,552,519</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	12,285,000	3,800,000	16,085,000
Unavailable revenue - fines	1,416,756	-	1,416,756
Total deferred inflows of resources	<u>13,701,756</u>	<u>3,800,000</u>	<u>17,501,756</u>
FUND BALANCES			
Nonspendable:			
Inventories	32,300	-	32,300
Long-term interfund advance	300,000	-	300,000
Restricted:			
Fire protection	-	120,189	120,189
Street improvements and repairs	-	798,659	798,659
Law enforcement	-	233,657	233,657
Airport projects	-	134,735	134,735
Mass transit	-	93,921	93,921
Health and welfare	-	15,921	15,921

EXHIBIT C
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>FUND BALANCES (Cont.)</i>			
Restricted: (Cont.)			
Other purposes	\$ -	\$ 199,379	\$ 199,379
Debt service	-	3,814,777	3,814,777
Downtown enhancement project	-	-	-
Parks and recreation projects	-	382,454	382,454
Committed:			
Parks and recreation	-	367,946	367,946
Fire protection	-	741,062	741,062
Street improvements and repairs	-	2,395	2,395
Law enforcement	-	20,652	20,652
Assigned:			
General government	61,708	-	61,708
Public safety	146,323	-	146,323
Public services	241,574	-	241,574
Other services	3,237	-	3,237
Unassigned	6,963,113	-	6,963,113
Total fund balances	<u>7,748,255</u>	<u>6,925,747</u>	<u>14,674,002</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 23,416,694</u>	<u>\$ 11,311,583</u>	<u>\$ 34,728,277</u>

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

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2012**

Total *fund balances* for governmental funds (Exhibit C) \$ 14,674,002

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

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

Land	\$ 3,621,214	
Construction in progress	978,568	
Infrastructure, net of \$69,926,550 accumulated depreciation	107,653,116	
Buildings and improvements, net of \$19,982,435 accumulated depreciation	20,670,507	
Machinery and equipment, net of \$23,958,080 accumulated depreciation	<u>7,589,066</u>	
Total capital assets		140,512,471

Other long-term assets are not available to pay for current period expenditures and therefore are reported as deferred revenue in the funds. 1,416,756

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

Receivables not received within thirty (30) days of year end are not reported in the funds. 277,236

Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds. 4,325,000

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

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2012**

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

Balances for these liabilities at September 30, 2012 are:

Accrued interest on bonds and notes		\$ (359,048)
General obligation bonds	\$ (19,398,158)	
Limited obligation tax increment financing bonds	(6,990,000)	
Limited obligation economic development bonds and notes	(3,919,785)	
Capital leases	(5,688,108)	
Compensated absences	<u>(1,599,928)</u>	
Total long-term liabilities		<u>(37,595,979)</u>
Total <i>net position</i> of governmental activities (Exhibit A)		<u>\$ 123,238,893</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, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 11,644,848	\$ 4,811,149	\$ 16,455,997
Sales tax collections	20,612,267	-	20,612,267
Other taxes	29,161	-	29,161
Licenses and permits	3,690,104	-	3,690,104
Fines, forfeitures and penalties	1,671,999	98,973	1,770,972
Interest, rents and concessions	100,625	52,533	153,158
Intergovernmental	1,512,029	6,749,023	8,261,052
Charges for services	2,353,825	249,565	2,603,390
Other revenues	454,407	310,675	765,082
Total revenues	<u>42,069,265</u>	<u>12,271,918</u>	<u>54,341,183</u>
EXPENDITURES			
Current:			
General government	6,930,283	-	6,930,283
Public safety	20,142,472	187,537	20,330,009
Public services	9,693,815	4,657,136	14,350,951
Other services	1,696,342	5,985,483	7,681,825
Mass transit	-	1,408,435	1,408,435
Culture and recreation	-	4,796,921	4,796,921
Human/social assistance	125,320	1,166,064	1,291,384
Economic development	2,160,000	-	2,160,000
Debt service:			
Principal payments	1,167,449	4,089,737	5,257,186
Interest and fiscal charges	179,748	1,102,043	1,281,791
Total expenditures	<u>42,095,429</u>	<u>23,393,356</u>	<u>65,488,785</u>
Excess (deficiency) of revenues over expenditures	<u>(26,164)</u>	<u>(11,121,438)</u>	<u>(11,147,602)</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2012**

	<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	\$ 2,873,096	\$ 715,000	\$ 3,588,096
Transfers in	616,526	4,458,886	5,075,412
Transfers out	(3,966,816)	(108)	(3,966,924)
Other sources	173,046	4,119,001	4,292,047
<i>Total other financing sources (uses)</i>	<u>(304,148)</u>	<u>9,292,779</u>	<u>8,988,631</u>
 <i>NET CHANGE IN FUND BALANCES</i>	 (330,312)	 (1,828,659)	 (2,158,971)
 Fund balances – beginning	 <u>8,078,567</u>	 <u>8,754,406</u>	 <u>16,832,973</u>
 Fund balances – ending	 <u>\$ 7,748,255</u>	 <u>\$ 6,925,747</u>	 <u>\$ 14,674,002</u>

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

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2012**

Net change in *fund balances* - governmental funds (Exhibit D) \$ (2,158,971)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$9,408,805) exceeded capital outlays (\$8,155,682) in the current period. (1,253,123)

Intergovernmental revenue recognized on the full-accrual basis in the statement of activities is increased for revenues received thirty (30) days after year end. (282)

Fine revenue deferred in the funds for the modified accrual basis during the current year decreased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. (18,055)

Proceeds from the sale of capital assets (\$17,055) are reported in the governmental funds. However, in the statement of net position the gain is recorded (\$568). (16,487)

Proceeds from issuance of long-term debt are reported in the governmental funds. However, in the statement of net position a long-term liability is recorded. Repayments of long-term debt are reported as expenses in the governmental funds but are recorded against the liability in the statement of net position. The following adjustment combines the net changes for long-term debt:

Debt issued:

Notes payable and capital leases payable \$ (3,588,096)

Repayments:

To bond, note and lease holders 5,257,186

Net adjustment for debt 1,669,090

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, 2012**

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

Compensated absences	\$ (60,838)	
Accrued interest on bonds and notes	<u>(5,749)</u>	
Combined adjustment		\$ (66,587)

Governmental funds report the economic development grant as capital outlay. Government-wide statements report it as a note receivable as it is to be repaid by a third party developer.

2,000,000

Governmental funds report annual note repayment received (\$213,315) as the installment receipt of the sale of real estate. In the statement of activities, only the portion of these payments attributable to interest is reported as interest revenue (\$128,315).

(85,000)

Change in *net position* of governmental activities
(Exhibit B)

\$ 70,585

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

EXHIBIT E
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
Proprietary Fund
September 30, 2012**

	Combined Water & Sewer System
<i>CURRENT ASSETS</i>	
Cash and cash equivalents	\$ 8,414,272
Cash with fiscal agent	8,237,876
Accounts receivable - trade	2,241,169
Grants receivable	872,708
Total current assets	<u>19,766,025</u>
<i>CAPITAL ASSETS</i>	
Land	315,243
Construction in progress	11,422,351
Infrastructure, net	68,202,631
Buildings and improvements, net	131,718
Machinery and equipment, net	1,486,738
Total capital assets	<u>81,558,681</u>
<i>Total assets</i>	<u>101,324,706</u>
<i>DEFERRED OUTFLOW OF RESOURCES</i>	
Prepaid bond insurance	<u>86,826</u>
<i>CURRENT LIABILITIES</i>	
Due to other funds	546,134
Sales tax payable	13,022
Accounts payable - trash hauling	178,784
Accounts payable - other	341,547
Accrued interest payable	91,859
Unamortized bond premium - current	21,175
Revenue bonds - current	1,920,000
General obligation bonds - current	535,000
General obligation note payable - current	358,805
Total current liabilities	<u>4,006,326</u>

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

EXHIBIT E
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
Proprietary Fund
September 30, 2012**

	Combined Water & Sewer System
<i>NON-CURRENT LIABILITIES</i>	
Revenue bonds	\$ 22,867,325
General obligation bonds	9,195,000
General obligation note payable	1,458,857
Customer meter deposits	1,052,874
Total non-current liabilities	<u>34,574,056</u>
<i>Total liabilities</i>	<u>38,580,382</u>
<i>NET POSITION</i>	
Net investment in capital assets	45,223,694
Unrestricted	<u>17,607,456</u>
Total net position	<u>\$ 62,831,150</u>

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

EXHIBIT F

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenses and Changes In Fund Net Position
Proprietary Fund
Year Ended September 30, 2012**

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

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

EXHIBIT G
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2012**

	Combined Water & Sewer System
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>	
Receipts from customers	\$ 13,014,877
Payments to suppliers and service providers	(5,588,220)
Payments to employees for salaries and benefits	(2,166,081)
Net cash provided by operating activities	<u>5,260,576</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</i>	
Other cash receipts	397,717
Transfers to other funds	(259,840)
Net cash provided by noncapital financing activities	<u>137,877</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>	
Principal payments - bonds	(3,320,800)
Principal payments - notes	(343,044)
Non-governmental capital contributions	2,488,400
Intergovernmental cash receipts	4,312,565
Acquisition and construction of capital assets	(11,557,382)
Proceeds from general obligation bonds	12,923,500
Other receipts	19,125
Interest paid on capital debt	(1,197,503)
Net cash provided by capital and related financing activities	<u>3,324,861</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>	
Interest income	11,101
Net cash provided by investing activities	<u>11,101</u>
<i>NET INCREASE IN CASH AND CASH EQUIVALENTS</i>	8,734,415
<i>CASH AND CASH EQUIVALENTS - Beginning</i>	<u>7,917,733</u>
<i>CASH AND CASH EQUIVALENTS - Ending</i>	<u><u>\$ 16,652,148</u></u>
Displayed on Exhibit E as:	
Cash and cash equivalents	\$ 8,414,272
Cash with fiscal agent	<u>8,237,876</u>
	<u><u>\$ 16,652,148</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2012**

	<u>Combined Water & Sewer System</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
OPERATING INCOME	\$ 3,216,144
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation expense	1,712,129
Changes in assets and liabilities:	
(Increase) in accounts receivable	(226,554)
(Increase) in prepaid insurance - bonds	(86,826)
(Decrease) in accounts payable - trash hauling	(1,982)
Increase in accounts payable - other	135,757
Increase in customer meter deposits	22,939
(Decrease) in sales tax payable	(404)
Increase in amount due to governmental funds	489,373
Total adjustments	<u>2,044,432</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,260,576</u>

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

EXHIBIT H

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2012**

	Police/Fireman Disability & Relief Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 109,789	\$ 2,380,558
Cash and investments with fiscal agent	20,279,922	149,303
Property taxes and fees receivable	12,965	-
Sales tax receivable	-	411,112
	<hr/>	<hr/>
Total assets	20,402,676	2,940,973
	<hr/>	<hr/>
LIABILITIES		
Employee contributions payable	-	350,382
Due to other agencies	-	1,634,755
Other liabilities	-	26,439
Amounts held in custody for others	-	929,397
Total liabilities	-	\$ 2,940,973
	<hr/>	<hr/>
	<hr/>	<hr/>
NET POSITION		
Net position restricted for pension benefits	\$ 20,402,676	
	<hr/>	

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

EXHIBIT I

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2012**

	<u>Police/Fireman Disability & Relief Pension Trust Fund</u>
<i>ADDITIONS</i>	
Contributions:	
Plan members	\$ 20,179
Total contributions	<u>20,179</u>
Property tax levy	1,940,593
Investment earnings	63,375
Total additions	<u>2,024,147</u>
<i>DEDUCTIONS</i>	
Benefits	3,321,133
Administrative expenses	54,577
Total deductions	<u>3,375,710</u>
<i>CHANGE IN NET POSITION</i>	(1,351,563)
<i>NET POSITION - beginning</i>	<u>21,754,239</u>
<i>NET POSITION - ending</i>	<u><u>\$ 20,402,676</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Information

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

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

B. Reporting Entity

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

Discretely presented component unit - The Hattiesburg Convention Commission (the Commission) is composed of a seven member board whose members are appointed by the Hattiesburg City Council. The purpose of the Commission is to promote conventions and tourism. The Commission has the authority over all matters relating to the establishment, development, construction, furnishing, and equipping of convention and tourism related facilities. The Commission is primarily funded by a 2% sales tax on local food, beverage, and alcoholic beverage package retailer permits. The Commission is presented as a governmental fund type.

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2012

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

C. Government-wide and fund financial statements

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

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

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2012

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2012

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2012

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

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

Deposits and investments

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

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

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

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All sales, property tax, and notes receivables are considered collectible; therefore no reduction has been made for an allowance for these receivables. Fines receivable is reported net of allowance for uncollectible accounts in the amount of \$7,925,550 at September 30, 2012.

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.

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2012

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

Inventories and prepaid items

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

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

Capital assets

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

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	Estimated Useful Lives in Years
Buildings and improvements	20 – 50 years
Infrastructure	18 – 50 years
Machinery and equipment	5 – 10 years

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

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

Deferred outflows/inflows of resources

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

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

Compensated absences

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

Long-term obligations

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2012

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

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

Net Position

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

Fund balance policies

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

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

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

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

F. Budgets and Budgetary Accounting

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2012

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

Encumbrance accounting is used for the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances do not lapse at the close of the fiscal year but are carried forward. (If necessary, subsequent year budgets are amended to cover prior year encumbrances.)

G. Changes in Accounting Standards

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. The provisions of these standards have been incorporated into the financial statements and the notes.

H. Other Information

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2 - PRIOR PERIOD ADJUSTMENTS

A summary of prior period adjustments reflected on the Government-Wide Statement of Activities is presented below:

Exhibit B

<u>Explanation</u>	<u>Amount</u>
To adjust beginning balances of capital assets	\$ 9,129,661
To adjust prior year unearned revenues	1,398,966
	<u>\$ 10,528,627</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC).

The carrying amount of the City's deposits with financial institutions reported in the government-wide statements was \$20,457,538. The bank balance was \$20,821,121. The City's long standing, although not formally adopted, investment policy is based upon all bank accounts being fully collateralized (using the above-described procedures) and interest-bearing with rates updated on a quarterly basis and benchmarked using verifiable appropriate federal funds rates. Interest is calculated using average balances and recorded monthly.

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the government's deposits may not be returned to it. The City and its component unit do not have a deposit policy for custodial credit risk. As of September 30, 2012, the City's bank balance was not exposed to custodial credit risk. The component unit has a repurchase agreement with a carrying value of \$211,506 that is not covered by FDIC.

Cash with Fiscal Agents

The carrying amount of the City's cash with fiscal agents held by financial institutions was \$8,237,876.

Investments

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

The component unit holds an investment in an open repurchase agreement with Trustmark Bank that is collateralized by Fannie Mae securities. At September 30, 2012, the fair value of this investment was \$211,506.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWELVE

YEAR ENDED SEPTEMBER 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Cont.)

Interest Rate Risk

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

Credit Risk – Investments

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

Custodial Credit Risk – Investments

Custodial credit risk is defined as the risk that, in the event of a financial institution's failure, the government would not be able to recover the value of its investments. The City and its component unit do not have a formal investment policy that addresses custodial credit risk. As of September 30, 2012, the component unit's investment balance was not exposed to custodial credit risk.

NOTE 4 - NOTES RECEIVABLE

On June 8, 2010, the City Council authorized a purchase and sales agreement between the City and the Diocese of Biloxi for the sale of property located at 510 West Pine Street for the Sacred Heart Catholic Parish. Pursuant to the terms of this agreement, the City financed the purchase price of \$2,500,000 through the issuance of the City's General Obligation Pool Loan Refunding Bonds, Series 2010, to be repaid over a 20 years with the final bonds maturing July 1, 2030. The Diocese executed a \$2,500,000 promissory note requiring annual payments not to exceed \$219,000 at an interest rate not to exceed 5.5% to coincide with the scheduled principal, interest and servicing fees attributable to the City's Series 2010 bonds. At September 30, 2012, the balance of this note receivable was \$2,325,000.

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 5 - CAPITAL ASSETS

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

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments	
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 3,621,214	\$ -	\$ -	\$ -	\$ 3,621,214
Construction in progress	3,446,003	3,771,608	(6,043,000)	(196,043)	978,568
Total capital assets not being depreciated	<u>7,067,217</u>	<u>3,771,608</u>	<u>(6,043,000)</u>	<u>(196,043)</u>	<u>4,599,782</u>
Capital assets being depreciated:					
Buildings and improvements	37,871,221	2,216,800	-	564,921	40,652,942
Machinery and equipment	27,302,922	2,162,442	(344,893)	2,426,675	31,547,146
Infrastructure	156,899,492	6,047,832	-	14,632,342	177,579,666
Total capital assets being depreciated	<u>222,073,635</u>	<u>10,427,074</u>	<u>(344,893)</u>	<u>17,623,938</u>	<u>249,779,754</u>
Less accumulated depreciation for:					
Buildings and improvements	14,743,994	1,248,781	-	3,989,660	19,982,435
Machinery and equipment	21,001,847	2,780,838	(328,406)	503,801	23,958,080
Infrastructure	60,742,590	5,379,186	-	3,804,774	69,926,550
Total accumulated depreciated	<u>96,488,431</u>	<u>9,408,805</u>	<u>(328,406)</u>	<u>8,298,235</u>	<u>113,867,065</u>
Total capital assets being depreciated, net	<u>125,585,204</u>	<u>1,018,269</u>	<u>(16,487)</u>	<u>9,325,703</u>	<u>135,912,689</u>
Governmental activities capital assets, net	<u>\$ 132,652,421</u>	<u>\$ 4,789,877</u>	<u>\$ (6,059,487)</u>	<u>\$ 9,129,660</u>	<u>\$ 140,512,471</u>

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2012

NOTE 5 - CAPITAL ASSETS (Cont.)

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

Governmental Activities:

General government	\$	574,133
Public safety		1,311,694
Public works – which includes the depreciation of infrastructure assets		6,669,579
Health and welfare		18,979
Other services		168,584
Culture and recreation		354,699
Mass transit		311,137
		<u>311,137</u>
Total depreciation expense - governmental activities	\$	<u>9,408,805</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 6,937
General fund	Combined water and sewer system	546,134
Nonmajor governmental fund	General fund	<u>5,603</u>
Total		\$ <u>558,674</u>

The outstanding balances between funds result mainly from the time lag between the dates that goods and services are provided or reimbursable expenditures occur. These balances are expected to be collected within one (1) year.

Advances to/from other funds for governmental funds at September 30, 2012, consist of the following:

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

CITY OF HATTIESBURG, MISSISSIPPI

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

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

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

The composition of interfund transfers for the year ended September 30, 2012, is as follows:

<u>Transfers out:</u>	<u>Transfers In:</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General fund	\$ -	\$ 3,966,816	\$ 3,966,816
Nonmajor governmental funds	356,686	492,070	848,756
Combined water and sewer system	259,840	-	259,840
Total	\$ 616,526	\$ 4,458,886	\$ 5,075,412

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

NOTE 7 - AD VALOREM TAXES LEVIED FOR OTHER GOVERNMENTAL ENTITIES

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

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	57.23
School Bonded Indebtedness	37-59-23	6.08
Library (support, upkeep and maintenance of Hattiesburg Public Library System)	39-3-7	1.95

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 8 - LEASE OBLIGATIONS

The City has entered into various lease agreements as lessee for financing equipment purchases. The equipment has useful lives ranging from four to ten years. For fiscal year 2012, the assets recorded under capital leases are as follows:

Governmental Activities:	
Machinery and equipment	\$ 5,311,629
Accumulated depreciation	<u>(924,861)</u>
Total	<u><u>\$ 4,386,768</u></u>

These leases qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012 are as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>
2013	\$ 1,663,367
2014	2,078,356
2015	888,004
2016	751,022
2017	165,737
Thereafter	<u>141,622</u>
Total minimum lease payments	5,688,108
Less: amount representing interest	<u>(392,371)</u>
Present value of minimum lease payments	<u><u>\$ 5,295,737</u></u>

NOTE 9 - LONG-TERM LIABILITIES

General Obligation Bonds and Notes

The City issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the City and have been issued for both governmental and business-type activities. Notes are generally issued with a five-year maturity. The City has no special assessment bonds or anticipation notes at September 30, 2012. Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 10 to 20 years. General obligation notes and bonds outstanding at September 30, 2012 are as follows:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

General Obligation Bonds and Notes

Governmental Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/12
Public Improvements	2007	\$ 6,025,000	4.00%	2018	\$ 3,870,000
Public Improvements	2009	3,000,000	2.98%	2013	963,158
Public Improvements	2009	6,575,000	3.00%	2016	3,645,000
Public Improvements	2009	9,950,000	2.00-3.00%	2021	8,535,000
Public Improvements	2010	2,560,000	6.00%	2030	2,385,000
					<u>\$ 19,398,158</u>

Business-type Activities:

Public Improvements	2009	\$ 7,500,000	3.00 - 3.80%	2024	\$ 6,365,000
Public Improvements	2010	3,600,000	2.60 - 3.70%	2030	3,365,000
					<u>\$ 9,730,000</u>

Limited Obligation Economic Development Bonds and Notes

The City also has issued limited obligation debt for economic development purposes that is repaid from revenues pledged under the terms of the respective contractual agreements made pursuant to the authorization for these projects by the governing authorities. These limited obligation bonds and notes are generally issued with essentially level annual principal and interest payments with maturities that range from 10 to 20 years. Limited obligation notes and bonds outstanding at September 30, 2012 are as follows:

Economic Development Limited Obligation Bonds and Notes

Governmental Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/12
Kohler Exempt G.O. Bond	1998	\$ 5,500,000	0.00%	2017	\$ 1,450,000
Kohler CAP Loan	1998	999,271	4.00%	2013	40,840
Kohler CAP Loan	1998	1,000,000	4.00%	2013	40,778
USA Yeast (Series B)	2002	450,000	3.50 - 4.63%	2013	55,000
MDB Limited Obligation Bonds (Church)	2009	2,937,000	2.90 - 6.00%*	2030	333,167
Hub City Lofts	2012	2,000,000	2.00%	2033	2,000,000
					<u>\$ 3,919,785</u>

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

Limited Obligation Tax Increment Financing (TIF) Bonds

Tax increment financing (TIF) bonds are issued by the City to provide funds for the acquisition and construction of infrastructure and related improvements in conjunction with commercial development projects. Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 10 to 20 years. These bonds are secured by the payment of the incremental increase in City property taxes from each project's TIF taxing district as authorized under the TIF plan document approved by the governing authorities. These bonds may also be secured by county participation as authorized by executed interlocal agreements pledging incremental increase in county property taxes in the TIF taxing district. Limited obligation TIF bonds outstanding at September 30, 2012 are as follows:

<u>Limited Obligation TIF Bonds</u>					
<u>Governmental Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/12</u>
Walmart	1999	\$ 900,000	5.00 - 5.75%	2014	\$ 175,000
Chauvet Square	2003	1,100,000	4.50 - 5.35%	2023	775,000
Southern Pointe	2002	670,000	4.50%	2012	85,000
Home Depot	2004	700,000	4.12%	2014	240,000
Chauvet Square	2007	1,400,000	4.50%	2027	1,260,000
Turtle Crossing	2007	4,100,000	4.35%	2021	2,960,000
Lincoln Center	2008	610,000	4.00%	2023	485,000
Turtle Creek Crossing	2011	400,000	5.68%	2025	370,000
Kohls	2012	715,000	5.00%	2021	640,000
					<u>\$ 6,990,000</u>

Business-type Activities (Water and Sewer) Revenue Bonds

The City issues water and sewer revenue bonds to provide funds for the acquisition and construction of water and sewer system infrastructure and related improvements. These bonds are secured by water and sewer operating revenues and are subject to the requirements of the respective revenue bond documents. These bond documents include important net revenue calculation and parity debt requirements. Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 15 to 20 years. Revenue bonds outstanding at September 30, 2012 are as follows:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

<u>Revenue Bonds</u>					
<u>Business-type Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/12</u>
USA Yeast (Series A)	2002	\$ 2,950,000	6.00%	2013	\$ 385,000
W&S Refunding Bonds	2006	17,000,000	4.00 - 5.00%	2021	11,500,000
W&S Revenue Project	2012	12,500,000	2.50 - 5.00%	2032	12,500,000
					<u>\$ 24,385,000</u>

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

In addition to water and sewer revenue bonds, the City has utilized three (3) State Revolving Loan Fund (SRF) program to provide funds for qualified sewer projects pursuant to the State of Mississippi's SRF program. Monthly principal and interest payments for the repayment of these notes is deducted from the City's monthly sales tax diversion payments from the Mississippi Department of Revenue, with monthly reimbursements to the City's general fund being made from monthly operating sewer system revenues as authorized by the City's budget document. The SRF notes outstanding at September 30, 2012 are as follows:

<u>State Revolving Loan Funds</u>					
<u>Business-type Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/2012</u>
SRF #1	1987	\$ 2,191,243	4.50%	2016	\$ 601,008
SRF #2	1987	2,165,672	4.50%	2017	675,631
SRF #3	1989	1,268,863	4.50%	2019	541,023
					<u>\$ 1,817,662</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

Compensated Absences

Vested or accumulated vacation leave, holiday leave, and accrued overtime that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave, holiday leave, and accrued overtime that are not expected to be liquidated with expendable available financial resources are reported as noncurrent liabilities. In accordance with the provisions of ASC 710-10-20, *Compensation*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Compensated absences at September 30, 2012 are as follows:

Accrued vacation pay	\$ 1,542,402
Accrued overtime pay	3,714
Accrued holiday pay	<u>53,812</u>
Total	<u><u>\$ 1,599,928</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-TWO
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

Changes in Long-Term Liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2012 are as follows:

<i>Governmental Activities:</i>	Balance September 30, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Bonds and notes payable					
General obligation bonds and notes	\$ 22,169,199	\$ -	\$ (2,771,041)	\$ 19,398,158	\$ 2,890,727
Limited obligation TIF bonds	6,965,000	715,000	(690,000)	6,990,000	690,000
Economic development limited obligation bonds and notes	2,456,959	2,000,000	(537,174)	3,919,785	530,344
Total bonds and notes payable	31,591,158	2,715,000	(3,998,215)	30,307,943	4,111,071
Capital leases	6,073,983	873,096	(1,258,971)	5,688,108	1,663,367
Compensated absences	1,539,090	60,838	-	1,599,928	239,990
<i>Governmental activities long-term liabilities</i>	\$ 39,204,231	\$ 3,648,934	\$ (5,257,186)	\$ 37,595,979	\$ 6,014,428
<i>Business-type Activities:</i>	Balance September 30, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Bonds and notes payable					
General obligation bonds and notes	\$ 11,670,800	\$ -	\$ (1,940,800)	\$ 9,730,000	\$ 535,000
Revenue bonds	13,265,000	12,500,000	(1,380,000)	24,385,000	1,920,000
State revolving loan funds	2,160,706	-	(343,044)	1,817,662	358,805
Premium	-	423,500	-	423,500	-
Total bonds and notes payable	27,096,506	12,923,500	(3,663,844)	36,356,162	2,813,805
<i>Business-type activities long-term liabilities</i>	\$ 27,096,506	\$ 12,923,500	\$ (3,663,844)	\$ 36,356,162	\$ 2,813,805

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

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

Governmental Activities:

Year ending September 30,	G.O. Bonds and Notes		Limited Obligation TIF Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 2,890,727	\$ 606,125	\$ 690,000	\$ 319,044
2014	2,662,431	518,731	660,000	287,264
2015	2,430,000	442,999	690,000	256,965
2016	2,515,000	367,388	560,000	227,127
2017	1,620,000	301,388	580,000	201,501
2018-2022	5,945,000	863,438	2,840,000	579,941
2023-2027	760,000	313,307	970,000	127,960
2028-2032	575,000	70,500	-	-
Total	\$ 19,398,158	\$ 3,483,876	\$ 6,990,000	\$ 1,999,802

Year ending September 30,	Economic Development Limited Obligation Bonds and Notes		Total Governmental Activities	
	Principal	Interest	Principal	Interest
2013	\$ 530,344	\$ 49,771	\$ 4,111,071	\$ 974,940
2014	395,384	41,839	3,717,815	847,834
2015	397,076	39,722	3,517,076	739,686
2016	398,802	37,614	3,473,802	632,129
2017	400,563	35,509	2,600,563	538,398
2018-2022	580,497	145,792	9,365,497	1,589,171
2023-2027	630,165	91,450	2,360,165	532,717
2028-2032	586,954	30,363	1,161,954	100,863
Total	\$ 3,919,785	\$ 472,060	\$ 30,307,943	\$ 5,955,738

(Table Continued on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

Business-type Activities:

Year ending September 30,	G.O. Bonds and Notes		State Revolving Loan Funds	
	Principal	Interest	Principal	Interest
2013	\$ 535,000	\$ 312,886	\$ 358,805	\$ 74,454
2014	560,000	294,611	375,287	57,971
2015	585,000	275,502	392,528	40,730
2016	615,000	256,144	396,589	22,698
2017	640,000	236,992	173,770	8,763
2018-2022	3,660,000	853,797	120,683	3,652
2023-2027	2,370,000	370,635	-	-
2028-2032	765,000	49,813	-	-
Total	\$ 9,730,000	\$ 2,650,380	\$ 1,817,662	\$ 208,268

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

During the year ended September 30, 2012, interest expense paid for governmental activities and business-type activities was \$1,261,786 and \$1,144,021, respectively.

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-FIVE
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 10 - SCHEDULE OF STATUTORY DEBT LIMITATIONS

The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Mississippi Code 1972. No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$41,526,630 (the smaller of the two computed margins) as of September 30, 2012:

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2012 (\$403,598,630) times applicable percentage	[a] \$ 60,539,788	\$ 80,719,717
Present debt subject to debt limits as of September 30, 2012:		
Total bonds and notes other than water and sewer	30,307,943	30,307,943
Less: Bonds exempt from debt limitation calculations	(11,294,785)	(11,294,785)
Add: Water & sewer debt other than revenue bonds	<u>n/a</u>	<u>11,932,662</u>
General obligation debt subject to applicable tests	[b] <u>19,013,158</u>	<u>30,945,820</u>
Margin for additional debt [a] minus [b]	<u>\$ 41,526,630</u>	<u>\$ 49,773,897</u>

NOTE 11 - 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 12 - 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.

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; and 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 13 - 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS PAGE TWENTY-SEVEN YEAR ENDED SEPTEMBER 30, 2012

NOTE 14 - COMMITMENTS AND 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.

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.

In September 2011, the City Council awarded a contract in the amount of \$2,165,000 for the construction of new cells at the City's North Lagoon waste water treatment facility, to be paid from the City's 2010 Water and Sewer General Obligation Bond Construction Fund. At September 30, 2012, the outstanding balance on this contract was \$1,339,985. Other construction contracts in progress at September 30, 2012 totaled \$12,481,478.

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

NOTE 15 - 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, 2012, 2011 and 2010 were \$2,692,920, \$2,499,657, and \$2,601,366, respectively, equal to the required contributions for each year.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 16 - 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.

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 16 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

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, 2012. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually including price inflation at 3.50%, (b) projected salary increases of 4.25% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of up to 1.75% per year compounded annually, attributable to merit and seniority. Additionally, local and private legislation, enacted by the Mississippi Legislature, has authorized annual cost of living adjustments (COLA) of 2.50% per year, not to exceed 30% of annual pension benefits.

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

<u>Group</u>	<u>Number</u>
Retired participants and beneficiaries currently receiving benefits	155
Terminated participants and beneficiaries entitled to benefits but not receiving benefits	-
Active participants	3
Inactive participants	<u>1</u>
Total	<u><u>159</u></u>

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

Active members	3
Annual payroll	\$ 155,683
Average annual payroll	\$ 51,894
Average age in years	54.9
Average service in years	29.6

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 16 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

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

<u>Type of Benefit Payment</u>	<u>Number</u>	<u>Annual Benefits</u>	<u>Average Benefit</u>	<u>Average Age</u>
Retirement	112	\$ 2,694,816	\$ 24,061	63.4
Disability	8	101,855	12,732	64.6
Survivor	35	523,233	14,950	69.2
Total	155	\$ 3,319,904	21,419	64.8

At September 30, 2012, the actuarial accrued liability was determined as follows:

	<u>\$ in Thousands</u>
Actuarial Accrued Liability (AAL):	
Retirees and beneficiaries currently receiving benefits	\$ 36,548
Active members	<u>1,272</u>
Total actuarial accrued liability	37,820
Actuarial value of assets	<u>20,487</u>
Unfunded actuarial accrued liability	<u>\$ 17,333</u>

During the year ended September 30, 2012, the plan experienced a net change of \$(454,000) in the Actuarial Accrued Liability.

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 16 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

Funding Policy - The funding policy for PFDR provides for periodic employer contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. In developing the annual required contribution shown on the next page, the normal cost and actuarial accrued liability are determined using the entry age actuarial cost method. Unfunded actuarial accrued liability is being amortized on a closed basis as a level dollar amount over a remaining amortization period of twenty-three (23) years. The asset valuation method used is a 5-year smoothed market method. The City has the option to set property tax rates to allow for extended contributions beyond 2020 under a funding policy adopted by the PERS Board of Trustees in February 2011. Under this new policy, contributions, expressed as a property tax millage rate, are established beginning in fiscal year 2012 that will generate an ultimate asset reserve level equal to a reasonable percentage (initially 100% - 150%) of the next year's projected benefit payment. At that point, employer contributions will be set equal to the fiscal year's projected benefit payments and adjusted as necessary to maintain the assets at the established reserve level. The millage rates certified as of September 30, 2012 under the Pre-2011 and Post-2011 Funding Policy rates are 7.21 mills and 3.87 mills, respectively. The actual tax levy set for the pension fund for policemen and firemen as of September 30, 2012 was 3.82 mills.

During the year ended September 30, 2012, contributions totaling \$1,943,912 (\$1,923,732 employer and \$20,180 employee) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of September 30, 2011. The employer contributions consisted of \$23,715 for normal cost and administrative expenses and \$1,900,017 for amortization of the unfunded actuarial accrued liability, and the employer's annual required contributions (ARC) was determined to be \$1,695,623 (consisting of \$19,492 normal ARC and \$1,676,131 accrued liability ARC). Presented below is a schedule of annual required contributions for the past ten (10) years:

Fiscal Year 10/1 – 9/30	Valuation Date 9/30	Annual Required Contribution	Percentage Contributed
2003-04	2003	\$ 935,623	125.2%
2004-05	2004	1,105,770	114.6%
2005-06	2005	1,229,031	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	116.9%
2011-12	2011	1,579,521	121.8%
2012-13	2012	1,695,623	

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 16 - PENSION PLAN FOR POLICEMEN AND FIREMEN (Cont.)

Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information, for which three (3) years is required, is presented as follows:

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>
2010	\$ 1,411,127	\$ 1,759,993	124.7%
2011	1,519,076	1,775,936	116.9%
2012	1,579,521	1,923,732	121.8%

In addition to this, the Statement of Plan Net Position is included in Exhibit H and the Statement of Changes in Plan Net Position is included in Exhibit I. Actuarial information for the year ended September 30, 2012, can be obtained by contacting the City of Hattiesburg's Chief Financial Officer.

NOTE 17 - 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 18 - HURRICANE KATRINA

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

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 18 - HURRICANE KATRINA (Cont.)

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

NOTE 19 - DISCRETELY PRESENTED COMPONENT UNIT

Capital asset activity for the Hattiesburg Convention Commission for the year ended September 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,315,877	\$ -	\$ -	\$ 1,315,877
Construction in progress - Eureka	737,389	235,239	-	972,628
Construction in progress - Zoo projects	178,525	177,620	-	356,145
Total capital assets not being depreciated	<u>2,231,791</u>	<u>412,859</u>	<u>-</u>	<u>2,644,650</u>
Capital assets being depreciated:				
Buildings, parking lot, etc.	19,528,656	-	-	19,528,656
Furniture and fixtures	474,945	-	-	474,945
Equipment and vehicles	1,557,902	30,597	5,150	1,583,349
Assets acquired under capital lease	-	34,737	-	34,737
Total capital assets being depreciated	<u>21,561,503</u>	<u>65,334</u>	<u>5,150</u>	<u>21,621,687</u>
Less accumulated depreciation for:				
Buildings, parking lot, etc.	5,362,281	445,142	-	5,807,423
Furniture and fixtures	407,149	7,132	-	414,281
Equipment and vehicles	1,106,760	143,285	4,635	1,245,410
Assets acquired under capital lease	-	4,825	-	4,825
Total accumulated depreciated	<u>6,876,190</u>	<u>600,384</u>	<u>4,635</u>	<u>7,471,939</u>
Total capital assets being depreciated, net	<u>14,685,313</u>	<u>(535,050)</u>	<u>515</u>	<u>14,149,748</u>
Governmental activity capital assets, net	<u>\$ 16,917,104</u>	<u>\$ (122,191)</u>	<u>\$ 515</u>	<u>\$ 16,794,398</u>

CITY OF HATTIESBURG, MISSISSIPPI

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

NOTE 19 - DISCRETELY PRESENTED COMPONENT UNIT (Cont.)

The schedule below details the changes in the Commission's long-term debt during the year ended September 30, 2012:

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2012</u>
General obligation bond payable - 2003	\$ 680,000	\$ -	\$ 680,000	\$ -
Capital leases	<u>-</u>	<u>34,737</u>	<u>4,825</u>	<u>29,912</u>
Total amounts	<u>\$ 680,000</u>	<u>\$ 34,737</u>	<u>\$ 684,825</u>	<u>\$ 29,912</u>

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

NOTE 20 - SUBSEQUENT EVENTS

Management has evaluated subsequent events after the financial statement date of September 30, 2010 through April 24, 2013, which is the date the financial statements were available to be issued. The following subsequent events were noted:

Major Purchases:

In September 2011, the City Council authorized a \$100,000 downpayment on the purchase of InterAct Public Safety software that will allow for the City to achieve interoperability with other law enforcement agencies as well as allowing for improved accountability, efficiencies and access to information by law enforcement personnel. The total cost of the system is projected to be \$785,528, and the City anticipates the utilization of lease-purchase financing, with monthly principal and interest payments projected to begin during fiscal year 2013 after the installation of the system.

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE THIRTY-FIVE
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 20 - SUBSEQUENT EVENTS (Cont.)

Wastewater Treatment Issues:

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

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

The City has attempted to coordinate these efforts with State and Federal regulatory agencies in order to comply with applicable environmental requirements at the lagoon. Whereas these measures are designed to bring about substantial improvements in the City's efforts to maintain environmental compliance, management is also in the process of developing long-term solutions that have not yet been finalized. In December, 2012 the City received proposals for three land application sites in the Hattiesburg area. Those sites were analyzed by consultants and the results were reported to the Mayor and City Council. At their request, the consultants were engaged to collect additional information on land application feasibility, with a reporting deadline set for May 31, 2013.

Contracts for TIF Financing:

The City Council approved a professional services agreement with a planning consultant on February 5, 2013 for the preparation of the Mid Town District Tax Increment Financing Plan document. The City Council also implemented procedures allowing for amendments to the adopted Tax Increment Financing Plans for the Whispering Pines Retirement Project and the Southern Pointe Project in March 2013.

Disaster Relief:

As a result of the tornado event that occurred on February 10, 2013, the City declared a state of emergency and implemented procedures for the purpose of obtaining and administering federal assistance under the Disaster Relief Act of 1974, as amended by the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1988. The City also entered into a professional services agreement a company specializing in disaster recovery efforts in order to obtain assistance for FEMA disaster 4041 documentation and reimbursement purposes as a result of damages to facilities and for other recovery-related expenditures, including debris removal efforts.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1
PAGE 1 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>
REVENUES		
Intergovernmental:		
Federal grants	\$ 1,062,623	\$ 3,298,754
State grants	821,383	809,276
State - shared revenue	20,355,953	20,405,953
County - shared revenue	120,000	147,000
General property taxes	11,800,000	11,800,000
Other taxes	24,000	29,000
Licenses and permits	4,441,600	4,490,610
Charges for services:		
Public safety	165,000	190,000
Streets	11,130	11,130
Sanitation	2,220,000	2,220,000
Fines and forfeitures	1,602,000	1,602,000
Miscellaneous	236,500	282,500
Non-revenue receipts	2,326,000	2,346,240
Total revenues	<u>45,186,189</u>	<u>47,632,463</u>
EXPENDITURES		
General government:		
Personnel	3,747,023	3,752,905
Supplies and expenses	197,293	203,629
Other services and charges	2,840,748	3,274,857
Capital outlays	533,825	512,707
Total general government	<u>7,318,889</u>	<u>7,744,098</u>
Police Department:		
Personnel	8,901,571	8,906,741
Supplies and expenses	700,033	832,169
Other services and charges	500,161	522,018
Capital outlays	991,050	1,351,888
Total police department	<u>11,092,815</u>	<u>11,612,816</u>
Police and fire training:		
Personnel	31,470	31,470
Supplies and expenses	139,513	147,978
Other services and charges	132,512	191,263
Capital outlays	-	75,000
Total police and fire training	<u>303,495</u>	<u>445,711</u>

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 2,654,714	\$ (644,040)
233,584	(575,692)
21,067,277	661,324
98,629	(48,371)
11,597,676	(202,324)
29,161	161
3,710,863	(779,747)
177,883	(12,117)
14,884	3,754
2,190,169	(29,831)
1,669,391	67,391
581,098	298,598
1,028,987	(1,317,253)
<u>45,054,316</u>	<u>(2,578,147)</u>
3,555,428	197,477
143,552	60,077
2,445,587	829,270
321,389	191,318
<u>6,465,956</u>	<u>1,278,142</u>
8,236,114	670,627
747,907	84,262
436,492	85,526
1,149,758	202,130
<u>10,570,271</u>	<u>1,042,545</u>
30,424	1,046
131,850	16,128
110,180	81,083
-	75,000
<u>272,454</u>	<u>173,257</u>

SCHEDULE 1
PAGE 2 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>
EXPENDITURES (Cont.)		
Fire Department:		
Personnel	6,439,574	6,434,294
Supplies and expenses	287,962	319,766
Other services and charges	305,460	305,460
Capital outlays	58,000	174,582
Total fire department	<u>7,090,996</u>	<u>7,234,102</u>
Land development administration:		
Personnel	500,455	519,866
Supplies and expenses	31,200	35,697
Other services and charges	51,775	61,072
Capital outlays	-	-
Total land development administration	<u>583,430</u>	<u>616,635</u>
Public safety contractual services:		
Personnel	160,000	187,010
Supplies and expenses	-	-
Other services and charges	1,388,000	1,666,272
Capital outlays	-	-
Total public safety contractual services	<u>1,548,000</u>	<u>1,853,282</u>
Public services:		
Personnel	5,690,005	5,687,754
Supplies and expenses	1,253,623	1,430,249
Other services and charges	3,143,855	3,615,735
Capital outlays	862,218	874,218
Total public services	<u>10,949,701</u>	<u>11,607,956</u>
Animal Control:		
Personnel	120,460	120,460
Supplies and expenses	17,050	21,550
Other services and charges	116,113	118,113
Capital outlays	23,000	23,000
Total animal control	<u>276,623</u>	<u>283,123</u>

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
6,342,898	91,396
309,330	10,436
284,523	20,937
168,350	6,232
<u>7,105,101</u>	<u>129,001</u>
453,746	66,120
31,302	4,395
46,970	14,102
-	-
<u>532,018</u>	<u>84,617</u>
172,903	14,107
-	-
1,516,885	149,387
-	-
<u>1,689,788</u>	<u>163,494</u>
5,096,245	591,509
1,257,044	173,205
3,128,419	487,316
156,421	717,797
<u>9,638,129</u>	<u>1,969,827</u>
102,475	17,985
18,079	3,471
115,263	2,850
9,850	13,150
<u>245,667</u>	<u>37,456</u>

SCHEDULE 1
PAGE 3 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>
<i>EXPENDITURES (Cont.)</i>		
Human/social assistance:		
Personnel	-	-
Supplies and expenses	-	-
Other services and charges	150,000	150,000
Capital outlays	-	-
Total human/social assistance	<u>150,000</u>	<u>150,000</u>
Economic development:		
Personnel	-	-
Supplies and expenses	-	-
Other services and charges	160,000	2,160,000
Capital outlays	-	-
Total economic development	<u>160,000</u>	<u>2,160,000</u>
Airport:		
Personnel	93,780	93,780
Supplies and expenses	54,029	58,529
Other services and charges	73,603	75,373
Capital outlays	-	12,000
Total airport	<u>221,412</u>	<u>239,682</u>
Cemetery:		
Personnel	592,288	592,288
Supplies and expenses	84,100	84,100
Other services and charges	51,350	52,616
Capital outlays	276,000	276,000
Total cemetery	<u>1,003,738</u>	<u>1,005,004</u>
Parking garages:		
Personnel	181,765	181,765
Supplies and expenses	6,550	7,250
Other services and charges	120,902	150,902
Capital outlays	28,020	28,020
Total parking garages	<u>337,237</u>	<u>367,937</u>

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
-	-
-	-
125,320	24,680
-	-
<u>125,320</u>	<u>24,680</u>
-	-
-	-
2,160,000	-
-	-
<u>2,160,000</u>	<u>-</u>
82,150	11,630
49,841	8,688
65,121	10,252
10,876	1,124
<u>207,988</u>	<u>31,694</u>
551,842	40,446
80,767	3,333
37,576	15,040
268,118	7,882
<u>938,303</u>	<u>66,701</u>
161,807	19,958
5,680	1,570
88,841	62,061
28,020	-
<u>284,348</u>	<u>83,589</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>
EXPENDITURES (Cont.)		
Debt service:		
Principal payments	1,521,125	1,534,705
Interest payments	221,160	227,820
Total debt service	<u>1,742,285</u>	<u>1,762,525</u>
Total expenditures	<u>42,778,621</u>	<u>47,082,871</u>
Excess (deficiency) of revenues over expenditures	2,407,568	549,592
OTHER FINANCING SOURCES (USES)		
Transfers in	665,840	665,840
Transfers out	<u>(3,486,816)</u>	<u>(3,966,816)</u>
Total other financing sources (uses)	<u>(2,820,976)</u>	<u>(3,300,976)</u>
NET CHANGE IN FUND BALANCES	\$ (413,408)	\$ (2,751,384)
Fund balances - beginning (Non-GAAP Budgetary Basis)	<u>2,550,000</u>	<u>4,684,703</u>
Fund balances - ending (Non-GAAP Budgetary Basis)	<u>\$ 2,136,592</u>	<u>\$ 1,933,319</u>
ADJUSTMENTS:		
To adjust for sales tax accrual		
To adjust for other receivables/accruals		
Fund balances - ending (GAAP Basis)		

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
1,167,449	367,256
179,748	48,072
<u>1,347,197</u>	<u>415,328</u>
<u>41,582,540</u>	<u>5,500,331</u>
3,471,776	2,922,184
641,614	(24,226)
(2,914,016)	1,052,800
<u>(2,272,402)</u>	<u>1,028,574</u>
\$ 1,199,374	<u>\$ 3,950,758</u>
<u>4,684,703</u>	
5,884,077	
82,532	
<u>1,781,646</u>	
<u>\$ 7,748,255</u>	

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BUDGET/GAAP RECONCILIATION

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

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

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

SCHEDULE 2

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule of Funding Progress
Policemen & Firemen Retirement System
Last Ten Fiscal Years
Year Ended September 30, 2012
(\$ in Thousands)**

<u>Plan Year Ended</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Liability (AAL) Entry Age</u>	<u>(3) Percent Funded (1) / (2)</u>	<u>(4) Unfunded AAL (2) - (1)</u>	<u>(5) Annual Covered Payroll</u>	<u>(6) Unfunded AAL As A Percentage Of Covered Payroll (4) / (5)</u>
9/30/03	\$ 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%
9/30/11	21,940	38,274	57.3%	16,334	210	7778.1%
9/30/12	20,487	37,820	54.2%	17,333	156	11110.9%

The accompanying notes are an integral part of this schedule.

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE SCHEDULE OF FUNDING PROGRESS –
POLICEMEN & FIREMEN RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1 - ACTUARIAL ASSUMPTIONS

Presented below are the actuarial assumptions used for the most recent four (4) years presented in the analysis of funding progress:

Actuarial Assumptions 2009

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

Actuarial Assumptions 2010

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

CITY OF HATTIESBURG, MISSISSIPPI

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

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 - ACTUARIAL ASSUMPTIONS (Cont.)

Actuarial Assumptions 2011

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

Actuarial Assumptions 2012

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

SUPPLEMENTARY INFORMATION

SCHEDULE 3

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012**

	Special Revenue Funds (Schedule 5)	Debt Service Funds (Schedule 7)
ASSETS		
Cash and cash equivalents	\$ 3,012,895	\$ 3,795,533
Due from other funds	5,603	-
Intergovernmental receivable	175,364	-
Other receivables	113,752	-
Property taxes receivable	1,006,738	2,819,244
Total assets	\$ 4,314,352	\$ 6,614,777
LIABILITIES		
Accounts payable	\$ 224,628	\$ -
Due to other funds	6,937	-
Other liabilities	54,271	-
Advances from other funds	300,000	-
Total liabilities	585,836	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	1,000,000	2,800,000
	1,000,000	2,800,000
FUND BALANCES		
Restricted:		
Fire protection	120,189	-
Street improvements and repairs	798,659	-
Law enforcement	233,657	-
Airport projects	134,735	-
Mass transit	93,921	-
Health and welfare	15,921	-
Other purposes	199,379	-
Debt service	-	3,814,777
Parks and recreation projects	-	-
Committed:		
Parks and recreation	367,946	-
Fire protection	741,062	-
Street improvements and repairs	2,395	-
Law enforcement	20,652	-
Total fund balances	2,728,516	3,814,777
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,314,352	\$ 6,614,777

Capital Project Funds (Schedule 9)	Total Nonmajor Governmental Funds (Exhibit C)
\$ 359,326	\$ 7,167,754
-	5,603
23,128	198,492
-	113,752
-	3,825,982
<u>\$ 382,454</u>	<u>\$ 11,311,583</u>
\$ -	\$ 224,628
-	6,937
-	54,271
-	300,000
<u>-</u>	<u>585,836</u>
-	3,800,000
<u>-</u>	<u>3,800,000</u>
-	120,189
-	798,659
-	233,657
-	134,735
-	93,921
-	15,921
-	199,379
-	3,814,777
382,454	382,454
-	367,946
-	741,062
-	2,395
-	20,652
<u>382,454</u>	<u>6,925,747</u>
<u>\$ 382,454</u>	<u>\$ 11,311,583</u>

SCHEDULE 4

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2012**

	Special Revenue Funds (Schedule 6)	Debt Service Funds (Schedule 8)
REVENUES		
General property taxes	\$ 1,009,133	\$ 3,802,016
Fines, forfeitures and penalties	98,973	-
Interest, rents and concessions	7,951	43,866
Intergovernmental	6,048,617	250,807
Charges for services	249,565	-
Other revenues	96,625	214,050
Total revenues	7,510,864	4,310,739
EXPENDITURES		
Current:		
Public safety	187,537	-
Public services	3,539,787	-
Other services	5,784,890	200,593
Mass transit	1,408,435	-
Culture and recreation	4,215,802	-
Human/social assistance	1,166,064	-
Debt service:		
Principal payments	168,086	3,921,651
Interest and fiscal charges	33,984	1,068,059
Total expenditures	16,504,585	5,190,303
Excess (deficiency) of revenues over expenditures	(8,993,721)	(879,564)
OTHER FINANCING SOURCES (USES)		
Proceeds from long-term debt	-	-
Transfers in	3,966,816	492,070
Transfers out	-	-
Other sources	4,119,001	-
Total other financing sources (uses)	8,085,817	492,070
NET CHANGE IN FUND BALANCES	(907,904)	(387,494)
Fund balances - beginning	3,636,420	4,202,271
Fund balances - ending	\$ 2,728,516	\$ 3,814,777

Capital Project Funds (Schedule 10)	Total Nonmajor Governmental Funds (Exhibit D)
\$ -	\$ 4,811,149
-	98,973
716	52,533
449,599	6,749,023
-	249,565
-	310,675
<u>450,315</u>	<u>12,271,918</u>
-	187,537
1,117,349	4,657,136
-	5,985,483
-	1,408,435
581,119	4,796,921
-	1,166,064
-	4,089,737
-	1,102,043
<u>1,698,468</u>	<u>23,393,356</u>
(1,248,153)	(11,121,438)
715,000	715,000
-	4,458,886
(108)	(108)
-	4,119,001
<u>714,892</u>	<u>9,292,779</u>
(533,261)	(1,828,659)
<u>915,715</u>	<u>8,754,406</u>
<u>\$ 382,454</u>	<u>\$ 6,925,747</u>

SCHEDULE 5

CITY OF HATTIESBURG, MISSISSIPPI

Combining Balance Sheet
Nonmajor Special Revenue Funds
September 30, 2012

	<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	\$ 203,746	\$ 764,445	\$ 205,996	\$ 277,574	\$ 124,934	\$ 615,263
Due from other funds	-	854	-	4,749	-	-
Intergovernmental receivables	-	-	-	-	18,831	34,123
Other receivables	-	95,952	-	2,362	1,970	13,468
Property taxes receivable	805,385	-	-	-	-	-
Total assets	<u>\$ 1,009,131</u>	<u>\$ 861,251</u>	<u>\$ 205,996</u>	<u>\$ 284,685</u>	<u>\$ 145,735</u>	<u>\$ 662,854</u>
LIABILITIES						
Accounts payable	\$ 6,822	\$ -	\$ -	\$ -	\$ 11,000	\$ 67,796
Due to other funds	3,062	-	-	-	-	-
Other liabilities	-	-	-	30,376	-	-
Advances from other funds	-	-	-	-	-	-
Total liabilities	<u>9,884</u>	<u>-</u>	<u>-</u>	<u>30,376</u>	<u>11,000</u>	<u>67,796</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	800,000	-	-	-	-	-
Total deferred inflows of resources	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Restricted:						
Fire protection	-	120,189	-	-	-	-
Street improvements and repairs	-	-	203,601	-	-	595,058
Law enforcement	-	-	-	233,657	-	-
Airport projects	-	-	-	-	134,735	-
Mass transit	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Committed:						
Parks and recreation	199,247	-	-	-	-	-
Fire protection	-	741,062	-	-	-	-
Street improvements and repairs	-	-	2,395	-	-	-
Law enforcement	-	-	-	20,652	-	-
Total fund balances	<u>199,247</u>	<u>861,251</u>	<u>205,996</u>	<u>254,309</u>	<u>134,735</u>	<u>595,058</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,009,131</u>	<u>\$ 861,251</u>	<u>\$ 205,996</u>	<u>\$ 284,685</u>	<u>\$ 145,735</u>	<u>\$ 662,854</u>

<u>MASS TRANSIT OPERATING</u>	<u>COMMUNITY CENTERS</u>	<u>CDBG FUND</u>	<u>GROUP INSURANCE</u>	<u>TOTAL</u>
\$ 145,313	\$ 193,396	\$ 282,849	\$ 199,379	\$ 3,012,895
-	-	-	-	5,603
32,572	-	89,838	-	175,364
-	-	-	-	113,752
201,353	-	-	-	1,006,738
<u>\$ 379,238</u>	<u>\$ 193,396</u>	<u>\$ 372,687</u>	<u>\$ 199,379</u>	<u>\$ 4,314,352</u>
\$ 81,746	\$ 542	\$ 56,722	\$ -	\$ 224,628
3,571	260	44	-	6,937
-	23,895	-	-	54,271
-	-	300,000	-	300,000
85,317	24,697	356,766	-	585,836
200,000	-	-	-	1,000,000
200,000	-	-	-	1,000,000
-	-	-	-	120,189
-	-	-	-	798,659
-	-	-	-	233,657
-	-	-	-	134,735
93,921	-	-	-	93,921
-	-	15,921	-	15,921
-	-	-	199,379	199,379
-	168,699	-	-	367,946
-	-	-	-	741,062
-	-	-	-	2,395
-	-	-	-	20,652
93,921	168,699	15,921	199,379	2,728,516
<u>\$ 379,238</u>	<u>\$ 193,396</u>	<u>\$ 372,687</u>	<u>\$ 199,379</u>	<u>\$ 4,314,352</u>

SCHEDULE 6

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended September 30, 2012**

	<u>PARKS & RECREATION</u>	<u>MUNICIPAL FIRE PROTECTION</u>	<u>SPECIAL STREET</u>	<u>POLICE FORFEITURES</u>	<u>AIRPORT IMPROVEMENT</u>	<u>MUNICIPAL ROAD & BRIDGE</u>
REVENUES						
General property taxes	\$ 806,541	\$ -	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures and penalties	-	2,135	-	96,838	-	-
Interest, rents and concessions	1,031	4,429	1,127	25	137	348
Intergovernmental	46,707	239,664	54,613	-	1,110,591	2,528,416
Charges for services	84,466	95,652	-	8,783	-	-
Other revenues	15,000	31,169	-	-	25,456	25,000
Total revenues	<u>953,745</u>	<u>373,049</u>	<u>55,740</u>	<u>105,646</u>	<u>1,136,184</u>	<u>2,553,764</u>
EXPENDITURES						
Current:						
Public safety	-	139,038	-	48,499	-	-
Public services	-	-	-	-	-	3,539,787
Other services	-	-	-	-	1,273,116	-
Mass transit	-	-	-	-	-	-
Culture and recreation	3,454,254	-	-	-	-	-
Human/social assistance	-	-	-	-	-	-
Debt service:						
Principal payments	-	144,539	-	-	-	23,547
Interest and fiscal charges	-	27,548	-	-	-	6,436
Total expenditures	<u>3,454,254</u>	<u>311,125</u>	<u>-</u>	<u>48,499</u>	<u>1,273,116</u>	<u>3,569,770</u>
Excess (deficiency) of revenues over expenditures	(2,500,509)	61,924	55,740	57,147	(136,932)	(1,016,006)
OTHER FINANCING SOURCES						
Transfers in	2,650,816	-	-	-	235,000	-
Other sources	-	-	-	-	-	-
Total other financing sources	<u>2,650,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	150,307	61,924	55,740	57,147	98,068	(1,016,006)
Fund balances - beginning	<u>48,940</u>	<u>799,327</u>	<u>150,256</u>	<u>197,162</u>	<u>36,667</u>	<u>1,611,064</u>
Fund balances - ending	<u>\$ 199,247</u>	<u>\$ 861,251</u>	<u>\$ 205,996</u>	<u>\$ 254,309</u>	<u>\$ 134,735</u>	<u>\$ 595,058</u>

<u>MASS TRANSIT OPERATING</u>	<u>COMMUNITY CENTERS</u>	<u>CDBG FUND</u>	<u>GROUP INSURANCE</u>	<u>TOTAL</u>
\$ 202,592	\$ -	\$ -	\$ -	\$ 1,009,133
-	-	-	-	98,973
134	353	-	367	7,951
854,826	-	1,213,800	-	6,048,617
41,943	18,721	-	-	249,565
-	-	-	-	96,625
<u>1,099,495</u>	<u>19,074</u>	<u>1,213,800</u>	<u>367</u>	<u>7,510,864</u>
-	-	-	-	187,537
-	-	-	-	3,539,787
-	-	56,583	4,455,191	5,784,890
1,408,435	-	-	-	1,408,435
-	761,548	-	-	4,215,802
-	-	1,166,064	-	1,166,064
-	-	-	-	168,086
-	-	-	-	33,984
<u>1,408,435</u>	<u>761,548</u>	<u>1,222,647</u>	<u>4,455,191</u>	<u>16,504,585</u>
(308,940)	(742,474)	(8,847)	(4,454,824)	(8,993,721)
335,000	746,000	-	-	3,966,816
318	150	-	4,118,533	4,119,001
<u>335,318</u>	<u>746,150</u>	<u>-</u>	<u>4,118,533</u>	<u>8,085,817</u>
26,378	3,676	(8,847)	(336,291)	(907,904)
<u>67,543</u>	<u>165,023</u>	<u>24,768</u>	<u>535,670</u>	<u>3,636,420</u>
<u>\$ 93,921</u>	<u>\$ 168,699</u>	<u>\$ 15,921</u>	<u>\$ 199,379</u>	<u>\$ 2,728,516</u>

SCHEDULE 7

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Debt Service Funds
September 30, 2012**

	<u>1999 TIF BOND AND INTEREST</u>	<u>CITY BOND AND INTEREST</u>	<u>2002 TIF BOND AND INTEREST SOUTHERN POINTE</u>	<u>2004 TIF BOND AND INTEREST HOME DEPOT</u>	<u>2003 TIF BOND AND INTEREST CHAUVET SQUARE</u>	<u>2007 TIF BOND AND INTEREST TURTLE CROSSING</u>	<u>2008 TIF BOND AND INTEREST LINCOLN CENTER</u>	<u>2012 TIF BOND AND INTEREST KOHL'S</u>	<u>TOTAL</u>
ASSETS									
Cash and cash equivalents	\$ 72,183	\$ 3,040,255	\$ 64,729	\$ 123,272	\$ 141,751	\$ 219,484	\$ 118,070	\$ 15,789	\$ 3,795,533
Property taxes receivable	-	2,819,244	-	-	-	-	-	-	2,819,244
Total assets	<u>\$ 72,183</u>	<u>\$ 5,859,499</u>	<u>\$ 64,729</u>	<u>\$ 123,272</u>	<u>\$ 141,751</u>	<u>\$ 219,484</u>	<u>\$ 118,070</u>	<u>\$ 15,789</u>	<u>\$ 6,614,777</u>
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue-property taxes	\$ -	\$ 2,800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,800,000
Total deferred inflows of resources	-	2,800,000	-	-	-	-	-	-	2,800,000
FUND BALANCES									
Restricted:									
Debt service	72,183	3,059,499	64,729	123,272	141,751	219,484	118,070	15,789	3,814,777
Total fund balances	<u>72,183</u>	<u>3,059,499</u>	<u>64,729</u>	<u>123,272</u>	<u>141,751</u>	<u>219,484</u>	<u>118,070</u>	<u>15,789</u>	<u>3,814,777</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 72,183</u>	<u>\$ 5,859,499</u>	<u>\$ 64,729</u>	<u>\$ 123,272</u>	<u>\$ 141,751</u>	<u>\$ 219,484</u>	<u>\$ 118,070</u>	<u>\$ 15,789</u>	<u>\$ 6,614,777</u>

SCHEDULE 8

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended September 30, 2012**

	1999 TIF BOND AND INTEREST	CITY BOND AND INTEREST	2002 TIF BOND AND INTEREST SOUTHERN POINTE	2004 TIF BOND AND INTEREST HOME DEPOT	2003 TIF BOND AND INTEREST CHAUVET SQUARE	2007 TIF BOND AND INTEREST TURTLE CROSSING	2008 TIF BOND AND INTEREST LINCOLN CENTER	2012 TIF BOND AND INTEREST KOHL'S	TOTAL
REVENUES									
General property taxes	\$ 66,188	\$ 2,882,161	\$ 50,181	\$ 58,361	\$ 241,356	\$ 352,517	\$ 76,913	\$ 74,339	\$ 3,802,016
Interest, rents and concessions	46	2,307	40,974	67	121	245	95	11	43,866
Intergovernmental	-	82,314	-	27,144	-	109,816	-	31,533	250,807
Other revenues	-	214,050	-	-	-	-	-	-	214,050
Total revenues	<u>66,234</u>	<u>3,180,832</u>	<u>91,155</u>	<u>85,572</u>	<u>241,477</u>	<u>462,578</u>	<u>77,008</u>	<u>105,883</u>	<u>4,310,739</u>
EXPENDITURES									
Current:									
Other services	-	200,558	35	-	-	-	-	-	200,593
Debt service:									
Principal payments	50,000	3,231,651	85,000	75,000	90,000	280,000	35,000	75,000	3,921,651
Interest and fiscal charges	13,490	730,828	8,538	12,186	103,510	162,763	21,650	15,094	1,068,059
Total expenditures	<u>63,490</u>	<u>4,163,037</u>	<u>93,573</u>	<u>87,186</u>	<u>193,510</u>	<u>442,763</u>	<u>56,650</u>	<u>90,094</u>	<u>5,190,303</u>
Excess (deficiency) of revenues over expenditures	2,744	(982,205)	(2,418)	(1,614)	47,967	19,815	20,358	15,789	(879,564)
OTHER FINANCING SOURCES									
Transfers in	-	492,070	-	-	-	-	-	-	492,070
Total other financing sources	<u>-</u>	<u>492,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>492,070</u>
NET CHANGE IN FUND BALANCES	2,744	(490,135)	(2,418)	(1,614)	47,967	19,815	20,358	15,789	(387,494)
Fund balances - beginning	69,439	3,549,634	67,147	124,886	93,784	199,669	97,712	-	4,202,271
Fund balances - ending	<u>\$ 72,183</u>	<u>\$ 3,059,499</u>	<u>\$ 64,729</u>	<u>\$ 123,272</u>	<u>\$ 141,751</u>	<u>\$ 219,484</u>	<u>\$ 118,070</u>	<u>\$ 15,789</u>	<u>\$ 3,814,777</u>

SCHEDULE 9

CITY OF HATTIESBURG, MISSISSIPPI

Combining Balance Sheet
Nonmajor Capital Project Funds
September 30, 2012

	<u>2009 DOWNTOWN LIGHTING PROJECT</u>	<u>MISSISSIPPI DEVELOPMENT BANK PROJECT</u>	<u>2001 BOND CONSTRUCTION</u>	<u>2011 TURTLE CROSSING CONSTRUCTION</u>	<u>KAMPER PARK/ZOO IMPROVEMENTS</u>	<u>TOTAL</u>
ASSETS						
Cash and cash equivalents	\$ -	\$ 85,722	\$ 187,449	\$ 49	\$ 86,106	\$ 359,326
Intergovernmental receivable	-	23,128	-	-	-	23,128
Total assets	<u>\$ -</u>	<u>\$ 108,850</u>	<u>\$ 187,449</u>	<u>\$ 49</u>	<u>\$ 86,106</u>	<u>\$ 382,454</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES						
Restricted:						
Parks and recreation projects	-	108,850	187,449	49	86,106	382,454
Total fund balances	-	108,850	187,449	49	86,106	382,454
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 108,850</u>	<u>\$ 187,449</u>	<u>\$ 49</u>	<u>\$ 86,106</u>	<u>\$ 382,454</u>

SCHEDULE 10

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended September 30, 2012**

	2009 DOWNTOWN LIGHTING PROJECT	MISSISSIPPI DEVELOPMENT BANK PROJECT	2001 BOND CONSTRUCTION	2011 TURTLE CROSSING CONSTRUCTION	KAMPER PARK/ZOO IMPROVEMENTS	TOTAL
REVENUES						
Interest, rents and concessions	\$ 68	\$ 80	\$ 280	\$ 49	\$ 239	\$ 716
Intergovernmental	-	449,599	-	-	-	449,599
Total revenues	<u>68</u>	<u>449,679</u>	<u>280</u>	<u>49</u>	<u>239</u>	<u>450,315</u>
EXPENDITURES						
Current:						
Public services	402,349	-	-	715,000	-	1,117,349
Culture and recreation	-	431,902	-	-	149,217	581,119
Total expenditures	<u>402,349</u>	<u>431,902</u>	<u>-</u>	<u>715,000</u>	<u>149,217</u>	<u>1,698,468</u>
Excess (deficiency) of revenues over expenditures	(402,281)	17,777	280	(714,951)	(148,978)	(1,248,153)
OTHER FINANCING SOURCES (USES)						
Proceeds from long-term debt	-	-	-	715,000	-	715,000
Transfers out	(108)	-	-	-	-	(108)
Total other financing sources (uses)	<u>(108)</u>	<u>-</u>	<u>-</u>	<u>715,000</u>	<u>-</u>	<u>714,892</u>
NET CHANGE IN FUND BALANCES	(402,389)	17,777	280	49	(148,978)	(533,261)
Fund balances - beginning	<u>402,389</u>	<u>91,073</u>	<u>187,169</u>	<u>-</u>	<u>235,084</u>	<u>915,715</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 108,850</u>	<u>\$ 187,449</u>	<u>\$ 49</u>	<u>\$ 86,106</u>	<u>\$ 382,454</u>

SCHEDULE 11
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2012**

	PERSONAL SERVICES	SUPPLIES & EXPENSES
GENERAL GOVERNMENT		
City Council	\$ 185,869	\$ 1,582
Mayor/Administration	515,101	9,729
Municipal Clerk	142,498	2,079
Accounting Division	247,176	2,705
Purchasing Division	127,968	6,556
City Attorney	91,583	-
Human Resources Division	176,666	4,685
Loss Control Division	100,237	4,356
Planning Division	398,990	22,569
Data Processing	363,848	44,556
Metro Planning	193,977	4,600
General Government Building	-	13,581
General Government - Other	1,109	1,285
Intermodal Facility	-	8,799
Federal Grant Administration	133,058	5,022
City Court	877,348	11,448
Total General Government	3,555,428	143,552
PUBLIC SAFETY		
Police Department	8,236,114	747,907
Police and Fire Training	30,424	131,850
Fire Department	6,342,898	309,330
Land Use Code	453,746	31,302
Contractual Services	172,903	-
Total Public Safety	15,236,085	1,220,389
PUBLIC SERVICE		
Traffic Maintenance	305,134	118,158
Street Division	1,456,180	458,948
Street Lights	-	-
Engineering	324,624	12,710
Shop Division	412,316	40,161
Garage and Office	304,029	15,592
Drainage Division	154,380	61,573
Construction Division	542,547	83,952
Sanitation Division	1,160,369	315,671
Street Cleaning Division	56,083	20,862
Public Works – Health Division	380,583	129,417
Total Public Service	5,096,245	1,257,044

OTHER SERVICES/ CHARGES	CAPITAL OUTLAYS	DEBT SERVICE	TOTAL
\$ 112,625	\$ 64,441	\$ -	\$ 364,517
77,007	-	-	601,837
28,323	-	-	172,900
1,444	-	-	251,325
789	-	-	135,313
9,429	-	-	101,012
3,213	-	-	184,564
3,350	-	-	107,943
332,015	17,865	-	771,439
160,454	104,835	-	673,693
96,909	1,698	-	297,184
91,326	-	-	104,907
1,325,853	-	-	1,328,247
58,860	-	-	67,659
3,682	132,550	-	274,312
140,308	-	-	1,029,104
<u>2,445,587</u>	<u>321,389</u>	<u>-</u>	<u>6,465,956</u>
436,492	1,149,758	-	10,570,271
110,180	-	-	272,454
284,523	168,350	-	7,105,101
46,970	-	-	532,018
1,516,885	-	-	1,689,788
<u>2,395,050</u>	<u>1,318,108</u>	<u>-</u>	<u>20,169,632</u>
42,855	22,763	-	488,910
186,727	12,000	-	2,113,855
1,045,126	-	-	1,045,126
345,653	16,386	-	699,373
35,398	-	-	487,875
18,288	-	-	337,909
269,076	24,754	-	509,783
155,502	80,518	-	862,519
1,018,678	-	-	2,494,718
6,650	-	-	83,595
4,466	-	-	514,466
<u>3,128,419</u>	<u>156,421</u>	<u>-</u>	<u>9,638,129</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2012**

	<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	102,475	18,079
Airport	82,150	49,841
Cemetery	551,842	80,767
Parking Operations	161,807	5,680
Total Other Services	<u>898,274</u>	<u>154,367</u>
DEBT SERVICE	<u>-</u>	<u>-</u>
TOTAL DEPARTMENTAL EXPENDITURES	<u>\$ 24,786,032</u>	<u>\$ 2,775,352</u>

<u>OTHER SERVICES/ CHARGES</u>	<u>CAPITAL OUTLAYS</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
\$ 125,320	\$ -	\$ -	\$ 125,320
<u>125,320</u>	<u>-</u>	<u>-</u>	<u>125,320</u>
2,160,000	-	-	2,160,000
<u>2,160,000</u>	<u>-</u>	<u>-</u>	<u>2,160,000</u>
115,263	9,850	-	245,667
65,121	10,876	-	207,988
37,576	268,118	-	938,303
88,841	28,020	-	284,348
<u>306,801</u>	<u>316,864</u>	<u>-</u>	<u>1,676,306</u>
-	-	1,347,197	1,347,197
<u>\$ 10,561,177</u>	<u>\$ 2,112,782</u>	<u>\$ 1,347,197</u>	<u>\$ 41,582,540</u>

SCHEDULE 12

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Other Fiduciary Funds, Assets, and Liabilities
Agency Funds
September 30, 2012**

	Payroll Withholding Fund
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 351,582
Property taxes and fees receivable	-
Sales tax receivable	-
	<hr/>
Total assets	<u><u>\$ 351,582</u></u>
LIABILITIES	
Employee contributions payable	\$ 350,382
Due to other agencies	-
Other liabilities	1,200
Amounts held in custody for others	-
	<hr/>
Total liabilities	<u><u>\$ 351,582</u></u>

Tax Collectors Fund	Hattiesburg Special Sales Tax	Industrial Park Fund	Total
\$ 1,099,579	\$ -	\$ 929,397	\$ 2,380,558
149,303	-	-	149,303
-	411,112	-	411,112
<u>\$ 1,248,882</u>	<u>\$ 411,112</u>	<u>\$ 929,397</u>	<u>\$ 2,940,973</u>
\$ -	\$ -	\$ -	\$ 350,382
1,223,643	411,112	-	1,634,755
25,239	-	-	26,439
-	-	929,397	929,397
<u>\$ 1,248,882</u>	<u>\$ 411,112</u>	<u>\$ 929,397</u>	<u>\$ 2,940,973</u>

SCHEDULE 13

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule Of Surety Bonds For Municipal Officials
Year Ended September 30, 2012**

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

SCHEDULE 14

CITY OF HATTIESBURG, MISSISSIPPI

**Full Cost Accounting
Solid Waste Management Services
Year Ended September 30, 2012**

EXPENSES - Sanitation Cost Center (General Fund):	
Personnel costs	\$ 1,160,368
Supplies	315,670
Other services and charges	1,018,677
Total expenses (other than capital outlay) Sanitation Cost Center	<u>2,494,715</u>
Interest on capital leases - sanitation trucks and containers	71,918
Depreciation expense	668,659
Allocation of certain expenses in Other Cost Centers:	
50% of shop cost center - Repair and maintenance	243,938
Indirect cost allocation - 10% of administration cost centers	<u>274,436</u>
Total calculated expenses - full cost basis	<u><u>\$ 3,753,666</u></u>
Number of tons of solid waste collected and disposed of by City:	
Sanitation trucks:	
Garbage (tons)	12,264 tons
Trash (tons)	<u>4,110 tons</u>
Total tons solid waste	<u><u>16,374 tons</u></u>
Distribution of residential and non-residential costs:	
Residential (84%)	\$ 3,153,080
Non-residential (16%)	<u>600,586</u>
Total distribution	<u><u>\$ 3,753,666</u></u>

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 15
PAGE 1 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Defense			
U.S. Army Corp of Engineers Mississippi Environmental Infrastructure Section 592	12.Unknown	W807PM70114685	\$ 3,500,564
Total U.S. Department of Defense Direct Programs			<u>3,500,564</u>
U.S. Department of Housing and Urban Development			
Pass-Through Programs From:			
Governor's Department of Housing and Urban Development			
<i>CDBG Entitlement Grants - Cluster:</i>			
Community Development Block Grants/Entitlement Grants	14.218	MC-28-0006	558,155
ARRA - CDBG Entitlement Grants	14.253	MY-28-0006	<u>20,073</u>
Total - CDBG Entitlement Grants Cluster			<u>578,228</u>
HOME Investment Partnerships Program	14.239	MC-28-0201	<u>562,802</u>
Pass-Through Programs From:			
Mississippi Development Authority			
Community Development Block Grants/State's Program:			
Katrina Community Revitalization - Fire Station Amendment	14.228	R-110-205-01-GZ	208,407
Katrina Community Revitalization - Water Plant #2	14.228	R-110-205-02-GZ	496,575
Katrina Community Revitalization - WIS PAK	14.228	R-103-205-01-KED	515,726
Katrina Community Revitalization - Hub City Lofts	14.228	R-103-205-02-KED	2,000,000
Katrina Community Revitalization - USA Yeast Wastewater Pretreatment	14.228	R-103-205-03-KED	<u>57,201</u>
Total Community Development Block Grants/State's Program			<u>3,277,909</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 15
PAGE 2 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Housing and Urban Development (cont.)</i>			
Pass-Through Programs From:			
Mississippi Development Authority Emergency Solutions Grant Program	14.231	ESG-205-11	<u>\$ 75,000</u>
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-10-SP-MS-0101	<u>444,851</u>
Community Challenge Planning Grants and Department of Transportation's Tiger II Planning Grants	14.704	CCPMS0014-10	<u>135,673</u>
Total U.S. Department of Housing and Urban Development Pass-Through Programs			<u>5,074,463</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: Hurricane Relief Grant for Historic Preservation	15.904	00LGHATT	<u>5,920</u>
Total U.S. Department of the Interior/National Park Service Pass-Through Programs			<u>5,920</u>
<i>U.S. Department of Justice</i>			
Pass-Through Programs From:			
Office of Justice Programs Juvenile Accountability Block Grants - USM	16.523	2010-JB-FX-0090	<u>50,572</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 15
PAGE 3 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Justice (Cont.)</i>			
Pass-Through Programs From:			
Office of Justice Programs			
OVW Technical Assistance Initiative	16.526	11-WF-AX-0046	\$ 4,935
OVW Technical Assistance Initiative	16.526	10-WF-AX-0050	15,010
			<u>19,945</u>
Edward Byrne Memorial Formula Grant	16.579	11-DJ-BX-2694	<u>62,316</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-1348	<u>25,878</u>
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2009MOBX0033	<u>117,567</u>
Total U.S. Department of Justice Pass-Through Programs			<u>276,278</u>
<i>U.S. Department of Transportation</i>			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-28-0031-0018-2011	429,953
Airport Improvement Program	20.106	3-28-0031-0019-2012	680,638
			<u>1,110,591</u>
Federal Transit Administration			
<i>Federal Transit Cluster:</i>			
ARRA - Federal Transit Capital Investment Grants	20.500	MS-96-X001	<u>85,872</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 15
PAGE 4 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Transportation (Cont.)</i>			
<i>Federal Transit Cluster(cont.):</i>			
Federal Transit Formula Grants:			
Mass Transit Preventative	20.507	MS-90-X078	\$ 326,708
Mass Transit Operating	20.507	MS-90-4082	279,981
Mass Transit Capital	20.507	MS-90-0082	114,001
Mass Transit Capital	20.507	MS-90-0086	48,264
Total - Federal Transit Formula Grants			<u>768,954</u>
Total - <i>Federal Transit Cluster</i>			<u>854,826</u>
Total U.S. Department of Transportation Direct Programs			<u>1,965,417</u>
Federal Highway Administration			
Pass-Through Programs From:			
Mississippi Department of Transportation			
Highway Planning and Construction:			
Metropolitan Planning Organization	20.205	MS-80-0002/502304-101000	274,153
Urban Youth Corps Transportation Enhancement Project	20.205	STP-9999-09(023)/106400-307000	18,310
ARRA - Chain Park Trail Phase II Enhancement Project	20.205	STP-0210-00(021)/105245-702000	5,601
Safe Routes to Schools Project (Woodley)	20.205	SRSP-0210-00(024)	19,210
Safe Routes to Schools Project (Rowan)	20.205	SRSP-0210-00(020) & (019)	202,116
Traffic Signal Upgrade - ITS	20.205	ITS-6098-00(008)LPA/10578-801000	(499)
Traffic Signal US Hwy 11/Parkway Blvd.	20.205	STP-9339-00(008)/106005-701000	334,002
Western Beltway	20.205	STPD-8776-00(004)/105844/811000	10,026
Total - Highway Planning and Construction			<u>862,919</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 15
PAGE 5 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Transportation (Cont.)</i>			
National Highway Traffic Safety Administration			
Pass-Through Programs From:			
Office of Highway Safety			
Alcohol Open Container Requirements	20.607	12-TA-2151	<u>\$ 76,156</u>
Total U.S. Department of Transportation Pass-Through Programs			<u>939,075</u>
Total U.S. Department of Transportation			<u>2,904,492</u>
<i>U.S. Environmental Protection Agency</i>			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-95441009	<u>135,918</u>
Total U.S. Environmental Protection Agency Direct Programs			<u>135,918</u>
<i>U.S. Department of Homeland Security</i>			
Pass-Through Program From:			
Mississippi Office of Homeland Security			
Assistance to Firefighters Grant	97.044	EMW-2011-FO-08281	<u>79,348</u>
Homeland Security Grant Program	97.067	10HS205T	7,827
Homeland Security Grant Program	97.067	A9HS205T	42,390
Homeland Security Grant Program	97.067	S8HS205T	4,915
Homeland Security Grant Program	97.067	E8HS205T	<u>7,329</u>
			<u>62,461</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 15
PAGE 6 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Homeland Security (Cont.)</i>			
Pass-Through Programs From:			
Mississippi Emergency Management Agency Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1794-DR-MS	<u>\$ (457,332)</u>
Hazard Mitigation Grant - Saferooms	97.039	HMGP-1604-220	<u>482</u>
Total U.S. Department of Homeland Security Pass-Through Programs			<u>(315,041)</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 11,582,594</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF HATTIESBURG

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Hattiesburg under programs of the federal government for the year ended September 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Hattiesburg, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Hattiesburg.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting - The accrual basis of accounting incorporates an estimation approach to determine the amount of expenditures incurred but not yet billed. Thus, federal programs presenting negative amounts on the Schedule are the result of prior year estimates being overstated and/or reimbursements due back to grantor agencies.

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

NOTE 3 - NOTE PAYABLE BALANCE- KATRINA SUPPLEMENTAL CDBG PROGRAM

The City, pursuant to applicable provisions of the Community Development Block Grant Recovery Program grant and loan agreement, is scheduled to repay the \$2 million in fiscal year 2012 Katrina Supplemental CDBG Program funding to the Mississippi Development Authority, Disaster Recovery Division ("MDA") for a period of 240 months beginning February, 2013. These monthly loan repayments to MDA are based on the monthly amounts to be repaid to the City pursuant to the loan agreement and promissory note documents entered into by HCL Leverage Lender, LLC (borrower) and the City.

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Schedule 16

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

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

We have audited 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, 2012, which collectively comprise the City of Hattiesburg, Mississippi's basic financial statements and have issued our report thereon dated April 24, 2013. 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

Management of the City of Hattiesburg, Mississippi, is responsible for establishing and maintaining effective 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.

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

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

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 over financial reporting 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

A handwritten signature in black ink that reads "Nicholson & Company, PLLC". The signature is written in a cursive, flowing style.

Hattiesburg, Mississippi
April 24, 2013

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Schedule 17

**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, Mississippi

Compliance

We have audited the City of Hattiesburg, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hattiesburg, Mississippi's major federal programs for the year ended September 30, 2012. 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, Mississippi

As described in item 2012-1 in the accompanying schedule of findings and questioned costs, the City of Hattiesburg, Mississippi did not comply with requirements regarding the Davis-Bacon Act that are applicable to its Mississippi Environmental Infrastructure Section 592 Program. Compliance with such requirements is necessary, in our opinion, for the City of Hattiesburg, Mississippi to comply with the 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 compliance 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, 2012.

Internal Control Over Compliance

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 to determine the 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 a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a significant deficiency.

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

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

This report is intended solely for the information and use of management, City Council, others within the entity, 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
April 24, 2013

SCHEDULE 18
PAGE 1 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2012**

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?	No
Significant deficiency identified not considered to be a material weakness?	Yes
Type of auditor's report issued on compliance for major programs:	
Unqualified for all major programs except for the Mississippi Environmental Infrastructure Section 592 program which was qualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
12.Unknown	Mississippi Environmental Infrastructure Section 592
14.228	Community Development Block Grants/State's Program

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2012**

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.251	Economic Development Initiative Special Project, Neighborhood Initiative and Miscellaneous Grants
14.704	Community Challenge Planning Grants and the Department of Transportation's TIGER II Planning Grants
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
66.818	Brownfields Assessment and Cleanup Cooperative Agreements
Dollar threshold used to distinguish between Type A and Type B programs:	\$347,478
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

No matters were reported.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2012**

Section III - Federal Awards Findings and Questioned Costs

Finding 2012-1 **Finding:**

CFDA No. 12.UNK Mississippi Environmental Infrastructure Section 592
U.S. Department of Defense
Department of the Army, Office of the Corps of Engineers
Project Number W807PM70114685

Criteria - Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor (DOL) regulations (29 CFR parts 5). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Condition - During fiscal year ended September 30, 2012, the City failed to comply with Federal laws and regulations and standards applicable to the Davis-Bacon Act. Section 592 construction contracts did not include the required prevailing wage clauses nor were the required certified weekly payrolls documented.

Questioned Costs - \$3,234,294. This amount is based upon a compilation of the federally funded portion of payments remitted to contractors pursuant to the City's Section 592 construction contracts.

Context - Pursuant to our fiscal year 2012 audit procedures which included examination of Davis-Bacon compliance documentation, we noted that the City had executed the Section 592 construction contracts without inclusion of Davis-Bacon Act provision. Based upon our inquiries, we determined the City had forwarded these contracts to the Corps. of Engineers as a part of the required preliminary review process and an initial determination was made that Davis-Bacon requirements would not apply to this project. Audit inquiries made to the Corps. of Engineers resulted in audit conclusions that the Davis-Bacon Act requirements did apply to this project.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2012**

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

Finding 2012-1 **Finding: (Cont.)**

Effect - Failure to include the required prevailing wage clauses in construction contracts and subcontracts and failure to document the required certified weekly payrolls could result in the payment of wages for Section 592 projects that are below the required DOL pay rates.

Cause - The City's internal control policies and procedures failed to require authoritative documentation pertaining to the applicability of the Davis-Bacon Act requirements for the Section 592 project. This resulted in the project contracts being executed without the required Davis-Bacon Act provisions.

Recommendation - The City's Engineering Department and project engineers should implement procedures that will ascertain that construction contract and subcontract documents include the required prevailing wage clauses when the provisions of the Davis-Bacon Act are applicable. Additionally, when the Davis-Bacon Act is applicable, procedures should be implemented that will allow for the timely documentation of required certified weekly payrolls.

Views of Responsible Officials - The City's Corrective Action Plan is presented on page 119.

CITY OF HATTIESBURG, MISSISSIPPI

CORRECTIVE ACTION PLAN

Year Ended September 30, 2012



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

Corrective Action Plan

Finding 2012-1

Program: Mississippi Environmental Infrastructure Section 592
CFDA No.: 12.UNKNOWN
Federal Agency: U.S. Department of Defense/U.S. Army Corps. of Engineers
Award Year: Fiscal Year 2011-2012
Compliance Requirement: Davis-Bacon Act
Questioned Costs: \$3,234,294

Department's Response:

The Department of Administration concurs with the finding.

Corrective Action Plan:

Response from the Department of Administration:

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

Name of Responsible Person: Eddie R. Myers, Director of Administration/City Clerk

Name of Department Contact: Lisa Hanson

Expected date of Completion: January 1, 2013

CITY OF HATTIESBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2012



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

**Summary Schedule of Prior Audit Findings
Year Ended September 30, 2012**

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

2011-2 Summary of prior audit finding – Controls over all aspects of grant administration, including applicable cash management requirements should be implemented.

CFDA 20.205 Highway Planning and Construction Cluster

Status - FULLY CORRECTED

The City has emphasized the importance of the coordination of all aspects of grant administration, including applicable cash management requirements. An experienced accountant has been hired to assist the City's Engineering Department, and she has been provided with federal grant administration training materials and the City has emphasized the need for her to work closely with the City's comptroller in order to ensure that timely payments are made to vendors pursuant to applicable grant provisions.

Contact: Lisa Hanson, Comptroller

STATISTICAL INFORMATION

TABLE 1

CITY OF HATTIESBURG, MISSISSIPPI

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

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

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

TABLE 2

CITY OF HATTIESBURG, MISSISSIPPI

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

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

TABLE 2
PAGE TWO

CITY OF HATTIESBURG, MISSISSIPPI

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

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

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

TABLE 3

CITY OF HATTIESBURG, MISSISSIPPI

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

	FISCAL YEAR									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Fund:										
Nonspendable	\$ 332,300	\$ 30,750	\$ 252,349	\$ 82,057	\$ 65,400	\$ 53,763	\$ 21,533	\$ 252,104	\$ 292,526	\$ 20,686
Assigned	452,842	386,144	-	-	-	-	-	-	-	-
Unassigned	6,963,113	7,661,673	-	-	-	-	-	-	-	-
Unreserved	-	-	6,824,621	7,739,081	8,484,316	10,165,200	8,910,441	6,138,963	6,613,676	5,465,362
Total general fund	<u>7,748,255</u>	<u>8,078,567</u>	<u>7,076,970</u>	<u>7,821,138</u>	<u>8,549,716</u>	<u>10,218,963</u>	<u>8,931,974</u>	<u>6,391,067</u>	<u>6,906,202</u>	<u>5,486,048</u>
% Change from Prior Year	-4.1%	14.2%	-9.5%	-8.5%	-16.3%	14.4%	39.8%	-7.5%	25.9%	10.3%
Other Governmental Funds:										
Debt service funds										
Restricted	3,814,777	4,202,271	4,001,449	2,718,167	3,683,691	3,569,062	3,536,711	2,465,587	2,139,449	1,879,905
Special revenue funds										
Restricted	1,596,461	2,616,964	-	-	-	-	-	-	-	-
Committed	1,132,055	1,019,456	-	-	-	-	-	-	-	-
Unreserved	-	-	3,540,426	3,634,390	2,831,189	2,361,894	1,711,307	1,556,481	1,348,064	1,153,197
Capital projects funds										
Restricted	382,454	915,715	3,047,031	3,161,144	277,340	379,848	286,497	429,947	(710,590)	5,074,208
Total other governmental funds	<u>6,925,747</u>	<u>8,754,406</u>	<u>10,588,906</u>	<u>9,513,701</u>	<u>6,792,220</u>	<u>6,310,804</u>	<u>5,534,515</u>	<u>4,452,015</u>	<u>2,776,923</u>	<u>8,107,310</u>
Total governmental funds	<u>\$ 14,674,002</u>	<u>\$ 16,832,973</u>	<u>\$ 17,665,876</u>	<u>\$ 17,334,839</u>	<u>\$ 15,341,936</u>	<u>\$ 16,529,767</u>	<u>\$ 14,466,489</u>	<u>\$ 10,843,082</u>	<u>\$ 9,683,125</u>	<u>\$ 13,593,358</u>
% Change from Prior Year	-12.8%	-4.7%	1.9%	13.0%	-7.2%	14.3%	33.4%	12.0%	-28.8%	122.5%

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

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

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

TABLE 4

CITY OF HATTIESBURG, MISSISSIPPI

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

	FISCAL YEAR									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
REVENUE:										
Property taxes	\$ 16,455,997	\$ 16,892,639	\$ 16,978,749	\$ 15,273,539	\$ 13,753,217	\$ 15,103,579	\$ 12,327,064	\$ 12,173,753	\$ 12,481,682	\$ 10,848,352
Sales taxes	20,612,267	19,925,608	19,746,092	20,381,753	22,350,027	22,446,221	24,717,190	17,873,911	16,862,144	15,152,998
Licenses and permits	3,690,104	4,114,371	4,305,480	4,296,709	4,188,526	3,901,213	3,697,193	2,831,557	3,317,134	2,822,965
Fines and forfeitures	1,770,972	1,846,516	2,009,057	1,589,861	1,554,656	1,065,269	1,018,354	971,467	1,105,848	1,054,032
Interest, rents, concessions	153,158	170,965	170,191	211,214	582,741	807,617	598,136	261,132	386,754	523,465
Intergovernmental	8,261,052	9,281,209	9,354,293	10,291,647	8,073,409	8,570,904	10,692,038	10,054,395	4,481,157	7,024,299
Charges for services	2,603,390	2,572,647	2,650,845	2,763,676	2,359,464	1,667,251	1,804,014	1,762,323	1,742,228	1,848,685
Other revenues	794,243	512,591	251,219	888,749	4,389,090	2,798,041	3,956,796	676,246	934,067	178,505
Total revenues	54,341,183	55,316,546	55,465,926	55,697,148	57,251,130	56,360,095	58,810,785	46,604,784	41,311,014	39,453,301
% Change from prior year	-1.8%	-0.3%	-0.4%	-2.7%	1.6%	-4.2%	26.2%	12.8%	4.7%	9.2%
EXPENDITURES:										
General government	6,930,283	6,271,409	6,081,588	5,679,589	5,674,985	5,235,266	5,246,079	4,897,698	4,850,407	4,716,913
Public safety	20,330,009	18,632,140	18,436,079	18,269,998	17,309,920	16,319,725	14,299,637	14,227,840	13,640,172	12,428,574
Public services	14,350,951	11,454,151	12,698,983	13,739,073	14,567,346	12,494,900	16,326,824	10,651,948	9,264,327	8,544,755
Other services	7,681,825	5,175,661	5,924,909	5,463,648	5,619,828	5,692,145	4,866,672	4,019,276	4,222,829	3,503,582
Mass transit	1,408,435	858,601	773,695	719,882	787,422	677,515	652,909	554,888	506,310	565,838
Cultural and recreation	4,796,921	3,840,540	4,125,885	3,877,083	3,783,572	3,547,792	3,546,341	3,010,508	2,828,225	2,659,198
Human/Social assistance	1,291,384	740,165	545,507	547,544	595,945	604,661	1,005,953	437,146	355,586	1,194,559
Economic development	2,160,000	150,000	150,000	150,000	159,502	196,000	196,000	210,280	200,370	196,000
Capital outlays	-	8,364,094	12,058,220	7,299,488	9,160,136	17,111,494	13,270,430	14,498,353	14,027,343	9,745,037
Debt service:										
Principal	5,257,186	5,044,999	17,181,940	11,440,741	10,462,369	4,215,614	3,407,540	3,470,925	3,166,611	2,875,718
Interest and fiscal charges	1,281,791	1,447,781	1,101,913	1,376,530	1,744,949	1,690,106	1,625,228	1,383,084	1,300,556	1,291,180
Total expenditures	65,488,785	61,979,541	79,078,719	68,563,576	69,865,974	67,785,218	64,443,613	57,361,946	54,362,736	47,721,354
% Change from prior year	5.7%	-21.6%	15.3%	-1.9%	3.1%	5.2%	12.3%	5.5%	13.9%	25.3%
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(11,147,602)	(6,662,995)	(23,612,793)	(12,866,428)	(12,614,844)	(11,425,123)	(5,632,828)	(10,757,162)	(13,051,722)	(8,268,053)
OTHER FINANCING SOURCES (USES):										
Proceeds from long-term debt	3,588,096	1,718,710	18,836,240	10,112,970	6,733,377	8,394,533	5,019,686	7,559,737	3,781,219	1,770,000
Transfers from other funds	5,075,412	3,854,721	4,609,574	4,671,908	4,862,491	5,416,316	4,333,268	4,482,512	4,132,919	3,882,614
Transfers to other funds	(3,966,924)	(2,914,020)	(3,678,323)	(3,977,272)	(3,939,037)	(4,411,343)	(3,346,379)	(3,222,425)	(2,635,861)	(2,609,360)
Other sources	4,292,047	3,940,413	4,176,339	4,051,725	3,770,182	4,088,895	3,249,660	3,097,295	3,863,212	3,490,917
Net other financing sources	8,988,631	6,599,824	23,943,830	14,859,331	11,427,013	13,488,401	9,256,235	11,917,119	9,141,489	6,534,171
NET CHANGE IN FUND BALANCES	\$ (2,158,971)	\$ (63,171)	\$ 331,037	\$ 1,992,903	\$ (1,187,831)	\$ 2,063,278	\$ 3,623,407	\$ 1,159,957	\$ (3,910,233)	\$ (1,733,882)
Debt service as % of non-capital expenditures	11.1%	13.8%	37.5%	26.5%	25.2%	13.2%	10.9%	12.8%	12.5%	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)
2012	\$ 16,455,997	\$ 20,612,267	\$ 37,068,264	\$ 1,725,142,031
2011	16,892,639	19,902,590	36,795,229	1,662,704,275
2010	16,978,749	19,746,092	36,724,841	1,624,585,790
2009	15,273,539	20,381,753	35,655,292	1,720,117,514
2008	13,753,217	22,350,027	36,103,244	1,823,222,841
2007	15,103,579	22,446,221	37,549,800	1,892,188,843
2006	12,327,064	24,717,190	37,044,254	1,942,486,919
2005	12,173,753	17,873,911	30,047,664	1,479,451,805
2004	12,481,682	16,862,144	29,343,826	1,397,922,230
2003	10,848,352	15,152,998	26,001,350	1,248,352,898
% Change in Dollars over the 10 Year Period	51.7%	36.0%	42.6%	38.2%

(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
\$	889,634,286	52%	\$	835,507,745	48%	\$ 4,463,604
	877,852,622	53%		784,851,653	47%	4,254,485
	866,344,980	53%		780,912,173	48%	4,625,748
	899,713,933	52%		807,144,739	47%	4,627,244
	978,033,753	54%		845,189,088	46%	4,566,654
	1,043,502,246	55%		848,686,597	45%	4,345,317
	814,593,191	42%		827,893,728	43%	3,916,424
	836,057,117	57%		643,394,688	43%	3,145,585
	807,788,636	58%		590,133,594	42%	2,910,575
	744,424,173	60%		503,928,725	40%	2,597,330
		19.5%			65.8%	
						71.9%

TABLE 6

CITY OF HATTIESBURG, MISSISSIPPI

**DIRECT AND OVERLAPPING PROPERTY TAX RATES - FORREST AND LAMAR COUNTIES
LAST TEN FISCAL YEARS ⁽¹⁾**

FORREST COUNTY:		City of Hattiesburg				Hattiesburg School District			Forrest County Taxes	Total
Year Ended Sept. 30,	Tax Roll Year	Operations	City Bond & Interest	Other (Library & Pension Fund)	City - Total	Hattiesburg School District Operations	School Bond & Interest Taxes	Total- Schools		
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
2010	2009	33.50	7.15	6.27	46.92	51.75	6.43	58.18	55.09	160.19
2011	2010	33.50	7.15	6.27	46.92	54.13	7.52	61.65	55.09	163.66
2012	2011	33.50	7.15	6.77	47.42	57.23	6.08	63.31	55.09	165.82

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

(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

**TOP TEN PROPERTY TAXPAYERS
PROPERTY TAXES ASSESSED IN FISCAL YEAR 2011, COLLECTED FISCAL YEAR 2012**

Taxpayer	Type of Business	Assessment	Percentage of Total Assessed Valuation	Taxes
Mississippi Power	Public Utility	\$ 11,362,283	2.9%	\$ 719,346
Kohler Company	Industrial	10,202,402	2.2%	645,914
Western Container	Industrial	8,591,156	1.9%	543,906
Bellsouth	Public Utility	6,291,636	1.7%	398,323
Hattiesburg Clinic	Health Care	6,052,738	1.7%	383,199
Rexam	Industrial	5,074,396	2.3%	321,260
W. R. Fairchild	Industrial	4,151,347	1.2%	262,822
Bennett York	Commercial	3,564,847	1.4%	225,822
Wal-Mart	Retail	2,559,168	1.8%	162,021
Zeon Chemicals	Industrial	<u>2,167,901</u>	1.2%	137,250
Total of top ten taxpayers		60,017,874	14.9%	
Tax roll total - all other taxpayers		<u>343,580,711</u>	85.1%	
Total taxable assessed values for FY 2012		<u><u>\$ 403,598,585</u></u>	100.0%	

TABLE 8

CITY OF HATTIESBURG, MISSISSIPPI

**COMPUTATION OF LEGAL DEBT MARGIN USING MOST CURRENT TAX ROLLS
SEPTEMBER 30, 2012**

	<u>15% Test</u>	<u>20% Test</u>
Property tax base valuation as prepared by Tax Assessors during the summer months of 2011 for property taxes to be collected in fiscal year 2012	\$ 403,598,585	\$ 403,598,585
Times Applicable %	<u>X 15%</u>	<u>X 20%</u>
Product of Tax Base Times Applicable Percentage	(a) <u>60,539,788</u>	<u>80,719,717</u>
Present General Obligation Debt Subject to Statutory Debt Limits:		
General obligation bonds outstanding at September 30, 2012	30,307,943	30,307,943
Less: exempt bonds	(11,294,785)	(11,294,785)
Add: water & sewer general obligation bonds	n/a	11,932,662
Total general obligation debt outstanding	(b) <u>19,013,158</u>	<u>30,945,820</u>
Margin for Additional General Obligation Debt - (a) minus (b)	<u>\$ 41,526,630</u>	<u>\$ 49,773,897</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, 2012, the 15% test would apply with a calculated margin for additional general obligation debt in the amount of \$41,526,630,

TABLE 9

CITY OF HATTIESBURG, MISSISSIPPI

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

<u>Year Ended Sept. 30,</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Bonded General Obligation Debt</u>	<u>Less: Bonded Debt Service Funds Available</u>	<u>Net Bonded General Obligation Debt</u>	<u>Ratio of G.O. Bonded Debt to Assessed Values</u>	<u>Net General Obligation Debt Per Capita</u>
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
2011	45,989	395,386,255	32,952,977	3,529,802	29,423,175	7.44%	639.79
2012	46,626	403,598,585	30,307,943	3,040,255	27,267,688	6.76%	584.82

TABLE 10

CITY OF HATTIESBURG, MISSISSIPPI
WATER AND SEWER REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS

Year Ended Sept. 30,	Gross Revenues	Expenses	Net Revenues Available for Debt Service	Required Ratio Based Upon Applicable % Times Prescribed Annual P & I	Debit Service Requirement Calculated with Applicable %	Coverage Ratio
2003	\$ 7,061,287	\$ 4,818,082	\$ 2,243,205	115% of P & I for FY 2003	\$ 1,789,989	1.25
2004	8,262,525	4,999,288	3,263,237	115% of P & I for FY 2004	1,785,389	1.83
2005	8,127,768	4,967,317	3,160,451	115% of P & I for FY 2005	1,782,026	1.77
2006	8,831,622	6,316,769	2,514,853	105% of P & I for FY 2007	1,652,024	1.52
2007	8,495,274	6,481,746	2,013,528	105% of P & I for FY 2007	1,652,024	1.22
2008	9,107,728	5,796,631	3,311,097	105% of P & I for FY 2007 ⁽¹⁾	1,650,640	2.01
2009	9,907,131	6,797,027	3,110,104	105% of P & I for FY 2008	1,650,640	1.88
2010	12,245,747	7,006,259	5,239,488	105% of P & I for FY 2009	1,650,640	3.17
2011	11,734,715	8,937,208	2,797,507	105% of P & I for FY 2010	1,650,640	1.69
2012	13,218,896	9,700,671	3,518,225	105% of P & I for FY 2011 ⁽²⁾	2,555,155	1.38

(1) Calculations from fiscal year 2006 forward based upon 105% of highest remaining year of debt service (FY 2007) for the 2006 Revenue Bonds.

(2) Calculations from fiscal year 2006 forward based upon 105% of highest remaining year of debt service (FY 2007) for the 2006 Revenue Bonds plus highest remaining year of debt service (FY 2011) for the 2012 Revenue Bonds.

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

TABLE 11

CITY OF HATTIESBURG, MISSISSIPPI

DEMOGRAPHIC STATISTICS

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

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

Demographic Age Groupings Are Projections Based On Census 2010 Totals:

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

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

TABLE 12

CITY OF HATTIESBURG, MISSISSIPPI

CITY EMPLOYEES BY FUNCTION
LAST EIGHT FISCAL YEARS⁽¹⁾

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

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

TABLE 13

CITY OF HATTIESBURG, MISSISSIPPI

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

Year Ended Sept. 30,	Commercial Construction		Residential Construction		Hattiesburg MSA Bank Deposits (000's omitted)	Total assessed Valuation
	Permits Issued	Value	Permits Issued	Value		
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
2011	247	53,929,531	493	17,926,574	2,495,371	395,386,255
2012	215	85,713,105	430	11,346,201	2,510,860	403,598,585

