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CITY OF HATTIESBURG, MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2008

CITY OF HATTIESBURG, MISSISSIPPI
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2008

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CITY OF HATTIESBURG, MISSISSIPPI

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YEAR ENDED SEPTEMBER 30, 2008**

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CITY OF HATTIESBURG, MISSISSIPPI

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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

March 30, 2009

To the Citizens of Hattiesburg:

The comprehensive annual financial report of the City of Hattiesburg, Mississippi, for the fiscal year ended September 30, 2008 is hereby submitted.

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

The City's financial statements have been audited by Nicholson and Company, PLLC, Certified Public Accountants, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and disclosures in the financial statements; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Hattiesburg's financial statements for the fiscal year ended September 30, 2008 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial statements.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and compliance with legal requirements involving the administration of federal awards. These reports are included as a separate section of the single audit section of this report.

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

Profile of Government

The City of Hattiesburg is located strategically in the Southeast section of Mississippi and, with its traditional designation as the "Hub City," it is a regional center of trade, medical services, educational and industrial activity. The City has been under the Mayor/Council form of government since 1985. The policy-making and legislative authority as well as budgetary responsibilities are vested with the five-member City Council. The City is divided into five wards for the election of council members. The Mayor is responsible for the day-to-day operations of city government, and much of his work is accomplished through the delegation of duties to his department directors and chiefs, who are appointed by the Mayor and approved by the City Council. All elected officials are elected to a four-year term.

Factors Affecting the City's Financial Condition

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

Hattiesburg's recovery from the devastating effects of Hurricane Katrina continued throughout fiscal year 2008. Funding through the post-Katrina Community Development Block Grant program administered by the Governor's Office was approved for construction of a new Fire Station No. 1 on Main Street. These funds, matched with FEMA-approved funds for the project, will cover the construction costs with little or no funding from the City of Hattiesburg revenues. Construction should be completed in 2009. In addition, FEMA officials approved funding for relocation of the police dispatch office to a location more protected from severe weather damage, a move vital for permitting communication for emergency personnel during inclement weather conditions such as hurricanes.

A major objective of the City Council for the FY 2008 budget year was to implement a plan of scheduled paving, having the two-fold objective of repairing the streets damaged from heavy trucks during storm clean-up, and to establish a long-term plan of keeping city streets in a better state of repair. The goal was to allocate \$2M of general fund monies annually. This was to be in addition to any special projects paid for from other street repair funds for which state or federal matching monies were received. As a result, streets in several residential areas were paved. Hardy Street from Highway 49 to I-59 saw an upgrade, paid for in part with federal matching funds, with paving, reworked curbing, and upgraded intersections with improved traffic signals and sturdier mast-arm poles.

Sales tax collections, while slightly less than FY 2007 (.8% or \$182,802 less) continued to reflect a healthy economy in Hattiesburg. This continued level of revenue is a clear indicator of sustained growth and stability in Hattiesburg's retail market. The downturn in the national economy had minimal effect on Hattiesburg's economy at the end of the fiscal year, but revenue trends will bear watching into 2009 to determine the impact locally of a possible recession.

Capital projects for water and sewer system improvements funded by the Series 2006 Water and Sewer Revenue Bonds are ongoing. The final phase of an ordinance directing a 2% increase in water rates was implemented at the beginning of FY 2008. Periodic rate restructuring is essential to aid in producing sufficient revenue to meet the ever-increasing environmental regulations relative to water quality and sewer treatment.

Analysis of the City's water department operating costs revealed that a more efficient method of recording and tracking consumption was becoming necessary in order to provide optimal delivery of services to the citizens. Careful study of water systems of other cities within the state and nationally, as well as rural systems, revealed that many are moving to an automated system of collecting data on metered water usage. Using guidelines established by the Mississippi Development Authority, City officials began the process of selecting a certified energy services company to enter into an energy performance contract for installation of an automated water meter reading system. A necessary component of such a contract is

that operational savings and revenue produced through more efficient measuring of consumption must pay for the project. As of September 2008, the City was in the final stages of contract negotiation. It is anticipated that installation of the automated meter system will begin in FY 2009 and will be operational by the end of the fiscal year.

Fiscal Year 2008 also saw the completion of the improvements to Classic Drive in anticipation of the development of the University of Southern Mississippi Commercialization and Innovation Park. This development, located on the grounds of the former university golf course, was a cooperative agreement with the university and the City of Hattiesburg to construct or oversee construction of access roads, curbs and guttering, and drainage improvements. The project was paid for with a combination of grant funds from the Mississippi Department of Transportation and the University. This development will ultimately bring further academic opportunities for the University and positive economic impact for the City of Hattiesburg.

Factors Affecting Economic Conditions and Livability

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

The Area Development Partnership (ADP) and the Economic Development Resource Center at the University of Southern Mississippi announced November 15, 2006, the results of a study on the economic activity associated with the healthcare industry in the Pinebelt Area. This study was initiated to quantify the direct and secondary impacts of the healthcare industry on the area's economy.

The direct impact of the healthcare industry is significant. Over 8,200 people are directly employed by the healthcare industry and these employees earn over \$390 million annually, generating \$21.6 million in general fund revenues for the State of Mississippi. Furthermore, those who are directly employed indirectly generate almost 3,800 jobs and an additional payroll of nearly \$139 million in secondary impacts. As a result of the direct and secondary impacts, the healthcare industry accounts for almost 12,000 jobs and 17% of the total income in the Hattiesburg MSA, thus making healthcare a major driving force in the local economy.

The ADP ended 2008 celebrating many successes. The ADP currently has contractual agreements to provide Chamber of Commerce and/or Economic Development services to Forrest, Lamar, and Perry counties, the City of Hattiesburg and City of Petal. Membership is continually growing, and the ADP welcomed 115 new members in 2008 with membership at approximately 1,200 members. The ADP hosted 61 ribbon cuttings and 2 groundbreaking ceremonies during the year.

The Pinebelt area is a thriving retirement community that is steadily growing each year. Retiree volunteers and ADP representatives worked to provide a year-long series of retiree events, national advertising, travel show attendance and tours to visiting retirees. Cumulative totals include 26,000 inquiries and 1,300 retiree relocations.

In 2008, the ADP conducted 33 visits with 28 prospective companies to the area. Of these 28 prospective companies, 15 were manufacturing enterprises, 8 were distribution companies, 1 was a high technology company, 1 was a call center/back office operation, and 2 were retail-related. All ADP service areas are shown multiple times throughout the year to companies that are looking to locate in the community.

Prospective companies that located in the area in 2007 through the ADP's involvement include the \$7 million, 61-employee Saddle Creek Distribution Center currently under construction in the Hattiesburg-Forrest County Industrial Park in Hattiesburg and the \$15 million, 35-employee Lowe's Flatbed Distribution Center currently under construction in the Lamar County Industrial Park in Purvis. Industry expansions totaled \$20,000,000 and included: Hudson Salvage, Miss Lou Blueberry, Hybrid Plastics, Excel Injection Molding, Rexam and Stockstill Trucking. The expansions resulted in 36 new jobs for the area.

The ADP completed several economic development studies including Community Analysis, NACC Call Center Certification, Distribution Study and a Business Population Threshold. The economic development division also hosted an Economic Development Boot Camp for Realtors to explain how realtors are front-line economic developers and how to utilize the resources of the Area Development Partnership.

Plans for the new Innovation & Commercialization Park are well underway and, in 2008, the University of Southern Mississippi and the Area Development Partnership joined in celebrating the brand launch of the Innovation & Commercialization Park – now called the Garden. The goal of the Garden is to facilitate and accelerate innovation in a dynamic, entrepreneurial environment, featuring world-class facilities that include classified security areas, state-of-the-art research equipment and laboratories, business development services, shared resource access, tenant office space and commercial property development sites. Developers announced a \$25 million dollar commitment by Viridis Development Company to build a state-of-the-art office and research building on the 521-acre campus.

The Viridis building, with 100,000 square feet of class A office space, will offer tenants enhanced amenities like a secure IT infrastructure, a data center and key redundancies in fiber optics and electrical servers that will provide companies nonstop operational competitiveness.

The master plan for the park, completed in 2004, outlines the infrastructure development, potential building sites, and natural amenities preservation and conservation. Approximately one-half of the 500-acre site is slated for development.

The Garden is a regional asset, beyond the scope of the University, beyond the scope of the immediate local area – in that it will have a state and national impact as it attracts businesses and industries who want to be associated with the research and product creation that this university is increasingly known for achieving. Much of that research and product development stems from the School of Polymers and High Performance Materials at Southern Miss, which has garnered an international reputation for excellence. And their success – creating large molecules, plastics and fibers to do specific jobs they haven't done before – hasn't gone unnoticed by some of the nation's largest companies, including Northrop Grumman, Siemens, General Electric and US Marine. The School has even attracted Boeing, which is placing \$500,000 worth of equipment in the NFSL to aid with the study of composites for use in construction of lightweight aircraft.

Senator Thad Cochran's leadership in Washington is credited for securing the federal funding that played a critical role in the Garden's development. Local and state leaders, including Hattiesburg Mayor Johnny DuPree, Governor Haley Barbour, Lieutenant Governor Phil Bryant, and Mississippi Development Authority Executive Director Gray Swoope are also praised for their help with the project.

Forrest General Hospital is a 512-bed facility providing regional health services to a 17-county area. Generations of Pine Belt residents have counted on Forrest General, and today's generations continue to rely on the comprehensive care offered through the Hospital's constantly expanding range of health care services.

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

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

Forrest General also features many additional specialized services. The Hospital is home to a new Wound Healing Center, offering comprehensive wound healing services using state-of-the-art equipment and techniques. Pine Grove Behavioral Health and Addiction Services is South Mississippi's largest treatment facility for psychiatric and addictive diseases. Forrest General's Cancer Center ranks among the largest regional cancer centers in South Mississippi, offering a comprehensive program, offered in a warm, comforting environment for the patients and their families. Forrest General Home Care and Hospice provides care for patients of all ages recovering from an illness, injury, or surgery in the comfort of the patient's home, as well as compassionate end-of-life care for those in need, giving peace of mind to the patient and patient's family.

Wesley Medical Center is a 211-bed healthcare facility that is dedicated to providing high quality medical services and personal, compassionate Christian care. Located on a beautiful 85-acre healthcare campus in west Hattiesburg, along one of the most rapidly expanding retail corridors in Lamar County, Wesley Medical Center has a century of care behind it. In fact, Wesley Medical Center's tradition of service and commitment to the community extends back to 1900, and those traditions of compassion and excellence continue today and into tomorrow. The Hospital is fully and unconditionally accredited by the Joint Commission for Accreditation of Healthcare Organizations, and is licensed by the Mississippi State Department of Health. Wesley is owned and operated by Wesley Health System, L.L.C., and is a member of Triad Hospitals, Inc.

Nearly 300 physicians have privileges to practice at Wesley Medical Center. In addition to acute and intensive-care services, Wesley Medical Center offers a variety of specialized services including Women's Services, Emergency Services, Home Health Rehabilitation Services and complete Cardiac Care.

Wesley Medical Center was the first hospital in the Hattiesburg area to bring faster, state-of-the-art technology for improved care and greater convenience to patients in need of x-rays and MRI's. Wesley Medical Center was the first hospital in the region to implant a CONTAK RENEWAL 3 RF cardiac resynchronization therapy device (CRT-D) into a patient with heart disease, and has just added the newest, most advanced 64-Slice CT to its arsenal of technology.

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

Everyday, the team of professional caregivers at Wesley Medical Center, now more than 1,100 team members strong, strives to uphold the principles upon which this facility was founded: Loving God, Serving Others, Excelling in Healthcare.

July 2008 marked ten years the Lake Terrace Convention Center has been serving the residents of the Hattiesburg area with excellence. Since opening in the summer of 1998, more than 1.5 million people have attended conventions, consumer shows, performances and special events, all contributing new dollars into our local economy and enjoying the wealth of hospitality that Hattiesburg offers. These 1.5 million new friends have contributed nearly \$200 million to Hattiesburg's economy.

Lake Terrace was named "Best of the Best" in the Readers' Choice awards sponsored by Convention South Magazine for the fourth year. Only the top vote getters out of 2,000 nominees received this recognition, which was voted on by top meeting planners in the United States who book events in the South.

A wide range of events serving all segments of our state and community were held in 2008. Some highlight events include the Public Relations Association of Mississippi Conference, Mississippi Realtors Association Convention, Mississippi Early Intervention Conference, and Mississippi Health Information Association Convention.

Lake Terrace concluded its tenth year of operation with growth in several areas. In 2008, the Center was host to 309,947 guests, 1,762 event days, and generated 26,512 hotel room bookings.

Since launching the Hattiesburg Tourism Commission's branding campaign in October of 2003, utilizing "Hattie" as our spokeswoman for hospitality, the tourism industry has not only enjoyed heightened brand awareness and industry accolades, but an increase in visitor spending, as well. Last year, visitors to Hattiesburg spent \$227 million new dollars in our area. To further enhance these marketing efforts, in 2008, the Hattiesburg Tourism Commission adopted the new operating name VISITHATTIESBURG, and became the first destination marketing organization in the State of Mississippi to implement this progressive national industry trend.

Another first for Hattiesburg, in February of 2009, VISITHATTIESBURG will host the Annual Mississippi Governor's Conference on Tourism. This historic event for Hattiesburg's tourism industry will be a great way for Hattiesburg to showcase its hallmark hospitality to more than 300 tourism industry professionals from across Mississippi and the southeastern United States.

As we move forward, VISITHATTIESBURG will continue promoting all of Hattiesburg's tourism assets, especially her most memorable asset – the warmth of her people. Through the Hattiesburg Visitors Center, visitors to the area are daily being received in a state-of-the-art facility staffed with Tourism Ambassadors wearing the badge of our hallmark hospitality. Since opening, the Visitors Center has hosted more than 40,000 visitors from all over the world who not only economically benefit our community, but help us fulfill our mission to "grow our circle of friends one visit at a time!"

The Hattiesburg MSA's unemployment rate was 5.8% as of December 2008 as compared with the state rate of 7.7% and the national rate of 7.9%. The downturn in the national economy is reflected in the local unemployment rate, but it is encouraging that it is well below the state and national rates.

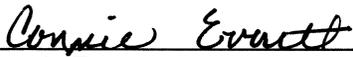
The Future

The City of Hattiesburg has seen substantial and sustained growth in the years since Katrina's destructive force devastated southern Mississippi. This sustained growth has been evident in various sectors of the local economy, from housing to retail to expanding medical facilities. Sales tax collections are a direct reflection of this sustained growth. The universities, hospitals, and Camp Shelby have provided a substantial base for Hattiesburg's economy for decades, in addition to the central geographic location.

We are now faced with a drastic downturn in the national economy, and to a lesser extent, a slowing of the local economy. With the diverse economy of our City, we have in past years been able to weather these cyclical economic changes relatively unscathed. Recent events, however, bear close scrutiny by the elected officials whom the public has entrusted with the fiscal decision-making responsibilities for the future of the city, county, and state. Prudent fiscal management is essential when assessing and budgeting for the current and long-term needs of an expanding city.

Hattiesburg has much to offer, but it also has many needs if it wishes to continue along the same path. Infrastructure needs must be addressed as population increases, and greater demands are placed upon the water system, sewer system, and road system. Those willing to make an investment in Hattiesburg, whether for personal interests or commercial endeavors, will be concerned with all Hattiesburg has to offer, including education, employment, safety, culture and recreation, and yes, even infrastructure. The elected officials have done much to address these issues, and they recognize the fact that much more must be done to maintain the quality of life we enjoy here. Sound fiscal policy and cooperative effort are essential to moving Hattiesburg forward over the next several years and ensuring that our city continues to be one of the best places to live in Mississippi.

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 & Members of the City Council
City of Hattiesburg, Mississippi
Hattiesburg, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hattiesburg, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of September 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2009, on our consideration of the City of Hattiesburg, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis and budgetary comparison information on pages 11 through 21 and 77 through 81, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hattiesburg, Mississippi's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Hattiesburg, Mississippi. The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

NICHOLSON & COMPANY, PLLC

Hattiesburg, Mississippi
May 5, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended September 30, 2008

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, 2008. 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 2008 were as follows:

- Total net assets for 2008 increased \$1,799,292 or 1.2% from 2007.
- Total assets of governmental activities decreased \$4,329,835, or 1.8% from 2007.
- Total liabilities decreased \$6,129,127, or 7% from 2007.
- In total, equity in pooled cash and cash equivalents decreased \$1,482,447, or 9.9% from 2007.
- Overall, the book value of capital assets increased by \$866,103, or .5% from fiscal year 2007.

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

Reporting the City of Hattiesburg as a Whole:

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

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

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

Fund Financial Statements

The analysis of the City's major funds begins on page 27. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided by the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Hattiesburg, the City's major fund is the General Fund.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of government's near-term financing decisions. Both the governmental fund balances and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary Funds:

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

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

The City of Hattiesburg as a Whole:

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2008.

Table 2 shows the Changes in Net Assets for the year ended September 30, 2008.

(See Next Pages for Table 1 and Table 2)

TABLE 1

CITY OF HATTIESBURG, MISSISSIPPI

Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
ASSETS						
Current and other assets	\$ 32,058,862	\$ 34,091,298	\$ 11,782,994	\$ 14,946,498	\$ 43,841,856	\$ 49,037,796
Capital assets, net	134,972,050	137,874,980	53,445,737	49,676,704	188,417,787	187,551,684
Total assets	167,030,912	171,966,278	65,228,731	64,623,202	232,259,643	236,589,480
LIABILITIES AND DEFERRED REVENUE						
Long-term liabilities, outstanding:						
Due within one year	4,942,364	4,706,563	1,932,838	2,228,621	6,875,202	6,935,184
Payable after one year	37,217,072	41,139,781	19,381,314	20,931,741	56,598,386	62,071,522
Deferred revenues	14,884,688	15,502,228	-	-	14,884,688	15,502,228
Other liabilities	1,875,507	2,015,928	1,260,749	1,098,799	3,136,256	3,114,727
Total liabilities and deferred revenue	58,919,631	63,364,500	22,574,901	24,259,161	81,494,532	87,623,661
NET ASSETS						
Invested in capital asset, net of related debt	94,307,180	93,482,416	32,131,585	26,516,342	126,438,765	119,998,758
Restricted	3,108,529	2,783,880	-	-	3,108,529	2,783,880
Unrestricted	10,695,572	12,335,482	10,522,245	13,847,699	21,217,817	26,183,181
Total net assets	\$ 108,111,281	\$ 108,601,778	\$ 42,653,830	\$ 40,364,041	\$ 150,765,111	\$ 148,965,819

TABLE 2

CITY OF HATTIESBURG, MISSISSIPPI

Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program Revenues:						
Charges for services	\$ 7,773,432	\$ 2,693,409	\$ 9,197,894	\$ 8,232,308	\$ 16,971,326	\$ 10,925,717
Operating grants and contributions	6,262,995	10,480,188	-	-	6,262,995	10,480,188
Capital grants and contributions	5,098,683	4,179,064	-	-	5,098,683	4,179,064
Total program revenues	19,135,110	17,352,661	9,197,894	8,232,308	28,333,004	25,584,969
General Revenues:						
Property taxes	13,753,217	15,103,579	-	-	13,753,217	15,103,579
Other taxes	26,952,114	26,770,438	-	-	26,952,114	26,770,438
Grants and contributions not restricted to specific programs	1,600	1,325	-	-	1,600	1,325
Other general revenues	1,590,531	1,392,954	1,467,993	1,531,721	3,058,524	2,924,675
Total general revenues	42,297,462	43,268,296	1,467,993	1,531,721	43,765,455	44,800,017
Total revenues	61,432,572	60,620,957	10,665,887	9,764,029	72,098,459	70,384,986
PROGRAM EXPENSES						
General government	6,415,817	5,518,515	-	-	6,415,817	5,518,515
Public safety	18,985,991	17,937,458	-	-	18,985,991	17,937,458
Public services	20,398,976	16,846,291	-	-	20,398,976	16,846,291
Other services	7,398,909	6,985,550	-	-	7,398,909	6,985,550
Economic development	159,502	196,000	-	-	159,502	196,000
Culture and recreation	4,247,864	3,902,787	-	-	4,247,864	3,902,787
Water and sewer	-	-	7,977,348	7,433,290	7,977,348	7,433,290
Interest and fiscal charges	1,718,149	1,740,731	-	-	1,718,149	1,740,731
Total program expenses	59,325,208	53,127,332	7,977,348	7,433,290	67,302,556	60,560,622

TABLE 2
PAGE 2

CITY OF HATTIESBURG, MISSISSIPPI

Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Increase in net assets before inclusion of transfers	\$ 2,107,364	\$ 7,493,625	\$ 2,688,539	\$ 2,330,739	\$ 4,795,903	\$ 9,824,364
Transfers	398,750	546,956	(398,750)	(546,956)	-	-
Increase in net assets after inclusion of transfers	2,506,114	8,040,581	2,289,789	1,783,783	4,795,903	9,824,364
Net Assets - Beginning	108,601,778	98,934,595	40,364,041	38,580,258	148,965,819	137,514,853
Prior Period Adjustment	(2,996,611)	1,626,602	-	-	(2,996,611)	1,626,602
Net Assets - Beginning, as Restated	105,605,167	100,561,197	40,364,041	38,580,258	145,969,208	139,141,455
Net Assets - Ending	\$ 108,111,281	\$ 108,601,778	\$ 42,653,830	\$ 40,364,041	\$ 150,765,111	\$ 148,965,819

The City's Funds:

Information about the City's major governmental funds begins on page 27. These funds are accounted for using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$57,251,130 and net other financing sources (uses) of \$11,427,013 (including \$6,733,377 in proceeds of long-term debt) and expenditures of \$69,865,974.

General Fund Budgetary Highlights

The City's budget is prepared according to Mississippi Law and is based on accounting for certain transactions of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From a budgetary accounting point of view, Fiscal Year 2008 was significant due to the fact that the City continued to experience record sales tax collections (collections in FY 2008 were \$22,362,399 as compared to FY 2007 collections of \$22,545,201). The modest decline in sales tax collections of 1% is an indicator of growth and stability in the Hattiesburg economy initially spurred by post-Katrina recovery efforts. The fact that collections have remained well above pre-Katrina levels (an average of 29%) encourages the assumption that this area continues to be a regional hub of economic activity, supplying goods and services to adjacent rural and recovering communities.

The 2008 budget of the General Fund experienced the effects of a fluctuating economy, especially in the areas of fuel and utility consumption. Amendments addressing these issues were necessary on more than one occasion. The actual budget basis ending balance of the General Fund at September 30, 2008 was \$4,168,252, compared to the ending balance at September 30, 2007 of \$6,577,196. The reduction in the General Fund balance is the combined result of reduction in federal funds for storm recovery, and an increase in various budgeted expenditures, such as fuel, utilities, and a substantial increase in budgeted expenditures for the repaving of city streets.

Construction of the Number 1 Fire Station on Main Street was delayed awaiting award of federal CDBG grant funds. Notice of award was received mid-year, and construction is expected to begin in FY 2008 as soon as pre-construction grant requirements are met, construction specifications finalized, and the public bid process completed.

For the ninth consecutive year, the General Fund property tax rate was set at 31 mills, and the total non-school tax rate was set at 45.40 mills. The City has maintained its favorable A ratings for both general obligation debt and water and sewer bonds. The City did opt to increase water and sewer rates by 2% in September 2007. It was determined that another rate increase would be necessary in October 2008 in order to accumulate funds necessary to maintain the water and sewer system. Projects to be funded with the issuance of the \$17 million Mississippi Development Bank Special Obligation Bonds, Series 2006, are ongoing.

The City Council has consistently opted to delay funding for the mid-year pay raises until amendments are done in March to address sales tax revenue realization rates, and the City typically uses sales tax budget increases to fund pay increases. These raises tend to average 3% for most employees, thus requiring only a 1.5% adjustment to the personnel budgets in order to cover the last six months of the fiscal year. There are, accordingly amendments to many of the cost centers with the March amendments to cover pay increases. In addition, the City Council responded to the presentation of statistics on salaries of Fire Department personnel in relation to average salaries for cities of comparable size in Mississippi and neighboring states. An annual salary realignment for firefighters was approved mid-year of \$3,000, with an additional \$1,600 to be implemented in October 2008.

From a budgetary accounting point of view, the City's original General Fund budget for Fiscal Year 2008 totaled \$46,780,553 (exclusive of projected beginning cash at October 1, 2007 of \$6,500,000 and including \$488,358 of transfers-in from other funds). The final revenue and transfers-in budgets totaled \$47,915,857 with actual revenue collections and transfers-in totaling \$42,790,449 (89% realized). Additions to the General Fund revenue budget consisted of adjustments to federal and state grants (\$431,987), police fines (\$240,000), licenses and permits (\$176,000), lease proceeds for generators and adjustments for cost of fire hall construction (\$178,985), sales tax and other state-shared revenue (\$101,000), and an adjustment to the beginning cash estimate (\$77,196).

The original FY 2008 General Fund total budget for expenditures was \$47,132,470 and the final amended total was \$48,975,488. Actual expenditures totaled \$41,295,943 (84% of budget expended). The unexpended budget total of \$7,679,545 is attributable to unexpended capital outlays for the fire station, unexpended personnel costs for some unfilled positions, including those police officers on active military status, and unexpended grant funds for various projects.

Budgets for other governmental funds were amended to adjust projected beginning fund balances to actual balances on hand at the beginning of the fiscal year. Significant fund amendments of note include establishment of a fund to document the refunding of a 1998 bond issue. This bond issue had an early-call provision, which allowed for refinancing due to the downward trend in interest rates since the original issue date of the bonds. A significant savings in interest payments over the remaining life of the bond issue will be recognized (approximately \$174,539) by taking advantage of this provision. Significant fund amendments to the Municipal Road & Bridge Fund in the total amount of \$952,363 for scheduled paving of city streets were possible due to additional funds received from Forrest and Lamar Counties, as well as settlement with FEMA for various storm-related projects completed previously, for which the City was awaiting reimbursement. Amendments to the Airport Improvement Fund in the amount of \$200,000 adjusted the beginning fund balance and budget for hangar improvements, which completed a two-year project partially funded by the Federal Aviation Administration.

Most of the other amendments to the expenditure budgets were either routine in nature or 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>2008</u>	<u>2007</u>
Land and construction in progress	\$ 4,768,510	\$ 7,527,206
Buildings and improvements	18,557,371	19,156,999
Infrastructure	154,719,481	149,389,681
Machinery and equipment	10,372,425	11,477,798
Total	<u>\$ 188,417,787</u>	<u>\$ 187,551,684</u>

The decrease in the "Land and construction in progress" category and increase in "Infrastructure" are attributable to completion of the Classic Drive project, completion of Phase I of Hardy Street Improvements, and completion of Phase I of Lincoln Center Extension. The decrease to "Machinery and Equipment" was attributable to retirement and removal of surplus equipment no longer in service.

General Long-Term Debt Obligations

At September 30, 2008, the City of Hattiesburg had \$14,640,000 in outstanding General Obligation Bonds and Notes subject to the City's overall general obligation debt limitations. The City's overall legal debt margin at September 30, 2008 was calculated to be \$42,669,470, and this number is based on the City's most current property tax rolls in conjunction with existing general obligation debt. In addition to traditional general obligation debt, certain debt issues are secured by tax interceptor agreements with the State of Mississippi. Tax Increment Financing Bonds are secured by the incremental increase in property taxes at various taxing districts. The City has opted to maintain a margin of at least \$10 million as a matter of policy. Table 4 summarizes the total outstanding long-term debt obligations of the City.

(See Next Page for Table 4)

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

	<u>2008</u>	<u>2007</u>
General Bonded Debt		
General Obligation Bonds	\$ 15,105,000	\$ 17,195,000
Exempt Industrial Bonds	2,610,000	2,900,000
Tax Increment Financing Bonds	7,780,000	7,550,000
Industrial Development Bonds	255,000	300,000
CAP Loans Payable	723,496	867,211
MS Development Bank Bonded Debt	10,050,425	10,725,313
Equipment Leases	4,140,949	4,855,040
	<u>40,664,870</u>	<u>44,392,564</u>
Revenue Bonds		
Water and Sewer Revenue Bonds	15,350,000	16,225,000
Water and Sewer Industrial Bonds	1,705,000	1,985,000
General Obligation Notes - State Revolving Loan Fund	3,102,055	3,388,688
Energy Lease Payable	1,157,097	1,561,676
	<u>21,314,152</u>	<u>23,160,364</u>
	<u>1,494,566</u>	<u>1,453,780</u>
	<u>\$ 63,473,588</u>	<u>\$ 69,006,708</u>

No general obligation debt was issued in FY 2008. TIF bonds were issued in April 2008 for the Lincoln Center project Phase I in the amount of \$610,000. There were no drawdowns from the Mississippi Development Bank during FY 2008.

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:

Throughout most of the decade of the 1990's the City experienced favorable sales tax growth and moderate increases to the property tax rolls. It became obvious, however, that the path of economic growth, especially the commercial corridors, was moving primarily to the west of the City's boundaries. In order for the City to prevent the erosion of its commercial tax base, particularly the sales tax base, it was necessary for the City to prevail in three major litigations that occurred over a span of most of the 1990's with the final ruling on the last annexation case becoming final on April 13, 2003. The City's financial plans resulted in completion and occupancy of a new fire station (Station #8) with a police substation and continuing improvements and expansion of the water and sewer system. Construction of Fire Station 1 should begin soon into FY 2009 since the Katrina Recovery Grant through CDBG was approved. This grant, along with recovery funds approved through FEMA, should completely cover the cost of rebuilding Fire Station 1. A secondary project to be funded with CDBG monies, upgrade of the James Street water plant, will also necessitate a lower level of borrowed funds from the Mississippi Development Bank.

Contacting the City's City Clerk:

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. Copies of this report will be on file at both the Hattiesburg Library and the USM Library. If you have any questions about this report or need additional financial information, contact Eddie R. Myers, City Clerk at 601-545-4502.

FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Assets
September 30, 2008**

	PRIMARY	
	Governmental Activities	Business-type Activities
ASSETS		
Cash and cash equivalents	\$ 11,366,483	\$ 2,072,448
Cash with fiscal agent	-	7,270,085
Sales tax receivable	1,776,753	-
Property taxes receivable	13,892,243	-
Accounts receivable - Water and Sewer	-	2,371,903
Accounts receivable - Solid Waste Services	493,793	-
Intergovernmental receivable	1,846,187	-
Fines receivable, net	1,099,688	-
Other receivables	1,444,376	-
Internal balances	57,343	(57,343)
Due from other agencies	16,596	-
Inventory - food and beverage	-	-
Inventory - gas and oil	65,400	-
Unamortized bond discount	-	22,702
Deferred charge - bond issuance cost	-	29,529
Deferred charge - state loan administrative cost	-	73,670
Capital assets:		
Land and construction in progress	4,453,267	315,243
Infrastructure, net	103,129,017	51,590,464
Buildings and improvements, net	18,367,127	190,244
Machinery and equipment, net	9,022,639	1,349,786
Total capital assets	<u>134,972,050</u>	<u>53,445,737</u>
Total assets	<u>\$ 167,030,912</u>	<u>\$ 65,228,731</u>

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

GOVERNMENT	
Total	Component Unit
\$ 13,438,931	\$ 1,659,700
7,270,085	-
1,776,753	339,716
13,892,243	-
2,371,903	-
493,793	-
1,846,187	-
1,099,688	-
1,444,376	152,458
-	-
16,596	-
-	23,539
65,400	-
22,702	-
29,529	39,331
73,670	-
4,768,510	1,827,633
154,719,481	-
18,557,371	14,663,348
10,372,425	202,486
<u>188,417,787</u>	<u>16,693,467</u>
<u>\$ 232,259,643</u>	<u>\$ 18,908,211</u>

EXHIBIT A
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Assets
September 30, 2008**

	PRIMARY	
	Governmental Activities	Business-type Activities
LIABILITIES		
Accounts payable	\$ 299,960	\$ 282,604
Other liabilities	1,219,863	9,314
Due to other agencies	63,813	-
Accrued interest	291,871	136,802
Deferred revenue	14,884,688	-
Long-term liabilities:		
Portion due or payable within one year:		
General obligation bonds	2,260,000	1,205,000
Industrial development general obligation bonds	45,000	-
Exempt industrial development general obligation bonds	290,000	-
Tax increment limited obligation bonds	455,000	-
Mississippi Development Bank notes	674,516	299,799
CAP loans payable	151,580	-
Capital leases	842,083	428,039
Compensated absences	224,185	-
Portion due or payable after one year:		
General obligation bonds	12,845,000	15,850,000
Industrial development general obligation bonds	210,000	-
Exempt industrial development general obligation bonds	2,320,000	-
Tax increment limited obligation bonds	7,325,000	-
Mississippi Development Bank notes	9,375,909	2,802,256
CAP loans payable	571,916	-
Capital leases	3,298,866	729,058
Compensated absences	1,270,381	-
Customer meter deposits	-	832,029
Total liabilities	58,919,631	22,574,901
NET ASSETS		
Invested in capital assets, net of related debt	94,307,180	32,131,585
Restricted for:		
Capital projects	277,340	-
Debt service	2,831,189	-
Unrestricted	10,695,572	10,522,245
Total net assets	\$ 108,111,281	\$ 42,653,830

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

GOVERNMENT		
Total	Component Unit	
\$ 582,564	\$ 186,262	
1,229,177	46,442	
63,813	-	
428,673	43,117	
14,884,688	-	
3,465,000	590,000	
45,000	-	
290,000	-	
455,000	-	
974,315	-	
151,580	-	
1,270,122	-	
224,185	-	
28,695,000	1,920,000	
210,000	-	
2,320,000	-	
7,325,000	-	
12,178,165	-	
571,916	-	
4,027,924	-	
1,270,381	-	
832,029	-	
<u>81,494,532</u>	<u>2,785,821</u>	
126,438,765	14,183,467	
277,340	-	
2,831,189	-	
<u>21,217,817</u>	<u>1,938,923</u>	
<u>\$ 150,765,111</u>	<u>\$ 16,122,390</u>	

EXHIBIT B

CITY OF HATTIESBURG, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
GOVERNMENTAL:								
General government	\$ 6,415,817	\$ -	\$ -	\$ -	\$ (6,415,817)		\$ (6,415,817)	
Public safety	18,985,991	1,949,303	508,066	402,415	(16,126,207)		(16,126,207)	
Public services	20,398,976	1,682,635	3,674,151	4,148,065	(10,894,125)		(10,894,125)	
Other services	5,727,212	3,761,993	-	52,559	(1,912,660)		(1,912,660)	
Mass transit	1,054,153	29,690	616,684	495,644	87,865		87,865	
Culture and recreation	4,247,864	349,811	59,749	-	(3,838,304)		(3,838,304)	
Human/social assistance	617,544	-	1,397,219	-	779,675		779,675	
Economic development	159,502	-	7,126	-	(152,376)		(152,376)	
Interest and fiscal charges	1,718,149	-	-	-	(1,718,149)		(1,718,149)	
Total governmental activities	59,325,208	7,773,432	6,262,995	5,098,683	(40,190,098)		(40,190,098)	
BUSINESS-TYPE:								
Water and sewer system	8,318,670	9,197,894	-	-	-	\$ 879,224	879,224	
Total business-type activities	8,318,670	9,197,894	-	-	-	879,224	879,224	
Total primary government	\$ 67,643,878	\$ 16,971,326	\$ 6,262,995	\$ 5,098,683	(40,190,098)	879,224	(39,310,874)	
COMPONENT UNIT:								
Hattiesburg Convention Commission	\$ 4,376,308	\$ 1,076,352	\$ -	\$ -				\$ (3,299,956)
Total component unit	\$ 4,376,308	\$ 1,076,352	\$ -	\$ -				(3,299,956)
GENERAL REVENUES:								
Taxes:								
Property taxes, levied for general purposes					10,536,059	-	10,536,059	-
Property taxes, levied for debt service					3,217,158	-	3,217,158	-
Sales taxes					22,350,027	-	22,350,027	-
Franchise taxes and other licenses and permits					4,463,511	-	4,463,511	-
Special sales tax					138,576	-	138,576	4,018,564
Grants and contributions not restricted to specific programs					1,600	-	1,600	-
Unrestricted investment earnings					757,656	240,797	998,453	30,841
Other local sources					885,564	-	885,564	-
Miscellaneous					269,553	1,227,196	1,496,749	-
Special item - gain (loss) on sale of assets					19,080	-	19,080	-
Transfers, net					57,428	(57,428)	-	-
Total general revenues, special items, and transfers					42,696,212	1,410,565	44,106,777	4,049,405
CHANGES IN NET ASSETS					2,506,114	2,289,789	4,795,903	749,449
NET ASSETS - BEGINNING					108,601,778	40,364,041	148,965,819	15,372,941
Prior Period Adjustments					(2,996,611)	-	(2,996,611)	-
NET ASSETS - BEGINNING AS ADJUSTED					105,605,167	40,364,041	145,969,208	15,372,941
NET ASSETS - ENDING					\$ 108,111,281	\$ 42,653,830	\$ 150,765,111	\$ 16,122,390

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

EXHIBIT C

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,218,051	\$ 7,148,432	\$ 11,366,483
Sales tax receivable	1,776,753	-	1,776,753
Accounts receivable - Solid Waste Services	269,491	-	269,491
Intergovernmental receivable	1,846,187	-	1,846,187
Fines receivable, net of allowance	1,099,688	-	1,099,688
Other receivables	910,923	545,001	1,455,924
Due from other funds	788,180	2,867	791,047
Property taxes receivable	10,732,171	3,160,072	13,892,243
Due from other agencies	16,596	-	16,596
Gas and oil inventory	65,400	-	65,400
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 21,723,440	\$ 10,856,372	\$ 32,579,812
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 187,260	\$ 112,705	\$ 299,965
Due to other funds	2,867	730,835	733,702
Other liabilities	1,134,251	85,612	1,219,863
Due to other agencies	63,813	-	63,813
Deferred revenue	11,785,533	3,135,000	14,920,533
Total liabilities	<u>13,173,724</u>	<u>4,064,152</u>	<u>17,237,876</u>
Fund balances:			
Reserved for:			
Inventories	65,400	-	65,400
Unreserved	8,484,316	-	8,484,316
Unreserved, reported in nonmajor:			
Special revenue funds	-	3,683,691	3,683,691
Debt service funds	-	2,831,189	2,831,189
Capital project funds	-	277,340	277,340
Total fund balances	<u>8,549,716</u>	<u>6,792,220</u>	<u>15,341,936</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	\$ 21,723,440	\$ 10,856,372	\$ 32,579,812

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

EXHIBIT C.1

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2008**

Total *fund balances* for governmental funds (Exhibit C) \$ 15,341,936

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

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

Land	\$ 3,682,214	
Construction in progress	771,053	
Infrastructure, net of \$48,376,145 accumulated depreciation	103,129,017	
Buildings and improvements, net of \$11,642,946 accumulated depreciation	18,367,127	
Machinery and equipment, net of \$14,811,771 accumulated depreciation	<u>9,022,639</u>	
Total capital assets		134,972,050

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

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

Receivables were not received within thirty (30) days of year end and are therefore not reported in the funds. 224,302

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

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, 2008**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 9,732,850	\$ 4,020,367	\$ 13,753,217
Sales tax collections	22,350,027	-	22,350,027
Other taxes	25,600	-	25,600
Licenses and permits	4,162,926	-	4,162,926
Fines, forfeitures and penalties	1,464,731	89,925	1,554,656
Interest, rents and concessions	284,912	297,829	582,741
Intergovernmental	3,108,411	4,964,998	8,073,409
Charges for services	1,774,339	585,125	2,359,464
Other revenues	116,029	4,273,061	4,389,090
Total revenues	<u>43,019,825</u>	<u>14,231,305</u>	<u>57,251,130</u>
EXPENDITURES			
General government	5,674,985	-	5,674,985
Public safety	17,241,814	68,106	17,309,920
Public services	13,328,841	1,238,505	14,567,346
Other services	1,348,636	4,271,192	5,619,828
Mass transit	-	787,422	787,422
Culture and recreation	-	3,783,572	3,783,572
Human/social assistance	90,865	505,080	595,945
Economic development	159,502	-	159,502
Capital outlay	1,737,997	7,422,139	9,160,136
Debt service:			
Principal payments	1,167,770	9,294,599	10,462,369
Interest and fiscal charges	539,143	1,205,806	1,744,949
Total expenditures	<u>41,289,553</u>	<u>28,576,421</u>	<u>69,865,974</u>
Excess (deficiency) of revenues over expenditures	<u>1,730,272</u>	<u>(14,345,116)</u>	<u>(12,614,844)</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2008**

	<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	\$ 98,377	\$ 6,635,000	\$ 6,733,377
Operating transfers in	398,750	4,463,741	4,862,491
Operating transfers out	(3,903,465)	(35,572)	(3,939,037)
Other sources	6,819	3,763,363	3,770,182
Total other financing sources (uses)	<u>(3,399,519)</u>	<u>14,826,532</u>	<u>11,427,013</u>
Net change in fund balances	(1,669,247)	481,416	(1,187,831)
Fund balances – beginning	<u>10,218,963</u>	<u>6,310,804</u>	<u>16,529,767</u>
Fund balances – ending	<u>\$ 8,549,716</u>	<u>\$ 6,792,220</u>	<u>\$ 15,341,936</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2008**

Net change in *fund balances* - total governmental funds
(Exhibit D) \$ (1,187,831)

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlay (\$7,699,181) exceeded depreciation
(\$7,606,798) in the current period. 92,383

Intergovernmental revenue recognized on the full-accrual
basis on the statement of activities is increased for revenues
received after thirty (30) days after year end. (62,570)

Revenues deferred in the funds that do not provide current
financial resources are recognized in the statement of
activities. (50,877)

Bond proceeds are reported as financing sources in
governmental funds and thus contribute to the change in fund
balance. In the statement of net assets, however, issuing
debt increases long-term liabilities and does not affect the
statement of activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the
liability in the statement of net assets.

Debt issued:

Notes payable and capital leases payable \$ (6,733,377)

Repayments:

To bond, note and lease holders 10,462,369

Net adjustment for debt 3,728,992

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, 2008**

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

Compensated absences	\$ (40,786)	
Accrued interest on bonds and notes	<u>26,803</u>	
Combined adjustment		<u>\$ (13,983)</u>
Change in <i>net assets</i> of governmental activities (Exhibit B)		<u><u>\$ 2,506,114</u></u>

EXHIBIT E

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Assets
Proprietary Fund
September 30, 2008**

ASSETS

	Combined Water & Sewer System
<i>CURRENT ASSETS</i>	
Cash and cash equivalents	\$ 2,072,448
Cash with fiscal agent	7,270,085
Accounts receivable - trade	2,371,903
Total current assets	<u>11,714,436</u>
<i>NON-CURRENT ASSETS</i>	
Capital assets:	
Land	315,243
Infrastructure, net	51,590,464
Buildings and improvements, net	190,244
Machinery and equipment, net	1,349,786
Total non-current assets	<u>53,445,737</u>
<i>OTHER ASSETS</i>	
Unamortized bond discount	22,702
Deferred charge - bond insurance cost	29,529
Deferred charge - state loan administrative cost	73,670
Total other assets	<u>125,901</u>
 <i>Total assets</i>	 <u><u>\$ 65,286,074</u></u>

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

LIABILITIES AND NET ASSETS

	Combined Water & Sewer System
<i>CURRENT LIABILITIES</i>	
Due to other funds	\$ 57,343
Sales tax payable	9,314
Accounts payable - trash hauling	269,491
Accounts payable - other	13,113
Accrued interest payable	136,802
General obligation bonds - current	1,205,000
General obligation note payable - current	299,799
Capital leases payable - current	428,039
Total current liabilities	<u>2,418,901</u>
<i>NON-CURRENT LIABILITIES</i>	
General obligation bonds	15,850,000
General obligation note payable	2,802,256
Capital leases payable	729,058
Customer meter deposits	832,029
Total non-current liabilities	<u>20,213,343</u>
<i>Total liabilities</i>	<u>22,632,244</u>
<i>NET ASSETS</i>	
Invested in capital assets, net of related debt	32,131,585
Unrestricted	10,522,245
Total net assets	<u>42,653,830</u>
<i>Total liabilities and net assets</i>	<u>\$ 65,286,074</u>

EXHIBIT F

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenses and Changes In Fund Net Assets
Proprietary Fund
Year Ended September 30, 2008**

	Combined Water & Sewer System
OPERATING REVENUES	
Water charges	\$ 4,581,621
Sewer charges	4,448,933
Sewer connections	42,245
Turn-on fees	34,929
Turn-on fees	90,166
Total operating revenues	<u>9,197,894</u>
OPERATING EXPENSES	
Personal services	2,510,790
Other services and charges	2,362,812
Supplies and expenses	923,027
Depreciation	859,419
Total operating expenses	<u>6,656,048</u>
Operating income	<u>2,541,846</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	240,797
Interest expense	(1,178,469)
Other revenues	1,227,196
Amortization of loan costs	(432,330)
Other expense	(51,823)
Total non-operating revenues (expenses)	<u>(194,629)</u>
Income before transfers	2,347,217
OPERATING TRANSFERS	
Operating transfers out	<u>(57,428)</u>
Total operating transfers	<u>(57,428)</u>
CHANGE IN NET ASSETS	2,289,789
TOTAL NET ASSETS, beginning	<u>40,364,041</u>
TOTAL NET ASSETS, ending	<u><u>\$ 42,653,830</u></u>

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

EXHIBIT G
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2008**

	Combined Water & Sewer System
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>	
Cash received from customers	\$ 8,232,374
Cash paid to suppliers	(3,326,997)
Cash paid to employees	(2,510,790)
Net cash provided by operating activities	<u>2,394,587</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</i>	
Other cash receipts	1,227,196
Other cash payments	(6,557)
Cash payments to government funds	(57,428)
Net cash provided by noncapital financing activities	<u>1,163,211</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>	
Principal payments - capital lease	(404,579)
Principal payments - bonds	(1,155,000)
Principal payments - loans	(286,631)
Purchase of fixed assets	(4,628,452)
Other receipts (payments)	(432,330)
Interest paid on debt	(1,041,667)
Net cash used by capital and related financing activities	<u>(7,948,659)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>	
Interest received	240,797
Net cash provided by investing activities	<u>240,797</u>
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	(4,150,064)
<i>CASH AND INVESTMENTS - OCTOBER 1, 2007</i>	<u>13,492,597</u>
<i>CASH AND INVESTMENTS - SEPTEMBER 30, 2008</i>	<u>\$ 9,342,533</u>
Displayed as:	
Cash and cash equivalents	\$ 2,072,448
Cash with fiscal agent	<u>7,270,085</u>
	<u>\$ 9,342,533</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2008**

	<u>Combined Water & Sewer System</u>
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
<i>OPERATING INCOME</i>	\$ 2,541,846
<i>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
Depreciation expense	859,419
Increase in accounts receivable	(1,010,788)
Decrease in accounts payable - trash hauling	(13,756)
Decrease in accounts payable - other	(6,364)
Increase in customer meter deposits	42,291
Increase in sales tax payable	2,975
Decrease in amount due to government funds	<u>(21,036)</u>
Total adjustments	<u>(147,259)</u>
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i>	<u><u>\$ 2,394,587</u></u>

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

EXHIBIT H

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2008**

	Police/Fireman Disability & Relief Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 76,026	\$ 1,249,062
Cash and investments with fiscal agent	23,671,099	-
Property taxes and fees receivable	10,750	134,290
Due from other funds		138,576
Sales tax receivable	-	394,653
Total assets	<u>23,757,875</u>	<u>1,916,581</u>
LIABILITIES		
Employee contributions payable	-	342,051
Due to other agencies	-	1,555,375
Other liabilities	-	19,155
Total liabilities	<u>-</u>	<u>1,916,581</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 23,757,875</u>	<u>\$ -</u>

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 Assets
Fiduciary Funds
Year Ended September 30, 2008**

	<u>Police/Fireman Disability & Relief Pension Trust Fund</u>
ADDITIONS	
Contributions:	
Plan members	\$ 33,948
Total contributions	<u>33,948</u>
Taxes	1,468,744
Total additions	<u>1,502,692</u>
DEDUCTIONS	
Benefits	3,111,498
Investment losses	2,187,573
Administrative expenses	44,708
Total deductions	<u>5,343,779</u>
CHANGE IN NET ASSETS	(3,841,087)
NET ASSETS - beginning of the year	<u>27,598,962</u>
NET ASSETS - end of the year	<u><u>\$ 23,757,875</u></u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hattiesburg, Mississippi (City) is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component unit - The Hattiesburg Convention Commission is composed of a seven (7) member board whose members are appointed by the City of Hattiesburg. The purpose of the Commission is to promote conventions and tourism. The Commission has the authority over all matters relating to the establishment, development, construction, furnishing, and equipping of convention and tourism related facilities. The Commission is primarily funded by a two percent (2%) sales tax on local food, beverage, and alcoholic beverage package retailer permits. The Commission is presented as a governmental fund type.

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

B. Government-wide and fund financial statements

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2008

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund and the major individual enterprise fund are reported as separate columns in the fund financial statements.

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

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

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

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

The City reports the following major governmental fund:

General Fund - The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2008

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2008

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

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

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

D. Assets, liabilities, and net assets or equity

Deposits and investments

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

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

Investments for the City, as well as for its component unit, are reported at cost or amortized cost.

Receivables and payables

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2008

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

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

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

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

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

Property taxes are levied annually as of October 1st on property values assessed as of the same date. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received.

Inventories and prepaid items

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

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

Capital assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, street lights, sewer and water lines, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two (2) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

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

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

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

Assets	Years
Buildings and improvements	20 – 50 years
Infrastructure	18 – 50 years
Machinery and equipment	5 – 7 years

Budgets and Budgetary Accounting

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2008

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

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

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

Compensated absences

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

Long-term obligations

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2008

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

Fund equity

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

Use of estimates

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

NOTE 2 - PRIOR PERIOD ADJUSTMENTS

A summary of significant equity adjustments is as follows:

Exhibit 2 - Statement of Activities

Explanation	Amount
Beginning construction in progress balance	\$ 2,995,313
Long term debt balance	1,298
<i>Total prior period adjustments</i>	<u>\$ 2,996,611</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2008

NOTE 3 - CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS, AND INVESTMENTS

Cash and Cash Equivalents

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

The carrying amount of the City's deposits with financial institutions reported in the government-wide statements was \$13,438,931. The bank balance was \$15,666,931. The City's long standing, although not formally adopted, investment policy is based upon all bank accounts to being fully collateralized (using the above-described procedures) and interest-bearing with rates updated on a quarterly basis and benchmarked using verifiable appropriate Fed funds rates. Interest is calculated using average balances and posted monthly.

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2008, the City's bank balance was not exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of the City's cash with fiscal agents held by financial institutions was \$7,270,085.

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE FINANCIAL STATEMENTS
PAGE TEN
YEAR ENDED SEPTEMBER 30, 2008**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments	
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 3,682,214	\$ -	\$ -	\$ -	\$ 3,682,214
Construction in progress	3,529,749	529,227	(292,610)	(2,995,313)	771,053
Total capital assets not being depreciated	<u>7,211,963</u>	<u>529,227</u>	<u>(292,610)</u>	<u>(2,995,313)</u>	<u>4,453,267</u>
Capital assets being depreciated:					
Buildings and improvements	29,596,887	413,186	-	-	30,010,073
Machinery and equipment	23,145,374	1,476,773	(787,737)	-	23,834,410
Infrastructure	145,932,557	5,572,605	-	-	151,505,162
Total capital assets being depreciated	<u>198,674,818</u>	<u>7,462,564</u>	<u>(787,737)</u>	<u>-</u>	<u>205,349,645</u>
Less: accumulated depreciation for:					
Buildings and improvements	10,637,720	1,005,226	-	-	11,642,946
Machinery and equipment	13,096,923	2,502,585	(787,737)	-	14,811,771
Infrastructure	44,277,158	4,098,987	-	-	48,376,145
Total accumulated depreciated	<u>68,011,801</u>	<u>7,606,798</u>	<u>(787,737)</u>	<u>-</u>	<u>74,830,862</u>
Total capital assets being depreciated, net	<u>130,663,017</u>	<u>(144,234)</u>	<u>-</u>	<u>-</u>	<u>130,518,783</u>
Governmental activity capital assets, net	<u>\$ 137,874,980</u>	<u>\$ 384,993</u>	<u>\$ (292,610)</u>	<u>\$ (2,995,313)</u>	<u>\$ 134,972,050</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 4 - CAPITAL ASSETS (Cont.)

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 315,243	\$ -	\$ -	\$ 315,243
Total capital assets not being depreciated:	<u>315,243</u>	<u>-</u>	<u>-</u>	<u>315,243</u>
Capital assets being depreciated:				
Buildings and improvements	312,562	5,184	-	317,746
Machinery and equipment	5,031,921	127,982	-	5,159,903
Infrastructure	59,775,075	4,495,286	-	64,270,361
Total capital assets being depreciated:	<u>65,119,558</u>	<u>4,628,452</u>	<u>-</u>	<u>69,748,010</u>
Less: accumulated depreciation for:				
Buildings and improvements	114,730	12,772	-	127,502
Machinery and equipment	3,602,574	207,543	-	3,810,117
Infrastructure	12,040,793	639,104	-	12,679,897
Total accumulated depreciation	<u>15,758,097</u>	<u>859,419</u>	<u>-</u>	<u>16,617,516</u>
Total capital assets being depreciated, net	<u>49,361,461</u>	<u>3,769,033</u>	<u>-</u>	<u>53,130,494</u>
Business-type activity capital assets, net	<u>\$ 49,676,704</u>	<u>\$ 3,769,033</u>	<u>\$ -</u>	<u>\$ 53,445,737</u>

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

General Government	\$ 565,571
Public Safety	1,110,101
Public Works – which includes the depreciation of infrastructure assets	5,330,208
Health and Welfare	21,600
Other Services	107,384
Culture and Recreation	303,383
Mass Transit	168,551
Total Depreciation Expense	<u><u>\$ 7,606,798</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWELVE

YEAR ENDED SEPTEMBER 30, 2008

NOTE 5 - BALANCES DUE TO/FROM OTHER FUNDS

Balances due to/from the various City funds at September 30, 2008, consist of the following:

\$	100,000	Due to the General Fund from the Community Development Block Grant Fund representing a short-term loan.
	38,665	Due to the General Fund from other funds representing reimbursements due for oil and gas expenditures.
	600,000	Due to the General Fund from Mississippi Development Bank Project Fund representing cash advances from the General Fund that are reimbursed from periodic loan draw downs.
	8,625	Due to the General Fund from Municipal Fire Protection Fund for reimbursement of expenditures.
	40,890	Due to the General Fund from Water and Sewer Fund for water and sewer debt service payments.
	2,867	Due to the Police Forfeiture Fund and Municipal Fire Protection Fund from the General Fund for fines collected.
	<hr/>	
\$	<u>791,047</u>	Total

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

\$	733,704	Due from other funds, Balance Sheet – Governmental Funds
	<u>57,343</u>	Due from Water and Sewer Fund to General Fund
\$	<u>791,047</u>	Total

NOTE 6 - TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds for governmental funds at September 30, 2008 consist of the following:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

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

\$ 2,370,760	From the General Fund to the Parks and Recreation Fund to supplement other fund sources.
450,000	From the General Fund to the City Bond and Interest Fund for debt service.
200,000	From the General Fund to the Mass Transit Operating Fund for payment of accrued leave expenditures.
741,296	From the General Fund to the Saenger and Community Centers Fund to supplement other fund sources.
26,930	From the Chauvet Square TIF Bond and Interest Fund to the General Fund for prior years' debt service.
7,000	From the General Fund to the Municipal Fire Protection Fund for project expenses.
12,000	From General Fund to CDBG Fund for reimbursement of administrative costs.
417,878	From Tax Increment Financing Fund (TIF) construction fund to corresponding TIF debt service fund.
54,726	From the General Fund to the Mississippi Development Fund - matching funds for grant project.
314,392	From the Tax Collector's Fund to the General Fund for interest and penalties earned and collected.
57,428	From the Water and Sewer Fund to the General Fund for debt service.
67,683	From the General Fund to Kamper Park Improvement Fund for net revenues from ticket sales to be used for improvements at the Zoo.
138,576	From the Special Sales Tax Fund to the City Bond and Interest Fund for debt service payments.
413,058	From the Industrial Park Commission Fund to the City Bond and Interest Fund for debt service payments.
<u>\$ 5,271,727</u>	Total

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

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE FOURTEEN
YEAR ENDED SEPTEMBER 30, 2008**

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	58.30
School Bonded Indebtedness	37-59-23	7.34
Library (support, upkeep and maintenance of Hattiesburg Public Library System)	39-3-7	2.15

NOTE 8 - PROPRIETARY FUNDS - LONG-TERM OBLIGATIONS

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

On June 28, 2006 the Governing Authorities of the City entered into a loan agreement with the Mississippi Development Bank for the purpose of providing for the refunding of all of the City's outstanding Water and Sewer System Revenue Bonds (i.e., Series 1995, dated October 1, 1995) and for improvements and expansions to the Water and Sewer System. The series 2006 Bonds, dated August 1, 2006 will be repaid with semi-annual interest payments (February 1 and August 1) and annual principal maturing on August 1 each year from 2007 through 2026. These bonds are payable solely from and secured by a lien on the net revenues attributable to the Water and Sewer System and are not general obligations of the City.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2008

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 905,000	\$ 663,356
2010	945,000	627,156
2011	980,000	589,356
2012	1,020,000	550,156
2013	1,060,000	509,356
2014	1,110,000	456,356
2015	1,170,000	400,856
2016	1,225,000	342,356
2017	1,275,000	293,356
2018	1,330,000	240,763
2019	1,385,000	185,900
2020	1,445,000	127,038
2021	<u>1,500,000</u>	<u>65,625</u>
Total	<u><u>\$ 15,350,000</u></u>	<u><u>\$ 5,051,630</u></u>

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 300,000	\$ 100,420
2010	320,000	83,320
2011	340,000	64,760
2012	360,000	44,700
2013	<u>385,000</u>	<u>23,100</u>
Total	<u>\$ 1,705,000</u>	<u>\$ 316,300</u>

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

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

The monthly repayments for SRF loan #1 are \$13,971.28 for a period of two hundred and thirty seven (237) months beginning in December, 1997. Presented below is a recap of the principal and interest payments for SRF loan #1:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE SEVENTEEN
YEAR ENDED SEPTEMBER 30, 2008**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 119,941	\$ 47,715
2010	125,451	42,205
2011	131,214	36,442
2012	137,242	30,414
2013	143,547	24,109
2014	150,141	17,514
2015	157,037	10,617
2016	150,282	3,402
Total	\$ 1,114,855	\$ 212,418

The monthly repayments for SRF loan #2 are \$13,844.60 for a period of two hundred and thirty-six (236) months beginning in August 1997. Presented below is a recap of the principal and interest payments for SRF loan #2:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 115,779	\$ 50,356
2010	121,098	45,037
2011	126,662	39,474
2012	132,480	33,655
2013	138,567	27,569
2014	144,932	21,203
2015	151,591	14,545
2016	158,555	7,580
2017	81,987	1,079
Total	\$ 1,171,651	\$ 240,498

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE EIGHTEEN
YEAR ENDED SEPTEMBER 30, 2008**

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

The monthly repayments for SRF loan #3 are \$8,288.98 for a period of two hundred thirty-six (236) months beginning in June 1999. Presented below is a recap of the principal and interest payments for SRF loan #3:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 64,079	\$ 35,389
2010	67,023	32,445
2011	70,102	29,366
2012	73,322	26,146
2013	76,691	22,777
2014	80,214	19,254
2015	83,898	15,569
2016	87,753	11,714
2017	91,784	7,683
2018	96,001	3,466
2019	<u>24,682</u>	<u>186</u>
Total	<u>\$ 815,549</u>	<u>\$ 203,995</u>

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

NOTE 9 - PROPRIETARY FUNDS - CAPITAL LEASE PAYABLE

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

NOTE 9 - PROPRIETARY FUNDS - CAPITAL LEASE PAYABLE (Cont.)

The monthly repayments for the lease are \$40,204 for a period of one hundred and twenty (120) payments beginning in May 2001. Presented below is a recap of the principal and interest payments outstanding for the lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 428,039	\$ 54,404
2010	452,859	29,584
2011	<u>276,199</u>	<u>5,226</u>
<i>Total</i>	<u>\$ 1,157,097</u>	<u>\$ 89,214</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY

YEAR ENDED SEPTEMBER 30, 2008

NOTE 10 - GOVERNMENTAL FUNDS - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations of the governmental funds for the City of Hattiesburg, Mississippi, for the year ended September 30, 2008:

	Balance September 30, 2007	Additions	Retirements	Adjustments	Balance September 30, 2008
General Obligation Bonds	\$ 17,195,000	\$ 6,025,000	\$ 8,115,000	\$ -	\$ 15,105,000
Exempt General Obligation Bonds	2,900,000	-	290,000	-	2,610,000
Exempt CAP loans	867,211	-	145,013	1,298	723,496
Industrial Development					
General Obligation Bonds	300,000	-	45,000	-	255,000
Limited Obligation TIF Bonds	7,550,000	610,000	380,000	-	7,780,000
Mississippi Development					
Bank Notes	10,725,313	-	674,888	-	10,050,425
Capital leases	4,855,040	98,377	812,468	-	4,140,949
Accrued compensated absences (net)	1,453,780	40,786	-	-	1,494,566
Total	\$ 45,846,344	\$ 6,774,163	\$ 10,462,369	\$ 1,298	\$ 42,159,436

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-ONE
YEAR ENDED SEPTEMBER 30, 2008**

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

General Obligation Bonds - General obligation bonds are direct obligations and pledge the full faith and credit of the City. Debt service for G.O. Bonds is funded primarily by a bond and interest tax levy. Additional funding is provided by rental income, County-shared revenues, and General Fund transfers may be utilized annually pursuant to the budgetary process. The outstanding general obligation bonds of the City were issued during various years from 1998 to 2002, with interest rates ranging from 3.1% to 4.75% (6.0% for the 2002 Series A Taxable Refunding Bonds). The bonds were generally issued as 15-20 year serial bonds, with principal maturities increasing over the life of the bonds for essentially level annual debt service requirements.

Long-term debt requirements for all general obligation bonds outstanding at September 30, 2008, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,260,000	\$ 587,057
2010	2,355,000	486,360
2011	1,380,000	406,180
2012	1,410,000	348,475
2013	1,485,000	289,177
2014	1,555,000	226,367
2015	1,625,000	159,959
2016	1,640,000	90,070
2017	685,000	42,100
2018	710,000	14,200
Total	\$ 15,105,000	\$ 2,649,945

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

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-TWO
YEAR ENDED SEPTEMBER 30, 2008**

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

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

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

The Commission has assigned to the City all its right, title, and interest in and to the lease rentals derived from Kohler which is approximated at \$253,158 annually beginning February 1, 1999 and ending February 1, 2017, for a total of \$4,810,000. Also, pursuant to an Interlocal Agreement between Forrest County and the City, Forrest County will pay approximately one-third (1/3) of the remaining obligation of the bond to the City. At September 30, 2008, principal balance outstanding on the bonds is \$2,610,000.

In conjunction with the Kohler Project, the City applied for two loans through the Capital Improvements Revolving Loan Program that were approved by the Mississippi Department of Economic and Community Development. Each \$1,000,000, 15-year loan bears interest at 4%. Proceeds of the loans were used to renovate and expand a building to be leased by Kohler. Long-term debt requirements for the CAP loans are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 151,580	\$ 25,946
2010	157,756	19,770
2011	164,183	13,343
2012	170,872	6,654
2013	79,105	3,164
Total	<u>\$ 723,496</u>	<u>\$ 68,877</u>

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

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2008**

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 45,000	\$ 10,740
2010	50,000	8,940
2011	50,000	6,890
2012	55,000	4,840
2013	55,000	2,475
Total	<u>\$ 255,000</u>	<u>\$ 33,885</u>

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

Long-term debt requirements for all TIF bonds outstanding at September 30, 2008 are as follows:

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2008**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 455,000	\$ 353,198
2010	480,000	322,910
2011	505,000	302,121
2012	535,000	280,118
2013	545,000	256,840
2014	510,000	232,652
2015	535,000	210,207
2016	465,000	188,473
2017	480,000	167,801
2018	510,000	146,333
2019	530,000	123,636
2020	560,000	99,888
2021	580,000	74,900
2022	195,000	48,995
2023	205,000	39,790
2024	160,000	31,050
2025	165,000	23,850
2026	180,000	16,425
2027	185,000	8,325
Total	<u><u>\$ 7,780,000</u></u>	<u><u>\$ 2,927,512</u></u>

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

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 674,516	\$ 303,794
2010	674,516	283,742
2011	674,516	254,292
2012	674,516	243,639
2013	674,516	223,589
2014	674,516	203,835
2015	674,516	183,485
2016	674,516	163,434
2017	674,516	143,385
2018	674,516	123,342
2019	672,336	103,284
2020	569,248	84,407
2021	539,931	67,117
2022	519,453	46,396
2023	519,423	30,581
2024	278,675	15,720
2025	106,439	6,716
2026	85,906	2,675
2027	13,854	554
Total	\$ 10,050,425	\$ 2,483,987

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 expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave, holiday leave, and accrued overtime that are not expected to be liquidated with expendable available financial resources are reported as noncurrent liabilities. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Accrued vacation pay	\$ 1,435,500
Accrued overtime pay	14,658
Accrued holiday pay	44,408
	<u>44,408</u>
	<u>\$ 1,494,566</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

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

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

NOTE 11 - GOVERNMENTAL FUNDS - CAPITAL LEASE PAYABLE

During fiscal year 2005, the City finalized an equipment lease agreement with First Continental Leasing for the lease purchase of ten (10) sanitation trucks and two (2) fire trucks at a total lease cost of \$1,488,293. These assets are being amortized using the straight-line method using a historical cost of \$1,240,505. Accumulated amortization totaled \$344,500 at September 30, 2008. Lease principal payments are due annually on January 15th and June 15th. Interest is accrued at 2.74% and is payable on the 15th day of each month. Presented below is a recap of the lease principal and interest payments outstanding for the lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 314,116	\$ 8,688
Total	<u>\$ 314,116</u>	<u>\$ 8,688</u>

During fiscal year 2006, the City finalized an equipment lease agreement with Hancock Bank for the lease purchase of a ladder truck and custom pumper truck for the fire department. These assets are being amortized using the straight-line method using the historical cost of \$892,412. Accumulated amortization totaled to \$44,019 at September 30, 2008. Lease principal payments are due annually on August 1st. Interest is accrued at 3.68%. Presented below is a recap of the lease principal and interest payments outstanding for the lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 178,250	\$ 20,412
2010	184,809	13,852
2011	191,610	7,051
Total	<u>\$ 554,669</u>	<u>\$ 41,315</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

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

The City entered into an equipment lease with Hancock Bank for the purpose of installing a system of emergency generators throughout the City to allow for uninterrupted water and sewer utility services during emergency situations as well as for City buildings, including City Hall, the fire stations and community centers to remain operational. The lease proceeds are drawn down incrementally as periodic payments are made to the Mississippi Power Company for the procurement and installation of the equipment. As of September 30, 2008, a total of \$3,873,662 of cumulative payments had been made to the vendor with corresponding lease proceeds in the form of draw downs being funded to the City from Hancock Bank based upon certification from the City as to the progress billings. With the completion of the installation of the system, projected annual principal and interest payments are scheduled for March 1 each year at an interest rate of 4.33%, to be amortized over a ten (10) year period with annual, principal and interest payments of \$494,674 based upon the projected final cost of the system at \$3,972,039. Presented below are the principal and interest payments on the lease attributable to the cumulative draw downs net of principal paid in fiscal year 2007 (\$364,993) as of September 30, 2008:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 349,717	\$ 144,957
2010	365,210	129,464
2011	381,388	113,286
2012	398,284	96,390
2013	415,928	76,599
2014	434,353	60,321
2015	453,595	41,079
2016	473,689	20,984
Total	<u>\$ 3,272,164</u>	<u>\$ 683,080</u>

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-EIGHT
YEAR ENDED SEPTEMBER 30, 2008**

NOTE 12 - SCHEDULE OF STATUTORY DEBT LIMITATIONS

The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Mississippi Code 1972. No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$42,669,470 (the smaller of the two computed margins) as of September 30, 2008:

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2008 (\$362,674,772) times applicable percentage	[a] \$ 54,401,216	\$ 72,534,954
Present debt subject to debt limits as of September 30, 2008:		
Total bonds outstanding	26,473,496	26,473,496
Less: Exempt bonds	<u>(11,833,496)</u>	<u>(11,833,496)</u>
General obligation debt subject to applicable tests	[b] <u>14,640,000</u>	<u>14,640,000</u>
Margin for additional debt [a] minus [b]	<u>\$ 39,761,216</u>	<u>\$ 57,894,954</u>

NOTE 13 - RELATED ORGANIZATIONS

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, 2008

NOTE 14 - JOINT VENTURES

The City of Hattiesburg is a participant with Forrest County in a joint venture authorized by Section 57-31-1, Mississippi Code Annotated (1972), to operate the Forrest County Industrial Park Commission. The joint venture was created to develop and operate an industrial park complex for citizens of Forrest County and the City of Hattiesburg. The Commission is governed by a ten-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; 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. Complete financial statements for the library can be obtained at the Hattiesburg office. A separate financial statement of the library can be obtained by contacting the Library at 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

The Forrest-Lamar Emergency Management District provides emergency services to Forrest and Lamar Counties. The entity is controlled by a nine (9) member council. The Council is chosen as follows by the following authorities: Mayor of Hattiesburg - one (1); Forrest County Board of Supervisors - one (1); Lamar County Board of Supervisors - one (1); Sheriff of Forrest County - one (1); Sheriff of Lamar County - one (1); Hattiesburg Police Chief - one (1); Hattiesburg Fire Chief - one (1); and local industry - one (1). Operating funds are provided by state grants, E-911 charges and direct contributions.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

NOTE 16 - CONTINGENCIES

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

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

NOTE 17 - DEFINED BENEFIT PENSION PLANS

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

In addition to this, the Statement of Plan Net Assets is included in the combining Exhibit H and the Statement of Changes in Plan Net Assets is included in Exhibit I.

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary and the City of Hattiesburg is required to contribute at an actuarially determined rate. The current rate is 11.85% 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, 2008, 2007 and 2006 were \$2,494,589, \$2,063,944, and \$1,863,610, 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, 2008

NOTE 18 - PENSION PLAN FOR POLICEMEN AND FIREMEN

Plan Description - The City of Hattiesburg contributes to the Police and Fire Disability and Relief Fund (PFDR), an agent multiple-employer defined benefit pension plan administered by the Public Employees' Retirement System of Mississippi. The City's uniformed police officers and firefighters employed prior to July 1, 1987, participate in PFDR. Firefighters and police officers employed subsequent to July 1, 1987 are members of the Public Employees' Retirement System of the State as previously described. PFDR provides retirement and disability benefits and death benefits to plan members and beneficiaries. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PFDR. That information can be obtained by contacting PERS at the address and telephone number mentioned above.

All assets existing in the City's Police and Firemen's Disability and Relief Fund at July 1, 1987, were transferred to PERS. Those assets were placed into an investment pool with the assets from the other Police and Firemen's Disability and Relief Funds and the City's book value of its share of these assets was set at the market value of the transferred assets as of July 1, 1987. In June of each year, the monthly statement from the PERS contains a pro-rata distribution of the City's earnings from the investment pool. Prior to the yearly distribution of such earnings, the City's balance sheet is reconciled monthly which, at that point in time, reflects the balance at the beginning of the Plan year (July 1) plus tax collections and payroll contributions, less pension benefits paid, refunds and administrative fee.

Funding Status and Progress - The actuarial accrued liability is a measure intended to (i) help users assess the System's funding status on a going-concern basis and (ii) assess progress being made in accumulating sufficient assets to pay benefits when due. For the years ending 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, 2008**

NOTE 18 - 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, 2008. 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 8.0% per year compounded annually including price inflation at 3.75%, (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 2.0% per year compounded annually attributable to merit and seniority. At September 30, 2008, the unfunded actuarial accrued liability was determined as follows:

	<u>\$ in Thousands</u>
Actuarial Accrued Liability (AAL):	
Retirees and beneficiaries currently receiving benefits	\$ 35,206
Active members	<u>2,141</u>
Total actuarial accrued liability	37,347
Actuarial value of assets	<u>25,543</u>
Unfunded actuarial accrued liability	<u><u>\$ 11,804</u></u>

During the year ended September 30, 2008, the plan experienced a net change of \$291,000 in the Actuarial Accrued Liability.

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

<u>Plan Year End</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued 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>
9/30/99	\$ 21,091	\$ 30,044	70.2%	\$ 8,953	\$ 2,251	397.7%
9/30/00	23,511	31,494	74.7%	7,983	1,850	431.5%
9/30/01	25,043	34,356	72.9%	9,313	1,678	555.0%
9/30/02	25,657	34,881	73.6%	9,224	1,478	624.1%
9/30/03	25,803	35,410	72.9%	9,607	1,140	842.7%

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS
PAGE THIRTY-THREE
YEAR ENDED SEPTEMBER 30, 2008

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

<u>Plan Year End</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(3) Percent Funded (1) / (2)</u>	<u>(4) Unfunded AAL (2) - (1)</u>	<u>(5) Annual Covered Payroll</u>	<u>(6) Unfunded AAL As A Percentage Of Covered Payroll (4) / (5)</u>
9/30/04	\$ 25,229	\$ 37,084	68.0%	\$ 11,855	\$ 793	1495.0%
9/30/05	24,095	36,792	65.5%	12,697	695	1826.9%
9/30/06	24,458	37,377	65.4%	12,919	510	2533.1%
9/30/07	25,345	37,638	67.3%	12,293	442	2781.2%
9/30/08	25,543	37,347	68.4%	11,804	289	4084.4%

Contributions Required and Contributions Made - The funding policy for PFDR provides for periodic employer contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. In developing the annual required contribution shown below, the normal cost and actuarial accrued liability are determined using the entry age actuarial cost method. Unfunded actuarial accrued liability is being amortized on a closed basis as a level dollar amount over a period of thirty-six (36) years. In practice, the current financing arrangement provides for a contribution determined as a percentage of each city's assessed property valuation. This difference has historically resulted in the actual contribution being less than the annual required contribution.

During the year ended September 30, 2008, contributions totaling \$1,557,337 (\$1,523,389 employer and \$33,948 employee) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of September 30, 2008. The employer contributions consisted of \$51,379 for normal cost and administrative expenses and \$1,472,010 for amortization of the unfunded actuarial accrued liability.

(See Table on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2008**

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

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

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

	PFDR		
	2008	2007	2006
Net assets available for benefits as a percentage of pension benefit obligation	68.4%	67.3%	65.4%
Unfunded pension benefit obligation as a percentage of annual covered payroll	4084.4%	2781.2%	2533.1%
Employer contributions as a percentage of annual covered payroll	18.6%	29.1%	37.2%
Annual pension cost	\$ 1,557,337	\$ 1,516,220	\$ 1,430,814

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2008**

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

“Employer contributions as a percentage of annual payroll” is calculated by dividing annual compensation for fiscal years 2008, 2007 and 2006 (\$289,391, \$441,782, and \$509,726, respectively) into the annual pension cost for each fiscal year.

Actuarial information for the year ended September 30, 2008 can be obtained by contacting the City of Hattiesburg's Chief Financial Officer.

NOTE 19 - BUDGETARY BASIS VS. GAAP

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

NOTE 20 - DEFICIT FUND BALANCE OF INDIVIDUAL FUND

The following fund has a deficit fund balance at September 30, 2008:

Mississippi Development Bank Projects Fund	<u>\$ (175,401)</u>
--------------------------------------------	---------------------

NOTE 21 - 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 and 2008 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, 2008

NOTE 21 - 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 levees and aerators at the waste water treatment lagoons, and damages incurred at Fire Station Number 1. Additionally, significant expenditures, such as repairs at the police department and replacement of police communication equipment, are subject to ongoing discussions between the City and FEMA officials.

NOTE 22 - SUBSEQUENT EVENTS

The City Council approved a resolution providing for the refunding and optional redemption of certain outstanding maturities of the City's \$8,500,000 General Obligation bonds, Series 2001 subject to the availability of favorable interest rates under prevailing market conditions and statutory refunding requirements. In May 2009 this refunding issue was authorized as the General Obligation Refunding Bonds, Series 2009 with a principal amount not to exceed \$6,575,000.

The City also authorized in February, 2009 the issuance of the \$7.5 million General Obligation Water and Sewer Bonds, Series 2009 for the implementation of an automated meter reading system, to be serviced with water and sewer operating revenues that are projected to substantially improve as a result of meter replacements, more accurate readings, and other revenue enhancement features of the system. The bonds will be amortized over a fifteen-year period at an interest rate of 3.50% - 3.80%, with annual payments that average \$649,045 payable in February each year.

The City authorized in December 2008 the issuance of \$3 million in General Obligation Notes Payable pursuant to Mississippi Code Section 17-21-51 for downtown lighting improvements. The notes will be amortized over a five-year period of time with semi-annual principal and interest payments due in May and November each year at a 2.98% interest rate with payments averaging \$324,893 over the life of the notes.

SUPPLEMENTARY INFORMATION

SCHEDULE 1
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>
REVENUES		
Intergovernmental:		
Federal grants	\$ 3,507,271	\$ 3,739,647
State grants	671,094	870,705
State - shared revenue	22,577,500	22,679,019
County - shared revenue	24,000	50,460
General property taxes	10,450,000	10,450,000
Other taxes	17,000	25,600
Licenses and permits	3,728,900	3,904,900
Charges for services:		
Public safety	126,000	126,000
Streets	24,630	113,883
Sanitation	1,551,000	1,581,000
Miscellaneous		
Fines and forfeitures	1,018,000	1,258,000
Miscellaneous	448,800	361,300
Non-revenue receipts	2,148,000	2,326,985
Total revenues	<u>46,292,195</u>	<u>47,487,499</u>
EXPENDITURES		
General government	5,750,769	6,211,455
Public safety	19,625,996	18,933,512
Public services	13,472,516	14,986,125
Human/social assistance	133,893	140,865
Economic development	144,000	159,502
Other services	1,480,509	1,490,374
Capital outlay	4,662,736	5,191,604
Debt service	1,862,051	1,862,051
Total expenditures	<u>47,132,470</u>	<u>48,975,488</u>
Excess (deficiency) of revenues over expenditures	(840,275)	(1,487,989)
OTHER FINANCING SOURCES (USES)		
Transfers in	488,358	428,358
Transfers out	(3,634,180)	(3,903,465)
Total other financing sources (uses)	<u>(3,145,822)</u>	<u>(3,475,107)</u>

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 487,673	\$ (3,251,974)
371,403	(499,302)
22,818,910	139,891
30,165	(20,295)
10,513,364	63,364
25,600	-
4,091,267	186,367
105,910	(20,090)
14,515	(99,368)
1,641,807	60,807
-	-
1,464,731	206,731
433,241	71,941
291,114	(2,035,871)
<u>42,289,700</u>	<u>(5,197,799)</u>
5,667,704	543,751
17,471,778	1,461,734
13,570,796	1,415,329
90,865	50,000
159,502	-
1,348,924	141,450
1,279,461	3,912,143
1,706,913	155,138
<u>41,295,943</u>	<u>7,679,545</u>
993,757	2,481,746
500,749	72,391
(3,903,465)	-
<u>(3,402,716)</u>	<u>72,391</u>

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>
NET CHANGE IN FUND BALANCES	\$ (3,986,097)	\$ (4,963,096)
Fund balances - beginning (Non-GAAP Budgetary Basis)	<u>6,500,000</u>	<u>6,577,196</u>
Fund balances - ending (Non-GAAP Budgetary Basis)	<u><u>\$ 2,513,903</u></u>	<u><u>\$ 1,614,100</u></u>

ADJUSTMENTS:

To adjust for sales tax accrual

To adjust for other receivables/accruals

Fund balances - ending (GAAP Basis)

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ (2,408,959)	\$ 2,554,137
<u>6,577,196</u>	
4,168,237	
(12,371)	
<u>4,393,850</u>	
<u>\$ 8,549,716</u>	

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008**

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BUDGET AMENDMENTS AND REVISIONS

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

SCHEDULE 2

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2008**

	Special Revenue Funds (Schedule 4)	Debt Service Funds (Schedule 6)
ASSETS		
Cash and cash equivalents	\$ 3,458,754	\$ 2,812,338
Due from other funds	2,867	-
Other receivables	545,001	-
Property taxes receivable	841,221	2,318,851
Total assets	\$ 4,847,843	\$ 5,131,189
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 112,705	\$ -
Due to other funds	130,835	-
Other liabilities	85,612	-
Deferred revenue	835,000	2,300,000
Total liabilities	1,164,152	2,300,000
Fund balances:		
Unreserved, undesignated	3,683,691	2,831,189
Total fund balances	3,683,691	2,831,189
Total liabilities and fund balances	\$ 4,847,843	\$ 5,131,189

Capital Project Funds (Schedule 8)	Total Nonmajor Governmental Funds (Exhibit C)
\$ 877,340	\$ 7,148,432
-	2,867
-	545,001
-	3,160,072
<u>\$ 877,340</u>	<u>\$ 10,856,372</u>
\$ -	\$ 112,705
600,000	730,835
-	85,612
-	3,135,000
<u>600,000</u>	<u>4,064,152</u>
277,340	6,792,220
<u>277,340</u>	<u>6,792,220</u>
<u>\$ 877,340</u>	<u>\$ 10,856,372</u>

SCHEDULE 3
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2008**

	Special Revenue Funds (Schedule 5)	Debt Service Funds (Schedule 7)
REVENUES		
General property taxes	\$ 802,666	\$ 3,217,158
Fines, forfeitures and penalties	89,925	-
Interest, rents and concessions	171,206	97,943
Intergovernmental	4,354,236	413,249
Charges for services	580,900	-
Other revenues	4,273,061	-
Total revenues	10,271,994	3,728,350
EXPENDITURES		
Public safety	68,106	-
Public services	1,238,505	-
Other services	4,039,064	201,482
Mass transit	787,422	-
Culture and recreation	3,783,572	-
Human/social assistance	505,080	-
Capital outlay	6,395,548	-
Debt service:		
Principal payments	6,249,582	3,045,017
Interest and fiscal charges	209,904	995,902
Total expenditures	23,276,783	4,242,401
Excess (deficiency) of revenues over expenditures	(13,004,789)	(514,051)

Capital Project Funds (Schedule 9)	Total Nonmajor Governmental Funds (Exhibit D)
\$ 543	\$ 4,020,367
-	89,925
28,680	297,829
197,513	4,964,998
4,225	585,125
-	4,273,061
<u>230,961</u>	<u>14,231,305</u>
-	68,106
-	1,238,505
30,646	4,271,192
-	787,422
-	3,783,572
-	505,080
1,026,591	7,422,139
-	9,294,599
-	1,205,806
<u>1,057,237</u>	<u>28,576,421</u>
(826,276)	(14,345,116)

SCHEDULE 3
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2008**

	Special Revenue Funds (Schedule 5)	Debt Service Funds (Schedule 7)
<i>OTHER FINANCING SOURCES (USES)</i>		
Proceeds from long term debt	\$ 6,025,000	\$ -
Operating transfers in	3,331,056	1,010,276
Other sources	3,763,362	-
Operating transfers out	-	(26,930)
<i>Total other financing sources (uses)</i>	<u>13,119,418</u>	<u>983,346</u>
<i>NET CHANGE IN FUND BALANCES</i>	114,629	469,295
Fund balances - beginning	<u>3,569,062</u>	<u>2,361,894</u>
Fund balances - ending	<u>\$ 3,683,691</u>	<u>\$ 2,831,189</u>

Capital Project Funds (Schedule 9)	Total Nonmajor Governmental Funds (Exhibit D)
\$ 610,000	\$ 6,635,000
122,409	4,463,741
1	3,763,363
(8,642)	(35,572)
<u>723,768</u>	<u>14,826,532</u>
(102,508)	481,416
<u>379,848</u>	<u>6,310,804</u>
<u>\$ 277,340</u>	<u>\$ 6,792,220</u>

SCHEDULE 4

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheets
Nonmajor Special Revenue Funds
September 30, 2008**

	<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	\$ 346,163	\$ 675,723	\$ 236,374	\$ 180,653	\$ 157,285	\$ 998,781
Property taxes receivable	674,979	-	-	-	-	-
Due from other funds	-	417	-	2,450	-	-
Other receivables	299	95,651	-	2,449	1,657	13,184
Total assets	<u>\$ 1,021,441</u>	<u>\$ 771,791</u>	<u>\$ 236,374</u>	<u>\$ 185,552</u>	<u>\$ 158,942</u>	<u>\$ 1,011,965</u>
LIABILITIES AND FUND BALANCES						
Accounts payable	\$ 5,728	\$ -	\$ -	\$ 3,329	\$ -	\$ 55,800
Due to other funds	9,716	8,625	-	-	-	-
Other liabilities	2,997	-	-	61,780	-	-
Deferred revenue	670,000	-	-	-	-	-
Total liabilities	<u>688,441</u>	<u>8,625</u>	<u>-</u>	<u>65,109</u>	<u>-</u>	<u>55,800</u>
Fund Balances:						
Unreserved, undesignated	<u>333,000</u>	<u>763,166</u>	<u>236,374</u>	<u>120,443</u>	<u>158,942</u>	<u>956,165</u>
Total fund balances	<u>333,000</u>	<u>763,166</u>	<u>236,374</u>	<u>120,443</u>	<u>158,942</u>	<u>956,165</u>
Total liabilities and fund balances	<u>\$ 1,021,441</u>	<u>\$ 771,791</u>	<u>\$ 236,374</u>	<u>\$ 185,552</u>	<u>\$ 158,942</u>	<u>\$ 1,011,965</u>

MASS TRANSIT OPERATING	COMMUNITY CENTERS	CDBG FUND	2007 G. O. REFUNDING BOND ISSUE	GROUP INSURANCE	TOTAL
\$ 74,393	\$ 222,828	\$ 104,123	\$ -	\$ 462,431	\$ 3,458,754
166,242	-	-	-	-	841,221
-	-	-	-	-	2,867
41,933	-	389,828	-	-	545,001
<u>\$ 282,568</u>	<u>\$ 222,828</u>	<u>\$ 493,951</u>	<u>\$ -</u>	<u>\$ 462,431</u>	<u>\$ 4,847,843</u>
\$ 10,794	\$ 36,020	\$ 1,034	\$ -	\$ -	\$ 112,705
11,535	800	100,159	-	-	130,835
-	20,835	-	-	-	85,612
165,000	-	-	-	-	835,000
<u>187,329</u>	<u>57,655</u>	<u>101,193</u>	<u>-</u>	<u>-</u>	<u>1,164,152</u>
95,239	165,173	392,758	-	462,431	3,683,691
<u>95,239</u>	<u>165,173</u>	<u>392,758</u>	<u>-</u>	<u>462,431</u>	<u>3,683,691</u>
<u>\$ 282,568</u>	<u>\$ 222,828</u>	<u>\$ 493,951</u>	<u>\$ -</u>	<u>\$ 462,431</u>	<u>\$ 4,847,843</u>

SCHEDULE 5

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended September 30, 2008**

	<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	\$ 641,662	\$ -	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures and penalties	-	567	-	89,358	-	-
Interest, rents and concessions	8,926	33,365	9,988	12,410	9,128	20,798
Intergovernmental	55,440	231,920	52,494	86,717	60,619	1,845,827
Charges for services	316,389	191,304	-	15,428	-	-
Other revenues	4,540	2,159	4,084,565	2,516	25,094	50,000
Total revenues	<u>1,026,957</u>	<u>459,315</u>	<u>4,147,047</u>	<u>206,429</u>	<u>94,841</u>	<u>1,916,625</u>
EXPENDITURES						
Public safety	-	7,064	-	61,042	-	-
Public services	-	-	-	-	-	1,238,505
Other services	-	-	-	-	(38,240)	-
Mass transit	-	-	-	-	-	-
Culture and recreation	3,051,304	-	-	-	-	-
Human/social assistance	-	-	-	-	-	-
Capital outlay	244,172	8,400	4,140,397	644,055	172,859	298,042
Debt service:						
Principal payments	-	364,582	-	-	-	-
Interest and fiscal charges	-	70,879	-	-	-	-
Total expenditures	<u>3,295,476</u>	<u>450,925</u>	<u>4,140,397</u>	<u>705,097</u>	<u>134,619</u>	<u>1,536,547</u>
Excess (deficiency) of revenues over expenditures	(2,268,519)	8,390	6,650	(498,668)	(39,778)	380,078
OTHER FINANCING SOURCES (USES)						
Proceeds from long term debt	-	-	-	-	-	-
Operating transfers in	2,370,760	7,000	-	-	-	-
Other sources	25	-	-	1	-	1,278
Total other financing sources (uses)	<u>2,370,785</u>	<u>7,000</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>1,278</u>
NET CHANGE IN FUND BALANCES	102,266	15,390	6,650	(498,667)	(39,778)	381,356
Fund balances - beginning	<u>230,734</u>	<u>747,776</u>	<u>229,724</u>	<u>619,110</u>	<u>198,720</u>	<u>574,809</u>
Fund balances - ending	<u>\$ 333,000</u>	<u>\$ 763,166</u>	<u>\$ 236,374</u>	<u>\$ 120,443</u>	<u>\$ 158,942</u>	<u>\$ 956,165</u>

MASS TRANSIT OPERATING	COMMUNITY CENTERS	CDBG FUND	2007 G. O. REFUNDING BOND ISSUE	GROUP INSURANCE	TOTAL
\$ 161,004	\$ -	\$ -	\$ -	\$ -	\$ 802,666
-	-	-	-	-	89,925
2,648	4,231	-	55,848	13,864	171,206
715,199	-	1,306,020	-	-	4,354,236
29,690	28,089	-	-	-	580,900
-	-	-	104,187	-	4,273,061
<u>908,541</u>	<u>32,320</u>	<u>1,306,020</u>	<u>160,035</u>	<u>13,864</u>	<u>10,271,994</u>
-	-	-	-	-	68,106
-	-	-	-	-	1,238,505
-	-	-	161,010	3,916,294	4,039,064
787,422	-	-	-	-	787,422
-	732,268	-	-	-	3,783,572
-	-	505,080	-	-	505,080
365,236	101,779	420,608	-	-	6,395,548
-	-	-	5,885,000	-	6,249,582
-	-	-	139,025	-	209,904
<u>1,152,658</u>	<u>834,047</u>	<u>925,688</u>	<u>6,185,035</u>	<u>3,916,294</u>	<u>23,276,783</u>
(244,117)	(801,727)	380,332	(6,025,000)	(3,902,430)	(13,004,789)
-	-	-	6,025,000	-	6,025,000
200,000	741,296	12,000	-	-	3,331,056
27	354	2	-	3,761,675	3,763,362
<u>200,027</u>	<u>741,650</u>	<u>12,002</u>	<u>6,025,000</u>	<u>3,761,675</u>	<u>13,119,418</u>
(44,090)	(60,077)	392,334	-	(140,755)	114,629
<u>139,329</u>	<u>225,250</u>	<u>424</u>	<u>-</u>	<u>603,186</u>	<u>3,569,062</u>
<u>\$ 95,239</u>	<u>\$ 165,173</u>	<u>\$ 392,758</u>	<u>\$ -</u>	<u>\$ 462,431</u>	<u>\$ 3,683,691</u>

SCHEDULE 6

CITY OF HATTIESBURG, MISSISSIPPI

Combining Balance Sheets
Nonmajor Debt Service Funds
September 30, 2008

	<u>1999 TIF BOND AND INTEREST</u>	<u>CITY BOND AND INTEREST</u>	<u>2002 TIF BOND AND INTEREST SOUTHERN POINTE</u>	<u>2004 TIF BOND AND INTEREST HOME DEPOT</u>	<u>2003 TIF BOND AND INTEREST CHAUVET SQUARE</u>	<u>2007 TIF BOND AND INTEREST TURTLE CROSSING</u>	<u>2008 TIF BOND AND INTEREST LINCOLN CENTER</u>	<u>TOTAL</u>
ASSETS								
Cash and cash equivalents	\$ 71,515	\$ 2,297,231	\$ 51,073	\$ 124,345	\$ 21,797	\$ 184,829	\$ 61,548	\$ 2,812,338
Property taxes receivable	-	2,318,851	-	-	-	-	-	2,318,851
Total assets	<u>\$ 71,515</u>	<u>\$ 4,616,082</u>	<u>\$ 51,073</u>	<u>\$ 124,345</u>	<u>\$ 21,797</u>	<u>\$ 184,829</u>	<u>\$ 61,548</u>	<u>\$ 5,131,189</u>
LIABILITIES AND FUND BALANCES								
Deferred revenue	\$ -	\$ 2,300,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,300,000
Total liabilities	<u>-</u>	<u>2,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,300,000</u>
Fund balances:								
Unreserved, undesignated	71,515	2,316,082	51,073	124,345	21,797	184,829	61,548	2,831,189
Total fund balances	<u>71,515</u>	<u>2,316,082</u>	<u>51,073</u>	<u>124,345</u>	<u>21,797</u>	<u>184,829</u>	<u>61,548</u>	<u>2,831,189</u>
Total liabilities and fund balances	<u>\$ 71,515</u>	<u>\$ 4,616,082</u>	<u>\$ 51,073</u>	<u>\$ 124,345</u>	<u>\$ 21,797</u>	<u>\$ 184,829</u>	<u>\$ 61,548</u>	<u>\$ 5,131,189</u>

SCHEDULE 7

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended September 30, 2008**

	1999 TIF BOND AND INTEREST	CITY BOND AND INTEREST	2002 TIF BOND AND INTEREST SOUTHERN POINTE	2004 TIF BOND AND INTEREST HOME DEPOT	2003 TIF BOND AND INTEREST CHAUVET SQUARE	2007 TIF BOND AND INTEREST TURTLE CROSSING	2008 TIF BOND AND INTEREST LINCOLN CENTER	TOTAL
REVENUES								
General property taxes	\$ 65,778	\$ 2,429,907	\$ 48,751	\$ 62,659	\$ 201,370	\$ 347,693	\$ 61,000	\$ 3,217,158
Interest, rents and concessions	906	46,910	39,607	2,933	1,376	5,663	548	97,943
Intergovernmental	35,000	267,442	-	19,068	-	91,739	-	413,249
Total revenues	<u>101,684</u>	<u>2,744,259</u>	<u>88,358</u>	<u>84,660</u>	<u>202,746</u>	<u>445,095</u>	<u>61,548</u>	<u>3,728,350</u>
EXPENDITURES								
Other services	-	201,482	-	-	-	-	-	201,482
Debt service:								
Principal payments	70,000	2,595,017	65,000	65,000	50,000	200,000	-	3,045,017
Interest and fiscal charges	29,170	637,662	19,950	22,812	111,853	174,455	-	995,902
Total expenditures	<u>99,170</u>	<u>3,434,161</u>	<u>84,950</u>	<u>87,812</u>	<u>161,853</u>	<u>374,455</u>	<u>-</u>	<u>4,242,401</u>
Excess (deficiency) of revenues over expenditures	2,514	(689,902)	3,408	(3,152)	40,893	70,640	61,548	(514,051)
OTHER FINANCING SOURCES (USES)								
Operating transfers in	-	1,001,634	-	-	-	8,642	-	1,010,276
Operating transfers out	-	-	-	-	(26,930)	-	-	(26,930)
Total other financing sources (uses)	<u>-</u>	<u>1,001,634</u>	<u>-</u>	<u>-</u>	<u>(26,930)</u>	<u>8,642</u>	<u>-</u>	<u>983,346</u>
NET CHANGE IN FUND BALANCES	2,514	311,732	3,408	(3,152)	13,963	79,282	61,548	469,295
Fund balances - beginning	69,001	2,004,350	47,665	127,497	7,834	105,547	-	2,361,894
Fund balances - ending	<u>\$ 71,515</u>	<u>\$ 2,316,082</u>	<u>\$ 51,073</u>	<u>\$ 124,345</u>	<u>\$ 21,797</u>	<u>\$ 184,829</u>	<u>\$ 61,548</u>	<u>\$ 2,831,189</u>

SCHEDULE 8

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheets
Nonmajor Capital Project Funds
September 30, 2008**

	<u>2008 TIF CONSTRUCTION LINCOLN CENTER</u>	<u>MISSISSIPPI DEVELOPMENT BANK PROJECT</u>	<u>TIF CONSTRUCTION TURTLE CROSSING</u>	<u>2001 BOND CONSTRUCTION</u>	<u>KAMPER PARK/ ZOO IMPROVEMENTS</u>	<u>TOTAL</u>
ASSETS						
Cash and cash equivalents	\$ -	\$ 424,599	\$ -	\$ 263,127	\$ 189,614	\$ 877,340
Total assets	<u>\$ -</u>	<u>\$ 424,599</u>	<u>\$ -</u>	<u>\$ 263,127</u>	<u>\$ 189,614</u>	<u>\$ 877,340</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	\$ -	\$ 600,000	\$ -	\$ -	\$ -	\$ 600,000
Total liabilities	<u>-</u>	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
Fund balances:						
Unreserved, undesignated	-	(175,401)	-	263,127	189,614	277,340
Total fund balances	<u>-</u>	<u>(175,401)</u>	<u>-</u>	<u>263,127</u>	<u>189,614</u>	<u>277,340</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 424,599</u>	<u>\$ -</u>	<u>\$ 263,127</u>	<u>\$ 189,614</u>	<u>\$ 877,340</u>

SCHEDULE 9

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended September 30, 2008**

	2008 TIF CONSTRUCTION LINCOLN CENTER	MISSISSIPPI DEVELOPMENT BANK PROJECT	TIF CONSTRUCTION TURTLE CROSSING	2001 BOND CONSTRUCTION	KAMPER PARK/ ZOO IMPROVEMENTS	TOTAL
REVENUES						
Interest, rents and concessions	\$ 267	\$ 16,408	\$ 163	\$ 7,852	\$ 3,990	\$ 28,680
General property taxes	543					543
Intergovernmental	-	197,513	-	-	-	197,513
Charges for services					4,225	4,225
Other revenues	-	-	-	-	-	-
Total revenues	<u>810</u>	<u>213,921</u>	<u>163</u>	<u>7,852</u>	<u>8,215</u>	<u>230,961</u>
EXPENDITURES						
Other services	30,646	-	-	-	-	30,646
Capital outlay	580,164	401,910	-	38,367	6,150	1,026,591
Culture and recreations	-	-	-	-	-	-
Total expenditures	<u>610,810</u>	<u>401,910</u>	<u>-</u>	<u>38,367</u>	<u>6,150</u>	<u>1,057,237</u>
Excess (deficiency) of revenues over expenditures	(610,000)	(187,989)	163	(30,515)	2,065	(826,276)
OTHER FINANCING SOURCES (USES)						
Proceeds from long term debt	610,000	-	-	-	-	610,000
Other sources	-	-	-	-	1	1
Operating transfers in	-	54,726	-	-	67,683	122,409
Operating transfers out	-	-	(8,642)	-	-	(8,642)
Total other financing sources (uses)	<u>610,000</u>	<u>54,726</u>	<u>(8,642)</u>	<u>-</u>	<u>67,684</u>	<u>723,768</u>
NET CHANGE IN FUND BALANCES	-	(133,263)	(8,479)	(30,515)	69,749	(102,508)
Fund balances - beginning	-	(42,138)	8,479	293,642	119,865	379,848
Fund balances - ending	<u>\$ -</u>	<u>\$ (175,401)</u>	<u>\$ -</u>	<u>\$ 263,127</u>	<u>\$ 189,614</u>	<u>\$ 277,340</u>

SCHEDULE 10
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2008**

	PERSONAL SERVICES	SUPPLIES & EXPENSES
GENERAL GOVERNMENT		
City Council	\$ 158,935	\$ 2,071
Mayor/Administration	525,385	13,326
Elections	-	-
Municipal Clerk	132,050	2,933
Tax Division	-	-
Accounting Division	229,078	5,058
Purchasing Division	137,939	6,089
City Attorney	78,165	-
Human Resources Division	181,793	7,897
Loss Control Division	97,318	4,494
Planning Division	475,352	38,149
Data Processing	234,972	42,343
Metro Planning	145,601	5,749
General Government Building	-	9,691
General Government - Other	5,064	96,939
Intermodal Facility	4,201	3,426
City Court	721,227	12,044
Total General Government	3,127,080	250,209
PUBLIC SAFETY		
Police Department	7,878,645	758,757
Police and Fire Training	30,999	94,766
Fire Department	5,660,648	280,145
Land Use Code	479,800	26,625
Contractual Services	132,185	-
Total Public Safety	14,182,277	1,160,293
PUBLIC SERVICE		
Traffic Maintenance	264,849	119,800
Street Division	1,258,715	401,560
Street Lights	-	-
Engineering	386,484	17,361
Shop Division	406,016	31,879
Garage and Office	324,258	24,303
Drainage Division	150,336	69,806
Construction Division	576,035	68,436
Sanitation Division	1,791,539	298,121
Street Cleaning Division	60,822	44,005
Public Works – Health Division	389,264	128,839
Total Public Service	5,608,318	1,204,110

OTHER SERVICES/ CHARGES	CAPITAL OUTLAYS	DEBT SERVICE	TOTAL
\$ 79,013	\$ -	\$ -	\$ 240,019
58,863	-	-	597,574
-	-	-	-
37,162	790	-	172,935
-	-	-	-
976	12,359	-	247,471
312	-	-	144,340
8,216	-	-	86,381
2,304	-	-	191,994
3,069	370	-	105,251
98,122	2,614	-	614,237
92,653	92,959	-	462,927
19,037	10,670	-	181,057
116,511	54,750	-	180,952
1,683,447	-	-	1,785,450
45,173	13,226	-	66,026
56,464	13,606	-	803,341
<u>2,301,322</u>	<u>201,344</u>	<u>-</u>	<u>5,879,955</u>
469,130	726,012	-	9,832,544
114,623	44,295	-	284,683
188,527	139,568	-	6,268,888
144,300	-	-	650,725
976,686	-	-	1,108,871
<u>1,893,266</u>	<u>909,875</u>	<u>-</u>	<u>18,145,711</u>
48,804	94,823	-	528,276
2,394,337	166,883	-	4,221,495
988,196	-	-	988,196
178,413	98,377	-	680,635
27,119	9,813	-	474,827
18,618	74,443	-	441,622
551,255	101,827	-	873,224
1,340,848	42,519	-	2,027,838
1,019,631	-	-	3,109,291
28,726	-	-	133,553
8,515	78	-	526,696
<u>6,604,462</u>	<u>588,763</u>	<u>-</u>	<u>14,005,653</u>

SCHEDULE 10
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2008**

	<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	93,174	16,021
Airport	64,407	21,280
Cemetery	548,651	81,938
Parking Operations	186,872	2,755
Total Other Services	<u>893,104</u>	<u>121,994</u>
DEBT SERVICE	<u>-</u>	<u>-</u>
TOTAL DEPARTMENTAL EXPENDITURES	<u>\$ 23,810,779</u>	<u>\$ 2,736,606</u>

<u>OTHER SERVICES/ CHARGES</u>	<u>CAPITAL OUTLAYS</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
\$ 90,865	\$ -	\$ -	\$ 90,865
<u>90,865</u>	<u>-</u>	<u>-</u>	<u>90,865</u>
159,502	-	-	159,502
<u>159,502</u>	<u>-</u>	<u>-</u>	<u>159,502</u>
115,634	-	-	224,829
124,563	-	-	210,250
33,800	43,082	-	707,471
59,829	10,000	-	259,456
<u>333,826</u>	<u>53,082</u>	<u>-</u>	<u>1,402,006</u>
-	-	1,706,913	1,706,913
<u>\$ 11,383,243</u>	<u>\$ 1,753,064</u>	<u>\$ 1,706,913</u>	<u>\$ 41,390,605</u>

SCHEDULE 11

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Other Fiduciary Funds, Assets, and Liabilities
Agency Funds
September 30, 2008**

	<u>Payroll Withholding Fund</u>
ASSETS	
Cash and cash equivalents	\$ 344,347
Taxes and fees receivable	-
Due from other funds	-
Sales tax receivable	-
	<hr/>
Total assets	<u><u>\$ 344,347</u></u>
LIABILITIES	
Employee contributions payable	\$ 342,051
Due to other agencies	-
Other liabilities	2,296
	<hr/>
Total liabilities	<u><u>\$ 344,347</u></u>

<u>Tax Collectors Fund</u>	<u>Hattiesburg Special Sales Tax</u>	<u>Total</u>
\$ 904,715	\$ -	\$ 1,249,062
134,290	-	134,290
-	138,576	138,576
-	394,653	394,653
<u>\$ 1,039,005</u>	<u>\$ 533,229</u>	<u>\$ 1,916,581</u>
\$ -	\$ -	\$ 342,051
1,022,146	533,229	1,555,375
16,859	-	19,155
<u>\$ 1,039,005</u>	<u>\$ 533,229</u>	<u>\$ 1,916,581</u>

SCHEDULE 12

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule Of Surety Bonds For Municipal Officials
Year Ended September 30, 2008**

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

SCHEDULE 13

CITY OF HATTIESBURG, MISSISSIPPI

**Full Cost Accounting
Solid Waste Management Services
Year Ended September 30, 2008**

EXPENSES - Sanitation Cost Center (General Fund):

Personnel costs	\$ 1,791,539
Supplies	298,120
Other services and charges	1,019,633
Total expenses (other than capital outlay) Sanitation Cost Center	<u>3,109,292</u>

Interest on capital leases - sanitation trucks 9,797

Depreciation expense 158,314

Allocation of certain expenses in Other Cost Centers:

50% of shop cost center - Repair and maintenance	237,414
Indirect cost allocation - 10% of administration cost centers	<u>253,785</u>

Total calculated expenses - full cost basis \$ 3,768,602

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

Sanitation trucks:	
Garbage (tons)	11,745 tons
Trash (tons)	<u>16,722 tons</u>

Total tons solid waste 28,467 tons

Distribution of residential and non-residential costs:

Residential (84%)	\$ 3,165,626
Non-residential (16%)	<u>602,976</u>

Total distribution \$ 3,768,602

NOTES:

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

SINGLE AUDIT SECTION

SCHEDULE 14
PAGE 1 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of Agriculture</i>			
2006 Urban Forrestry Commission Assistance	10.664	06 Transportation Enhancement	\$ 50,000
Total U.S. Department of Agriculture			<u>50,000</u>
<i>U.S. Department of Defense</i>			
Office of Economic Adjustment - Joint Land Use Study	12.610	EN0102-03-01	<u>7,126</u>
Total U.S. Department of Defense			<u>7,126</u>
<i>U.S. Department of Housing and Urban Development</i>			
Pass-Through Programs From:			
Governor's Department of Housing and Urban Development			
CDBG Entitlement Program	14.218	MC-28-0006	<u>608,172</u>
HOME Entitlement Investment Partnership Program	14.239	MC-28-0201	<u>228,154</u>
Pass-Through Programs From:			
Mississippi Development Authority			
American Dream Down Payment Initiative	14.239	M05-SG-280-AD-135	<u>85,000</u>
Emergency Shelter Grant	14.231	ESG-205-07	45,044
Emergency Shelter Grant	14.231	ESG-205-08	<u>46,155</u>
			<u>91,199</u>
Total U.S. Department of Housing and Urban Development			<u>1,012,525</u>

SCHEDULE 14
PAGE 2 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of the Interior/National Park Service</i>			
Pass-Through Program From:			
Mississippi Department of Archives and History			
2005 Certified Local Government Grant	15.904	00LGHATT	\$ 9,750
Total U.S. Department of the Interior/National Park Service			<u>9,750</u>
<i>U.S. Department of Justice</i>			
Pass-Through Programs From:			
Office of Justice Programs			
Juvenile Accountability (with USM)	16.540	2005-JP-FX-0047	<u>40,920</u>
Narcotics Participation Grant (with Forrest County)	16.579	04-DB-BX-0026	<u>33,661</u>
Stop Violence Against Women Act - Victim's Advocate	16.588	06-WF-AX-0037	<u>18,957</u>
Encourage to Arrest Grant (with Forrest County)	16.590	05-WE-AX-0131	<u>672</u>
Bulletproof Vest Partnership 98	16.607		<u>5,177</u>
COPS Methamphetamine Initiative	16.710	2007CKWX0247	<u>169,318</u>
Edward Byrne Memorial Justice Assist.(w/Forrest Cnty)	16.738	2007-DJ-BX-0015	33,568
Hurricane Relief	16.738	06-DH-BX-0438	<u>86,717</u>
			120,285
Total U.S. Department of Justice			<u>388,990</u>

SCHEDULE 14
PAGE 3 OF 6

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>Federal Aviation Administration</i>			
FAA Airport Improvement Grant - Bobby L. Chain Airport	20.106	3-28-0031-0014-2006/07	\$ 22,790
FAA Airport Improvement Grant - Bobby L. Chain Airport	20.106	3-28-0031-0015-2008	<u>9,224</u>
Total Federal Aviation Administration			<u>32,014</u>
<i>U.S. Department of Transportation:</i>			
Pass-Through Programs From:			
Mississippi Department of Transportation			
Urban Youth Corps. Transportation Enhancement Project	20.205	STP-9999-09(001)/104450106	29,285
Classic Drive Reconstruction	20.205	ITS(STP-8776-00(002)	<u>2,388,290</u>
			<u>2,417,575</u>
 Intermodal Center Grant - Train Depot Project	 20.500	 MS-03-0022	 <u>197,513</u>
 Mass Transit Preventative	 20.507	 MS-90-0075/0076	 130,563
Mass Transit Operating	20.507	MS-90-4075/4076	286,505
Mass Transit Capital	20.507	MS-90-X075/X076	<u>295,254</u>
			<u>712,322</u>
Pass-Through Programs From:			
Federal Transit Administration Transportation			
Metropolitan Planning Organization	20.205	76-0080-12-003-10/11& 76-0080-11-620-10	<u>199,627</u>

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>U.S. Department of Transportation (Cont.):</i>			
Pass-Through Programs From:			
Office of Highway Safety			
Alcohol Countermeasures Incentives	20.605	08-K8-2151	\$ 87,979
			<u>87,979</u>
Total U.S. Department of Transportation			<u>3,615,016</u>
<i>Environmental Protection Agency</i>			
Brownsfield Project	66.818	BF-96434405	<u>85,949</u>
Total Environmental Protection Agency			<u>85,949</u>
<i>U.S. Department of Homeland Security</i>			
Pass-Through Programs From:			
Mississippi Office of Homeland Security			
Domestic Preparedness Program	97.004	5HS205R/6HS205/6CC205/6HS205R	165,275
Homeland Security	97.004	7HS205T	<u>47,257</u>
Total U.S. Department of Homeland Security			<u>212,532</u>

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Grant Expenditures</u>
<i>Federal Emergency Management Agency</i>			
Pass-Through Program From:			
Mississippi Emergency Management Agency			
Federal Disaster Assistance Funding	97.036	FEMA-1604-DR-MS	\$ <u>2,349,894</u>
Total Federal Emergency Management Agency			<u>2,349,894</u>
<i>Total Federal Financial Assistance</i>			<u>\$ <u>7,763,796</u></u>

CITY OF HATTIESBURG

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

NOTE 1 - BASIS OF PRESENTATION

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

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Schedule 15

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

To the Honorable Mayor and Members of the City Council
City of Hattiesburg
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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hattiesburg, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hattiesburg, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Hattiesburg, Mississippi's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Hattiesburg, Mississippi's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 that are required to be reported under *Government Auditing Standards*.

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 5, 2009

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Schedule 16

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Hattiesburg, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. 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

In our opinion, the City of Hattiesburg, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

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

A *control deficiency* in an City of Hattiesburg, Mississippi's internal control over compliance exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hattiesburg, Mississippi's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of Hattiesburg, Mississippi's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Hattiesburg, Mississippi's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 5, 2009

SCHEDULE 17
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CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2008**

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?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	HUD - CDBG Entitlement
14.239	HUD - CDBG Home Entitlement
20.507	Mass Transit Formula Grants
97.036	FEMA Public Assistance Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2008**

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Awards Findings and Questioned Costs

No matters were reported.

STATISTICAL INFORMATION

TABLE 1

CITY OF HATTIESBURG, MISSISSIPPI

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

	FISCAL YEAR				
	2008	2007	2006	2005	2004
GOVERNMENTAL ACTIVITIES:					
Invested in capital assets, net of related debt	\$ 94,307,180	\$ 93,482,416	\$ 85,543,514	\$ 79,339,867	\$ 73,050,564
Restricted for:					
Capital projects	277,340	421,986	355,132	236,730	(710,590)
Debt service	2,831,189	2,361,894	1,711,307	1,556,481	1,348,064
Unrestricted	<u>10,695,572</u>	<u>12,335,482</u>	<u>11,324,642</u>	<u>7,549,683</u>	<u>7,597,953</u>
Governmental activities net assets	<u>\$ 108,111,281</u>	<u>\$ 108,601,778</u>	<u>\$ 98,934,595</u>	<u>\$ 88,682,761</u>	<u>\$ 81,285,991</u>
BUSINESS-TYPE ACTIVITIES:					
Invested in capital assets, net of related debt	\$ 32,131,585	\$ 26,516,342	\$ 22,705,571	\$ 34,161,132	\$ 32,358,336
Restricted for:					
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Unrestricted	<u>10,522,245</u>	<u>13,847,699</u>	<u>15,874,687</u>	<u>2,540,385</u>	<u>2,119,923</u>
Governmental activities net assets	<u>\$ 42,653,830</u>	<u>\$ 40,364,041</u>	<u>\$ 38,580,258</u>	<u>\$ 36,701,517</u>	<u>\$ 34,478,259</u>
PRIMARY GOVERNMENT:					
Invested in capital assets, net of related debt	\$ 126,438,765	\$ 119,998,758	\$ 108,249,085	\$ 113,500,999	\$ 105,408,900
Restricted for:					
Capital projects	277,340	421,986	355,132	236,730	(710,590)
Debt service	2,831,189	2,361,894	1,711,307	1,556,481	1,348,064
Unrestricted	<u>21,217,817</u>	<u>26,183,181</u>	<u>27,199,329</u>	<u>10,090,068</u>	<u>9,717,876</u>
Governmental activities net assets	<u>\$ 150,765,111</u>	<u>\$ 148,965,819</u>	<u>\$ 137,514,853</u>	<u>\$ 125,384,278</u>	<u>\$ 115,764,250</u>

TABLE 2

CITY OF HATTIESBURG, MISSISSIPPI

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

	FISCAL YEAR				
	2008	2007	2006	2005	2004
GOVERNMENTAL ACTIVITIES:					
General government	\$ 6,415,817	\$ 5,518,515	\$ 5,266,006	\$ 5,032,688	\$ 4,829,671
Public safety	18,985,991	17,937,458	15,474,025	14,670,081	15,308,821
Public services	20,398,976	16,846,291	20,251,044	14,417,361	14,801,133
Other services	5,727,212	5,596,293	4,921,694	4,052,402	4,355,916
Mass transit	1,054,153	753,752	718,518	602,119	563,114
Cultural and recreation	4,247,864	3,902,787	3,818,198	2,560,224	3,261,483
Human/social assistance	617,544	635,505	831,362	658,356	1,152,162
Economic development	159,502	196,000	196,000	210,280	234,878
Interest and fiscal charges	1,718,149	1,740,731	1,664,988	1,364,028	1,275,834
Total governmental activities expenses	<u>59,325,208</u>	<u>53,127,332</u>	<u>53,141,835</u>	<u>43,567,539</u>	<u>45,783,012</u>
BUSINESS-TYPE ACTIVITIES:					
Water and Sewer System	<u>8,318,670</u>	<u>7,433,290</u>	<u>7,000,869</u>	<u>6,070,204</u>	<u>6,549,086</u>
Total primary government expenses	<u><u>\$ 67,643,878</u></u>	<u><u>\$ 60,560,622</u></u>	<u><u>\$ 60,142,704</u></u>	<u><u>\$ 49,637,743</u></u>	<u><u>\$ 52,332,098</u></u>
PROGRAM REVENUES:					
Governmental Activities:					
Charges for services	\$ 7,773,432	\$ 2,693,409	\$ 3,008,496	\$ 2,781,965	\$ 3,122,634
Operating grants and contributions	6,262,995	10,480,188	11,175,693	7,528,426	7,325,394
Capital grants and contributions	5,098,683	4,179,064	5,681,530	5,880,728	1,640,024
Total governmental activities program revenues	<u>19,135,110</u>	<u>17,352,661</u>	<u>19,865,719</u>	<u>16,191,119</u>	<u>12,088,052</u>
Business-Type Activities:					
Charges for services	<u>9,197,894</u>	<u>8,537,545</u>	<u>8,660,771</u>	<u>8,075,288</u>	<u>8,232,308</u>
Total program revenues	<u>28,333,004</u>	<u>25,890,206</u>	<u>28,526,490</u>	<u>24,266,407</u>	<u>20,320,360</u>

TABLE 2
PAGE TWO

CITY OF HATTIESBURG, MISSISSIPPI

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

	FISCAL YEAR				
	2008	2007	2006	2005	2004
Net Revenues (Expenses):					
Governmental activities	\$ (40,190,098)	\$ (35,774,671)	\$ (33,276,116)	\$ (27,376,420)	\$ (33,694,960)
Business-type activities	879,224	1,104,255	1,659,902	2,005,084	1,683,222
Total primary government net (expenses)	<u>(39,310,874)</u>	<u>(34,670,416)</u>	<u>(31,616,214)</u>	<u>(25,371,336)</u>	<u>(32,011,738)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS:					
Governmental Activities:					
Property taxes	13,753,217	15,103,579	12,216,587	12,223,041	12,481,682
Sales taxes	22,350,027	22,446,221	24,717,190	17,873,911	16,862,144
Franchise and other taxes	4,602,087	4,324,217	4,089,915	3,592,591	3,990,772
Grants and contributions (not restricted)	1,600	1,325	1,325	2,825	3,395
Unrestricted investment earnings	757,656	1,003,549	895,411	498,403	427,593
Miscellaneous revenues	1,231,625	936,361	1,607,522	582,419	1,042,143
Total governmental activities	<u>42,696,212</u>	<u>43,815,252</u>	<u>43,527,950</u>	<u>34,773,190</u>	<u>34,807,729</u>
Business-type Activities:					
Unrestricted investment earnings	240,797	637,473	215,478	52,480	30,217
Miscellaneous revenues	1,169,768	42,055	3,361	165,694	8,631
Total business-type activities	<u>1,410,565</u>	<u>679,528</u>	<u>218,839</u>	<u>218,174</u>	<u>38,848</u>
Total primary government	<u>44,106,777</u>	<u>44,494,780</u>	<u>43,746,789</u>	<u>34,991,364</u>	<u>34,846,577</u>
CHANGE IN NET ASSETS:					
Governmental activities	2,506,114	8,040,581	10,251,834	7,396,770	1,112,769
Business-type activities	2,289,789	1,783,783	1,878,741	2,223,258	1,722,070
Total primary government	<u>\$ 4,795,903</u>	<u>\$ 9,824,364</u>	<u>\$ 12,130,575</u>	<u>\$ 9,620,028</u>	<u>\$ 2,834,839</u>

TABLE 3

CITY OF HATTIESBURG, MISSISSIPPI

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

	FISCAL YEAR									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General Fund:										
Reserved for:										
Inventories	\$ 65,400	\$ 53,763	\$ 21,533	\$ 33,131	\$ 39,842	\$ 20,686	\$ 4,063	\$ 10,564	\$ 51,843	\$ 35,796
Prepaid items	-	-	-	218,973	252,684	-	196,835	-	-	-
Unreserved	8,484,316	10,165,200	8,910,441	6,138,963	6,613,676	5,465,362	4,771,727	3,600,435	3,730,470	4,732,975
Total general fund	<u>8,549,716</u>	<u>10,218,963</u>	<u>8,931,974</u>	<u>6,391,067</u>	<u>6,906,202</u>	<u>5,486,048</u>	<u>4,972,625</u>	<u>3,610,999</u>	<u>3,782,313</u>	<u>4,768,771</u>
% Change from Prior Year	-16.3%	14.4%	39.8%	-7.5%	25.9%	10.3%	37.7%	-4.5%	-20.7%	31.0%
Other Governmental Funds:										
Reserved for:										
Encumbrances	-	-	-	-	-	-	-	-	-	-
Unreserved	-	(42,138)	(68,635)	193,217	-	-	-	-	-	-
Unreserved Reported In:										
Special Revenue Funds	3,683,691	3,569,062	3,536,711	2,465,587	2,139,449	1,879,905	1,461,685	1,151,650	1,482,000	2,455,229
Debt Service Funds	2,831,189	2,361,894	1,711,307	1,556,481	1,348,064	1,153,197	1,058,024	1,706,141	1,217,433	981,274
Capital Project Funds	277,340	421,986	355,132	236,730	(710,590)	5,074,208	7,399,076	224,916	852,758	2,384,865
Total other governmental funds	<u>6,792,220</u>	<u>6,310,804</u>	<u>5,534,515</u>	<u>4,452,015</u>	<u>2,776,923</u>	<u>8,107,310</u>	<u>9,918,785</u>	<u>3,082,707</u>	<u>3,552,191</u>	<u>5,821,368</u>
Total governmental funds	<u>\$ 15,341,936</u>	<u>\$ 16,529,767</u>	<u>\$ 14,466,489</u>	<u>\$ 10,843,082</u>	<u>\$ 9,683,125</u>	<u>\$ 13,593,358</u>	<u>\$ 14,891,410</u>	<u>\$ 6,693,706</u>	<u>\$ 7,334,504</u>	<u>\$ 10,590,139</u>
% Change from Prior Year	-7.2%	14.3%	33.4%	12.0%	-28.8%	-8.7%	122.5%	-8.7%	-30.7%	-31.9%

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

TABLE 4

CITY OF HATTIESBURG, MISSISSIPPI

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

	LAST TEN FISCAL YEARS									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
REVENUE:										
Property taxes	\$ 13,753,217	\$ 15,103,579	\$ 12,327,064	\$ 12,173,753	\$ 12,481,682	\$ 10,848,352	\$ 10,652,879	\$ 10,297,520	\$ 10,029,736	\$ 9,579,357
Sales taxes	22,350,027	22,446,221	24,717,190	17,873,911	16,862,144	15,152,998	15,654,754	14,645,579	14,475,212	14,995,601
Licenses and permits	4,188,526	3,901,213	3,697,193	2,831,557	3,317,134	2,822,965	2,578,742	2,658,521	2,202,090	2,005,812
Fines and forfeitures	1,554,656	1,065,269	1,018,354	971,467	1,105,848	1,054,032	941,015	1,158,609	1,227,791	1,209,260
Interest, rents, concessions	582,741	807,617	598,136	261,132	386,754	523,465	677,237	866,839	1,163,113	978,388
Intergovernmental	8,073,409	8,570,904	10,692,038	10,054,395	4,481,157	7,024,299	3,806,004	4,407,644	6,233,974	5,749,779
Charges for services	2,359,464	1,667,251	1,804,014	1,762,323	1,742,228	1,848,685	1,685,187	1,280,842	1,836,870	1,915,622
Other revenues	4,389,090	2,798,041	3,956,796	676,246	934,067	178,505	139,894	224,265	252,881	1,825,224
Total revenues	57,251,130	56,360,095	58,810,785	46,604,784	41,311,014	39,453,301	36,135,712	35,539,819	37,421,667	38,259,043
% Change from prior year	1.6%	-4.2%	26.2%	12.8%	4.7%	9.2%	1.7%	-5.0%	-2.2%	20.2%
EXPENDITURES:										
General government	5,674,985	5,235,266	5,246,079	4,897,698	4,850,407	4,716,913	4,493,432	4,868,164	4,493,487	3,897,959
Public safety	17,309,920	16,319,725	14,299,637	14,227,840	13,640,172	12,428,574	12,359,931	12,238,596	12,622,058	10,952,076
Public services	14,567,346	12,494,900	16,326,824	10,651,948	9,264,327	8,544,755	8,805,775	9,340,918	9,575,498	8,046,745
Other services	5,619,828	5,692,145	4,866,672	4,019,276	4,222,829	3,503,582	1,240,979	803,364	745,146	583,006
Mass transit	787,422	677,515	652,909	554,888	506,310	565,838	471,134	460,802	423,419	400,491
Cultural and recreation	3,783,572	3,547,792	3,546,341	3,010,508	2,828,225	2,659,198	2,407,405	2,382,366	2,357,854	2,103,005
Human/Social assistance	595,945	604,661	1,005,953	437,146	355,586	1,194,559	238,196	716,006	641,306	522,698
Economic development	159,502	196,000	196,000	210,280	200,370	196,000	144,000	489,978	579,265	164,000
Capital outlays	9,160,136	17,111,494	13,270,430	14,498,353	14,027,343	9,745,037	4,195,841	2,614,065	9,695,707	15,050,522
Debt Service:										
Principal	10,462,369	4,215,614	3,407,540	3,470,925	3,166,611	2,875,718	2,482,714	2,197,663	2,024,650	1,569,011
Interest and fiscal charges	1,744,949	1,690,106	1,625,228	1,383,084	1,300,556	1,291,180	1,260,872	1,655,980	1,514,734	1,792,433
Total expenditures	69,865,974	67,785,218	64,443,613	57,361,946	54,362,736	47,721,354	38,100,279	37,767,902	44,673,124	45,081,946
% Change from prior year	3.1%	5.2%	12.3%	5.5%	13.9%	25.3%	0.9%	-15.5%	-0.9%	36.3%
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(12,614,844)	(11,425,123)	(5,632,828)	(10,757,162)	(13,051,722)	(8,268,053)	(1,964,567)	(2,228,083)	(7,251,457)	(6,822,903)
OTHER FINANCING SOURCES (USES):										
Proceeds from long-term debt	6,733,377	8,394,533	5,019,686	7,559,737	3,781,219	1,770,000	8,950,000	168,969	2,650,000	473,126
Transfers from other funds	4,862,491	5,416,316	4,333,268	4,482,512	4,132,919	3,882,614	3,841,314	3,489,497	3,608,649	3,671,772
Transfers to other funds	(3,939,037)	(4,411,343)	(3,346,379)	(3,222,425)	(2,635,861)	(2,609,360)	(2,794,451)	(2,071,181)	(2,262,827)	(2,315,090)
Other sources	3,770,182	4,088,895	3,249,660	3,097,295	3,863,212	3,490,917	165,408			
Net other financing sources	11,427,013	13,488,401	9,256,235	11,917,119	9,141,489	6,534,171	10,162,271	1,587,285	3,995,822	1,829,808
NET CHANGE IN FUND BALANCES	\$ (1,187,831)	\$ 2,063,278	\$ 3,623,407	\$ 1,159,957	\$ (3,910,233)	\$ (1,733,882)	\$ 8,197,704	\$ (640,798)	\$ (3,255,635)	\$ (4,993,095)
Debt service as % of non-capital expenditures	25.2%	13.2%	10.9%	12.8%	12.5%	12.3%	12.4%	12.3%	11.3%	12.6%

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)
2008	\$ 13,753,217	\$ 22,350,027	\$ 36,103,244	\$ 1,823,222,841
2007	15,103,579	22,446,221	37,549,800	1,892,188,843
2006	12,327,064	24,717,190	37,044,254	1,642,486,919
2005	12,173,753	17,873,911	30,047,664	1,479,451,805
2004	12,481,682	16,862,144	29,343,826	1,397,922,230
2003	10,848,352	15,152,998	26,001,350	1,248,352,898
2002	10,652,879	15,654,754	26,307,633	1,261,693,015
2001	10,297,520	10,645,579	20,943,099	1,196,108,464
2000	10,029,736	14,475,212	24,504,948	1,192,752,208
1999	9,579,357	14,995,601	24,574,958	1,173,250,251
% Change in Dollars over the 10 Year Period	43.6%	49.0%	46.9%	55.4%

(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
\$	978,033,753	54%	\$	845,189,088	46%	\$ 4,566,654
	1,043,502,246	55%		848,686,597	45%	4,345,317
	814,593,191	50%		827,893,728	50%	3,916,424
	836,057,117	57%		643,394,688	43%	3,145,585
	807,788,636	58%		590,133,594	42%	2,910,575
	744,424,173	60%		503,928,725	40%	2,597,330
	754,492,423	60%		507,200,592	40%	2,491,315
	710,488,428	59%		485,620,036	41%	2,404,673
	701,890,396	59%		490,861,812	41%	2,308,629
						2,229,354

(Retail Sales Base by County Not Available Some Years)

104.8%

TABLE 6

CITY OF HATTIESBURG, MISSISSIPPI

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

FORREST COUNTY:

Year Ended Sept. 30,	Tax Roll Year	City of Hattiesburg			City - Total	Hattiesburg School District			Forrest County Taxes	Total
		Operations	City Bond & Interest	Other (Library & Pension Fund)		Hattiesburg School District Operations	School Bond & Interest Taxes	Total- Schools		
1999	1998	32.69	9.58	7.49	49.76	54.67	7.20	61.87	55.09	166.72
2000	1999	31.50	9.58	6.57	47.65	52.99	7.68	60.67	55.26	163.58
2001	2000	33.50	9.58	6.47	49.55	52.74	7.43	60.17	55.73	165.45
2002	2001	33.50	7.58	6.47	47.55	56.22	6.84	63.06	54.67	165.28
2003	2002	33.50	7.58	6.47	47.55	58.30	7.08	65.38	54.58	167.51
2004	2003	33.50	7.58	6.47	47.55	58.30	7.34	65.64	53.98	167.17
2005	2004	33.50	7.58	6.47	47.55	58.30	7.34	65.64	55.44	168.63
2006	2005	33.50	7.58	6.47	47.55	58.30	7.54	65.84	56.96	170.35
2007	2006	33.50	7.58	6.47	47.55	58.30	7.54	65.84	56.82	170.21
2008	2007	33.50	7.58	6.47	47.55	58.30	7.54	65.84	60.86	174.25

LAMAR COUNTY:

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

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

TABLE 7

CITY OF HATTIESBURG, MISSISSIPPI

**COMPUTATION OF LEGAL DEBT MARGIN USING MOST CURRENT TAX ROLLS
SEPTEMBER 30, 2008**

	<u>15% Test</u>	<u>20% Test</u>
Property tax base valuation as prepared by Tax Assessors during the summer months of 2008 for property taxes to be collected in fiscal year 2009	\$ 362,674,772	\$ 362,674,772
Times Applicable %	<u>X 15%</u>	<u>X 20%</u>
Product of Tax Base Times Applicable Percentage	(a) <u>54,401,216</u>	<u>72,534,954</u>
Present General Obligation Debt Subject to Statutory Debt Limits:		
General obligation bonds outstanding at September 30, 2008	14,640,000	14,640,000
Less: Water and Sewer General Obligation Debt to be excluded under the 20% test	n/a	-
General obligation notes outstanding at September 30, 2008	-	-
Leases not subject to annual appropriations	-	-
Total general obligation debt outstanding	(b) <u>14,640,000</u>	<u>14,640,000</u>
Margin for Additional General Obligation Debt - (a) minus (b)	<u>\$ 39,761,216</u>	<u>\$ 57,894,954</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, 2007 the 15% test would apply with a calculated margin for additional general obligation debt in the amount of \$36,016,023.

TABLE 8

CITY OF HATTIESBURG, MISSISSIPPI

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

<u>Year Ended Sept. 30,</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Bonded General Obligation Debt</u>	<u>Less: Bonded 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>
1999	44,559	\$ 228,733,352	\$ 26,350,000	\$ 981,274	\$ 25,368,726	11.09%	569.33
2000	44,779	246,846,662	25,585,000	1,217,433	24,367,567	9.87%	544.17
2001	45,088	251,313,479	23,960,000	1,151,650	22,808,350	9.08%	505.86
2002	45,538	260,045,410	28,650,000	1,058,024	27,591,976	10.61%	605.91
2003	45,779	268,186,182	25,135,000	1,153,197	23,981,803	8.94%	523.86
2004	45,988	285,319,298	22,870,000	1,113,006	21,756,994	7.63%	473.10
2005	47,598	310,609,766	20,590,000	1,321,947	19,268,053	6.20%	404.81
2006	47,598	331,105,907	18,690,000	1,569,644	17,120,356	5.17%	359.69
2007	47,598	350,838,275	16,660,000	2,207,580	14,452,420	4.12%	303.64
2008	47,598	351,031,031	14,640,000	2,297,231	12,342,769	3.52%	259.31

TABLE 9

CITY OF HATTIESBURG, MISSISSIPPI

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

Year Ended Sept. 30,	Gross Revenues	Expenses	Net Revenues Available for Debt Service	Required Ratio Based Upon Applicable % Times Prescribed Annual P & I	Debit Service Requirement Calculated with Applicable %	Coverage Ratio
1999	\$ 6,596,570	\$ 3,592,832	\$ 3,003,738	115% of P & I for FY 2000	\$ 1,757,804	1.71
2000	6,919,841	4,742,684	2,177,157	115% of P & I for FY 2001	1,764,316	1.23
2001	6,854,345	4,734,355	2,119,990	115% of P & I for FY 2002	1,778,995	1.19
2002	6,661,270	4,423,520	2,237,750	115% of P & I for FY 2003	1,783,457	1.25
2003	7,061,287	4,818,082	2,243,205	115% of P & I for FY 2004	1,789,989	1.25
2004	8,262,525	4,999,288	3,263,237	115% of P & I for FY 2005	1,785,389	1.83
2005	8,127,768	4,967,317	3,160,451	115% of P & I for FY 2006	1,782,026	1.77
2006	8,831,622	6,316,769	2,514,853	105% of P & I for FY 2008 ⁽¹⁾	1,652,024	1.52
2007	8,495,274	6,481,746	2,013,528	105% of P & I for FY 2008	1,652,024	1.22
2008	9,107,728	5,796,631	3,311,097	105% of P & I for FY 2009	1,646,744	2.01

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

TABLE 10

CITY OF HATTIESBURG, MISSISSIPPI

**CITY EMPLOYEES BY FUNCTION
LAST FOUR FISCAL YEARS⁽¹⁾**

	<u>2008</u> Employees	<u>2007</u> Employees	<u>2006</u> Employees	<u>2005</u> Employees
Governmental Activities:				
<i>The General Fund:</i>				
City Council	6	6	7	7
Department of Administration	32	33	32	33
Urban Planning:				
Planning	14	14	11	13
Intermodal Facility	0	3	0	0
MPO	4	3	4	4
Code Enforcement	13	11	10	10
Public Safety:				
City Courts	27	24	21	25
Police - Officers	122	129	99	102
Police Department - Non-Sworn	69	70	50	58
Fire Department - Firefighters	106	111	124	118
Fire Department - Other than Firefighters	5	4	6	6
Other	1	1	1	1
Public Services:				
Traffic Maintenance	7	7	7	9
Streets	40	40	38	43
Engineering	8	8	9	8
Shop	11	13	11	12
Construction	12	13	15	16
Sanitation	60	58	56	61
Other Public Services	33	32	32	33
Animal Control	3	3	4	4
Cemetery and forestry	17	16	17	18
Parking operations	9	9	9	10
Total general fund	<u>599</u>	<u>608</u>	<u>563</u>	<u>591</u>
 <i>Other Governmental Funds:</i>				
Parks and Recreation	63	66	65	67
Community Centers	0	13	13	13
Mass Transit	14	13	14	14
CDBG	6	6	5	6
Total governmental activities	<u>682</u>	<u>706</u>	<u>660</u>	<u>691</u>
 Business-type Activities:				
Water and Sewer System:				
Customer Accounts	7	7	7	7
Water - Plant and Transmission	41	45	44	46
Sewers and Lagoons	27	25	24	24
Total business-type activities	<u>75</u>	<u>77</u>	<u>75</u>	<u>77</u>
Total primary government	<u>757</u>	<u>783</u>	<u>735</u>	<u>768</u>

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

TABLE 11

CITY OF HATTIESBURG, MISSISSIPPI

DEMOGRAPHIC STATISTICS

<u>Year</u>	<u>Hattiesburg</u>	<u>Forrest County</u>	<u>Hattiesburg MSA</u>
1975	39,553	64,659	n/a
1980	40,829	66,018	n/a
1985	41,356	67,166	n/a
1986	41,463	67,396	n/a
1987	41,570	67,625	n/a
1988	41,678	67,855	n/a
1989	14,785	68,084	n/a
1990	41,885	68,314	98,738
1991	42,174	68,743	99,656
1992	42,465	69,175	100,583
1993	42,758	69,609	101,518
1994	43,053	70,046	103,429
1995	43,350	70,486	105,896
1996	43,649	70,929	107,888
1997	43,950	71,374	109,479
1998	44,254	71,822	111,525
1999	44,559	72,274	113,054
2000	44,779	72,727	115,085
2001	45,088	73,184	117,152
2002	45,538	73,916	118,324
2003	45,779	73,465	118,560
2004	45,988	74,565	130,378
2005	47,598	76,056	136,847
2006	48,012	76,372	134,744
2007	50,233	78,241	124,939

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

Demographic Age Groupings Are Projections Based On Census 2000 Totals:

<u>Age</u>	<u>Hattiesburg 2,000</u>	<u>Forrest County 2,000</u>
0 - 17 Years	9,705	17,900
18 - 44 Years	22,855	33,462
45 - 64 Years	7,195	13,370
Over 65 Years	5,334	8,256
Median Age	27.1 Years	29.7 Years
% Population under 18 Years	78.50%	75.50%
% Population over 18 Years	11.80%	11.30%

Source: U.S. Bureau of Census. September 30, 2006 information is provided as the most recent year for which data is available. MSA data is provided as of November 1, 2007.

TABLE 12

CITY OF HATTIESBURG, MISSISSIPPI

**TOP TEN PROPERTY TAXPAYERS
PROPERTY TAXES ASSESSED IN FISCAL YEAR 2007, COLLECTED FISCAL YEAR 2008**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessment</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Taxes</u>
Western Container	Industrial	\$ 11,916,491	3.3%	\$ 784,582
Mississippi Power	Public Utility	10,254,927	2.8%	1,162,806
Kohler Company	Industrial	8,060,780	2.2%	530,722
A T & T	Public Utility	7,990,199	2.2%	906,009
Wesley Health Systems	Health Care	7,749,171	2.1%	368,473
Wal Mart	Retail	7,464,440	2.1%	540,867
Hattiesburg Paper	Industrial	6,169,558	1.7%	406,204
Hattiesburg Clinic	Health Care	5,389,236	1.5%	596,397
W.R. Fairchild	Industrial	4,773,894	1.3%	540,693
Bennett York	Commercial	<u>3,748,912</u>	1.0%	425,089
Total of top ten taxpayers		73,517,608	20.3%	
Tax roll total - all other taxpayers		<u>289,157,164</u>	79.7%	
Total taxable assessed values for FY 2008		<u><u>\$ 362,674,772</u></u>	100.0%	

TABLE 13

CITY OF HATTIESBURG, MISSISSIPPI

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

Year Ended Sept. 30,	Commercial Construction		Residential Construction		Hattiesburg MSA Bank Deposits (000's omitted)	Total assessed Valuation
	Permits Issued	Value	Permits Issued	Value		
1999	75	\$ 32,238,982	67	\$ 9,025,093	\$ 1,388,466	\$ 228,733,352
2000	43	9,881,511	133	22,884,161	1,371,417	246,846,662
2001	45	16,882,690	91	7,654,443	1,489,821	251,313,479
2002	75	15,492,046	137	25,267,086	1,494,116	260,045,410
2003	44	30,521,453	66	9,226,451	1,540,166	268,186,182
2004	56	30,387,693	146	21,440,459	1,567,676	285,319,298
2005	87	52,893,843	100	21,985,228	1,744,946	310,609,766
2006	180	70,375,827	144	18,386,947	2,133,000	331,905,907
2007	106	55,150,982	232	36,446,885	2,191,240	351,031,031
2008	98	59,356,851	218	16,707,346	2,100,716	362,674,772

TABLE 14

CITY OF HATTIESBURG, MISSISSIPPI

CAPITAL ASSET AND INFRASTRUCTURE STATISTICS BY FUNCTION

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