

# City of Hattiesburg, Mississippi

## GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2015



**CRI** CARR  
RIGGS &  
INGRAM

CPAs and Advisors

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**City of Hattiesburg, Mississippi**  
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**INTRODUCTORY SECTION  
(UNAUDITED)**



MAYOR  
*Toby Barker*

COUNCIL - WARD ONE  
*Jeffrey George*

COUNCIL - WARD TWO  
*Deborah Denard Delgado*

COUNCIL - WARD THREE  
*Carter Carroll*

COUNCIL - WARD FOUR  
*Mary Dryden*

COUNCIL - WARD FIVE  
*Nicholas Brown*

November 29, 2017

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

The Department of Administration is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Hattiesburg, Mississippi, prepared in accordance with accounting principles generally accepted in the United States of America for the fiscal year ended September 30, 2015. These accompanying financial statements are prepared and presented in conformity with GASB Statement #34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The format, which includes Government-wide and Major Fund presentations, provides citizens, investors and creditors, grantor agencies, and other interested parties with reliable financial information about the City. Management assumes full responsibility for the completeness and reliability of the information contained in this report, and we believe the report is accurate in all material respects.

The Comprehensive Annual Financial Report includes the following: this transmittal letter, the financial section consisting of the basic financial statements (government-wide and fund statements), notes to the financial statements, combining and individual fund financial statements and schedules and the independent auditors' report on the financial statement schedules, independent auditors' report on compliance for major programs and internal control over compliance, schedule of findings and questioned costs, and auditee corrective action plan.

#### **Profile of Government**

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

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

#### **Current Economic Conditions**

Hattiesburg ended the fiscal year with stable revenues in both sales tax and property taxes. The year saw an increase of \$671,013 in sales tax diversion and a small increase of \$24,078 in property tax collections. The sales tax increase represents a 3% increase from the prior year and continues to reflect a consistent average annual growth rate, which is a good indicator of a stable economy. The General Fund's end-of-year fund balance reflected an increase of 1.4% from the beginning-of-year fund balance.

Hattiesburg's diverse economy, supported by regional healthcare facilities, two universities, substantial retail market, and military training base, aid in insulating it from extreme shifts seen in other municipalities with lesser variety in employment opportunities.

#### **Future Economic Outlook**

The Midtown District development is continuing to progress. Plans are underway for the construction of a \$35 million mixed-use development anchored by a major boutique hotel on Hardy Street. Road and sewer improvements are being made along Hardy Street, and beautification projects for the Hardy Street and Highway 49 medians are underway, with participation anticipated from Forrest County, the universities, Forrest General Hospital, and Hattiesburg Clinic. Grants through the National Association of Realtors and the Mississippi Department of Transportation, if awarded, will provide additional funding for these beautification efforts. This will serve to create attractive entrance corridors into the city.

Another major project requiring significant infrastructure improvements is the Regions Bank Mortgage Processing Center to be located at the corner of Lamar Boulevard and Lincoln Road. It will require sewer improvements and fire service to the location, along with road expansion and redesign to accommodate increased traffic flow. Grants have been awarded to aid in covering the cost of these improvements. A condition of one of the grants is that Regions Bank must meet a job creation requirement of 70 new jobs within two years of completion of construction. Their overall plan will include retention of 329 existing jobs and creation of 91 new jobs. This will entail relocation of most of the Regions Bank offices currently located in downtown Hattiesburg. The Bank will maintain a presence in downtown Hattiesburg, with limited operations. The remaining two buildings currently occupied by Regions Bank have been purchased by a developer, who plans to redevelop these properties into loft apartments similar to the America and Carter buildings.

Plans for a sewer treatment facility have been suspended as a result of negotiated settlement of an MDEQ Agreed Order. A Stipulated Order was issued terminating the Amended Consent Judgment, requiring submission of a revised permit request in which the City agrees to incorporate certain monitoring requirements designed to ensure compliance with established limits for effluent. The City expects to improve performance of the lagoon system with implementation of the monitoring system. This may require periodic capital outlays to accomplish this objective, but those costs cannot be determined at this time.

### **Financial and Budgetary Information**

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

The Mayor and Council have established the goal and desire to maintain an ending cash balance in the General Fund of \$4 million to cover operating costs and unanticipated emergencies in the months prior to receipt of property tax revenues. The City has been able to accomplish this goal in past years; however, due to a January 2017 tornado, the City has experienced a significant increase in expenditures associated with cleanup and recovery. Most of these expenses can be covered with insurance proceeds and FEMA reimbursements, but the initial cash outflow has depleted cash reserves below an acceptable level. Fiscal management practices are being monitored closely to manage cash flow and rebuild cash reserves.

In 2016, the City issued \$25M in bonds through the Mississippi Development Authority, and Regions Bank, the trustee agent, established a line of credit to support expenditure of the proceeds. The original intent for these funds was to begin construction of a sewer treatment facility. Since that project has been suspended, the City has established a list of priority sewer and water improvement projects for rehabilitation or reconstruction over the next couple of years. Testing and evaluation of sewer lines throughout the City is being performed to establish a list of repair priorities for future years.

### **Enterprise Funds**

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

### **Debt Administration**

The City maintains the Municipal Bond and Interest Fund to retire debt associated with general obligation bonds. The funding source is an ad valorem property tax levy. Statutory limits upon issuance of general obligation debt are an amount not to exceed 15% of total assessed value. As of September 30, 2015, the fiscal year for which this audit is performed, the City's margin for further debt issuance is \$51,202,442. In November 2016, Moody's suspended the City's bond rating, which was Aa3 at the time for general obligation debt, and A1 for revenue debt of the water and sewer proprietary system. This suspension was a result of the City's failure to produce an audit in a timely manner. With completion of the fiscal year 2015 audit, it is our intention to approach Moody's to ascertain what, if any, procedures may be required to reinstate the City's bond rating.

### **Risk Management**

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

### **Independent Auditors**

The City's financial statements have been audited by Carr, Riggs, and Ingram, LLC, a firm of licensed certified public accountants. They have issued a qualified opinion on certain aspects of the audit, specifically referring to recognition of liability for other post-employment benefits (OPEB), as addressed by GASB Statement 45. Except for this matter, the auditors' opinion is that the financial statements, present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and the major proprietary fund of the City of Hattiesburg for the year ended September 30, 2015, in accordance with generally accepted accounting principles.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and compliance with legal requirements involving the administration of federal awards. The auditors have issued a qualified opinion on internal control compliance for three major federal programs, citing material weaknesses and significant deficiencies. The City Administration is aware of the deficiencies and is taking appropriate steps to remedy these deficiencies. Establishment of written internal control procedures is being performed, and identification of areas where staff training is needed is underway.

It is the City Administration's intent to address the findings stated in this report and remedy stated deficiencies in the upcoming year. We are dedicated to providing the city's residents reassurance that their tax dollars are being utilized in an efficient and appropriate manner and to raising the bar of excellence for staff and employees to the highest standard.

### **Acknowledgments**

The preparation of this report was made possible with the assistance of staff of the Accounting Division of the Department of Administration. Appreciation is extended to all other City departments who provided information and assistance for preparation of this report.

Sincerely,

  

---

Toby Barker  
Mayor



\*\*\*\*\*

**PUBLIC OFFICIALS**

\*\*\*\*\*

TOBY BARKER  
MAYOR

COUNCIL MEMBERS

JEFFREY GEORGE - WARD 1  
DEBORAH DENARD DELGADO - WARD 2  
CARTER CARROLL - WARD 3  
MARY DRYDEN - WARD 4  
NICHOLAS BROWN - WARD 5

\*\*\*\*\*

## **FINANCIAL SECTION**



**Carr, Riggs & Ingram, LLC**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Hattiesburg Convention Commission, a component unit of the City, which statements reflect total assets of \$21,905,499 as of September 30, 2015 and total revenues of \$7,899,957, for the year then ended. The statements for the Hattiesburg Convention Commission were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Summary of Opinions**

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

**Basis for Qualified Opinions on Governmental Activities, Business-type Activities, and Proprietary Fund**

As discussed in Note 17 to the financial statements, the City did not timely implement the provisions of GASB Statement 45, which was effective for prior years and which requires recognition of its liability for other postemployment healthcare benefits (OPEB). Pursuant to this Statement, retrospective recognition of the liability as of the beginning of the year of implementation was required. However, upon implementation of this guidance for the year ended September 30, 2015, the City determined that it was not feasible to retrospectively determine the OPEB liability as of the beginning of the 2015 fiscal year. Therefore, the City was unable to determine the prior period effect of its change from an accounting principle that is not generally accepted to one that is generally accepted. Thus, the City recognized the entire effect of implementation in the current year in its governmental activities, business-type activities, and proprietary fund. Current year recognition of the annual OPEB obligation without recognition of the cumulative effect of prior year costs since the effective date of GASB Statement 45 represents a departure from U.S. GAAP, the effects of which have not been determined.

**Qualified Opinions**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions on Governmental Activities, Business-type Activities, and Proprietary Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major proprietary fund of the City of Hattiesburg, Mississippi, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit, the major governmental fund, and the aggregate remaining governmental fund information of the City of Hattiesburg, Mississippi, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle Related to Pensions*

As described in Notes 1, 2, and 18 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this standard required retrospective application, resulting in restatement of previously reported net position to report the City's proportionate share of the Public Employees Retirement System of Mississippi net pension liability at the beginning of the year. Our opinion is not modified with respect to this matter.

### *Deficit Fund Balance*

As described in Note 15 to the financial statements, deficit fund balances were reported in certain governmental funds as a result of modified accrual recognition of expenditures for which reimbursements were not available resources. Our opinion is not modified with respect to this matter.

### *Compliance with Mississippi Department of Environmental Quality Order*

As described in Notes 16 and 20 to the financial statements, the City is subject to certain mandates for sewer system operation and rehabilitation pursuant to action and intervention by the Mississippi Department of Environmental Quality. In ongoing efforts to comply with the related Amended Agreed Order, the City has engaged in development, design, and construction of various elements of a multi-million dollar long-term comprehensive sewer system improvement project, most of which have been funded by proceeds of revenue bonds. Subsequent to the year ended September 30, 2015, the City was party to a Stipulated Order which replaces the Amended Agreed Order and grants relief from certain obligations that had been imposed under the earlier Order. As a result, the City indefinitely suspended certain sewer system rehabilitation projects subsequent to year end. Therefore, preliminary costs associated with such suspended projects have been recognized as expense by the City as of September 30, 2015 rather than as capital asset construction in progress. Our opinion is not modified with respect to this matter.

### *Removal of Capital Assets from Service*

As described in Note 5 to the financial statements, the City removed certain capitalized infrastructure assets from service upon determination that those assets had no future value. Our opinion is not modified with respect to this matter.

### *Water and Sewer System Parity Debt*

As described in Note 10 to the financial statements, the City is subject to certain Water and Sewer System rate coverage requirements pursuant to parity debt provisions of its revenue bonds. Rate coverage requirements were not met for the year ended September 30, 2015. Also, as described in Note 10 to the financial statements, future revenues of the Water and Sewer System are pledged as collateral against those revenue bonds. Our opinion is not modified with respect to this matter.

### *Subsequent Issuance of Debt*

As described in Note 20 to the financial statements, the City incurred substantial additional debt subsequent to September 30, 2015 and also entered into commitments or agreements to issue other debt. Our opinion is not modified with respect to this matter.

### *Matters Related to Funding*

Subsequent to September 30, 2015, certain Federal and State grant reimbursements were delayed because of delinquency in submission of City annual financial reports. In addition, the City's credit rating was suspended in November 2016. Our opinion is not modified with respect to these matters.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted management's discussion and analysis (MD&A), budgetary comparison schedules for the general fund, trend factors and schedules of funding progress of the City's defined benefit pension plans, and trend factors and schedules of funding progress and employer contributions for the City's other postemployment benefit plans (OPEB) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hattiesburg, Mississippi's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hattiesburg, Mississippi's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
November 29, 2017

## **FINANCIAL STATEMENTS**



**City of Hattiesburg, Mississippi**  
**Statement of Net Position**

September 30, 2015

|  | Primary Government      |                          |                    | Component Unit    |
|--|-------------------------|--------------------------|--------------------|-------------------|
|  | Governmental Activities | Business-type Activities | Total              |                   |
| <b>Assets</b>                                    |                         |                          |                    |                   |
| Cash and equivalents - unrestricted              | \$ 15,163,031           | \$ 6,935,537             | \$ 22,098,568      | \$ -              |
| Sales tax receivable                             | 3,727,876               | -                        | 3,727,876          | 789,226           |
| Property taxes receivable                        | 18,615,195              | -                        | 18,615,195         | -                 |
| Accounts receivable - water & sewer, net         | -                       | 1,309,130                | 1,309,130          | -                 |
| Accounts receivable - solid waste services       | 180,462                 | -                        | 180,462            | -                 |
| Intergovernmental receivable                     | 3,166,371               | -                        | 3,166,371          | -                 |
| Fines receivable, net                            | 2,231,591               | -                        | 2,231,591          | -                 |
| Other receivables                                | 889,445                 | -                        | 889,445            | 83,721            |
| Internal balances                                | 428,036                 | (428,036)                | -                  | -                 |
| Due from other agencies                          | 14,432                  | -                        | 14,432             | -                 |
| Inventories                                      | 135,392                 | -                        | 135,392            | 47,220            |
| Cash and equivalents - restricted                | -                       | 1,215,431                | 1,215,431          | 1,237,513         |
| Cash with fiscal agent - restricted              | -                       | 14,809,000               | 14,809,000         | 4,422,663         |
| Notes receivable                                 | 4,192,853               | -                        | 4,192,853          | -                 |
| Capital assets not being depreciated:            |                         |                          |                    |                   |
| Land and construction in progress                | 33,096,284              | 3,737,686                | 36,833,970         | 3,907,146         |
| Capital assets, net of accumulated depreciation: |                         |                          |                    |                   |
| Infrastructure                                   | 69,925,843              | 86,057,169               | 155,983,012        | -                 |
| Building and improvements                        | 20,059,037              | 24,164                   | 20,083,201         | 11,244,431        |
| Machinery and equipment                          | 7,294,369               | 902,314                  | 8,196,683          | 173,579           |
| <b>Total assets</b>                              | <b>179,120,217</b>      | <b>114,562,395</b>       | <b>293,682,612</b> | <b>21,905,499</b> |
| <b>Deferred Outflows of Resources</b>            |                         |                          |                    |                   |
| Related to pensions                              | 8,323,444               | 590,055                  | 8,913,499          | -                 |
| Prepaid bond insurance                           | -                       | 271,941                  | 271,941            | -                 |
| <b>Total deferred outflows of resources</b>      | <b>8,323,444</b>        | <b>861,996</b>           | <b>9,185,440</b>   | <b>-</b>          |

Continued

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

## City of Hattiesburg, Mississippi Statement of Net Position

September 30, 2015

|  | Primary Government         |                             |                       | Component<br>Unit    |
|--|----------------------------|-----------------------------|-----------------------|----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                 |                      |
| <b>Liabilities</b>   |                            |                             |                       |                      |
| Accounts payable   | \$ 2,850,312               | \$ 3,141,671                | \$ 5,991,983          | \$ 113,914           |
| Accrued wages and benefits                                 | 1,319,095                  | 105,107                     | 1,424,202             | 185,189              |
| Other liabilities  | 1,346,175                  | 1,268,225                   | 2,614,400             | 121,110              |
| Due to other agencies                                      | 137,602                    | -                           | 137,602               | -                    |
| Accrued interest   | 172,596                    | 408,116                     | 580,712               | -                    |
| Non-current liabilities:                                   |                            |                             |                       |                      |
| Portion due or payable within one year:                    |                            |                             |                       |                      |
| General obligation bonds                                   | 2,515,000                  | 615,000                     | 3,130,000             | -                    |
| Revenue bonds  | -                          | 1,765,000                   | 1,765,000             | -                    |
| Unamortized bond premium                                   | -                          | 17,507                      | 17,507                | -                    |
| Limited obligation tax increment<br>financing bonds        | 690,000                    | -                           | 690,000               | -                    |
| Economic development limited<br>obligation bonds and notes | 398,367                    | -                           | 398,367               | -                    |
| General obligation notes payable                           | -                          | 396,590                     | 396,590               | -                    |
| Capital leases   | 1,240,302                  | -                           | 1,240,302             | -                    |
| Compensated absences                                       | 267,344                    | 23,743                      | 291,087               | -                    |
| Due to primary government                                  | -                          | -                           | -                     | 125,124              |
| Portion due or payable after one year:                     |                            |                             |                       |                      |
| General obligation bonds                                   | 8,900,000                  | 7,435,000                   | 16,335,000            | -                    |
| Revenue bonds  | -                          | 45,445,000                  | 45,445,000            | -                    |
| Unamortized bond premium                                   | -                          | 234,434                     | 234,434               | -                    |
| Limited obligation tax increment<br>financing bonds        | 6,740,000                  | -                           | 6,740,000             | -                    |
| Economic development limited<br>obligation bonds and notes | 2,220,154                  | -                           | 2,220,154             | -                    |
| General obligation notes payable                           | -                          | 294,454                     | 294,454               | -                    |
| Capital leases   | 1,550,689                  | -                           | 1,550,689             | -                    |
| Compensated absences                                       | 1,514,950                  | 134,547                     | 1,649,497             | -                    |
| Due to primary government                                  | -                          | -                           | -                     | 187,686              |
| Net pension obligation                                     | 65,217,923                 | 4,104,190                   | 69,322,113            | -                    |
| Other post employment<br>benefits obligation               | 505,765                    | 56,971                      | 562,736               | -                    |
| Customer meter deposits payable from<br>restricted assets  | -                          | 1,215,431                   | 1,215,431             | -                    |
| <b>Total liabilities</b>                                   | <b>97,586,274</b>          | <b>66,660,986</b>           | <b>164,247,260</b>    | <b>733,023</b>       |
| <b>Deferred Inflows of Resources</b>                       |                            |                             |                       |                      |
| Related to pensions  | 1,362,463                  | 110,232                     | 1,472,695             | -                    |
| Deferred revenues  | -                          | 247,273                     | 247,273               | -                    |
| Unearned revenue - property taxes                          | 18,258,000                 | -                           | 18,258,000            | -                    |
| <b>Total deferred inflows<br/>of resources</b>             | <b>19,620,463</b>          | <b>357,505</b>              | <b>19,977,968</b>     | <b>-</b>             |
| <b>Net Position</b>  |                            |                             |                       |                      |
| Net investment in capital assets                           | 110,313,874                | 44,493,366                  | 154,807,240           | 15,137,470           |
| Restricted for debt service                                | 4,067,078                  | 4,833,982                   | 8,901,060             | -                    |
| Restricted for capital projects                            | -                          | -                           | -                     | 1,237,513            |
| Restricted for Federal Programs                            | 1,913,562                  | -                           | 1,913,562             | -                    |
| Unrestricted   | (46,057,590)               | (921,448)                   | (46,979,038)          | 4,797,493            |
| <b>Total net position</b>                                  | <b>\$ 70,236,924</b>       | <b>\$ 48,405,900</b>        | <b>\$ 118,642,824</b> | <b>\$ 21,172,476</b> |

Concluded

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

**City of Hattiesburg, Mississippi**  
**Statement of Activities**

Year ended September 30, 2015

| Functions/Programs                             | Expenses             | Program Revenue                    |                                    |                                  | Primary Government      |                          |                       | Component Unit       |
|--|----------------------|------------------------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|-----------------------|----------------------|
|  |                      | Fees, Fines & Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total                 |                      |
| <b>PRIMARY GOVERNMENT</b>                      |                      |                                    |                                    |                                  |                         |                          |                       |                      |
| <b>Governmental Activities:</b>                |                      |                                    |                                    |                                  |                         |                          |                       |                      |
| General government                             | \$ 11,569,276        | \$ -                               | \$ -                               | \$ -                             | \$ (11,569,276)         | \$ -                     | \$ (11,569,276)       |                      |
| Public safety                                  | 20,821,509           | 1,455,924                          | 452,410                            | 7,158                            | (18,906,017)            | -                        | (18,906,017)          |                      |
| Public services                                | 16,434,765           | 2,307,136                          | 2,735,133                          | 440,921                          | (10,951,575)            | -                        | (10,951,575)          |                      |
| Other services                                 | 2,093,259            | -                                  | 109,515                            | 2,007,784                        | 24,040                  | -                        | 24,040                |                      |
| Mass transit                                   | 1,217,110            | 44,214                             | 677,862                            | 16,000                           | (479,034)               | -                        | (479,034)             |                      |
| Culture and recreation                         | 4,323,579            | 47,221                             | -                                  | 118,674                          | (4,157,684)             | -                        | (4,157,684)           |                      |
| Human/social assistance                        | 712,985              | -                                  | 638,235                            | -                                | (74,750)                | -                        | (74,750)              |                      |
| Economic development                           | 208,115              | -                                  | 1,787                              | -                                | (206,328)               | -                        | (206,328)             |                      |
| Interest and fiscal charges                    | 990,023              | -                                  | -                                  | -                                | (990,023)               | -                        | (990,023)             |                      |
| <b>Total governmental activities</b>           | <b>58,370,621</b>    | <b>3,854,495</b>                   | <b>4,614,942</b>                   | <b>2,590,537</b>                 | <b>(47,310,647)</b>     | <b>-</b>                 | <b>(47,310,647)</b>   |                      |
| <b>Business-Type Activities:</b>               |                      |                                    |                                    |                                  |                         |                          |                       |                      |
| Water and sewer operations                     | 31,166,774           | 17,086,586                         | -                                  | 474,084                          | -                       | (13,606,104)             | (13,606,104)          |                      |
| Interest and fiscal charges                    | 2,235,365            | -                                  | -                                  | -                                | -                       | (2,235,365)              | (2,235,365)           |                      |
| <b>Total business-type activities</b>          | <b>33,402,139</b>    | <b>17,086,586</b>                  | <b>-</b>                           | <b>474,084</b>                   | <b>-</b>                | <b>(15,841,469)</b>      | <b>(15,841,469)</b>   |                      |
| <b>Total primary government</b>                | <b>\$ 91,772,760</b> | <b>\$ 20,941,081</b>               | <b>\$ 4,614,942</b>                | <b>\$ 3,064,621</b>              | <b>(47,310,647)</b>     | <b>(15,841,469)</b>      | <b>(63,152,116)</b>   |                      |
| <b>COMPONENT UNIT</b>                          |                      |                                    |                                    |                                  |                         |                          |                       |                      |
| Hattiesburg Convention                         |                      |                                    |                                    |                                  |                         |                          |                       |                      |
| Commission                                     | \$ 6,206,199         | \$ 3,135,918                       | \$ -                               | \$ -                             |                         |                          |                       | \$ (3,070,281)       |
| <b>Total component unit</b>                    | <b>\$ 6,206,199</b>  | <b>\$ 3,135,918</b>                | <b>\$ -</b>                        | <b>\$ -</b>                      |                         |                          |                       | <b>(3,070,281)</b>   |
| <b>GENERAL REVENUES:</b>                       |                      |                                    |                                    |                                  |                         |                          |                       |                      |
| Taxes:   |                      |                                    |                                    |                                  |                         |                          |                       |                      |
| Property taxes levied for general purposes     |                      |                                    |                                    |                                  | 14,134,282              | -                        | 14,134,282            | -                    |
| Property taxes levied for debt services        |                      |                                    |                                    |                                  | 3,813,565               | -                        | 3,813,565             | -                    |
| Sales tax                                      |                      |                                    |                                    |                                  | 22,375,186              | -                        | 22,375,186            | -                    |
| Franchise taxes and other licenses and permits |                      |                                    |                                    |                                  | 4,613,330               | -                        | 4,613,330             | -                    |
| Special sales tax                              |                      |                                    |                                    |                                  | -                       | -                        | -                     | 4,825,364            |
| Unrestricted investment earnings               |                      |                                    |                                    |                                  | 180,344                 | 13,769                   | 194,113               | 4,312                |
| Other local sources                            |                      |                                    |                                    |                                  | 634,572                 | -                        | 634,572               | -                    |
| Miscellaneous                                  |                      |                                    |                                    |                                  | 664,028                 | 32,972                   | 697,000               | -                    |
| Gain on sale of assets                         |                      |                                    |                                    |                                  | 373,707                 | -                        | 373,707               | -                    |
| Transfers                                      |                      |                                    |                                    |                                  | 200,000                 | (200,000)                | -                     | -                    |
| <b>Total general revenues and transfers</b>    |                      |                                    |                                    |                                  | <b>46,989,014</b>       | <b>(153,259)</b>         | <b>46,835,755</b>     | <b>4,829,676</b>     |
| <b>Change in Net Position</b>                  |                      |                                    |                                    |                                  | <b>(321,633)</b>        | <b>(15,994,728)</b>      | <b>(16,316,361)</b>   | <b>1,759,395</b>     |
| <b>Net Position - Beginning of year</b>        |                      |                                    |                                    |                                  | <b>126,069,321</b>      | <b>70,344,182</b>        | <b>196,413,503</b>    | <b>19,413,081</b>    |
| <b>Prior period adjustment</b>                 |                      |                                    |                                    |                                  | <b>(55,510,764)</b>     | <b>(5,943,554)</b>       | <b>(61,454,318)</b>   | <b>-</b>             |
| <b>Net Position- Beginning as adjusted</b>     |                      |                                    |                                    |                                  | <b>70,558,557</b>       | <b>64,400,628</b>        | <b>134,959,185</b>    | <b>19,413,081</b>    |
| <b>Net Position - End of year</b>              |                      |                                    |                                    |                                  | <b>\$ 70,236,924</b>    | <b>\$ 48,405,900</b>     | <b>\$ 118,642,824</b> | <b>\$ 21,172,476</b> |

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

**City of Hattiesburg, Mississippi**  
**Balance Sheet**  
**Governmental Funds**

*September 30, 2015*

|  | <b>General<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|---|---|
| <b>Assets</b>                              |                         |   |   |
| Cash and cash equivalents                  | \$ 6,838,618            | \$ 8,324,413                            | \$ 15,163,031                           |
| Sales tax receivable                       | 1,884,727               | -                                       | 1,884,727                               |
| Intergovernmental receivable               | 1,620                   | 75,807                                  | 77,427                                  |
| Fines receivable, net of allowance         | 2,231,591               | -                                       | 2,231,591                               |
| Other receivables                          | 865,161                 | 12,306                                  | 877,467                                 |
| Due from other funds                       | 439,206                 | 2,297                                   | 441,503                                 |
| Property taxes receivable                  | 14,407,852              | 4,009,811                               | 18,417,663                              |
| Due from other agencies                    | 14,432                  | -                                       | 14,432                                  |
| Gas and oil inventory                      | 135,392                 | -                                       | 135,392                                 |
| Advances to other funds                    | 300,000                 | -                                       | 300,000                                 |
| <b>Total assets</b>                        | <b>\$ 27,118,599</b>    | <b>\$ 12,424,634</b>                    | <b>\$ 39,543,233</b>                    |
| <b>Liabilities</b>                         |                         |   |   |
| Accounts payable                           | 559,901                 | 2,101,784                               | 2,661,685                               |
| Accrued wages and benefits                 | 1,198,771               | 120,324                                 | 1,319,095                               |
| Due to other funds                         | 2,297                   | 11,170                                  | 13,467                                  |
| Other liabilities                          | 1,141,862               | 54,313                                  | 1,196,175                               |
| Due to other agencies                      | 137,602                 | -                                       | 137,602                                 |
| Advances from other funds                  | -                       | 300,000                                 | 300,000                                 |
| <b>Total liabilities</b>                   | <b>3,040,433</b>        | <b>2,587,591</b>                        | <b>5,628,024</b>                        |
| <b>Deferred Inflows of Resources</b>       |                         |   |   |
| Unavailable revenue - property taxes       | 14,278,000              | 3,980,000                               | 18,258,000                              |
| Unavailable revenue - fines                | 2,087,413               | -                                       | 2,087,413                               |
| <b>Total deferred inflows of resources</b> | <b>16,365,413</b>       | <b>3,980,000</b>                        | <b>20,345,413</b>                       |
| <b>Fund Balances</b>                       |                         |   |   |
| <b>Nonspendable</b>                        |                         |   |   |
| Inventories                                | 135,392                 | -                                       | 135,392                                 |
| Long-term interfund advance                | 300,000                 | -                                       | 300,000                                 |
| <b>Restricted</b>                          |                         |   |   |
| Street improvements and repairs            | -                       | 1,758,666                               | 1,758,666                               |
| Law enforcement                            | -                       | 208,107                                 | 208,107                                 |
| Mass transit                               | -                       | 332,039                                 | 332,039                                 |

Continued

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

**City of Hattiesburg, Mississippi**  
**Balance Sheet**  
**Governmental Funds**

*September 30, 2015*

|   | General<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-----------------|--------------------------------|--------------------------------|
| <b>Fund Balances (Cont.)</b>  |                 |                                |                                |
| <b>Restricted (Cont.)</b>   |                 |                                |                                |
| Debt service  | -               | 4,067,078                      | 4,067,078                      |
| Parks and recreation projects   | -               | 2,414                          | 2,414                          |
| Economic development  | -               | 49                             | 49                             |
| <b>Committed</b>  |                 |                                |                                |
| Parks and recreation  | -               | 553,495                        | 553,495                        |
| Fire protection   | -               | 803,045                        | 803,045                        |
| Human/social assistance   | 30,485          | -                              | 30,485                         |
| Airport projects  | 1,883,077       | -                              | 1,883,077                      |
| Street improvement and repairs  | -               | 4,168                          | 4,168                          |
| Law enforcement   | -               | 41,544                         | 41,544                         |
| <b>Assigned</b>   |                 |                                |                                |
| General government  | 32,573          | -                              | 32,573                         |
| Public safety   | 856,811         | -                              | 856,811                        |
| Public services   | 160,882         | -                              | 160,882                        |
| Other services  | 1,058           | -                              | 1,058                          |
| <b>Unassigned</b>   | 4,312,475       | (1,913,562)                    | 2,398,913                      |
| <b>Total fund balances</b>  | 7,712,753       | 5,857,043                      | 13,569,796                     |
| <b>Total liabilities, deferred inflows of<br/>resources and fund balances</b> | \$ 27,118,599   | \$ 12,424,634                  | \$ 39,543,233                  |

Concluded

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

**City of Hattiesburg, Mississippi**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**

*September 30, 2015*

---

|  |               |
|--|---------------|
| Total fund balances for governmental funds | \$ 13,569,796 |
|--|---------------|

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

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

|   |  |            |             |
|---|--|------------|-------------|
| Land  |  | 29,753,609 |             |
| Construction in progress                        |  | 3,342,675  |             |
| Infrastructure, net of \$78,053,390             |  |            |             |
| accumulated depreciation                        |  | 69,925,843 |             |
| Buildings and improvements, net of \$24,487,437 |  |            |             |
| accumulated depreciation                        |  | 20,059,037 |             |
| Machinery and equipment, net of \$25,756,113    |  |            |             |
| accumulated depreciation                        |  | 7,294,369  |             |
| Total capital assets                            |  |            | 130,375,533 |

|  |           |
|--|-----------|
| Other long-term assets are not available to pay for current period expenditures and therefore are not reported as deferred revenue in the funds. | 2,087,413 |
|--|-----------|

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

|   |  |           |           |
|---|--|-----------|-----------|
| Accounts receivable - solid waste services                    |  | 180,462   |           |
| Grants receivable   |  | 3,088,944 |           |
| Sales tax receivable  |  | 1,843,149 |           |
| Property tax receivable                                       |  | 197,532   |           |
| Other tax receivable  |  | 11,978    |           |
| Total receivables not received within thirty days of year end |  |           | 5,322,065 |

|  |           |
|--|-----------|
| Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds. | 4,192,853 |
|--|-----------|

|   |           |
|---|-----------|
| Deferred outflow related to pension not reported in the funds | 8,323,444 |
|---|-----------|

Continued

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

**City of Hattiesburg, Mississippi**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**

*September 30, 2015*

|  |             |
|--|-------------|
| Deferred inflow related to pension not reported in the funds | (1,362,463) |
|--|-------------|

Payables not paid within thirty days of year end are not reported in the funds.

|  |           |           |
|--|-----------|-----------|
| Accounts payable   | (188,627) |           |
| Other liabilities  | (150,000) |           |
|  |           |           |
| Total payables not received within thirty days of year end |           | (338,627) |

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

|   |              |              |
|---|--------------|--------------|
| Accrued interest on bonds and notes                     |              | (172,596)    |
| General obligation bonds                                | (11,415,000) |              |
| Limited obligation tax increment financing bonds        | (7,430,000)  |              |
| Limited obligation economic development bonds and notes | (2,618,521)  |              |
| Capital leases  | (2,790,991)  |              |
| Net pension obligation                                  | (65,217,923) |              |
| Other post employment benefits obligation               | (505,765)    |              |
| Compensated absences                                    | (1,782,294)  |              |
|   |              |              |
| Total long-term liabilities                             |              | (91,760,494) |

|   |                      |
|---|----------------------|
| Total net position of governmental activities | <u>\$ 70,236,924</u> |
|---|----------------------|

Concluded

**City of Hattiesburg, Mississippi**  
**Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**Governmental Funds**

*Year ended September 30, 2015*

|  | <b>General<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|---|---|
| <b>Revenues</b>  |                         |   |   |
| General property taxes                                   | \$ 12,912,105           | \$ 4,873,926                            | \$ 17,786,031                           |
| Sales tax collections                                    | 22,301,782              | -                                       | 22,301,782                              |
| Other taxes  | 25,164                  | -                                       | 25,164                                  |
| Licenses and permits                                     | 4,436,024               | -                                       | 4,436,024                               |
| Fines, forfeitures and penalties                         | 2,153,531               | 79,848                                  | 2,233,379                               |
| Interest, rents, and concessions                         | 95,362                  | 12,339                                  | 107,701                                 |
| Intergovernmental  | 529,957                 | 4,221,187                               | 4,751,144                               |
| Charges for services                                     | 2,398,617               | 96,179                                  | 2,494,796                               |
| Other revenues   | 2,551,357               | 294,188                                 | 2,845,545                               |
| <b>Total revenues</b>                                    | <b>47,403,899</b>       | <b>9,577,667</b>                        | <b>56,981,566</b>                       |
| <b>Expenditures</b>                                      |                         |   |   |
| Current:   |                         |   |   |
| General government                                       | 8,318,077               | -                                       | 8,318,077                               |
| Public safety  | 19,822,940              | 326,081                                 | 20,149,021                              |
| Public services  | 13,295,050              | 1,094,712                               | 14,389,762                              |
| Other services   | 1,517,480               | 2,387,921                               | 3,905,401                               |
| Mass transit   | -                       | 977,307                                 | 977,307                                 |
| Culture and recreation                                   | -                       | 4,015,886                               | 4,015,886                               |
| Human/social assistance                                  | 205,660                 | 748,924                                 | 954,584                                 |
| Economic development                                     | 160,000                 | 48,115                                  | 208,115                                 |
| Debt Service:  |                         |   |   |
| Principal payments                                       | 1,484,722               | 3,713,727                               | 5,198,449                               |
| Interest and fiscal charges                              | 104,133                 | 914,066                                 | 1,018,199                               |
| <b>Total expenditures</b>                                | <b>44,908,062</b>       | <b>14,226,739</b>                       | <b>59,134,801</b>                       |
| <b>Excess (deficiency) of revenues over expenditures</b> | <b>2,495,837</b>        | <b>(4,649,072)</b>                      | <b>(2,153,235)</b>                      |
| <b>Other Financing Sources</b>                           |                         |   |   |
| Transfers in   | 200,000                 | 3,340,140                               | 3,540,140                               |
| Transfers out  | (3,215,000)             | (16)                                    | (3,215,016)                             |
| Other sources  | 450,247                 | -                                       | 450,247                                 |
| <b>Total other financing sources (uses)</b>              | <b>(2,564,753)</b>      | <b>3,340,124</b>                        | <b>775,371</b>                          |
| <b>Net Change in Fund Balance</b>                        | <b>(68,916)</b>         | <b>(1,308,948)</b>                      | <b>(1,377,864)</b>                      |
| Fund balances - beginning of year                        | 7,781,669               | 7,165,991                               | 14,947,660                              |
| Fund balances - end of year                              | \$ 7,712,753            | \$ 5,857,043                            | \$ 13,569,796                           |

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



**City of Hattiesburg, Mississippi**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**

*Year ended September 30, 2015*

Net change in fund balances - governmental funds \$ (1,377,864)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$7,965,373) exceeds capital outlays (\$7,520,369) in the current period. (445,004)

Intergovernmental revenue is recognized on the accrual basis in the statement of activities and is also increased for revenues received more than thirty days after year end.

|   |              |           |
|---|--------------|-----------|
| Accounts receivable - solid waste services                              | 60,529       |           |
| Grants receivable   | 3,088,944    |           |
| Sales tax receivable  | 73,404       |           |
| Property tax receivable   | 161,816      |           |
| Other tax receivable  | <u>1,163</u> |           |
| Total change in receivables not received within thirty days of year end |              | 3,385,856 |

Fine revenue deferred in the funds for the modified accrual basis during the current year decreased whereas recognition is required as earned on the statement of activities using the accrual basis of accounting. (939,441)

Proceeds from the sale of capital assets \$374,506 are reported in the governmental funds. However, in the statement of net position the gain is recorded \$373,707. (799)

Impairment of City Infrastructure (433,067)

Continued

**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, 2015*

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

|                                     |    |           |           |
|-------------------------------------|----|-----------|-----------|
| Compensated absences                | \$ | 124,871   |           |
| Accounts payable                    |    | (188,627) |           |
| Other liabilities                   |    | (150,000) |           |
| Accrued interest on bonds and notes |    | 28,176    |           |
| Combined adjustment                 |    |           | (185,580) |

Proceeds from issuance of long-term debt are reported in the governmental funds. However, in the statement of net position a long-term liability is recorded. Repayments of long-term debt are reported as expenditures in the governmental funds but are recorded against the liability in the statement of net position.

Net change of proceeds and repayments of long-term debt 3,231,419

Change related of pension related deferred outflows and inflows and obligations (2,746,178)

Change related to other post employment benefit obligations (505,765)

Governmental funds report annual note repayment received (\$462,166) as an installment receipt. In the statement of activities, only the portion of these payments attributable to interest is reported as interest revenue (\$156,956). (305,210)

Change in net position of governmental activities \$ (321,633)

Concluded

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

**City of Hattiesburg, Mississippi**  
**Statement of Net Position**  
**Proprietary Fund**

| <i>September 30, 2015</i>  | <b>Combined Water and<br/>Sewer System</b> |
|--|--|
| <b>Assets</b>  |  |
| <b>Current Assets</b>  |  |
| Cash and equivalents - unrestricted  | \$ 6,935,537                               |
| Accounts receivable - trade (net of allowance for doubtful<br>accounts of \$2,173,576) | 1,309,130                                  |
| Grants receivable  | -  |
| <b>Total current assets</b>  | <b>8,244,667</b>                           |
| <b>Noncurrent Assets</b>   |  |
| Cash and equivalents - restricted  | 1,215,431                                  |
| Cash with fiscal agents - restricted   | 14,809,000                                 |
| <b>Capital Assets</b>  |  |
| Land   | 315,243                                    |
| Construction in progress   | 3,422,443                                  |
| Infrastructure, net  | 86,057,169                                 |
| Buildings and improvements, net  | 24,164                                     |
| Machinery and equipment, net   | 902,314                                    |
| <b>Total noncurrent assets</b>   | <b>106,745,764</b>                         |
| <b>Total assets</b>  | <b>114,990,431</b>                         |
| <b>Deferred Outflow of Resources</b>   |  |
| Related to pensions  | 590,055                                    |
| Prepaid bond insurance   | 271,941                                    |
| <b>Total deferred outflows</b>   | <b>861,996</b>                             |
| <b>Liabilities</b>   |  |
| <b>Current Liabilities</b>   |  |
| Due to governmental funds  | 428,036                                    |
| Sales tax payable  | 22,668                                     |
| Accounts payable   | 3,141,671                                  |
| Accrued wages and benefits   | 105,107                                    |
| Accrued interest payable   | 408,116                                    |
| Other liabilities  | 1,245,557                                  |
| Unamortized bond premium - current   | 17,507                                     |
| Revenue bonds - current  | 1,765,000                                  |
| General obligation bonds - current   | 615,000                                    |
| General obligation note payable - current  | 396,590                                    |
| Compensated absences - current   | 23,743                                     |
| <b>Total current liabilities</b>   | <b>8,168,995</b>                           |

Continued

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

**City of Hattiesburg, Mississippi**  
**Statement of Net Position**  
**Proprietary Fund**

| <i>September 30, 2015</i>                                 | <b>Combined Water and<br/>Sewer System</b> |
|---|--|
| <b>Non-Current Liabilities</b>                            |  |
| Revenue bonds   | 45,445,000                                 |
| General obligation bonds                                  | 7,435,000                                  |
| General obligation note payable                           | 294,454                                    |
| Unamortized bond premium                                  | 234,434                                    |
| Compensated absences                                      | 134,547                                    |
| Net pension obligation                                    | 4,104,190                                  |
| Other post employment benefits obligation                 | 56,971                                     |
| Customer meter deposits<br>payable from restricted assets | 1,215,431                                  |
| <b>Total non-current liabilities</b>                      | <b>58,920,027</b>                          |
| <b>Total liabilities</b>                                  | <b>67,089,022</b>                          |
| <br><b>Deferred Inflows of Resources</b>                  |  |
| Related to pensions                                       | 110,232                                    |
| Deferred revenues   | 247,273                                    |
| <b>Total deferred inflows</b>                             | <b>357,505</b>                             |
| <br><b>Net Position</b>                                   |  |
| Net investment in capital assets                          | 44,493,366                                 |
| Restricted for debt service                               | 4,833,982                                  |
| Unrestricted  | (921,448)                                  |
| <b>Total net position</b>                                 | <b>\$ 48,405,900</b>                       |

Concluded

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

**City of Hattiesburg, Mississippi**  
**Statement of Revenues, Expenses,**  
**and Changes in Net Position**  
**Proprietary Fund**

| <i>Year ended September 30, 2015</i>                    | <b>Combined Water and<br/>Sewer System</b> |
|---|--|
| <b>Operating Revenues</b>                               |  |
| Water charges   | \$ 8,147,276                               |
| Sewer charges   | 8,553,687                                  |
| Sewer connections                                       | 25,866                                     |
| Turn-on fees  | 61,200                                     |
| Taps  | 298,557                                    |
| <b>Total operating revenues</b>                         | <b>17,086,586</b>                          |
| <b>Operating Expenses</b>                               |  |
| Personal services                                       | 2,747,948                                  |
| Other services and charges                              | 11,195,342                                 |
| Supplies and expenses                                   | 974,048                                    |
| Depreciation  | 4,164,875                                  |
| Other operating expenses                                | 12,084,561                                 |
| <b>Total operating expenses</b>                         | <b>31,166,774</b>                          |
| <b>Operating Income</b>                                 | <b>(14,080,188)</b>                        |
| <b>Non-Operating Revenues (Expenses)</b>                |  |
| Interest revenue  | 13,769                                     |
| Interest expenses                                       | (2,235,365)                                |
| Other expenses  | -  |
| Other revenues  | 32,972                                     |
| <b>Total non-operating revenues (expenses)</b>          | <b>(2,188,624)</b>                         |
| <b>Income before Capital Contribution and Transfers</b> | <b>(16,268,812)</b>                        |
| Intergovernmental capital contributions                 | 474,084                                    |
| Transfers out   | (200,000)                                  |
| <b>Change in net position</b>                           | <b>(15,994,728)</b>                        |
| Net position - beginning of year                        | 70,344,182                                 |
| Prior period adjustment                                 | (5,943,554)                                |
| Net position - beginning, as adjusted                   | 64,400,628                                 |
| <b>Net position - end of year</b>                       | <b>\$ 48,405,900</b>                       |

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

**City of Hattiesburg, Mississippi**  
**Statement of Cash Flows**  
**Proprietary Fund**

| <i>Year ended September 30, 2015</i>                            | <b>Combined Water and<br/>Sewer System</b> |
|---|--|
| <b>Cash Flows from Operating Activities</b>                     |  |
| Receipts from customers   | \$ 16,782,997                              |
| Payments to suppliers and service providers                     | (9,890,662)                                |
| Payments to employees for salaries and benefits                 | (2,518,587)                                |
| <hr/>   |  |
| Net cash provided by operating activities                       | 4,373,748                                  |
| <b>Cash Flows from Noncapital Financing Activities</b>          |  |
| Other cash receipts   | 280,245                                    |
| Transfer to other funds   | (200,000)                                  |
| <hr/>   |  |
| Net cash provided by noncapital financing activities            | 80,245                                     |
| <b>Cash Flows from Capital and Related Financing Activities</b> |  |
| Principal payments - bonds and notes                            | (2,667,527)                                |
| Intergovernmental cash receipts                                 | 520,241                                    |
| Acquisition and construction of capital assets                  | (6,383,383)                                |
| Capitalized interest paid on capital debt                       | -  |
| Bond issuance cost  | -  |
| Interest paid on capital debt                                   | (2,317,102)                                |
| Proceeds from bonds and notes                                   | -  |
| <hr/>   |  |
| Net cash provided by capital and related financing activities   | (10,847,771)                               |
| <b>Cash Flows from Investing Activities</b>                     |  |
| Interest Income   | 13,764                                     |
| <hr/>   |  |
| Net cash provided by investing activities                       | 13,764                                     |
| <hr/>   |  |
| <b>Net Increase in Cash and Cash Equivalents</b>                | <b>(6,380,014)</b>                         |
| <hr/>   |  |
| <b>Cash and Cash Equivalents - Beginning of year</b>            | <b>29,339,982</b>                          |
| <hr/>   |  |
| <b>Cash and Cash Equivalents - End of year</b>                  | <b>\$ 22,959,968</b>                       |
| <hr/>   |  |
| Displayed on statement of net position as:                      |  |
| Cash and equivalents - unrestricted                             | \$ 6,935,537                               |
| Cash and equivalents - restricted                               | 1,215,431                                  |
| Cash with fiscal agent - restricted                             | 14,809,000                                 |
| <hr/>   |  |
| <b>\$ 22,959,968</b>  |  |
| <hr/>   |  |

Continued

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

**City of Hattiesburg, Mississippi**  
**Statement of Cash Flows**  
**Proprietary Fund**

**Combined Water and  
Sewer System**

*Year ended September 30, 2015*

**Reconciliation of Operating Income to Net Cash Provided  
by Operating Activities:**

**Operating Income** \$ (14,080,188)

**Adjustments to Reconcile Operating Income to Net Cash Provided  
by Operating Activities:**

|   |                   |
|---|-------------------|
| Depreciation expense                                  | 4,164,875         |
| Impairment of capital assets                          | 11,131,503        |
| Changes in assets and liabilities:                    |                   |
| Increase in accounts receivable - trade               | (291,353)         |
| Increase in prepaid bond insurance                    | 16,668            |
| Increase in deferred outflows related to pensions     | (590,055)         |
| Decrease in amount due to governmental funds          | 168,011           |
| Increase in sales tax payable                         | (6,964)           |
| Increase in accounts payable                          | 2,920,696         |
| Increase in accrued wages and benefits                | 7,348             |
| Increase in other liabilities                         | 44,507            |
| Increase in compensated absences                      | 13,705            |
| Increase in net pension obligation                    | 649,036           |
| Increase in other post employment benefits obligation | 56,971            |
| Increase in customer meter deposits                   | 58,756            |
| Increase in deferred inflows related to pensions      | 110,232           |
| <b>Total adjustments</b>                              | <b>18,453,936</b> |

**Net Cash Provided by Operating Activities** **\$ 4,373,748**

Concluded

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

**City of Hattiesburg, Mississippi**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**

| <i>September 30, 2015</i>                    | <b>Police/Fireman<br/>Disability &amp;<br/>Relief Pension<br/>Trust Fund</b> | <b>Agency Funds</b> |
|--|--|---------------------|
| <b>Assets</b>                                |  |                     |
| Cash and cash equivalents                    | \$ 77,054  | \$ 1,967,766        |
| Cash and cash investments with fiscal agent  | 22,120,534   | -                   |
| Property taxes and fees receivable           | 12,144   | 144,662             |
| Sales tax receivable                         | -  | 468,013             |
| <b>Total assets</b>                          | <b>\$ 22,209,732</b>   | <b>\$ 2,580,441</b> |
| <b>Liabilities</b>                           |  |                     |
| Employee contribution payable                | \$ -   | \$ 341,903          |
| Due to other funds                           | -  | 1,671,558           |
| Other liabilities                            | -  | 753                 |
| Amounts held in custody for others           | -  | 566,227             |
| <b>Total liabilities</b>                     | <b>\$ -</b>  | <b>\$ 2,580,441</b> |
| <b>Net Position</b>                          |  |                     |
| Net position restricted for pension benefits | \$ 22,209,732  |                     |

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



**City of Hattiesburg, Mississippi**  
**Statement of Changes in**  
**Fiduciary Net Position**  
**Fiduciary Funds**

|                                      | <b>Police/Fireman<br/>Disability &amp;<br/>Relief Pension<br/>Trust Fund</b> |
|--------------------------------------|--|
| <i>Year ended September 30, 2015</i> |  |
| <hr/>                                |  |
| <b>Additions</b>                     |  |
| Contributions:                       |  |
| Plan members                         | \$ 9,778   |
| <hr/>                                |  |
| Total contributions                  | 9,778  |
| Property tax levy                    | 1,641,848  |
| Investment earnings                  | 765,831  |
| <hr/>                                |  |
| <b>Total additions</b>               | <b>2,417,457</b>   |
| <b>Deductions</b>                    |  |
| Benefits                             | 3,337,807  |
| Administrative expenses              | 48,674   |
| <hr/>                                |  |
| <b>Total deductions</b>              | <b>3,386,481</b>   |
| <b>Change in net position</b>        | <b>(969,024)</b>   |
| Net position - beginning of year     | 23,178,756   |
| <hr/>                                |  |
| <b>Net position - end of year</b>    | <b>\$ 22,209,732</b>   |
| <hr/> <hr/>                          |  |

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

## **NOTES TO FINANCIAL STATEMENTS**

## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *General Information*

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

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

#### *Reporting Entity*

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

#### *Discretely Presented Component Unit*

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

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



## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Government-wide and Fund Financial Statements***

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

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

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

#### ***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 based on historical trends of collections in relation to assessments. 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

## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental

## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

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

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

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

### ***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance***

#### Deposits and Investments

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

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

## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### Receivables and Payables

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

All sales taxes, property taxes, and notes receivables are considered collectible; therefore no reduction has been made for an allowance for these receivables. Fees paid in lieu of ad valorem taxes pursuant to separate agreements are recognized when collected or when probability of receipt is reasonably certain. Fines receivable is reported net of allowance for uncollectible accounts of \$15,893,392 at September 30, 2015. Credits against fines are applied for any jail time served, community service, or electronic monitoring. Since any such credits are not known until actual events occur, the amounts of those credits cannot be reasonably estimated before they are earned. Therefore, future credits to be applied against existing fines receivable are not estimated or reflected in the City’s financial statements.

Customer accounts receivable in the enterprise fund are attributable to unpaid balances at year-end for charges for services. The City estimates the allowance for doubtful water and sewer account balances based upon a review of balances and status of customer accounts and upon consideration of historical collection trends and other factors.

Property taxes are levied annually for the upcoming fiscal year beginning October 1st on property values assessed as of the previous January 1st. Such levy, which establishes a lien against the underlying property, is made by the City Council in September before the beginning of the fiscal year. Property taxes are recognized in the year for which levied. Property tax statements on real property are typically mailed in December each year, with the taxes due annually on February 1st. All taxes are collected and remitted to the City on a monthly basis by Forrest and Lamar County governments. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received. Property with delinquent taxes as of August is subject to sale for collection of such taxes. Property taxes on vehicles are assessed annually and become due throughout the year based upon the month of acquisition.

#### Inventories and Prepaid Items

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

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, street lights, sewer and water lines, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

Net Pension Liability

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's pension plans and additions to/deductions from the plan's net position have been determined on the same basis as they are reported by Public Employees' Retirement System of Mississippi. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources are a separate financial statement element that represents a consumption of net position that applies to a future period and so will not be recognized as an



## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

outflow of resources (expense/expenditure) until then. The City reports prepaid insurance on the Water & Sewer Revenue Bonds in the government-wide and the proprietary statements of net position as a deferred outflow of resources. Bond insurance paid from debt proceeds as a credit enhancement feature with the bonds is deferred and amortized over the life of the bonds. In addition, deferred outflows include amounts related to pensions (See Notes 2 and 18.), including contributions to the employee pension plan subsequent to the measurement date of the actuarial valuations for the plan.

#### Deferred Inflows of Resources

Deferred inflows of resources are a separate financial statement element that represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from special assessments, and these amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Both the government-wide statements and governmental funds report property taxes levied for the subsequent year, which are deferred and recognized as an inflow of resources in the period for which they are levied. The government-wide statements also reflect pension related items resulting from the difference between estimated and actual return on pension plan investments, which are being amortized over a five year period using the straight-line method.

#### Compensated Absences

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

#### 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 position. Bond discounts and premiums are amortized over the life of the related bonds. Bond issuance costs, other than prepaid insurance costs, are recognized as expenses in the period incurred. Prepaid insurance costs are reported as an asset and are recognized as expenses over the duration of the related debt.

## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund types recognize bond issuance costs during the current period. The face amount of debt is reported as other financing sources, and bond discount is recorded as an other financing use. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other services in expenditures.

#### Net Position

The government-wide statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflow/outflows of resources, with the difference reported as net position. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back any unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling creditors, grantors, or laws or regulations of other governments.

#### Fund Balance Policies

The City provides fund balance categories to report the nature and extent of the constraints placed on a government's fund balances. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

The City does not have a formal minimum fund balance policy but transfers resources among funds as necessary to address any deficiencies at the fund level.

## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Budgets and Budgetary Accounting*

The City's procedures for establishing its budget and for reporting budgetary data reflected in the financial statements are as follows:

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

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

Encumbrances arise from the issuance of purchase orders, which must be within the adopted budgetary limits. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred upon receipt of goods or services. 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.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Accounting Changes***

During the year ended September 30, 2015, the City implemented certain newly effective accounting standards, as well as certain standards which should have been adopted previously, as further described below. Changes made by the City were necessary to conform to current authoritative guidance, which is preferable to superseded standards previously followed.

Effective for the year ended September 30, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this standard required the City to restate its September 30, 2014 financial position in order to record its proportionate share of the Public Employees Retirement System of Mississippi (PERS) net pension liability. See Notes 2 and 18. Pro forma amounts for the preceding year were not readily determinable.

During the year ended September 30, 2015, the City also implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which was previously effective but had not yet been implemented and which requires recognition of postemployment benefits including healthcare. Pursuant to this standard, annual costs of other postemployment benefits (OPEB) and the outstanding obligations and commitments for these costs are reported. See also Note 17.

***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 affects 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. Significant estimates which could change in the near-term include collectible portions of receivables from property taxes levied but not yet due, the allowance for doubtful Water and Sewer customer accounts receivable, the net collectible amounts of Municipal Court fines receivable, claims liabilities for the employee health insurance plan, useful lives of capital assets, and liabilities for pension and other post-employment benefits. In addition, long-term and current portions of compensated absences are based on estimates and assumptions relating to when earned compensated absences will be paid. Actual results may differ from those estimates.

***Subsequent Implementation of Accounting Standards***

The Governmental Accounting Standards Board (GASB) has issued the following Statements with effective dates in subsequent fiscal years:

- Statement No. 72 – *Fair Value Measurement and Application*
- Statement No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

## City of Hattiesburg, Mississippi Notes to Financial Statements

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- Statement No. 77 - *Tax Abatement Disclosures*
- Statement No. 78 - *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- Statement No. 79 - *Certain External Investment Pools and Pool Participants*
- Statement No. 80 - *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*
- Statement No. 81 - *Irrevocable Split-Interest Agreements*
- Statement No. 82 - *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*

The City has not assessed the applicability or impact of these standards on its financial statements.

### NOTE 2: PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2015, the City identified certain errors in prior year recognition of third party funds received for purposes of construction of a jointly owned facility. During the 2012 fiscal year, the City incorrectly reported escrow deposits representing the third party's investment in the project as contributions revenue. Subsequently, expenditures from such escrowed funds were recognized as capital outlay and construction in progress of the City. However, under terms of the project agreements, expenditures from third party funds represented assets immediately owned by that entity. Therefore, escrow funds should have been reported as a deposit liability rather than as contributions, and expenditures therefrom should have reduced cash and deposit liability amounts but should not have been included as capital outlay or construction in progress of the City. The City has recorded a prior period adjustment to correct these errors, the effects of which are reflected in the schedule below. The effect of correction of this error would have increased proprietary fund balance and net position of business-type activities for the year ended September 30, 2014 by \$621,929.

In addition to the effects of the error correction describe above, the City has also recognized prior period adjustments to restate beginning net position and beginning proprietary fund balances as a result of implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as further discussed in Note 18. Prior period effects of implementation of GASB Statement No. 68 are also reflected in the schedule below.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 2: PRIOR PERIOD ADJUSTMENTS (Continued)**

A summary of prior period adjustments reflected on the City's financial statements is presented below:

| <u>Explanation</u>   | <u>Net Position</u> | <u>Fund Balance</u> |
|--|---------------------|---------------------|
| <b>Governmental Activities</b>                             |                     |                     |
| <i>Implementation of New Accounting Standards:</i>         |                     |                     |
| To adjust deferred outflow of resources related to pension | \$ 1,432,945        | \$ -                |
| To adjust deferred inflow of resources related to pension  | (5,575,450)         | -                   |
| To adjust net pension obligation                           | (51,368,259)        | -                   |
| Total Governmental Activities                              | \$ (55,510,764)     | \$ -                |
| <b>Business-Type Activities</b>                            |                     |                     |
| <i>Correction of Error:</i>                                |                     |                     |
| To adjust construction in progress                         | \$ (2,222,709)      | \$ (2,222,709)      |
| To adjust escrow deposit liability                         | (265,691)           | (265,691)           |
| Subtotal - Correction of Error                             | \$ (2,488,400)      | \$ (2,488,400)      |
| <i>Implementation of New Accounting Standards:</i>         |                     |                     |
| To adjust deferred outflow of resources related to pension | 107,815             | 107,815             |
| To adjust deferred inflow of resources related to pension  | (451,090)           | (451,090)           |
| To adjust net pension obligation                           | (3,111,879)         | (3,111,879)         |
| Subtotal - Implementation of New Accounting Standards      | (3,455,154)         | (3,455,154)         |
| Total Business-Type Activities                             | \$ (5,943,554)      | \$ (5,943,554)      |
| Total Primary Government                                   | \$ (61,454,318)     | \$ (5,943,554)      |

**NOTE 3: DEPOSITS AND INVESTMENTS**

***Deposits***

The collateral for public entities' deposits in financial institutions are 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

**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

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 \$23,313,999 (exclusive of cash with fiscal agents disclosed below). The bank balance was \$26,242,571. The City's long standing, although not formally adopted, investment policy is based upon all bank accounts being fully collateralized (using the procedures described above) and interest-bearing with rates updated on a quarterly basis and benchmarked using verifiable appropriate federal funds rates. Interest is calculated using average balances and recorded monthly.

***Custodial Credit Risk - Deposits***

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of September 30, 2015, the City's bank balance was not exposed to custodial credit risk because deposits are covered by the State Treasurer collateral pool.

***Cash with Fiscal Agents***

The carrying amount of the City's cash with fiscal agents held by financial institutions was \$14,809,000. In addition, the City's discretely presented component unit had cash and investments with fiscal agents of \$4,422,663 at September 30, 2015.

***Interest Rate Risk***

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

**NOTE 4: NOTES RECEIVABLE**

In 2010, the City Council authorized a purchase of property located at 510 West Pine Street for the Sacred Heart Catholic Parish. Pursuant to the terms of this agreement, the City financed the purchase price of \$2,500,000 through the issuance of the City's General Obligation Pool Loan Refunding Bonds, Series 2010, to be repaid over 20 years with the final bonds maturing July 1, 2030. The Diocese of Biloxi executed a \$2,560,000 promissory note for the purchase price and issuance costs, requiring annual payments and agency fees not to exceed \$219,000 at an interest rate not to exceed 5.5%, to coincide with the scheduled principal, interest and servicing fees attributable to the City's Series 2010 bonds. At September 30, 2015, the balance of this note receivable was \$2,110,000.



## City of Hattiesburg, Mississippi Notes to Financial Statements

### **NOTE 4: NOTES RECEIVABLE (Continued)**

In 2012, the City Council authorized a loan agreement and promissory note for \$2,000,000 to be repaid over 20 years, at a rate of 2% in monthly installments of \$10,118, commencing February 1, 2013 and continuing until February 1, 2033. This arrangement was executed pursuant to Katrina Supplemental CDBG Program grant agreements that resulted in loan funding for site acquisition for two historic downtown buildings, with monthly repayments required from the City to the Mississippi Development Authority (MDA). Under the terms of the loan agreement, HCL Leverage Lender LLC will remit the above-noted monthly payments to the City, and after the receipt of these payments, the City will in turn remit the corresponding payments to MDA. At September 30, 2015, the balance of this note receivable was \$1,770,043.

Notes receivable also include amounts due from the Hattiesburg Convention Commission (the Commission), a discretely presented component unit of the City, totaling \$312,810. As further described in Note 19, this balance represents obligations of the Commission for costs incurred by the City for capital renovations of the Saenger Theater, which is operated by the Commission pursuant to a long-term agreement with the City.



**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2015, was as follows:

*September 30, 2015*

|  | Primary Government    |                     |                       | Ending<br>Balance     |
|--|-----------------------|---------------------|-----------------------|-----------------------|
|  | Beginning<br>Balance  | Additions           | Retirements           |                       |
| <b>Governmental Activities:</b>                        |                       |                     |                       |                       |
| Capital assets not being depreciated:                  |                       |                     |                       |                       |
| Land   | \$ 29,753,609         | \$ -                | \$ -                  | \$ 29,753,609         |
| Construction in progress                               | 4,682,275             | 4,440,172           | (5,779,772)           | 3,342,675             |
| Total capital assets not<br>being depreciated          | 34,435,884            | 4,440,172           | (5,779,772)           | 33,096,284            |
| Capital assets being depreciated:                      |                       |                     |                       |                       |
| Buildings and improvements                             | 43,400,538            | 1,145,937           | -                     | 44,546,475            |
| Machinery and equipment                                | 33,084,684            | 2,580,197           | (2,614,400)           | 33,050,481            |
| Infrastructure   | 143,278,464           | 5,133,834           | (433,065)             | 147,979,233           |
| Total capital assets being<br>depreciated              | 219,763,686           | 8,859,968           | (3,047,465)           | 225,576,189           |
| Less accumulated depreciation for:                     |                       |                     |                       |                       |
| Buildings and improvements                             | 22,906,857            | 1,580,581           | -                     | 24,487,438            |
| Machinery and equipment                                | 26,476,211            | 1,893,501           | (2,613,600)           | 25,756,112            |
| Infrastructure   | 73,562,099            | 4,491,291           | -                     | 78,053,390            |
| Total accumulated<br>depreciation                      | 122,945,167           | 7,965,373           | (2,613,600)           | 128,296,940           |
| Total capital assets being<br>depreciated, net         | 96,818,519            | 894,595             | (433,865)             | 97,279,249            |
| <b>Governmental activities<br/>capital assets, net</b> | <b>\$ 131,254,403</b> | <b>\$ 5,334,767</b> | <b>\$ (6,213,637)</b> | <b>\$ 130,375,533</b> |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 5: CAPITAL ASSETS (Continued)**

*September 30, 2015*

|  | Primary Government   |                      |                        |                      |
|--|----------------------|----------------------|------------------------|----------------------|
|  | Beginning<br>Balance | Additions            | Retirements            | Ending<br>Balance    |
| <b>Business-Type Activities</b>                |                      |                      |                        |                      |
| Capital assets not being depreciated:          |                      |                      |                        |                      |
| Land   | \$ 315,243           | \$ -                 | \$ -                   | \$ 315,243           |
| Construction in progress                       | 6,895,764            | 6,236,569            | (9,709,890)            | 3,422,443            |
| Total capital assets not<br>being depreciated  | 7,211,007            | 6,236,569            | (9,709,890)            | 3,737,686            |
| Capital assets being depreciated:              |                      |                      |                        |                      |
| Buildings and improvements                     | 335,058              | -                    | (225)                  | 334,833              |
| Machinery and equipment                        | 8,936,261            | 146,815              | (21,783)               | 9,061,293            |
| Infrastructure                                 | 111,799,288          | 8,742,875            | (10,547,634)           | 109,994,529          |
| Total capital assets being<br>depreciated      | 121,070,607          | 8,889,690            | (10,569,642)           | 119,390,655          |
| Less accumulated depreciation for:             |                      |                      |                        |                      |
| Buildings and improvements                     | 309,064              | 1,605                | -                      | 310,669              |
| Machinery and equipment                        | 7,648,116            | 510,863              | -                      | 8,158,979            |
| Infrastructure                                 | 20,690,106           | 3,652,407            | (405,153)              | 23,937,360           |
| Total accumulated<br>depreciation              | 28,647,286           | 4,164,875            | (405,153)              | 32,407,008           |
| Total capital assets being<br>depreciated, net | 92,423,321           | 4,724,815            | (10,164,489)           | 86,983,647           |
| <b>Business-Type Activities</b>                |                      |                      |                        |                      |
| <b>capital assets, net</b>                     | <b>\$ 99,634,328</b> | <b>\$ 10,961,384</b> | <b>\$ (19,874,379)</b> | <b>\$ 90,721,333</b> |

Retirements include certain infrastructure assets which were determined to have no future useful life as of September 30, 2015 and which were thus removed from service. Net book value of such assets removed from service totaled approximately \$400,000 for governmental activities and \$1.1 million for business-type activities.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 5: CAPITAL ASSETS (Continued)**

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

**Governmental Activities:**

|  |    |                     |
|--|----|---------------------|
| General government   | \$ | 720,937             |
| Public safety  |    | 994,768             |
| Public services - which includes the depreciation of infrastructure assets |    | 5,208,147           |
| Human/social assistance  |    | 14,036              |
| Other services   |    | 216,145             |
| Culture and recreation   |    | 551,387             |
| Mass transit   |    | 259,953             |
| <b>Total depreciation expense - governmental activities</b>                |    | <b>\$ 7,965,373</b> |

**NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Government Wide Funds

Balances due to/from the various City funds at September 30, 2015, consist of the following:

| Receivable Fund            | Payable Fund                    | Amount            |
|----------------------------|---------------------------------|-------------------|
| General fund               | Nonmajor governmental fund      | \$ 11,170         |
| General fund               | Combined water and sewer system | 428,036           |
| Nonmajor governmental fund | General fund                    | 2,297             |
| <b>Total</b>               |                                 | <b>\$ 441,503</b> |

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

Advances to/from other funds for governmental funds at September 30, 2015, consist of the following:

| Receivable Fund | Payable Fund               | Amount     |
|-----------------|----------------------------|------------|
| General fund    | Nonmajor governmental fund | \$ 300,000 |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)**

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

The composition of interfund transfers for the year ended September 30, 2015, is as follows:

| <b>Transfers Out:</b>           | <b>Transfers In:</b>    |                                  |                             |
|---------------------------------|-------------------------|----------------------------------|-----------------------------|
|                                 | <b>General<br/>Fund</b> | <b>Nonmajor<br/>Governmental</b> | <b>Activities<br/>Total</b> |
| General fund                    | \$ -                    | \$ 3,215,000                     | \$ 3,215,000                |
| Non major governmental funds    | -                       | 16                               | 16                          |
| Total governmental funds        | \$ -                    | \$ 3,215,016                     | \$ 3,215,016                |
| Combined water and sewer system | 200,000                 | -                                | 200,000                     |
| Agency funds                    | -                       | 125,124                          | 125,124                     |
| <b>Total</b>                    | <b>\$ 200,000</b>       | <b>\$ 3,340,140</b>              | <b>\$ 3,540,140</b>         |

Interfund transfers are authorized components of the budget and are typically used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Agency Funds

Balances due to various related parties at September 30, 2015, consist of the following:

| <b>Payable Related Party</b>       | <b>Term of distribution</b>          | <b>Amount</b>       |
|------------------------------------|--------------------------------------|---------------------|
| Hattiesburg Tourism Commission     | To be distributed within thirty days | \$ 55,893           |
| Hattiesburg Convention Commission  | To be distributed within thirty days | 412,120             |
| Hattiesburg Public School District | To be distributed within thirty days | 1,122,838           |
| Library of Hattiesburg             | To be distributed within thirty days | 44,868              |
| Other                              | To be distributed within thirty days | 35,839              |
|                                    |                                      | <b>\$ 1,671,558</b> |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**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:

| <b>Entity/Purpose of Levy</b>   | <b>Applicable State Law</b> | <b>Mills Levied</b> |
|---|-----------------------------|---------------------|
| School District:  |                             |                     |
| Operational Support   | 37-57-105                   | 56.54               |
| School Bonded Indebtedness  | 37-59-23                    | 8.35                |
| Library (support, upkeep and maintenance of<br>Hattiesburg Public Library System) | 39-3-7                      | 1.95                |

**NOTE 8: CLAIMS AND JUDGMENTS**

The City provides employee health and accident coverage through a self-insurance program that utilizes a plan administrator as its claims-servicing organization, with the City retaining the risk of loss on all claims to which the City is exposed. Premium payments into the plan are established as a part of the City’s budgetary process and upon consideration of actuarial recommendations provided by the plan administrator. The City has opted to set premium rates for individual and family coverage at somewhat lower levels than those recommended. Therefore, additional costs not expected to be covered by premiums are separately budgeted in individual funds in which related payroll costs are incurred. When necessary based upon the claims paid during the fiscal year, the City makes supplemental transfers from payroll budgets of various funds into separate self-insurance fund accounts, which are included in the general fund for financial reporting purposes for fiscal year 2015.

To limit its exposure to risk under this self-insured program, the City maintains reinsurance which provides two separate stop loss coverages: specific and aggregate. These coverages are provided by an outside commercial carrier. For fiscal year 2015, the specific coverage begins when an individual participant’s claim exceeds \$100,000, with unlimited maximum benefit per covered person. The aggregate policy covers all submitted claims in excess of the minimum aggregate deductible, which is the greater of \$4,226,552 or 95% of the annualized first monthly aggregate deductible. Maximum covered expenses of \$100,000 per covered person accumulate toward the unlimited maximum aggregate benefit.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 8: CLAIMS AND JUDGMENTS (Continued)**

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The following table provides changes in the balances of claims liabilities for fiscal year 2015:

*September 30, 2015*

|  |                   |
|--|-------------------|
| <b>Unpaid claims, beginning of fiscal year</b> | \$ 300,000        |
| Plus: Incurred claims (including IBNR)         | 3,749,423         |
| Less: Claims payments                          | (3,696,504)       |
| <b>Unpaid claims, end of fiscal year</b>       | <b>\$ 352,919</b> |

Cash on deposit in the Group Insurance Fund at September 30, 2015 was \$352,919, which approximated claims liability as of that date.

**NOTE 9: LEASE OBLIGATIONS**

The City has entered into various lease agreements as lessee for financing equipment purchases. The equipment has useful lives ranging from four to ten years. For fiscal year 2015, primary government assets recorded under capital leases and included in capital assets in the accompanying statement of net position are as follows:

**Governmental Activities:**

|  |                     |
|--|---------------------|
| Machinery and equipment                  | \$ 4,345,186        |
| Accumulated depreciation                 | (2,013,608)         |
| <b>Net book value</b>                    | <b>\$ 2,331,578</b> |
| <b>Current year depreciation expense</b> | <b>\$ 508,299</b>   |

**Business-type Activities:**

|  |                   |
|--|-------------------|
| Machinery and equipment                  | \$ 2,912,593      |
| Accumulated depreciation                 | (2,718,420)       |
| <b>Net book value</b>                    | <b>\$ 194,173</b> |
| <b>Current year depreciation expense</b> | <b>\$ 291,259</b> |

|  |                     |
|--|---------------------|
| <b>Total net book value</b>                    | <b>\$ 2,525,751</b> |
| <b>Total current year depreciation expense</b> | <b>\$ 799,559</b>   |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 9: LEASE OBLIGATIONS (Continued)**

These leases qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of future minimum lease payments, which include balloon payments of \$338,434, as of the inception date. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015 are as follows:

| <i>Year ending September 30,</i> | <b>Future Minimum<br/>Payments</b> | <b>Interest<br/>Payments</b> | <b>Governmental<br/>Activities<br/>Principal<br/>Payments</b> |
|----------------------------------|------------------------------------|------------------------------|---|
| 2016                             | \$ 1,292,898                       | \$ 52,596                    | \$ 1,240,302  |
| 2017                             | 679,974                            | 22,557                       | 657,417   |
| 2018                             | 651,293                            | 10,789                       | 640,504   |
| 2019                             | 253,943                            | 1,173                        | 252,770   |
| <b>Total</b>                     | <b>\$ 2,878,108</b>                | <b>\$ 87,115</b>             | <b>\$ 2,790,993</b>   |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES**

***General Obligation Bonds and Notes***

The City issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the City and have been issued for both governmental and business-type activities. Notes are generally issued with a five-year maturity. The City has no special assessment bonds or anticipation notes at September 30, 2015. Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 5 to 20 years. General obligation notes and bonds outstanding at September 30, 2015 are as follows:

| <b>Governmental Activities:</b> | <b>Sale Date</b> | <b>Original Borrowing</b> | <b>Interest Rates to Maturity</b> | <b>Final Maturity</b> | <b>Outstanding 9/30/2015</b> |
|---------------------------------|------------------|---------------------------|-----------------------------------|-----------------------|------------------------------|
| Public Improvements             | 2008             | \$ 6,025,000              | 4.00%                             | 2018                  | \$ 2,055,000                 |
| Public Improvements             | 2009             | 6,575,000                 | 3.00%                             | 2016                  | 955,000                      |
| Public Improvements             | 2010             | 9,950,000                 | 2.50% - 3.00% *                   | 2022                  | 6,295,000                    |
| Public Improvements             | 2010             | 2,560,000                 | 4.50% - 6.00% *                   | 2030                  | 2,110,000                    |
|                                 |                  |                           |                                   |                       | <b>\$ 11,415,000</b>         |
| <hr/>                           |                  |                           |                                   |                       |                              |
| <b>Business-Type Activities</b> |                  |                           |                                   |                       |                              |
| Public Improvements             | 2009             | \$ 7,500,000              | 2.75% - 3.80% *                   | 2024                  | \$ 5,075,000                 |
| Public Improvements             | 2010             | 3,600,000                 | 2.60% - 3.70% *                   | 2030                  | 2,975,000                    |
|                                 |                  |                           |                                   |                       | <b>\$ 8,050,000</b>          |

\* Interest rates vary by maturity block of bonds.



**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES (Continued)**

***Limited Obligation Economic Development Bonds and Notes***

The City also has issued limited obligation debt for economic development purposes that is repaid from revenues pledged under the terms of the respective contractual agreements made pursuant to the authorization for these projects by the governing authorities. Thus, future revenues are pledged in the amount of future debt service requirements. These limited obligation bonds and notes are generally issued with essentially level annual principal and interest payments with maturities that range from 10 to 20 years. Limited obligation notes and bonds outstanding at September 30, 2015 are as follows:

| <b>Governmental Activities:</b> | <b>Sale Date</b> | <b>Original Borrowing</b> | <b>Interest Rates to Maturity</b> | <b>Final Maturity</b> | <b>Outstanding 9/30/2015</b> |
|---------------------------------|------------------|---------------------------|-----------------------------------|-----------------------|------------------------------|
| Kohler MBIA                     | 1998             | \$ 5,500,000              | 0.00%                             | 2017                  | \$ 580,000                   |
| MDB Limited Obligation Bonds    | 2010             | 2,937,000                 | 4.50% - 6.00% *                   | 2030                  | 268,478                      |
| Hub City Lofts                  | 2012             | 2,000,000                 | 2.00%                             | 2034                  | 1,770,043                    |
|                                 |                  |                           |                                   |                       | <b>\$ 2,618,521</b>          |

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

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES (Continued)**

***Limited Obligation Tax Increment Financing (TIF) Bonds***

Tax increment financing (TIF) bonds are issued by the City to provide funds for the acquisition and construction of infrastructure and related improvements in conjunction with commercial development projects. Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 10 to 20 years. These bonds are secured by the payment of the incremental increase in City property taxes from each project's TIF taxing district as authorized under the TIF plan document approved by the governing authorities. These bonds may also be secured by county participation as authorized by executed interlocal agreements pledging incremental increase in county property taxes in the TIF taxing district. Limited obligation TIF bonds outstanding at September 30, 2015 are as follows:

| <b>Governmental Activities:</b> | <b>Sale Date</b> | <b>Original Borrowing</b> | <b>Interest Rates to Maturity</b> | <b>Final Maturity</b> | <b>Outstanding 9/30/2015</b> |
|---------------------------------|------------------|---------------------------|-----------------------------------|-----------------------|------------------------------|
| Chauvet Square                  | 2003             | 1,100,000                 | 5.20% - 5.35% *                   | 2023                  | 605,000                      |
| Chauvet Square                  | 2007             | 1,400,000                 | 4.50%                             | 2027                  | 1,130,000                    |
| Turtle Crossing                 | 2007             | 4,100,000                 | 4.35%                             | 2021                  | 2,110,000                    |
| Lincoln Center                  | 2008             | 610,000                   | 4.00%                             | 2023                  | 370,000                      |
| Turtle Creek Crossing           | 2011             | 400,000                   | 5.68%                             | 2025                  | 280,000                      |
| Kohls                           | 2012             | 715,000                   | 5.00%                             | 2021                  | 455,000                      |
| Southern Pointe                 | 2014             | 2,600,000                 | 4.85%                             | 2029                  | 2,480,000                    |
|                                 |                  |                           |                                   |                       | <b>\$ 7,430,000</b>          |

\* Interest rates vary by maturity block of bonds.

***Business-type Activities (Water and Sewer) Revenue Bonds***

The City issues water and sewer revenue bonds to provide funds for the acquisition and construction of water and sewer system infrastructure and related improvements and system rehabilitation. These bonds are subject to the requirements of the respective revenue bond documents. Collectively, the Series 2006, Series 2012, and Series 2013 bond obligations are known as "parity debt", provisions of which place certain restrictions on issuance of additional debt secured by Water and Sewer System revenues. Pursuant to bond provisions, the City may not revise its schedule of rates, charges, and fees for services furnished by the Water and Sewer System so as to result in a decrease of system revenues, as defined, unless the debt service reserve funds meet minimum debt service requirements and unless net revenues for the preceding fiscal year have been independently certified to have been not less than 105% of the debt service payments on parity debt and any required payments to debt service funds. System revenues for purposes of application of revenue bond provisions are defined as all revenues derived from the System or a pledge of income or revenues, funds or monies of the City from any source whatsoever. Parity debt

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES (Continued)**

provisions also require the City to review its rates, charges, and fees established for the Water and Sewer System, including its sewer rehabilitation construction project, within sixty days after the end of each fiscal year and to adjust those rates whenever necessary so that net revenues in each fiscal year will meet the aforementioned 105% rate coverage requirements. Rate coverage requirements were not met for the year ended September 30, 2015.

Pledged future revenues as of September 30, 2015 totaled \$67,211,310, which is the net of future debt service requirements and cash with fiscal agents restricted for related debt service. System revenues are available for operations, maintenance and related maintenance reserves, and debt service during the term of the bonds.

Bonds are generally issued as serial bonds with essentially level principal and interest payments maturing each year with maturities that range from 15 to 25 years. Revenue bonds outstanding at September 30, 2015 are as follows:

| <b>Business-Type Activities</b>                | <b>Sale Date</b> | <b>Original Borrowing</b> | <b>Interest Rates to Maturity *</b> | <b>Final Maturity</b> | <b>Outstanding 9/30/2015</b> |
|--|------------------|---------------------------|-------------------------------------|-----------------------|------------------------------|
| W & S Refunding Bonds, Series 2006             | 2006             | \$ 17,000,000             | 4.00% - 4.38%                       | 2021                  | \$ 8,160,000                 |
| W & S Revenue Project, Series 2012             | 2012             | 12,500,000                | 3.00% - 5.00%                       | 2032                  | 11,100,000                   |
| W & S Revenue and Refunding Bonds, Series 2013 | 2014             | 28,000,000                | 2.75% - 5.00%                       | 2039                  | 27,950,000                   |
|  |                  |                           |                                     |                       | <b>\$ 47,210,000</b>         |

\* Interest rates vary by maturity block of bonds.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES (Continued)**

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

In addition to water and sewer revenue bonds, the City has utilized financing available under the State of Mississippi Revolving Loan Fund (SRF) program to provide funds for qualified sewer projects. Monthly principal and interest payments for the repayment of these notes is deducted from the City's monthly sales tax diversion payments from the Mississippi Department of Revenue, with monthly reimbursements to the City's general fund being made from monthly operating sewer system revenues as authorized by the City's budget document. The SRF notes outstanding at September 30, 2015 are as follows:

| <b>Business-Type Activities</b> | <b>Sale Date</b> | <b>Original Borrowing</b> | <b>Interest Rates to Maturity</b> | <b>Final Maturity</b> | <b>Outstanding 9/30/2015</b> |
|---------------------------------|------------------|---------------------------|-----------------------------------|-----------------------|------------------------------|
| SRF #1                          | 1997             | \$ 2,191,243              | 4.50%                             | 2016                  | \$ 150,283                   |
| SRF #2                          | 1997             | 2,165,672                 | 4.50%                             | 2017                  | 240,542                      |
| SRF #3                          | 1999             | 1,293,195                 | 4.50%                             | 2019                  | 300,220                      |
|                                 |                  |                           |                                   |                       | <b>\$ 691,045</b>            |

***Compensated Absences***

Vested or accumulated vacation leave, holiday leave, and accrued overtime that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave, holiday leave, and accrued overtime that are not expected to be liquidated with expendable available financial resources are reported as noncurrent liabilities. In accordance with the provisions of ASC 710-10-20, *Compensation*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Compensated absences at September 30, 2015 are as follows:

|                          | <b>Governmental Activities</b> | <b>Business-Type Activities</b> | <b>Primary Government</b> |
|--------------------------|--------------------------------|---------------------------------|---------------------------|
| Accrued vacation pay     | \$ 1,697,325                   | \$ 157,858                      | \$ 1,855,183              |
| Accrued compensatory pay | 84,969                         | 432                             | 85,401                    |
| <b>Total</b>             | <b>\$ 1,782,294</b>            | <b>\$ 158,290</b>               | <b>\$ 1,940,583</b>       |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES (Continued)**

***Changes in Long-Term Liabilities***

Changes in the City's long-term liabilities for the year ended September 30, 2015 are as follows:

| <b>Governmental Activities</b>                          | <b>Balance<br/>9/30/2014</b> | <b>Additions</b>    | <b>Reductions</b>     | <b>Balance<br/>9/30/2015</b> | <b>Due Within<br/>One Year</b> |
|---|------------------------------|---------------------|-----------------------|------------------------------|--------------------------------|
| General obligation bonds and notes                      | \$ 13,845,000                | \$ -                | \$ (2,430,000)        | \$ 11,415,000                | \$ 2,515,000                   |
| Limited obligation TIF bonds                            | 8,240,000                    | -                   | (810,000)             | 7,430,000                    | 690,000                        |
| Economic development limited obligation bonds and notes | 3,015,170                    | -                   | (396,649)             | 2,618,521                    | 398,367                        |
| Total bonds and notes payable                           | 25,100,170                   | -                   | (3,636,649)           | 21,463,521                   | 3,603,367                      |
| Capital leases  | 2,385,761                    | 1,967,030           | (1,561,800)           | 2,790,991                    | 1,240,302                      |
| Compensated absences                                    | 1,907,165                    |                     | (124,871)             | 1,782,294                    | 267,344                        |
| <b>Governmental activities long-term liabilities</b>    | <b>\$ 29,393,096</b>         | <b>\$ 1,967,030</b> | <b>\$ (5,323,320)</b> | <b>\$ 26,036,806</b>         | <b>\$ 5,111,013</b>            |

  

| <b>Business-Type Activities</b>                       | <b>Balance<br/>9/30/2014</b> | <b>Additions</b> | <b>Reductions</b>     | <b>Balance<br/>9/30/2015</b> | <b>Due Within<br/>One Year</b> |
|---|------------------------------|------------------|-----------------------|------------------------------|--------------------------------|
| General obligation bonds and notes                    | \$ 8,635,000                 | \$ -             | \$ (585,000)          | \$ 8,050,000                 | \$ 615,000                     |
| Revenue bonds   | 48,900,000                   | -                | (1,690,000)           | 47,210,000                   | 1,765,000                      |
| State revolving loan funds                            | 1,083,571                    | -                | (392,526)             | 691,045                      | 396,590                        |
| Unamortized premium (discount)                        | 268,419                      |                  | (16,478)              | 251,941                      | 17,507                         |
| Total bonds and notes payable                         | 58,886,990                   | -                | (2,684,004)           | 56,202,986                   | 2,794,097                      |
| Compensated absences                                  | 144,585                      | 13,706           | -                     | 158,290                      | 23,743                         |
| <b>Business-type activities long-term liabilities</b> | <b>\$ 59,031,575</b>         | <b>\$ 13,706</b> | <b>\$ (2,684,004)</b> | <b>\$ 56,361,276</b>         | <b>\$ 2,817,840</b>            |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES (Continued)**

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

**Governmental Activities:**

| Year Ending<br><i>September 30,</i> | G.O. Bonds and Notes |                     | Limited Obligation TIF Bonds |                     |
|-------------------------------------|----------------------|---------------------|------------------------------|---------------------|
|                                     | Principal            | Interest            | Activities                   | Interest            |
| 2016                                | \$ 2,515,000         | \$ 367,388          | \$ 690,000                   | \$ 345,055          |
| 2017                                | 1,620,000            | 301,388             | 715,000                      | 313,001             |
| 2018                                | 1,680,000            | 246,656             | 755,000                      | 279,762             |
| 2019                                | 1,005,000            | 203,531             | 790,000                      | 244,577             |
| 2020                                | 1,045,000            | 172,325             | 825,000                      | 207,830             |
| 2021-2025                           | 2,645,000            | 455,231             | 2,410,000                    | 572,855             |
| 2026-2030                           | 905,000              | 169,500             | 1,245,000                    | 112,536             |
| 2031-2035                           | -                    | -                   | -                            | -                   |
|                                     | <b>\$ 11,415,000</b> | <b>\$ 1,916,019</b> | <b>\$ 7,430,000</b>          | <b>\$ 2,075,616</b> |

| Year Ending<br><i>September 30,</i> | Economic Development<br>Limited Obligation Bonds and Notes |                   | Total Governmental<br>Activities |                     |
|-------------------------------------|--|-------------------|----------------------------------|---------------------|
|                                     | Principal  | Interest          | Principal                        | Interest            |
| 2016                                | \$ 398,367   | \$ 37,830         | \$ 3,603,367                     | \$ 750,273          |
| 2017                                | 400,023  | 35,819            | 2,735,023                        | 650,208             |
| 2018                                | 111,907  | 33,773            | 2,546,907                        | 560,191             |
| 2019                                | 113,727  | 31,690            | 1,908,727                        | 479,798             |
| 2020                                | 115,590  | 29,571            | 1,985,590                        | 409,726             |
| 2021-2025                           | 607,298  | 114,729           | 5,662,298                        | 1,142,815           |
| 2026-2030                           | 604,705  | 56,329            | 2,754,705                        | 338,365             |
| 2031-2035                           | 266,904  | 6,273             | 266,904                          | 6,273               |
|                                     | <b>\$ 2,618,521</b>  | <b>\$ 346,014</b> | <b>\$ 21,463,521</b>             | <b>\$ 4,337,649</b> |

(Continued)

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 10: LONG-TERM LIABILITIES (Continued)**

**Business-type Activities:**

| Year Ending<br><i>September 30,</i> | G.O. Bonds and Notes |                     | State Revolving Loan Funds |                  |
|-------------------------------------|----------------------|---------------------|----------------------------|------------------|
|                                     | Principal            | Interest            | Activities                 | Interest         |
| 2016                                | \$ 615,000           | \$ 256,144          | \$ 396,590                 | \$ 22,698        |
| 2017                                | 640,000              | 236,992             | 173,771                    | 8,763            |
| 2018                                | 670,000              | 216,979             | 96,000                     | 3,467            |
| 2019                                | 700,000              | 195,494             | 24,684                     | 185              |
| 2020                                | 730,000              | 171,914             | -                          | -                |
| 2021-2025                           | 3,480,000            | 470,328             | -                          | -                |
| 2026-2030                           | 1,215,000            | 119,563             | -                          | -                |
| 2031-2035                           | -                    | -                   | -                          | -                |
|                                     | <b>\$ 8,050,000</b>  | <b>\$ 1,667,414</b> | <b>\$ 691,045</b>          | <b>\$ 35,113</b> |

| Year Ending<br><i>September 30,</i> | Revenue Bonds        |                      | Total Business-Type Activities |                      |
|-------------------------------------|----------------------|----------------------|--------------------------------|----------------------|
|                                     | Principal            | Interest             | Principal                      | Interest             |
| 2016                                | \$ 1,765,000         | \$ 1,906,375         | \$ 2,776,590                   | \$ 2,185,217         |
| 2017                                | 1,840,000            | 1,833,325            | 2,653,771                      | 2,079,080            |
| 2018                                | 1,915,000            | 1,760,906            | 2,681,000                      | 1,981,352            |
| 2019                                | 2,085,000            | 1,686,769            | 2,809,684                      | 1,882,448            |
| 2020                                | 2,215,000            | 1,605,856            | 2,945,000                      | 1,777,770            |
| 2021-2025                           | 8,610,000            | 6,941,406            | 12,090,000                     | 7,411,734            |
| 2026-2030                           | 10,280,000           | 5,200,572            | 11,495,000                     | 5,320,135            |
| 2031-2035                           | 10,105,000           | 3,073,781            | 10,105,000                     | 3,073,781            |
| 2036-2040                           | 8,395,000            | 826,300              | 8,395,000                      | 826,300              |
|                                     | <b>\$ 47,210,000</b> | <b>\$ 24,835,290</b> | <b>\$ 55,951,045</b>           | <b>\$ 26,537,817</b> |

(Concluded)

During the year ended September 30, 2015, interest expense paid for governmental activities and business-type activities was \$1,018,199 and \$2,317,102, respectively.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 11: SCHEDULE OF STATUTORY DEBT LIMITATIONS**

The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Mississippi Code 1972. No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$51,202,422 (the smaller of the two computed margins) as of September 30, 2015:

|   | <b>15% Test</b>   | <b>20% Test</b> |
|---|-------------------|-----------------|
| Assessed value as of September 30, 2015                       |                   |                 |
| (\$417,449,613) times applicable percentage                   | (a) \$ 62,617,442 | \$ 83,489,923   |
| Present debt subject to debt limits as of September 30, 2015: |                   |                 |
| Total bonds and notes other than Water and Sewer              | 21,463,521        | 21,463,521      |
| Less: Bonds exempt from debt limitation calculations          | (10,048,521)      | (10,048,521)    |
| Add: Water & Sewer debt other than revenue bonds              | N/A               | 8,741,045       |
| General obligation debt subject to applicable tests           | (b) \$ 11,415,000 | \$ 20,156,045   |
| Margin for additional debt - (a) minus (b)                    | \$ 51,202,442     | \$ 63,333,878   |

**NOTE 12: RELATED ORGANIZATION**

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

**Hattiesburg Tourism Commission** - The Tourism Commission consists of seven members appointed by the Mayor and ratified by the City Council. Funding is from a special tax levied upon the gross proceeds from hotel and motel overnight room rentals. The City collects that tax and distributes it to the Tourism Commission. Amounts disbursed for the fiscal year ended September 30, 2015 totaled \$632,797. Amount due from special tax agency fund to the Tourism Commission at September 30, 2015 was \$55,893 and was included in the accompanying statement of fiduciary net position under the caption due to other funds and was distributed within thirty days.



**NOTE 13: JOINT VENTURES**

The City of Hattiesburg is a participant with Forrest County in a joint venture authorized by Section 57-31-1, Mississippi Code Annotated (1972), to operate the Forrest County Industrial Park Commission (the Industrial Park Commission). The joint venture was created to develop and operate an industrial park complex for citizens of Forrest County and the City of Hattiesburg. The Commission is governed by a ten member board. The governing authorities of the City of Hattiesburg and the Forrest County Board of Supervisors each appoint five members. Each governing entity approves the annual budget of the Industrial Park Commission and is then obligated to provide an equal share of funding pursuant thereto for ongoing financial support. For the fiscal year ended September 30, 2015, the City provided \$130,000 in funds to the Industrial Park Commission. A separate financial statement of the Forrest County Industrial Park Commission can be obtained by contacting the Commission at Post Office Box 1898, Hattiesburg, Mississippi 39403.

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

The City of Hattiesburg is a participant with Forrest County and the City of Petal in a joint venture authorized by Section 39-3-38, Mississippi Code Annotated (1972) to operate the Library of Hattiesburg, Petal, and Forrest County. The joint venture was created to provide free public library service to the citizens of Forrest County and the Cities of Hattiesburg and Petal. The library is governed by a fifteen member board appointed by the governments involved as follows: City of Hattiesburg - six members; Forrest County - six members; and City of Petal - three members. Each entity is obligated by contract to levy not less than 1.25 mills as authorized by Sections 39-3-35 and 39-3-37, Mississippi Code Annotated (1972), for the ongoing financial support of the library. The City receives taxes collected for the Library and then distributes such taxes. For the year ended September 30, 2015, the City received \$824,647 in taxes assessed for the Library and disbursed \$819,344 to the Library, with the balance remitted subsequent to the fiscal year-end. A separate financial statement of the library can be obtained by contacting the Library at 329 Hardy Street, Hattiesburg, Mississippi 39401.

**NOTE 14: JOINTLY GOVERNED ORGANIZATIONS**

The Emergency Management District provides emergency services to the City of Hattiesburg and Forrest County. The entity is controlled by an eight member council. The Council is chosen as follows by the following authorities: Mayor of Hattiesburg - one; Forrest County Board of Supervisors - one; Sheriff of Forrest County - one; AAA Ambulance - one; Hattiesburg Police Chief -

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 14: JOINTLY GOVERNED ORGANIZATIONS (Continued)**

one; Hattiesburg Fire Chief - one; the University of Southern Mississippi - one; and Forrest General Hospital - one. Operating funds are provided by state grants, E-911 charges and direct contributions. For the year ended September 30, 2015, City expenditures to the Emergency Management District totaled \$101,000.

**NOTE 15: DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS**

Deficit fund balances of \$30,485 and \$1,883,078 existed in the City's CDBG and Airport Improvement Funds, respectively, as of September 30, 2015. These deficits resulted from recognizing costs that had been incurred but not yet paid. No related grant reimbursements or transfers receivable were recorded because expenditures had not yet been made. The City accrues grant revenues only when all eligibility requirements have been met, including the requirement that allowable costs must have been incurred and also paid before reimbursements may be requested. Expenditures not reimbursed by grants are funded by transfers from other City funds.

**NOTE 16: COMMITMENTS AND CONTINGENCIES**

***Encumbrances***

As of September 30, 2015, the City had commitments for remaining balances on executed contracts and outstanding encumbrances, as described below.

The balances outstanding on construction projects in progress were as follows:

| <i>September 30, 2015</i>  |                      |
|--|----------------------|
| Comprehensive Sewer System Rehabilitation                                    | \$ 12,416,033        |
| Other Water & Sewer System Projects  | 1,008,224            |
| Sidewalks, Roads, and Bridges  | 2,875,968            |
| Airport  | 363,851              |
| Other projects   | 51,107               |
| <b>Commitments for construction projects in progress, end of fiscal year</b> | <b>\$ 16,715,183</b> |

Significant encumbrances at September 30, 2015, included \$3,394,091 for Comprehensive Sewer System Rehabilitation projects included in the above table, \$856,811 for Public Safety activities, \$195,182 for Community Center building improvements, \$91,941 for Water & Sewer System operations and maintenance, \$80,683 for parks and recreation, and \$268,591 for other costs including General Government, Municipal Road & Bridge, Mass Transit, and other activities. Total encumbrances, which are carried forward to the next fiscal year via budget amendment, were \$4,887,299.

**NOTE 16: COMMITMENTS AND CONTINGENCIES (Continued)**

***USA Yeast Facility***

During the year ended September 30, 2015, the City completed construction of a wastewater pretreatment facility, or evaporator plant, for a manufacturing facility located within the City. Total project cost was \$7,483,675, of which \$4,995,275 in funding was provided by a Katrina Supplemental CDBG Economic Development Grant, with remaining costs funded by the manufacturing company. Under the terms of the grant agreement, the City has title to assets constructed with grant funds, and the manufacturing company owns assets constructed with its funds. Pursuant to an agreement between the City and the company and to terms of the CDBG grant agreement, title to the equipment and components will transfer to the company upon expiration of the agreement on December 31, 2021. In conjunction with this project, the City has a ground lease for company property on which the evaporator plant is located. This lease requires payment of \$1 per year and expires December 31, 2021.

***Compliance with Mississippi Departmental of Environmental Quality Order***

The Mississippi Department of Environmental Quality (“MDEQ”), pursuant to its authority under the Clean Water Act, issued permits (the “Permits”) to the City for discharges from the North Lagoon and South Lagoon. In March, 2012, Gulf Restoration Network (“GRN”) filed a complaint against the City under the Clean Water Act, alleging violations of the Permits. In August, 2012, the Mississippi Commission on Environmental Quality (“MCEQ”) intervened. As a result of that intervention, the City was mandated to rehabilitate and improve its wastewater treatment system under an Agreed Order executed, and subsequently amended, between the City and MDEQ. Under the amended Agreed Order, the City was required to meet certain milestones or be subject to imposition of penalties. During the year ended September 30, 2015, the City incurred \$112,500 in penalties pursuant to these provisions.

Compliance with provisions and timelines established under the Amended Agreed Order has required the City to pursue rehabilitation and improvement of the City’s infrastructure and wastewater treatment systems in various project phases over a long-term period. Infrastructure improvements began in 2012 and are ongoing. System rehabilitation and improvement projects necessary to meet Amended Agreed Order mandates were estimated to cost approximately \$125,000,000 to \$150,000,000. However, upon subsequent amendment and then replacement by the Stipulated Order terminating the Amended Consent Judgment in August 2017, the City was conditionally relieved from its unpaid fines, penalties, and construction obligations imposed under the Amended Consent Judgment. See Note 20 – Subsequent Events for additional details related to the Stipulated Order.

Although the City was subsequently granted relief from certain mandated sewer system improvements, the City expects to continue efforts to improve performance of its systems, potentially requiring additional outlays. The City also anticipates additional future costs in

**NOTE 16: COMMITMENTS AND CONTINGENCIES (Continued)**

connection with maintenance of the water and sewer system and in connection with current and future debt obligations related to infrastructure improvements. In addition, significant incremental service rate increases are anticipated in order to meet all applicable financial, contractual, and regulatory requirements, including compliance with provisions contained in water and sewer bond documents.

***Litigation and Arbitration***

Precision Construction, LLC

In civil action against the City brought by Precision Construction, LLC (Precision) for breach of contract, the Forrest County Circuit Court ordered that the matter be handled in binding arbitration. As a result of that arbitration and subsequent decision of the Court of Appeals of Mississippi, Precision was awarded \$856,666 plus \$7,033 toward additional expenses and arbitrator fees, along with interest assessed at 8% from August 29, 2014 until payment of the judgment. In accordance with generally accepted accounting principles, the City has accrued liabilities in the amount of \$925,951 as of September 30, 2015 in its government-wide statement of net position for the arbitration award and related interest accrued to date. See also Note 20 - Subsequent Events regarding subsequent payment of this obligation.

Wrongful Conviction and Imprisonment

The City was a named defendant in an alleged wrongful conviction of three plaintiffs, each of whom spent approximately 25 years in prison before being exonerated by new DNA evidence. The City, through its police officer assigned to a multi-jurisdictional task force, had limited connection to and involvement in the case. The case was defended through the Mississippi Municipal Service Company, which provides the City's liability insurance, and was settled subsequent to year-end, as further described in Note 20 – Subsequent Events. The City accrued its \$150,000 obligation under the settlement as a recognized subsequent event as of September 30, 2015.

Other

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

**NOTE 16: COMMITMENTS AND CONTINGENCIES (Continued)**

***Federal Grants***

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

***Group Insurance Programs***

The City obtains its workers' compensation, general and automobile liability insurance through certain group insurance programs of the Mississippi Municipal Service Company. Under these programs and pursuant to State of Mississippi regulations, participants are jointly and severally liable for claims incurred; however, the City has experienced no loss under such provisions and cannot reasonably estimate the amount or possibility of losses under these programs.

***Self-Funded Health Insurance Program***

The City provides health insurance to its employees under a self-insured program, as previously described. The City obtains reinsurance to protect against significant loss; however, under the terms of such reinsurance policies, the City is ultimately responsible for covered claims. While the City estimates and recognizes expected claims liabilities related to this program, the amount or possibility of any additional loss cannot be reasonably estimated.

***Energy Savings Performance Contract***

During the year ended September 30, 2015, the City entered into a comprehensive energy services agreement to improve energy efficiency. Project objectives include reduction of energy and utilities costs, water consumption savings, water and sewer systems and equipment improvements, operation and maintenance cost optimization and other cost reductions, as well as implementation of related capital improvements in selected buildings, facilities, operating fleet vehicles and equipment, or other related infrastructure of the City. Pursuant to this project, the City executed a performance contract agreement in the amount of \$7,449,714 for measurement and verification services to achieve energy savings. This contract was approved by the Mississippi Development Authority's Energy and Natural Resources Division and is thus eligible for tax-exempt lease purchase financing under the MDA Energy Efficiency Lease Program. The scope of this project will include replacement of certain inaccurate water meters to improve baseline water billing, as well as reporting of measured and non-measured project benefits achieved during the installation period. In addition, subsequent testing activities and related reporting will be performed annually for a term of fifteen years following substantial completion of the project. Certain other performance consulting services are provided under the agreement, and preventative maintenance services are provided under a separate agreement.

**NOTE 16: COMMITMENTS AND CONTINGENCIES (Continued)**

***Public Safety Complex***

During the year ended September 30, 2015, the City authorized a project for development and construction of a public safety complex (the complex) to be used for police department, fire department administration, Municipal Court, and parks and recreation administration functions. Financing for the project will be achieved through issuance and sale of limited obligation certificates of participation totaling up to \$5,300,000 which bear interest at rates from 3% to 5% and maturities through 2035. Proceeds of these certificates will be used to relocate the Parks and Recreation Department, renovate a facility to be used as a temporary Police Department, pay architectural and design fees, and begin demolition activities. Interim financing of initial project costs up to \$2,000,000, including design, demolition, repair, renovation, and construction expenditures, will be funded through issuance of five-year general obligation notes bearing interest at a rate of 1.49%.

The complex will be owned by the Southern Mississippi Investment Company, Inc. (SMICI), a non-profit corporation created under authority of State law for the purpose of acquiring, constructing, renovating, financing, equipping and leasing facilities to certain governmental units, and will be leased by the City under a lease purchase agreement. To effect this transaction, the City will execute a ground lease for the complex site and existing buildings to SMICI for \$1, which will be assigned as collateral for the certificates of participation. Along with the ground lease, the City will execute a lease and option to purchase the project from SMICI upon completion. The City has awarded contracts for project design and construction and expects the project to be completed in phases by 2019. The City's lease payments will correspond to debt service requirements of the outstanding certificates of participation and also include taxes, assessments, insurance premiums, fees, and expenses related to the project. See also Note 20 – Subsequent Events.

**NOTE 17: POSTEMPLOYMENT HEALTHCARE PLAN**

The City allows eligible retirees to obtain health insurance by participating in its self-funded health insurance plan provided to employees and certain eligible dependents. Retirees are eligible for these benefits upon attaining age 60 with 8 years of service or any age with 25 years of service for medical benefits. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, such postemployment healthcare benefits are reportable by the City under GASB Statement 45 as a single employer defined benefit health care plan. This type of plan is considered an "other post-employment benefit plan", or "OPEB".

Although GASB Statement 45 was effective in prior years, the City did not implement its provisions until October 1, 2014. In order to recognize its OPEB obligation as of September 30, 2015, the City obtained an actuarial valuation of its post-employment healthcare plan as of that date. However, the City determined that it was not feasible to retrospectively determine the OPEB liability as of the

**NOTE 17: POSTEMPLOYMENT HEALTHCARE PLAN (Continued)**

beginning of the 2015 fiscal year. As of September 30, 2015, the City recognized its full OPEB obligation on a prospective basis and recognized no initial transition liability, as would have been done in the initial period had GASB 45 been timely implemented. However, since this standard was previously applicable, the City should have separately reported prior year costs of the OPEB plan as a prior period adjustment. Current year recognition of the annual OPEB obligation without recognition of the cumulative effect of prior year costs since the effective date of GASB Statement 45 represents a departure from U.S. GAAP, the effects of which have not been determined.

Plan Description

The City provides health insurance coverage to participating eligible retirees through its single-employer defined benefit healthcare plan, which is a self-funded plan administered by United Healthcare. The plan also provides health benefits to employees and their eligible dependents. The portion of the plan attributable to retirees represents other postemployment benefits for financial reporting purposes. Although the City expects to continue the plan indefinitely, it has the right to discontinue, alter, or modify the plan in whole or in part at any time and for any reason, at its sole determination. The Plan does not issue a stand-alone financial report. Instead, accounts of the Plan are included in the financial statements of the City. The City Council must approve any changes to the Plan provisions.

Funding Policy

Benefits of the plan are self-insured by the City. The City maintains an account for the purpose of paying claims and administrative costs of its self-funded health insurance plan. The account requires that a minimum balance be maintained, and the City deposits additional funds for claims incurred and anticipated payments on a pay-as-you-go basis. Balances in the account belong to the City. Amounts contributed to this account are earmarked for plan expenses but may be revoked at the City's discretion. Therefore, balances are reported in assets of the general fund, and employer contributions are not recognized until payment of claims by the administrator to retirees or their beneficiaries.

Participating retirees make monthly contributions through premium payments based on coverage type. Monthly retiree contributions for single and family coverage for the fiscal year ended September 30, 2015 totaled \$388 and \$638, respectively. For fiscal year 2014-2015, the City contributed \$149,281 to the plan for expected payouts for retiree benefits, which represented 20.97% of the actuarially determined annual required contribution of \$712,017. No amounts have been contributed to finance future medical benefits under the plan for either current or future retirees.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 17: POSTEMPLOYMENT HEALTHCARE PLAN (Continued)**

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed 30 thirty year period. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation related to the plan:

*Year ended September 30, 2015*

|   |                     |
|---|---------------------|
| Normal cost   | \$ 568,859          |
| Amortized accrued liability in excess of actuarial assets | 129,331             |
| Interest  | 13,827              |
| Annual required contribution                              | 712,017             |
| Interest on net OPEB obligation                           | -                   |
| Adjustment to annual required contribution                | -                   |
| Annual OPEB cost (expense)                                | 712,017             |
| Contributions made for payment of retiree benefits        | (149,281)           |
| Increase in net OPEB obligation                           | 562,736             |
| <b>Net OPEB obligation - beginning of year</b>            | <b>-</b>            |
| <b>Net OPEB obligation - end of year</b>                  | <b>\$ 2,549,506</b> |

Funded Status and Funding Progress

As of October 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$3,167,859, which was also the amount of the unfunded actuarial accrued liability (UAAL).

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.



**NOTE 17: POSTEMPLOYMENT HEALTHCARE PLAN (Continued)**

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2015, actuarial valuation, the entry age normal level percent of salary actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8% initially, grading uniformly to 5% over a 6-year period, a 4% discount rate, a 2.5% salary scale, and 95% participation rate of eligible future retirees. The UAAL is being amortized as a level percentage of projected payroll over a closed 30-year period. The remaining amortization period at September 30, 2015 was 29 years. Pre-65 annual per capital medical claims costs are assumed to be \$8,465 per participant per year at age 65, and claims are assumed to decrease 3% per attained age. No claims costs are assumed for post-65 retirees. Additionally, administrative costs were assumed to be \$383 per retiree per year and were assumed to increase 5% annually.

**NOTE 18: DEFINED BENEFIT PENSION PLANS**

***Public Employees Retirement Plans***

Pension Plan Descriptions

The City of Hattiesburg contributes to the PERS cost-sharing multiple-employer defined benefit pension plan (the Cost-Sharing Plan), which covers all eligible employees, except certain sworn and uniformed policemen and firemen who participate in the City of Hattiesburg Disability and Relief Fund Police and Fire Disability and Relief Fund (PFDR), also administered by PERS. Both plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PFDR Plan members consist of all full-time sworn and uniformed policemen and firemen who were employed by July 1, 1987. All full-time sworn and uniformed policemen and firemen employed after July 1, 1987, participate in the Cost-Sharing Plan. The PFDR Plan is affiliated with the Mississippi Municipal Retirement System (MRS), an agent multiple-employer defined benefit pension plan, and as of June 30, 2015, included two active members and 147 retirees and beneficiaries currently receiving benefits. Benefit provisions for both plans are established by State law and may be amended only by the State of Mississippi Legislature. The Plans' provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. § 25-11-1 et seq. (1972, as amended), and may be amended only by the Mississippi Legislature.

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

PERS is administered by a 10-member Board of Trustees that includes: the State Treasurer; one gubernatorial appointee who is a member of PERS; two state employees; two PERS retirees; and one representative each from public schools and community colleges, state universities, municipalities, and counties. With the exception of the State Treasurer and the gubernatorial appointee, all members are elected to staggered six-year terms by the constituents they represent.

The Board of Trustees is responsible for the general administration and proper operation of PERS. The executive director is designated by the Board to lead and conduct all business for PERS. PERS operates under legislative mandate with respect to administrative budgets, human resources, and purchasing guidelines.

The financial statements of PERS are prepared using the economic resources measurement focus and accrual basis of accounting. Member and employer contributions are recognized as revenue when due pursuant to legal requirements; investment income is recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, PERS is considered a component unit of the State of Mississippi for financial reporting purposes and, as such, the financial statements issued by PERS are included in the State of Mississippi's Comprehensive Annual Financial Report. PERS issues a publicly available financial report that includes financial statements and required supplementary information. Supporting actuarial information for the Cost-Sharing Plan is also provided in the GASB Statement No. 68 Report for the PERS prepared as of June 30, 2015. The auditor's opinion on that report, which includes in an accompanying schedule of collective pension amounts as of June 30, 2015 and for the year then ended is also available. PERS also issues a publicly available financial report for the MRS, which includes separate information for the PFDR plan. All such information is available at [www.pers.ms.gov](http://www.pers.ms.gov) or may be obtained by writing to Public Employees Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Cost-Sharing Plan Benefits Provided

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of the Cost-Sharing Plan before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of the Cost-Sharing Plan before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less.

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of the Cost-Sharing Plan before July 1, 2007). The Cost-Sharing Plan also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

A cost-of-living adjustment payment is made to eligible retirees and beneficiaries equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of the Cost-Sharing Plan before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter.

PFDR Plan Benefits Provided

MRS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Membership eligibility and benefit provisions are governed by the general laws of the State of Mississippi, as well as local and private legislation enacted by the Mississippi State Legislature. Statutes may only be amended by the Mississippi Legislature. The PFDR retirement allowance is payable under this plan to any member who retires and has completed at least 20 years of creditable service, regardless of age. The retirement benefits are calculated in an amount equal to 50% of the employee's average compensation, plus 1.7% of average compensation for each year of credited service over 20 with an aggregate amount not to exceed 66-2/3%. Annual cost-of-living (COLA) adjustments are made to allowances of all retirees and beneficiaries, as further described below. Disability and death benefits are also provided under the plan. Upon a member's termination for any reason before retirement, that member's accumulated contributions are refunded.

Cost-Sharing Plan Contributions

Employer and member contributions are based on actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and are determined through the most recent June 30 annual valuation. Employer contribution rates consist of an amount for service cost; the amount estimated to finance benefits earned by current members during the year; and an amount for amortization of the unfunded actuarial accrued liability. Contribution rates were determined as part of the June 30, 2015, actuarial valuation using the entry age actuarial cost method; employer contributions totaled \$3,501,030 during 2015. During fiscal 2014, the PERS Board of Trustees implemented a revised funding policy aimed at stabilizing the employer contribution rate and thus revised the employer contribution rate to 15.75 percent for 2014 and 2015.

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

PFDR Funding Policy

The PERS System Board of Trustees establishes the funding policy for MRS plans. The funding policy for PFDR provides for periodic employer contributions at actuarially determined rates, expressed as millage rate tax applied to assessed property tax values, and active employee contributions at stated rates. Employer and employee contribution rates as of September 30, 2015, were 15.75% and 10%, respectively, of covered payroll. Contributions under this funding policy, established beginning in the 2011-2012 fiscal year, will generate an ultimate asset reserve level equal to a reasonable percentage (initially 100% - 150%) of the next year's projected benefit payment. At that point, actuarially determined employer contributions will be set equal to the fiscal year's projected benefit payments and adjusted as necessary to maintain the assets at the established reserve level; however, ultimately the City has the option of determining the contribution rate to set as its certified millage rate. The millage rate set by the City must be at a level that will ensure actuarial soundness of the System.

In developing the annual required contribution shown in the following paragraphs, the normal cost and actuarial accrued liability are determined using the entry age actuarial cost method. Unfunded actuarial accrued liability is being amortized on a closed basis as a level dollar amount over a remaining amortization period of twenty years. The asset valuation method used is a 5-year smoothed market method. The City has the option to set property tax rates to allow for extended contributions beyond 2020 under the funding policy adopted by the PERS Board of Trustees in February 2011. The millage rates certified as of September 30, 2015 under the Pre-2011 and Post-2011 Funding Policy rates are 8.07 mills and 3.47 mills, respectively. The actual tax levy set for the pension fund for policemen and firemen as of September 30, 2012 was 3.82 mills.

For the year ended September 30, 2015, contributions totaling \$1,635,471 (\$1,625,693 employer and \$9,778 employee) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of June 30, 2013. The employer's annual required contribution (ARC) was actuarially determined to be \$1,626,692 (consisting of \$11,580 normal ARC and \$1,684,210 accrued liability ARC).

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

Pension Liabilities and Pension Expense

At September 30, 2015, the City reported a liability of approximately \$69,322,000 for its proportionate share of the collective net pension liability of the Cost-Sharing Plan and the net pension liability allocated to PFDR. The net pension liability (NPL) for both plans was measured as of June 30, 2015, and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2015 for the Cost-Sharing Plan and as of June 30, 2013 for the PFDR Plan. The NPL recorded as of September 30, 2015, and the pension expense recognized by the City for the year ended September 30, 2015, was as follows:

|                       | <b>Cost-Sharing<br/>Plan</b> | <b>PFDR</b>   | <b>Total</b>  |
|-----------------------|------------------------------|---------------|---------------|
| Net pension liability | \$ 54,831,789                | \$ 14,490,324 | \$ 69,322,113 |
| Net pension expense   | \$ 5,806,078                 | \$ 2,282,747  | \$ 8,088,825  |

The NPL is the difference between the TPL and the pension plans' fiduciary net position (FNP). The TPL is the present value of the pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic cost of living adjustments. The FNP is determined on the same basis as that used by the pension plans. The City's proportion of the collective Cost-Sharing Plan NPL was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating PERS employers. At June 30, 2015 the City's proportion was 0.354714% as compared to its proportion measured at June 30, 2014 of 0.342511%, or a decrease of 0.012203%.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

The change in the NPL for the PFDR was as follows:

| <i>Year ended September 30, 2015</i>                             | <b>Total Pension<br/>Liability</b> | <b>Fiduciary Net<br/>Position</b> | <b>Net Pension<br/>Liability</b> |
|--|------------------------------------|-----------------------------------|----------------------------------|
| Service cost   | \$ 23,592                          | \$ -                              | \$ 23,592                        |
| Interest   | 2,793,872                          | -                                 | 2,793,872                        |
| Changes of assumptions   | 982,479                            | -                                 | 982,479                          |
| Difference between expected and<br>actual experience             | 53,435                             | -                                 | 53,435                           |
| Contributions - employer   | -                                  | 1,626,692                         | (1,626,692)                      |
| Contributions - employee   | -                                  | 9,755                             | (9,755)                          |
| Net investment income  | -                                  | 664,715                           | (664,715)                        |
| Benefit payments, including refunds of<br>employee contributions | (3,350,127)                        | (3,350,127)                       | -                                |
| Administrative expense   | -                                  | (32,534)                          | 32,534                           |
| Net change   | 503,251                            | (1,081,499)                       | 1,584,750                        |
| Net pension liability, beginning of year                         | 36,598,465                         | 23,692,891                        | 12,905,574                       |
| Net pension liability, end of year                               | \$ 37,101,716                      | \$ 22,611,392                     | \$ 14,490,324                    |

The following table presents the City's net pension liabilities calculated using the discount rate of 7.75%, as well as what the System's net pension liabilities would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

|   | <b>1% Decrease</b> | <b>Current Rate</b> | <b>1% Increase</b> |
|---|--------------------|---------------------|--------------------|
| Cost sharing plan net pension liability | \$ 72,273,322      | \$ 54,831,789       | \$ 40,358,579      |
| PFDR plan net pension liability         | \$ 17,879,914      | \$ 14,490,324       | \$ 11,589,167      |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Cost-Sharing Plan                    |                                     | PFDR                                 |
|--|--------------------------------------|-------------------------------------|--------------------------------------|
|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources | Deferred<br>Outflows of<br>Resources |
| <i>September 30, 2015</i>  |                                      |                                     |                                      |
| Differences between expected and actual experience   | \$ 1,273,888                         | \$ -                                | \$ -                                 |
| Changes of assumptions   | 4,723,570                            | -                                   | -                                    |
| Net difference between projected and actual earnings on investments  | -                                    | 1,472,695                           | 928,694                              |
| Changes in proportion and differences between employer contributions and proportionate share of contribution | 1,083,044                            | -                                   | -                                    |
| Employer contributions subsequent to the measurement date  | 802,597                              | -                                   | 101,706                              |
| Net pension liability, end of year   | \$ 7,883,099                         | \$ 1,472,695                        | \$ 1,030,400                         |

Deferred outflows of resources related to the Cost-Sharing Plan and PFDR resulting from City contributions subsequent to June 30, 2015 (the measurement date) were \$802,597 and \$101,706, respectively, and will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an addition to (reduction of) pension expense as follows:

|                                    | Cost-Sharing Plan                    |                                     | PFDR                                 |
|------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
|                                    | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources | Deferred<br>Outflows of<br>Resources |
| <i>September 30, 2015</i>          |                                      |                                     |                                      |
| 2016                               | \$ 3,489,218                         | \$ 758,252                          | \$ 333,880                           |
| 2017                               | 2,633,468                            | 758,252                             | 232,174                              |
| 2018                               | 1,760,413                            | 758,252                             | 232,174                              |
| 2019                               | -                                    | (802,061)                           | 232,172                              |
| Net pension liability, end of year | \$ 7,883,099                         | \$ 1,472,695                        | \$ 1,030,400                         |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

Recognition of pension-related deferred inflows and deferred outflows is reflected in changes in unrestricted net position.

Actuarial Assumptions

For determining employer contribution rates, the actuary evaluates the assets of the plans based on a five-year smoothed expected return with 20 percent of a year's excess or shortfall of expected return recognized each year for five years. The TPL was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|  | <b>Cost-Sharing Plan</b> | <b>PFDR Plan</b> |
|--|--------------------------|------------------|
| Inflation  | 3.00%                    | 3.50%            |
| Investment rate of return (net of plan investment expense) | 7.75%                    | 8.00%            |
| Projected salary increases, including inflation            | 3.75% - 19.00%           | 4.50% - 6.00%    |

The actuarial assumptions used in the Cost-Sharing Plan actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report was dated May 4, 2015.

Mortality rates for the Cost-Sharing Plan were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with mortality improvements based on Scale BB projected to 2016 and set forward one year for males.



**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 18: DEFINED BENEFIT PENSION PLANS (Continued)**

The long-term expected rate of return on Cost-sharing pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class in the Cost-Sharing Plan are as follows:

| <b>Investment Asset Class</b> | <b>Target<br/>Allocation</b> | <b>Long-Term<br/>Expected Rate<br/>of Return</b> |
|-------------------------------|------------------------------|--|
| U.S. Broad                    | 34.00%                       | 5.20%  |
| International equity          | 19.00%                       | 5.00%  |
| Emerging markets equity       | 8.00%                        | 5.45%  |
| Fixed income                  | 20.00%                       | 25.00%   |
| Real assets                   | 10.00%                       | 4.00%  |
| Private equity                | 8.00%                        | 6.15%  |
| Cash                          | 1.00%                        | -0.50%   |
| <b>Total</b>                  | <b>100.00%</b>               |  |

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for both pension plans. The projection of cash flows used to determine the discount rate for the Cost-Sharing Plan assumed that plan member contributions will be made at the current contribution rate (9.00%) and that the employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, components of the pension plans' fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 19: DISCRETELY PRESENTED COMPONENT UNIT**

Capital asset activity for the Hattiesburg Convention Commission for the year ended September 30, 2015 was as follows:

*Year ended September 30, 2015*

|  | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Retirements</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|------------------|--------------------|---------------------------|
| <b>Governmental Activities:</b>                        |                              |                  |                    |                           |
| Capital assets not being depreciated:                  |                              |                  |                    |                           |
| Land   | \$ 1,315,877                 | \$ -             | \$ -               | \$ 1,315,877              |
| Construction in progress - Eureka                      | 1,771,139                    | 698,744          | -                  | 2,469,883                 |
| Construction in progress - Zoo                         | -                            | 121,386          | -                  | 121,386                   |
| Total capital assets not<br>being depreciated          | 3,087,016                    | 820,130          | -                  | 3,907,146                 |
| Capital assets being depreciated:                      |                              |                  |                    |                           |
| Buildings and improvements                             | 18,133,585                   | -                | -                  | 18,133,585                |
| Furniture and fixtures                                 | 474,945                      | -                | -                  | 474,945                   |
| Equipment and vehicles                                 | 1,583,349                    | 12,850           | -                  | 1,596,199                 |
| Assets required under capital lease                    | 34,737                       | -                | -                  | 34,737                    |
| Total capital assets being<br>depreciated              | 20,226,616                   | 12,850           | -                  | 20,239,466                |
| Less accumulated depreciation for:                     |                              |                  |                    |                           |
| Buildings and improvements                             | 6,481,839                    | 407,315          | -                  | 6,889,154                 |
| Furniture and fixtures                                 | 428,544                      | 3,871            | -                  | 432,415                   |
| Equipment and vehicles                                 | 1,441,691                    | 23,459           | -                  | 1,465,150                 |
| Assets required under capital lease                    | 27,983                       | 6,754            | -                  | 34,737                    |
| Total accumulated<br>depreciation                      | 8,380,057                    | 441,399          | -                  | 8,821,456                 |
| Total capital assets being<br>depreciated, net         | 11,846,559                   | (428,549)        | -                  | 11,418,010                |
| <b>Governmental activities<br/>capital assets, net</b> |                              |                  |                    |                           |
|  | \$ 14,933,575                | \$ 391,581       | \$ -               | \$ 15,325,156             |

**City of Hattiesburg, Mississippi**  
**Notes to Financial Statements**

**NOTE 19: DISCRETELY PRESENTED COMPONENT UNIT (Continued)**

As of September 30, 2015, the Commission's assets recorded under capital leases were as follows:

**Governmental Activities:**

|                          |    |          |
|--------------------------|----|----------|
| Vehicles                 | \$ | 34,737   |
| Accumulated depreciation |    | (34,737) |
| Net book value           | \$ | -        |

The Commission has certain long-term obligations related to its operations of various facilities. The schedule below details the changes in those obligations during the year ended September 30, 2015:

|                         | Balance<br>9/30/2014 | Additions   | Reductions        | Balance<br>9/30/2015 |
|-------------------------|----------------------|-------------|-------------------|----------------------|
| Capital leases          | \$ 6,754             | \$ -        | \$ 6,754          | \$ -                 |
| Saenger bond obligation | 437,934              | -           | 125,124           | <b>312,810</b>       |
| <b>Total amounts</b>    | <b>\$ 444,688</b>    | <b>\$ -</b> | <b>\$ 131,878</b> | <b>\$ 312,810</b>    |

The Commission's Saenger bond obligation originated upon the Commission's assumption of operations of the Theater in 1998 and its agreement to fund the cost of certain renovations made by the City. Pursuant to its agreement with the City, the Commission is required to make monthly payments of \$10,427 through March 2018, which approximates the City's debt service requirements related to the renovation cost incurred. The Commission's payments to the City during the year ended September 30, 2015 totaled \$125,124. Future payments to the City under this agreement are as follows:

| <i>Year ending September 30,</i> | <b>Principal</b>  |
|----------------------------------|-------------------|
| 2016                             | \$ 125,124        |
| 2017                             | 125,124           |
| 2018                             | 62,562            |
|                                  | <b>\$ 312,810</b> |

The City entered into a contract with the Hattiesburg Convention Commission and the Hattiesburg Tourism Commission during fiscal year 2010 for the management of the Hattiesburg Zoo at Kamper Park. In May 2012, a new agreement was entered into with the Convention Commission that allowed for the Commission to accept full financial responsibility for any subsidy requirement necessary for operations of the Hattiesburg Zoo, thus ending the monthly management fee as

**NOTE 19: DISCRETELY PRESENTED COMPONENT UNIT (Continued)**

contained in the original contract. Six months prior to the end date of the contract (September 30, 2020), all parties agree to review the financial status of the Zoo operations to consider whether any revisions to the financial plan are necessary.

During the year ended September 30, 2015, the Hattiesburg Convention Commission contracted for certain capital projects. The Commission transferred completed construction projects totaling \$118,674 to the City, which are reflected in capital assets of the City as of September 30, 2015.

**NOTE 20: SUBSEQUENT EVENTS**

Management has evaluated subsequent events after the financial statement date of September 30, 2015 through November 29, 2017, which is the date the financial statements were available to be issued. Significant subsequent events are described below.

***Issued Debt and Financing Agreements***

Subsequent to the year ended September 30, 2015, the City has entered into additional debt agreements as follows:

- General Obligation Water and Sewer Refunding Bonds, Series 2015, for defeasance of General Obligation Water and Sewer Bonds dated 2009, par amount of \$4,605,000, maturities through 2024, interest at 2%-3%.
- General Obligation Refunding Bonds, Series 2015, for defeasance of General Pool Loan Refunding Bonds, Series 2009, par amount of \$5,400,000, maturities through 2021, interest at 2%-3%.
- General Obligation Refunding Bonds, Series 2016, for defeasance of MDB Special Obligation Bonds, Series 2006 W&S, par amount of \$7,125,000, maturities through 2021, interest at 1.6%.
- General Obligation Notes, principal of \$2,000,000 to be funded in various draws, five-year term, interest at 1.49%. See also *"Major Projects – Public Safety Complex"*.
- Certificates of Participation, principal of \$5,300,000, maturities through 2035, interest at 3%-5%. See also *"Major Projects – Public Safety Complex"*.
- Taxable Tax Increment Limited Obligation Bonds, Series 2015, Hattiesburg Clinic Midtown District Project, principal of \$845,000, maturities through 2030, interest at 4%.
- Taxable Tax Increment Limited Obligation Bonds, The Ridge at Turtle Creek Project, Series 2015-A, principal of \$1,225,000, maturities through 2030, interest at 5.5%
- Taxable Tax Increment Limited Obligation Bonds, Midtown Market Project, Series 2015-B, principal up to \$210,000, maturities through 2030, interest at 5.5%

**NOTE 20: SUBSEQUENT EVENTS (Continued)**

- Taxable Tax Increment Limited Obligation Bonds, Whispering Pines Retirement Community Project, principal of \$3,021,000, maturities through 2031, interest at 4%-4.75%
- Mississippi Development Bank Taxable Special Obligation Water and Sewer revenue bonds, Series 2016, principal of \$25,000,000, maturities through 2026, interest at 3.03%, collateralized by pledged Water and Sewer System net revenues and therefore subject to parity provisions of the City's outstanding revenue bonds, to provide funding for the City's wastewater treatment construction project.
- Capital lease, 2015 Ferrara Fire Apparatus Ladder Truck lease purchase, principal of \$764,229, maturing August 2020, interest at 1.63%; required City's passage of resolution stating it did not anticipate issuing more than \$10 million in General Obligation debt or other debt falling under the 1986 Federal Tax Bill's definition of qualifying debt during the calendar year the lease was funded.
- Lease purchase under MDA Energy Efficiency Lease Program for certain expenditures and related services pursuant to an energy savings performance contract, principal of \$7,528,000, maturing August 2032, interest at 2.575%. City has right to purchase all, but not less than all, leased equipment pursuant to a purchase option which commences in August 2017. Cost of option exercise is based on a payment schedule established under the agreement, which decreases from \$7,767,356 at commencement in 2017 to \$1 at lease expiration in 2032. See additional information below in the section captioned "Energy Savings Performance Contract".

The City also entered into a long-term capital lease in the amount of \$1,923,000 for the purchase of ten sanitation trucks. The lease matures in 2019 and bears interest at 1.59%.

***Commitments for Additional Debt***

The City also approved limited obligation tax increment financing bonds that have not yet been issued, as follows:

- Corner Market Project, principal up to \$1,500,000, 20-yr term
- Hardy South Project , principal up to \$1,000,000, term up to twenty years
- Midtown Elam Arms Project, principal up to \$9,000,000, term up to fifteen years; to be partially secured by sales tax revenues.

The City also approved an intent to issue general obligation Water and Sewer bonds and/or enter into a loan agreement with the Mississippi Development Bank in an amount up to \$60,000,000. The proceeds of any such debt issuance would be used for improvements, repairs, and extension of the Combined Water and Sewer System. This project would encompass certain portions of system rehabilitation mandated by the MDEQ. This debt, if issued, would be payable solely from revenues derived from System operations, and payments would be made over a period not to exceed thirty

**NOTE 20: SUBSEQUENT EVENTS (Continued)**

years. The City originally anticipated issuance of this debt in March 2016. However, no such issuance had occurred as of November 29, 2017, and no such issuance is expected in the near term. See additional disclosures below regarding the Mississippi Department of Environmental Quality Consent Order.

***Mississippi Department of Environmental Quality Consent Order - Stipulated Order Terminating Amended Consent Judgment***

Subsequent to September 30, 2015, the MDEQ Agreed Order was further amended. The City failed to meet certain milestones and incurred penalties during the 2016 fiscal year totaling \$319,500. In addition, the City has incurred costs totaling over \$8 million since September 30, 2015 related to its comprehensive sewer rehabilitation project mandated under the agreed order. However, in August 2017, GRN, the City and MDEQ, the parties involved in the rehabilitation and improvement of the City's sewer system mandated under the Amended Agreed Order, negotiated a settlement. Pursuant to this settlement, a conditional Stipulated Order Terminating Amended Consent Judgment (the Stipulated Order) was entered on August 23, 2017. Terms of the Stipulated Order include submission of a revised permit request for the South Lagoon which incorporates certain monitoring requirements. Upon issuance of the amended permit and entry of a separate Agreed Order by the Mississippi Commission on Environmental Quality establishing a stipulated penalty of \$1,500 per day for future violations, the Amended Consent Judgment will automatically terminate. The stipulated order further requires the City to provide certain effluent and performance information to GRN for a limited time.

As a result, the litigation aspect of this matter is conditionally concluded, and the City is also conditionally no longer liable for unpaid fines, penalties or construction obligations under the Amended Consent Judgment, subject to the City complying with terms of the Stipulated Order. The Stipulated Order precludes the City from having to immediately move forward to construct a fully mechanical wastewater treatment plant at an estimated cost exceeding \$150 million, as was required by the Amended Consent Judgment. As a result of relief granted under the Stipulated Order, the City will suspend certain project elements that were in development and design stages as of September 30, 2015. Therefore, preliminary costs associated with such suspended projects have been recognized as expense by the City as of September 30, 2015 rather than as capital asset construction in progress. The City expects that it will continue its efforts to improve the performance of the existing lagoon treatment system and also expects that modifications to the system may be recommended, potentially requiring additional capital outlays. However, the cost of any such improvements and modifications is not determinable at this time.

**NOTE 20: SUBSEQUENT EVENTS (Continued)**

***Water and Sewer Rate Study***

Subsequent to the year ended September 30, 2015, the City entered into an agreement to obtain a water and sewer rate study, including analyses of current and future revenue requirements and cost of service. The purpose of this study was to determine the basis for and amounts of any necessary rate adjustments.

***Sewer Ordinance***

On September 6, 2016, subsequent to the 2015 fiscal year-end, the City adopted an ordinance amending its rates and charges for sanitary sewer service. Adopted rate changes established increases to be phased in over the period from September 1, 2016 through September 1, 2019. In addition, contractual sewer revenues not based directly upon water volume are attributed 35% to debt service and 65% to operations and maintenance pursuant to the ordinance. The ordinance took effect immediately upon adoption.

***Sewer Treatment Contracts with Entities Outside the City Limits***

On September 6, 2016, subsequent to the end of the 2015 fiscal year, the City adopted a model contract for sewer franchises outside the City limits, increasing sewer rates charged in accordance with the state statute at section 21-27-39 of the Mississippi Code, Annotated. Entities outside the City had historically enjoyed sewer treatment rates much lower than those paid by customers inside the City. The City later notified affected entities that it was terminating any previous agreements and requested that they enter into the new model agreement with the increased rate. While this matter is not currently under litigation, responses to the City's requests have varied. In July 2017, the newly elected City Council voted to maintain the City's position related to the model agreement and to request all entities to either enter into the new agreement or make other plans to manage their wastewater disposal. The City is moving forward with a process of written notification of this decision.

***Grants***

The City has received approximately \$6 million in Federal and State grant funding for various services and programs, including various road, airport, transit and transportation projects, as well as other projects and entitlements. Matching requirements vary by grant.

**NOTE 20: SUBSEQUENT EVENTS (Continued)**

***Litigation and Subsequent Claims***

Petal Sewer Rate Litigation Settlement

In January 2016, subsequent to the end of the 2015 fiscal year, the City and the City of Petal settled a lawsuit over rate increases imposed by the City for treatment of Petal's wastewater. Upon acceptance of terms of the settlement, the case was dismissed with prejudice by the Court, ending further claims in this matter. The settlement agreement has an initial term of ten years, expiring December 31, 2025, and a renewal term of five years, expiring December 31, 2030. It then continues in effect from year to year unless either party provides written notice of termination at least one year in advance of the respective fiscal year-end.

The agreement established an initial interim rate to be charged from January 1, 2016 through September 30, 2016 of \$0.90 per thousand gallons, based on actual metered volume.

Under the terms of the agreement, rates are determined based on a stated formula for calculating Petal's proportionate share of specified wastewater system operating costs. The agreement also includes provisions related to metering, testing, regulations, and procedures. Mathematical rate calculations will be performed annually by a designated independent engineer based on certain factors, including future capital costs of utility improvement, chemical analysis, biological oxygen demand, chemical oxygen demand, and other criteria. Rate adjustments will be effective for the upcoming fiscal year. Rates for the initial interim period, from January 1, 2016 through September 30, 2016, were set at \$0.90 per thousand gallons of wastewater received into the City's system, based on actual metered volume. For subsequent periods, the settlement rates will adjust annually based on specified mathematical formulas and methodology, calculated by a designated independent engineer. However, because of uncertainties regarding anticipated capital costs of future sewage treatment based on the City's plans, related cost elements necessary for annual rate calculation were not determinable for the annual period beginning October 1, 2016. The City of Petal dealt directly with the court-appointed neutral engineer and filed a motion to enforce the settlement agreement. In September 2016, the Court ordered a new and reduced interim rate of \$0.83 per thousand gallons treated. This rate is presumed to be effective until all data is available to permit rate calculation pursuant to the mathematical formula specified in the settlement agreement, and neither the date when such data will become available nor the effects on subsequent rate calculations is determinable as of November 29, 2017.

The initial interim rate established under the settlement agreement was approximately 36% more than the rate that had been paid by the City of Petal during the course of the litigation. The reduced rate described above is approximately 8% less than the initial interim rate per the settlement.



**NOTE 20: SUBSEQUENT EVENTS (Continued)**

Groundworx Litigation Conclusion

During the year ended September 30, 2014, Groundworx, LLC filed a complaint against the City for breach of contract and injunctive relief related to a contract for treatment of wastewater. As subsequently amended, this complaint alleged that the City failed to perform certain acts to enable Groundworx to obtain financing necessary to fulfill its contract obligations and seeks \$6,266,753 plus attorney fees and expenses. In December 2014, this case was dismissed with prejudice by the Chancery Court, and the case was appealed by Groundworx to the Mississippi Supreme Court. Subsequent to the end of fiscal year 2015, the Supreme Court affirmed the lower court ruling dismissing the lawsuit against the City, thereby concluding the matter.

Precision Construction, LLC Litigation Conclusion

Subsequent to the fiscal year ended September 30, 2015, the City fully satisfied its obligation under the 2014 judgment *nunc pro tunc* of the Precision Construction, LLC case. In concluding this matter, the City paid amounts accrued as of September 30, 2015 totaling \$925,951 and additional subsequent period interest totaling \$47,448.

Wrongful Conviction and Imprisonment

Subsequent to year-end, a wrongful conviction lawsuit in which the City was named as a defendant was settled at a cost to the City of \$150,000. This liability was recognized and accrued by the City as of September 30, 2015 as a recognized subsequent event.

Personal Injury Case

Subsequent to September 30, 2015, the City settled a case of alleged excessive force case relating to an incident in which an individual sustained quadriplegia. Defense of this matter was conducted through the Mississippi Municipal Service Company, which provides the City's liability insurance. Pursuant to the settlement, the City incurred no costs in excess of insurance coverage.

Annexation

The City is in the process of expanding its corporate limits through the process of annexation which, pursuant to State law, requires Chancery Court ratification of the City's adopted ordinance. In conjunction with its annexation activities, the City is party to various litigation with Lamar County, the City of Petal, and Bellevue Incorporators. The outcome of these cases and effects on annexation endeavors is not determinable due to the early stages of the matters.

**NOTE 20: SUBSEQUENT EVENTS (Continued)**

Ad Valorem Tax Exemption

Subsequent to September 30, 2015, the City was named as a defendant, along with Forrest County, in an action by Kohler Co. seeking significant tax exemptions beyond the ten-year exemptions permitted by statute. The case is in its early stages and therefore no probability of outcome can be predicted.

Matters Related to Funding

Subsequent to September 30, 2015, certain Federal and State grant reimbursements were delayed because of delinquency in submission of City annual financial reports. In addition, the City's credit rating was suspended in November 2016.

## **SUPPLEMENTARY INFORMATION**

**City of Hattiesburg, Mississippi**  
**Schedule 1 - Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2015**

| <b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>            | <b>Federal CFDA<br/>Number</b> | <b>Pass-Through Entity<br/>Identifying Number</b> | <b>Federal<br/>Expenditures</b> |
|---|--------------------------------|---|---------------------------------|
| <b>U.S. Department of Housing and Urban Development</b>                         |                                |   |                                 |
| Pass-Through Programs From:   |                                |   |                                 |
| Governor's Department of Housing and Urban Development                          |                                |   |                                 |
| <i>CDBG Entitlement Grants - Cluster:</i>                                       |                                |   |                                 |
| Community Development Block Grants/Entitlement Grants                           | 14.218                         | MC-28-0006  | <u>\$ 464,912</u>               |
| Total - CDBG Entitlement Grants Cluster   |                                |   | <u>464,912</u>                  |
| Home Investment Partnerships Program  | 14.239                         | MC-28-0201  | <u>282,837</u>                  |
| Pass-Through Programs From:   |                                |   |                                 |
| Mississippi Development Authority   |                                |   |                                 |
| Community Development Block Grants/State's Program:                             |                                |   |                                 |
| Katrina Community Revitalization - USA Yeast Wastewater Pretreatment            | 14.228                         | R-103-205-03-KED                                  | <u>474,084</u>                  |
| Total Community Development Block Grants/State's Program                        |                                |   | <u>474,084</u>                  |
| Pass-Through Programs From:   |                                |   |                                 |
| Community Challenge Planning Grants and Department of Transportation's          |                                |   |                                 |
| Tiger II Planning Grants  | 14.704                         | CCPMS001410                                       | <u>1,787</u>                    |
| Total U.S. Department of Housing and Urban Development<br>Pass-Through Programs |                                |   | <u>1,223,620</u>                |

Continued

*The accompanying notes are an integral part of this schedule.*

**City of Hattiesburg, Mississippi**  
**Schedule 1 - Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2015**

| <b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>  | <b>Federal CFDA<br/>Number</b> | <b>Pass-Through Entity<br/>Identifying Number</b> | <b>Federal<br/>Expenditures</b> |
|---|--------------------------------|---|---------------------------------|
| <b>U.S. Department of Justice</b>   |                                |   |                                 |
| Pass-Through Programs From:   |                                |   |                                 |
| Office of Justice Programs  |                                |   |                                 |
| OVW Technical Assistance Initiative   | 16.526                         | 13-WF-AX-0011                                     | \$ 16,116                       |
| OVW Technical Assistance Initiative   | 16.526                         | 14-WF-AX-0020                                     | 4,938                           |
|   |                                |   | <u>21,054</u>                   |
| <br>Edward Byrne Memorial Justice Assistance Grant Program  | <br>16.738                     | <br>2013-DJ-BX-0931                               | <br>5,775                       |
| <br>Bulletproof Vest Partnership Program  | <br>16.607                     |   | <br>16,373                      |
| <br>Criminal and Juvenile Justice and Mental Health Collaboration Program -<br>Jail Diversion Project Grant | <br>16.745                     | <br>2014-MO-BX-0030                               | <br><u>23,046</u>               |
| <br>Total U.S. Department of Justice Pass-Through Programs  |                                |   | <br><u>66,248</u>               |

Continued

*The accompanying notes are an integral part of this schedule.*

**City of Hattiesburg, Mississippi**  
**Schedule 1 - Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2015**

| <b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b> | <b>Federal CFDA<br/>Number</b> | <b>Pass-Through Entity<br/>Identifying Number</b> | <b>Federal<br/>Expenditures</b> |
|--|--------------------------------|---|---------------------------------|
| <b>U.S. Department of Transportation</b>                             |                                |   |                                 |
| Federal Aviation Administration                                      |                                |   |                                 |
| Airport Improvement Program  | 20.106                         | 3-28-0031-0020-2013                               | \$ 59,385                       |
| Airport Improvement Program  | 20.106                         | 3-28-0031-0021-2014                               | (8,581)                         |
| Airport Improvement Program  | 20.106                         | 3-28-0031-0021-2015                               | 1,956,980                       |
| Total - Federal Aviation Administration Direct Programs              |                                |   | <u>2,007,784</u>                |
| Federal Transit Administration                                       |                                |   |                                 |
| <i>Federal Transit Cluster:</i>                                      |                                |   |                                 |
| Federal Transit Formula Grants:                                      |                                |   |                                 |
| Mass Transit Preventative  | 20.507                         | MS-90-0090  | 149,267                         |
| Mass Transit Capital   | 20.507                         | MS-90-X090  | 16,000                          |
| Mass Transit Operating   | 20.507                         | MS-90-4086  | 171,603                         |
| Mass Transit Preventative  | 20.507                         | MS-90-4090  | 187,850                         |
| Total - Federal Transit Formula Grants                               |                                |   | <u>524,720</u>                  |
| Total - <i>Federal Transit Cluster</i>                               |                                |   | <u>524,720</u>                  |
| Total U.S. Department of Transportation Direct Programs              |                                |   | <u>2,532,504</u>                |

Continued

*The accompanying notes are an integral part of this schedule.*

**City of Hattiesburg, Mississippi**  
**Schedule 1 - Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2015**

| <b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b> | <b>Federal CFDA<br/>Number</b> | <b>Pass-Through Entity<br/>Identifying Number</b> | <b>Federal<br/>Expenditures</b> |
|--|--------------------------------|---|---------------------------------|
| <b>U.S. Department of Transportation (Cont.)</b>                     |                                |   |                                 |
| Federal Highway Administration                                       |                                |   |                                 |
| Pass-Through Programs From:  |                                |   |                                 |
| Mississippi Department of Transportation                             |                                |   |                                 |
| <i>Highway Planning and Construction Cluster:</i>                    |                                |   |                                 |
| Metropolitan Planning Organization                                   | 20.205                         | MS-80-0002/202304-101000                          | \$ 169,142                      |
| Urban Youth Corps Transportation Enhancement Project                 | 20.205                         | STP-9999-09(037)/107078-307000                    | 29,591                          |
| Transportation Enhancement- Broadway, Pine, Mobile & Bouie Streets   | 20.205                         | STP-0018-00(029)/106346-701000                    | 1,902                           |
| Transportation Enhancement-34th Ave                                  | 20.205                         | STP-0210-00(026)/106412-701000                    | 49,649                          |
| Fourth Street Improvements   | 20.205                         | HPP-8750-00(003)/104873/801000                    | 68,099                          |
| Safe Routes to Schools Project (Woodley)                             | 20.205                         | SRSP-0210-00(024)                                 | 92,922                          |
| Western Beltway  | 20.205                         | STPD-8776-00(004)/105844/811000                   | 13,728                          |
| <i>Total - Highway Planning and Construction Cluster</i>             |                                |   | <u>425,033</u>                  |
| National Highway Traffic Safety Administration                       |                                |   |                                 |
| Pass-Through Programs From:  |                                |   |                                 |
| Office of Highway Safety   |                                |   |                                 |
| Alcohol Open Container Requirements                                  | 20.607                         | 15-ST-2151  | 92,463                          |
| Total - Office of Highway Safety                                     |                                |   | <u>92,463</u>                   |
| Total U.S. Department of Transportation Pass-Through Programs        |                                |   | <u>517,496</u>                  |
| Total U.S. Department Transportation                                 |                                |   | <u>3,050,000</u>                |
|  |                                |   | Continued                       |

*The accompanying notes are an integral part of this schedule.*

**City of Hattiesburg, Mississippi**  
**Schedule 1 - Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2015**

| <b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>     | <b>Federal CFDA<br/>Number</b> | <b>Pass-Through Entity<br/>Identifying Number</b> | <b>Federal<br/>Expenditures</b> |
|--|--------------------------------|---|---------------------------------|
| <b>U.S. Department of Health and Human Services</b>                      |                                |   |                                 |
| Pass-Through Programs From:  |                                |   |                                 |
| Mississippi Bureau of Narcotics  |                                |   |                                 |
| HIDTA-High Intensity Drug Trafficking Areas Program                      | 95.001                         | G13GC0003A  | \$ 14,166                       |
| Total U.S. Department of Health and Human Services Pass-Through Programs |                                |   | <u>14,166</u>                   |
| <b>U.S. Department of Homeland Security</b>                              |                                |   |                                 |
| Pass-Through Programs From:  |                                |   |                                 |
| Mississippi Office of Homeland Security:                                 |                                |   |                                 |
| Homeland Security Grant Program  | 97.067                         | 13HS205T  | 7,158                           |
| Total Office of Homeland Security Pass-Through Programs                  |                                |   | <u>7,158</u>                    |
| Pass-Through Programs From:  |                                |   |                                 |
| Mississippi Emergency Management Agency                                  |                                |   |                                 |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters)  | 97.036                         | FEMA-4101-DR-MS                                   | 14,759                          |
| Total Mississippi Emergency Management Agency Pass-Through Programs      |                                |   | <u>14,759</u>                   |
| Total U.S. Department of Homeland Security Pass-Through Programs         |                                |   | <u>21,917</u>                   |
| <b>Total Expenditures of Federal Awards</b>                              |                                |   | <u>\$ 4,375,951</u>             |
|  |                                |   | Concluded                       |

*The accompanying notes are an integral part of this schedule.*





## City of Hattiesburg, Mississippi

### Notes to Schedule of Expenditures of Federal Awards

#### **NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant expenditure activity of the City of Hattiesburg under programs of the federal government for the year ended September 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Hattiesburg, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Hattiesburg.

#### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Expenditures***

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

##### ***Pass-Through Entity Identifying Numbers***

Pass-through entity identifying numbers are presented when available.

#### **NOTE 3: PAYMENTS MADE TO SUBRECIPIENTS**

Federal funds provided to subrecipients from the Community Development Block Grants/State's Program and from the Home Investment Partnerships Program during the year ended September 30, 2015 totaled \$132,322 and \$58,508, respectively.



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Schedule 2

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Hattiesburg, Mississippi's basic financial statements, and have issued our report thereon dated November 29, 2017.

**Internal Control Over Financial Reporting**

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

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

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

material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider each of the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-001 through 2015-018 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies pertaining to the Highway Planning and Construction Program as described in the accompanying schedule of findings and questioned costs as item 2015-016 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Hattiesburg, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-011 through 2015-018.

### **City of Hattiesburg's Response to Findings**

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

### **Purpose of this Report**

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

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
November 29, 2017



**Carr, Riggs & Ingram, LLC**

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Schedule 3

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Hattiesburg, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hattiesburg, Mississippi's major federal programs for the year ended September 30, 2015. The City of Hattiesburg, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

### **Basis for Qualified Opinion on the Community Development Block Grants/Entitlement Grants Program**

As described in the accompanying schedule of findings and questioned costs, the City of Hattiesburg, Mississippi did not comply with requirements regarding CFDA 14.218 Community Development Block Grants/Entitlement Grants Program as described in Finding 2015-012 for Subrecipient Monitoring, Finding 2015-013 for Federal Expenditure Management of Costs and Reimbursements, and Finding 2015-017 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for the City of Hattiesburg, Mississippi to comply with the requirements applicable to that program.

### **Qualified Opinion on the Community Development Block Grants/Entitlement Grants Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Hattiesburg, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants/Entitlement Grants Program for the year ended September 30, 2015.

### **Basis for Qualified Opinion on the Airport Improvement Program**

As described in the accompanying schedule of findings and questioned costs, the City of Hattiesburg, Mississippi did not comply with requirements regarding CFDA 20.106 Airport Improvement Program as described in Finding 2015-014 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City of Hattiesburg, Mississippi to comply with the requirements applicable to that program.

### **Qualified Opinion on the Airport Improvement Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Hattiesburg, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Airport Improvement Program for the year ended September 30, 2015.

### **Basis for Qualified Opinion on the Highway Planning and Construction Program**

As described in the accompanying schedule of findings and questioned costs, the City of Hattiesburg, Mississippi did not comply with requirements regarding CFDA 20.205 Highway Planning and Construction Program as described in Finding 2015-011 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the City of Hattiesburg, Mississippi to comply with the requirements applicable to that program.

### **Qualified Opinion on the Highway Planning and Construction Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Hattiesburg, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Highway Planning and Construction Program for the year ended September 30, 2015.

### **Unmodified Opinion on the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Program**

In our opinion, the City of Hattiesburg, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2015.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2015-015 through 2015-018. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over

compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2015-011 through 2015-018 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2015-016 to be significant deficiencies as they pertain to the Highway Planning and Construction Program.

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

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

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
November 29, 2017

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

*For the year ended September 30, 2015*

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**Section I: Summary of Auditors' Results**

***Financial Statements***

Type of auditor's report issued:

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

Internal control over financial reporting:

|   |     |
|---|-----|
| Material weakness identified?   | Yes |
| Significant deficiency identified not considered to be a material weakness? | Yes |

Noncompliance material to financial statements noted? Yes

**Federal Awards**

Internal control over major programs:

|   |     |
|---|-----|
| Material weakness identified?   | Yes |
| Significant deficiency identified not considered to be a material weakness? | Yes |

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

|   |            |
|---|------------|
| Community Development Block Grants/Entitlement Grants                                   | Qualified  |
| Airport Improvement Program   | Qualified  |
| Highway Planning and Construction   | Qualified  |
| Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii | Unmodified |

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



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section I: Summary of Auditors' Results (Continued)**

Identification of major programs:

| <i><b>CFDA Numbers</b></i> | <i><b>Name of Federal Program or Cluster</b></i>   |
|----------------------------|--|
| 14.218                     | <i>CDBG Entitlement Grants Cluster:</i><br>Community Development Block Grants/Entitlement Grants |
| 14.228                     | Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii          |
| 20.106                     | Airport Improvement Program  |
| 20.205                     | Highway Planning and Construction  |

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

Auditee qualified as low-risk auditee? No

**Section II: Financial Statement Findings**

**Finding:**

*Finding #:* 2015-001 – Entity-Level Control Environment and Risk Assessment Processes

*Finding Type:* Material Weakness

*Criteria:*

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed a model for evaluating controls that has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control. Under the COSO framework, organizational structure, assignment of authority and responsibility, estimating the potential significance of risks relevant to achievement of financial reporting objectives, and responding to such risks represent elements of entity-level internal controls.

*Condition:*

The City did not timely initiate or make substantial progress in implementation of corrective actions in response to material weaknesses and significant deficiencies in internal control identified in its financial statement audit for the year ended September 30, 2014.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-001 – Entity-Level Control Environment and Risk Assessment Processes  
(Continued)

*Context:*

In accordance with the COSO Framework, the control environment and risk assessment processes represent entity-level components of the City's internal control system. Entity-level components generally have a pervasive effect on the overall system of internal control through influence on design and operating effectiveness of other control activities. The City's control environment and risk assessment processes directly affect its ability to achieve effective internal controls over activities involved in the financial reporting process.

During the course of our audit as of September 30, 2014, we identified certain material weaknesses and significant deficiencies in internal control. The City developed a corrective action plan in response to those findings and related recommendations, but as of the date of this report had not commenced significant corrective action activities.

*Cause:*

The City's organizational structure, depth of resources of personnel with suitable knowledge and skill in financial reporting, and process for evaluating and addressing risks related to financial reporting result in entity-level control weaknesses that adversely affect the level of attention given to existence and causes of known deficiencies in internal controls.

*Effect:*

Previously identified material weaknesses and significant deficiencies in internal control, along with other deficiencies, continue unmitigated. The continuation of those weaknesses has compounded the effects of those deficiencies, since additional activity has occurred and time has lapsed outside an effective internal control framework. As data grows stale, ability to detect and correct errors diminishes. Further, until known deficiencies are addressed, risks are not contained and the extent of consequences may continue to develop. Thus, failure to implement timely effective corrective actions to address internal control deficiencies has further exposed the financial reporting process to risk of material misstatement.

*Recommendation:*

The City Council and Administration should immediately take steps to implement corrective actions for identified material weaknesses and significant deficiencies in internal controls. Periodic updates on progress of corrective actions should be made to the City Council and Administration. Revisions to corrective action plans and additional actions should be taken as appropriate in response to progress and ongoing risk assessment activities.

In addition, the City should assess its overall control environment and risk assessment processes and develop a specific plan to address weaknesses and enhance effectiveness. A specific timeframe for this assessment and revision process should be established, and resulting procedures should be formally documented and approved.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-001 – Entity-Level Control Environment and Risk Assessment Processes  
(Continued)

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 146.

**Finding:**

*Finding #:* 2015-002 – Entity-Level Information, Communication and Monitoring

*Finding Type:* Material weakness

*Criteria:*

The City is subject to complex financial reporting requirements under U.S. generally accepted accounting principles. In order to meet its financial reporting responsibilities, the City must employ an effective system of internal accounting procedures and controls in order to appropriately identify information and activity that impacts the financial statements, then capture, maintain, monitor, and properly report that information in the form of its general purpose financial statements. As established under the COSO framework, information, communication, and monitoring processes are entity-level internal control components.

Internal accounting procedures and controls over information, communication, and monitoring should be sufficient to ensure that the City:

- effectively communicates internally and with outside parties to ensure that appropriate personnel remain apprised of activities and factors affecting the City and its financial reporting process and responsibilities,
- captures relevant, high-quality information pertaining to such activities and factors;
- assesses information for relevance to and impact on the financial reporting process;
- assimilates that data into an established process to maintain and monitor compliance with legal, regulatory, and contractual requirements and to achieve timely completion of its CAFR.

*Condition:*

The City's financial reporting system lacks sufficient depth and structure to ensure that all relevant information is timely identified, communicated to appropriate financial and accounting personnel, assessed for financial reporting impact, and assimilated into the financial reporting process. In addition, the City's monitoring process is not thorough enough to assure that data utilized in financial reporting is complete and that all significant information is appropriately addressed and reported. Therefore, the City's internal accounting control policies and procedures are not

## City of Hattiesburg, Mississippi

### Schedule 4 - Schedule of Findings and Questioned Costs

#### **Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-002 – Entity-Level Information, Communication and Monitoring  
(Continued)

sufficient to ensure that information is completely and properly reported on a timely basis in its annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

*Context:*

To meet its financial reporting obligations, the City must amass data from many sources, including various Federal and State agencies, other local governments, and various other external parties, as well as internal City departments and the City Council. In addition, through its personnel, the City must maintain a current understanding of relevant regulations, compliance requirements, and promulgated accounting standards in order to adequately assess available information. However, the City does not have a structured and cohesive process to obtain, maintain, and analyze data from these varied sources as part of its information management and financial reporting system or to communicate and educate departmental personnel regarding criteria and responsibilities for conveyance of information. Instead, ongoing data maintenance and management is compartmentalized by function or department and, after the end of each fiscal year, relevant data is manually identified and extracted from diverse sources and then integrated into the financial reporting process.

Although the City utilizes a centralized system of accounting for its budgetary cash basis transactions, other accounting-related data is maintained through disparate recordkeeping processes related to functional and program purposes. These processes, both electronic and manual, generally are structured to facilitate operational management rather than to meet financial reporting requirements. Since these disparate processes are generally not formally integrated into a comprehensive financial accounting and reporting system or subjected to continual oversight and monitoring from a financial reporting perspective, certain essential data elements are not routinely captured and maintained.

During the course of our audit, the City was unable to readily produce significant information critical to preparation of financial statements in accordance with U.S. generally accepted accounting principles. Such information included, but was not limited to, the following:

- schedule of rights, obligations, and commitments under open purchase orders, interlocal arrangements, contracts and agreements;
- net realizable values of amounts receivable from governmental or business-type activities;
- periodic accounting cut-off data for conversion from budgetary cash basis to financial reporting basis;
- claims;
- construction project activity;
- infrastructure acquisitions from other governmental entities or TIF district developers;
- assessment of impairment of infrastructure;
- contributions of capital assets;

## City of Hattiesburg, Mississippi

### Schedule 4 - Schedule of Findings and Questioned Costs

#### **Section II: Financial Statement Findings (Continued)**

Finding #: 2015-002 – Entity-Level Information, Communication and Monitoring  
(Continued)

- noncash transactions with discretely presented component unit (Hattiesburg Convention Commission);
- list of active Federal awards;
- distinction between Federal and other expenditures pursuant to allowable cost principles;
- list of debt compliance requirements;
- schedule of subsequent debt activity;
- nature, purpose, and amounts of restrictions, commitments, and assignments of net position and fund balances, and related fiscal year activity within those classifications;
- statistical and supplementary schedules to be presented in the CAFR.

This indicates that the City's controls over information accumulation and communication are not adequate to ensure that all relevant information is appropriately incorporated into the financial reporting process in a timely manner.

The City outsources certain critical functions that materially affect the financial reporting function, including but not limited to construction project design, management, and engineering services; bond obligation reporting compliance; and self-insured claims management. These functions are directly related to legal, regulatory, and contractual provisions, as well as to recognition and reporting of financial statement elements. However, the City does not actively monitor compliance with underlying grant or contractual requirements for procedures performed by providers of these outsourced services or require information from such third parties in a manner to facilitate incorporation into the financial reporting process.

*Cause:*

The City's entity-wide controls and procedures do not effectively ensure that all relevant information is timely incorporated into the financial reporting process. The nature of the City's processes and systems is not sufficient to ensure that essential data is maintained in a manner that permits timely incorporation into the City's annual financial reporting process. Many departmental procedures address operational and cash transaction objectives but fail to incorporate elements to capture and convey information required for annual financial reporting.

In addition, lines of authority and responsibility under the City's organizational structure are incompatible with the structure of its financial reporting process. Parallel departments perform various functions giving rise to accounting information maintained outside the general ledger system. However, financial reporting personnel have no authority to enforce accountability for proper maintenance and conveyance of such information for integration into the financial reporting system. Personnel responsible for operational functions often lack knowledge and skill necessary to ascertain whether activities or data are relevant to financial reporting, and existing departmental processes do not sufficiently encompass financial reporting elements.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-002 – Entity-Level Information, Communication and Monitoring  
(Continued)

Further, the City has experienced significant turnover of management personnel in recent years. Staff turnover has caused loss of knowledge base, including familiarity with informal and undocumented procedures performed in prior years.

*Effect:*

Deficiencies in information and communication processes cause inordinate delays in completion of the annual financial reporting process. This in turn limits the City's ability to meet legal, regulatory, and contractual deadlines for submission of annual financial statements prepared in accordance with U.S. generally accepted accounting principles. These deficiencies increase the risk of adverse effects on credit rating, cost of financing, and availability of funds from Federal, State, and other sources. See also Finding 2015-003.

Further, timely, adequate financial information is not available as a basis for assessing compliance with regulations and agreements or as a basis for decisions made by City management and those in governance. Lack of timely financial data related to compliance with laws, regulations, grants, and agreements may result in failure to maintain compliance or address and resolve noncompliance matters within an acceptable timeframe. Noncompliance with agreements may adversely affect availability of funding or result in debt acceleration unless appropriate waivers are timely obtained. In addition, decisions made by City leadership may be based on incomplete or inadequate information. Current, reliable financial information is necessary for prudent consideration of current and long-range sources and uses of resources, including anticipated costs of credit and ability to maintain compliance with agreements.

Also, deficiencies in data capture and maintenance may result in omission of critical information from the City's financial statements, and omissions may be material. Staff turnover and related learning curve challenges, together with gaps in documentation of procedures and failure of processes to effectively address non-cash activity, increase the risk that inexperienced personnel may not identify information relevant to the financial reporting process. Weaknesses in comprehensive oversight and monitoring by knowledgeable and skilled personnel further exacerbate this risk.

The risk that material misstatement could result from deficiencies in the City's ability to properly capture and report relevant information in its financial statements represents a pervasive material weakness in internal controls.

These deficiencies also exacerbate weaknesses in the City's controls over monitoring its overall financial reporting process, as well as its weaknesses in controls over conversion from its budgetary cash basis accounting system to its required financial reporting basis and its ability to maintain and monitor compliance with agreements and regulations.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-002 – Entity-Level Information, Communication and Monitoring  
(Continued)

*Identification of Repeat Findings:*  
2014-001, 2014-004

*Recommendation:*

The City should immediately develop and implement procedures to enhance its process for timely identifying, maintaining, conveying, and reporting information relevant to financial reporting in accordance with U.S. generally accepted accounting principles. Procedures should be formally documented and provide mechanisms through which data is captured, maintained, and readily incorporated into the financial reporting process on an ongoing basis, without requiring extensive retrospective or reconstructive procedures. In addition, personnel responsible for financial reporting monitoring and oversight should have appropriate levels of authority to enforce accountability of personnel responsible for accumulating, maintaining, and conveying data.

Projects, programs, funding, and policies approved by leadership should be evaluated for financial reporting impact, and such impact should be appropriately summarized. Other salient data originating outside the accounting and finance departments should be timely communicated thereto for assimilation into the financial reporting process. Related files should be maintained within the department(s) responsible for financial reporting. Appropriate management personnel should meet periodically to assess the completeness and ramifications of gathered information.

All executed contracts and agreements should be timely reviewed by personnel with suitable knowledge, skill, or experience to assess financial reporting impact. Relevant details should be summarized on an ongoing basis to facilitate preparation of the CAFR on a timely basis. Relevant compliance and reporting requirements should be communicated to both operational and accounting personnel at inception, and specific procedures should be developed and implemented as appropriate to address such requirements. Commitments and compliance requirements imposed by funding agencies, oversight bodies, or contractual agreements should be summarized and formally monitored within the financial reporting function. Periodic financial and compliance reports should be submitted to the administration and City Council.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on pages 146 – 147. See also auditors' rebuttal on pages 153 – 154.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

**Finding:**

*Finding #:* 2015-003 – Timeliness of Financial Reporting

*Finding Type:* Material Weakness

*Criteria:*

OMB Circular A-133 and Uniform Guidance, Mississippi law, and terms of various bonds, grants, contracts, and agreements impose financial reporting requirements and deadlines for submission by the City of annual financial statements presented in accordance with U.S. generally accepted accounting principles

*Condition:*

During the year ended September 30, 2015, the City failed to meet financial reporting deadlines for its financial statements for the fiscal year ended September 30, 2014.

Also, the City failed to meet financial reporting deadlines for submitting its financial statements for the year ended September 30, 2015.

*Context:*

The City did not complete its financial reporting process, including assimilation of data required for conversion from budgetary cash basis to financial reporting bases, preparation of financial statement disclosures, and preparation of necessary supplementary information before financial reporting deadlines had passed.

*Cause:*

The financial reporting system of the City is not adequate for timely production of complete and accurate information in the form of financial statements in accordance with U.S. generally accepted accounting principles. Complexity of City activities and financial reporting requirements has outstripped the City's ability to manage financial accounting from a budgetary cash basis perspective and without contemporaneous identification, capture, and management of additional data essential for appropriate comprehensive financial accounting reporting. See also Finding 2015-004.

*Effect:*

Failure to maintain compliance with financial reporting requirements and deadlines exposes the City to risk of delay or curtailment of funding. Such action adversely affects liquidity and impedes the City's ability to conduct activities and complete projects. Costs of funds may also increase because of liquidity drain or noncompliance with reporting requirements.

Subsequent to September 30, 2015, certain Federal funds passed through to the City by the Mississippi Department of Transportation were delayed because financial statements had not been submitted. Additional funding delays may occur until the City meets its financial reporting requirements.



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-003 – Timeliness of Financial Reporting  
(Continued)

*Recommendation:*

The City should take immediate steps to overhaul its financial reporting process to enable it to meet its legal, regulatory, and contractual financial reporting requirements.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 147. See also auditors' rebuttal on page 154.

**Finding:**

*Finding #:* 2015-004 – Financial Statement Adjustment, Close, and Disclosure

*Finding Type:* Material weakness

*Criteria:*

The financial reporting process includes preparing year-end account adjustments, disclosures, and supplementary information necessary to present financial statements in accordance with U.S. generally accepted accounting principles. An effective internal accounting control system should ensure that all transactions and adjustments – including cash, noncash, and non-routine transactions - are properly initiated, authorized, recorded, processed, and reported in those financial statements, including disclosures and required supplementary information, in accordance with such principles. Accounting procedures and controls should be sufficient to ensure that transactions and account balances are completely and accurately recorded and reported in the proper period and that any errors are prevented or timely detected and corrected. In conjunction with this, internal controls should be sufficient to ensure that amounts are properly classified, that accounts are properly valued, and that pertinent rights and obligations are properly reflected in the financial statements in accordance with U.S. generally accepted accounting principles.

An entity's internal accounting control system encompasses all accounting processes utilized, including automated, peripheral, and manual procedures and outsourced functions. However, an entity's independent auditor may not be considered part of the internal control system.

*Condition:*

The City's internal accounting controls over its financial close and reporting process are not sufficient to ensure that transactions and account balances are properly reported in conformity with bases of accounting required by U.S. generally accepted accounting principles. The City does not routinely maintain data necessary to prepare required conversions from its cash basis

## City of Hattiesburg, Mississippi

### Schedule 4 - Schedule of Findings and Questioned Costs

#### **Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-004 – Financial Statement Adjustment, Close, and Disclosure  
(Continued)

accounting records to the modified accrual and/or accrual bases of accounting as prescribed for financial reporting purposes. Further, required disclosures, supplementary schedules, and other reporting information cannot be readily produced or derived from the City's accounting system on a timely basis. In addition, controls over the City's accounting systems, including its use of peripheral systems, are insufficient to ensure proper cut-off and valuation or completeness of transactions and balances for financial reporting in accordance with U.S. generally accepted accounting principles.

*Context:*

The City's financial reporting system centers on its budgetary cash basis accounting processes and general ledger system, which address only a fragment of the information which must be included in the City's general purpose financial statements. Because additional data required for financial reporting is not routinely maintained in a manner conducive to financial statement preparation, extensive manual processes must be employed after the end of the fiscal year. The City has historically relied upon procedures performed after its fiscal year-end to aggregate and assimilate information necessary for preparation of its general purpose financial statements. However, this process is no longer effective or sufficient because of the following factors:

- increasing complexity of financial reporting requirements;
- nature and extent of compliance requirements pursuant to debt, grant, and other contractual agreements;
- nature and extent of activities engaged in by the City;
- staff turnover and resultant loss of knowledge base;
- ineffective maintenance of supporting and peripheral data; and
- limited resources of skilled accounting personnel.

During the course of our procedures, we noted that the City's accounting software systems are not capable of maintaining and reporting certain data necessary for financial reporting in accordance with U.S. generally accepted accounting principles. Pursuant to State of Mississippi requirements, the City maintains its transaction accounting system on a cash basis of accounting, modified for certain encumbrances consistent with the municipal budget basis. Financial reporting in conformity with U.S. generally accepted accounting principles requires conversion of that modified cash basis information to the accounting bases required for fund and government-wide financial statements, both of which must be presented in the City's general purpose financial statements. Therefore, the City must be able to separately capture cash transaction dates and accounting period dates for its transactions. Since the City's general ledger accounting system lacks the capability to maintain these separate fields, the necessary financial conversion processes cannot be automated. Instead, certain financial reporting data must be captured and maintained peripherally in automated and

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-004 – Financial Statement Adjustment, Close, and Disclosure  
(Continued)

manual files. However, the City does not routinely capture and maintain data necessary for conversion of cash basis to appropriate fund and accrual basis financial presentation or for preparation of necessary disclosures and supplementary information reported in its financial statements. Therefore, such information was not readily available to permit timely preparation of the City's general purpose financial statements.

As noted in Finding 2015-002, preparation of the City's financial statements requires manual assimilation of data from numerous sources. However the City has no formal process for ensuring the accuracy and completeness of information maintained in its various peripheral systems and files, including spreadsheets, subsidiary journals and ledgers, and other records. Reconciliations of summary totals to underlying detail records and roll-forwards of balances are not routinely and periodically performed to permit timely detection and correction of errors or irregularities. Further, the City does not routinely perform valuation assessments, such as estimates of impairment of carrying value of its long-term assets or estimates of net realizable values of receivables, in order to determine whether financial statement adjustments are appropriate.

The extent of the City's reliance on peripheral systems increases the necessity for effective processes and procedures related to those systems, as well as the need for sufficient personnel resources with suitable skill and knowledge base. However, constraints in personnel resources and weaknesses in procedural processes exacerbate deficiencies caused by automated system limitations. During the course of our audit procedures, we noted weaknesses in internal controls over use of electronic spreadsheets, which serve as an integral tool in the City's financial reporting process and are used extensively in allocations, reconciliations, and preparation of journal entries and financial reports. Because electronic spreadsheets can be easily changed and generally lack certain formalized controls, they are subject to increased inherent risk of error. That inherent risk should be mitigated by various electronic and manual controls. However, spreadsheet errors noted during the course of our audit procedures indicate that internal control procedures are not sufficient to prevent or timely detect and correct errors. We also noted deficiencies in maintenance, use and monitoring of other peripheral system summary and detail reports, including unreconciled differences, data errors, lack of review, and inconsistent processing.

*Cause:*

The City over-relies on its budgetary cash basis general ledger system to provide financial reporting information. Functional capabilities of the general ledger system are not adequate to meet basic accounting needs of the City, including maintenance of data in accordance with bases of accounting required for financial reporting purposes. Despite these known limitations of the general ledger system, the City has not established sufficient alternative processes and procedures to meet

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-004 – Financial Statement Adjustment, Close, and Disclosure  
(Continued)

financial reporting needs, and the extent of formal procedures and internal controls over existing peripheral processes is not commensurate with the importance of data maintained therein or the financial reporting impact thereof.

The City does not have effective procedures to ensure adequacy or accuracy of data maintained in peripheral electronic or manual systems or to ensure timely reconciliation and review of such data. Further, the City lacks sufficient skilled accounting personnel to maintain, reconcile, and monitor data recorded in such peripheral systems. The City does not maintain or monitor non-cash activity as part of a recurring process or routinely record accrual and conversion adjustments, and few formal procedures and internal controls have been implemented for those processes. Lack of attention to ongoing, routine processing and maintenance of data shifts significant data capture, reconciliation, review, and adjustment activities into the year-end close and reporting process.

*Effect:*

The City cannot readily prepare conversion adjustments required to properly present its basic financial statements and cannot readily produce necessary disclosures and supplemental schedules.

The City cannot readily substantiate balances in its noncash accounts, including accounts receivable, accounts payable, accrued liabilities, capital assets, construction in progress, and various net position and fund balance accounts.

The City cannot readily assure completeness of recorded activity reflected in its annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

Failure to effectively maintain accounting data on a continual basis artificially compresses the timeframe in which procedures for the entire year must be performed, delays preparation of the general purpose financial statements, and increases the risk of omission of information which should be reported under U.S. generally accepted accounting principles.

*Identification of Repeat Findings:*

2014-002, 2014-004

*Recommendation:*

The City should develop a plan to address deficiencies in its financial statement adjustment, close, and disclosure processes. The plan should incorporate short-term and long-range steps to overcoming deficiencies which impede timely completion of the City's general purpose financial statements. Stop-gap corrective actions should be taken in areas where comprehensive plans cannot be achieved in the near term. The City should specifically develop procedures related to the annual conversion process from budgetary cash basis accounting records to the bases of financial reporting required under U.S. generally accepted accounting principles.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-004 – Financial Statement Adjustment, Close, and Disclosure  
(Continued)

The City should identify its critical processes, including those performed in various departments and accomplished through peripheral systems, which affect financial statement close and disclosure preparation. Current procedures should be assessed to identify areas of risk, including matters related to lack of completeness, accuracy, and adequacy of data to meet financial reporting needs. Procedures should be enhanced, amended, or replaced to ensure integrity of data and to achieve effective internal control over financial reporting in accordance with U.S. generally accepted accounting principles. Formal reconciliation processes and checklists should be incorporated into procedures, and appropriate review and oversight should be performed. Controls should be adequate to ensure that errors are prevented or timely detected and corrected, and appropriate segregation of duties and limitations of access to systems should be incorporated into procedures to ensure that personnel cannot commit and conceal an error or irregularity.

In conjunction with this process, management should assess the level of additional resources necessary to allow the City to properly maintain its financial information and prepare accrual and conversion adjustments, disclosures, and schedules necessary for financial reporting in accordance with U.S. generally accepted accounting principles. The City should consider the cost-benefit of providing additional resources for personnel, accounting software systems, or both. The City should deploy appropriate and adequate personnel and system resources to its accounting processes in order to achieve effective control over its financial reporting process.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 147. See also auditors' rebuttal on page 154.

**Finding:**

*Finding #:* 2015-005 – Municipal Court Fines

*Finding Type:* Material weakness

*Criteria:*

Internal accounting controls should be sufficient to ensure that recorded Municipal Court fines and related accounts receivable and assessments payable balances are complete, accurate, properly valued, and reported in the proper period. In addition, State law requires maintenance of permanent Court dockets and minute records, as well as an accounts receivable system which is reconciled monthly and periodically aged and analyzed.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-005 – Municipal Court Fines  
(Continued)

*Condition:*

The City lacks sufficient internal controls over Municipal fines to ensure that all amounts are recorded, that only authorized transactions are recorded and such transactions are accurately recorded in the proper period, that gross balances outstanding represent valid underlying amounts, that State assessments are properly applied, that nonmonetary credits and adjustments are properly authorized and recorded, and that estimates of net realizable value appropriately consider collection activity, nonmonetary credits, and account quality. City procedures related to Municipal Court fines are not adequate to achieve compliance with requirements of Mississippi law or to ensure integrity of recorded amounts.

The City does not exercise appropriate oversight of the Municipal Court accounting process. Case management activities, including both manual procedures and software application processes, are not adequate to ensure completeness or accuracy of data or to assure that errors and irregularities are prevented or detected and corrected on a timely basis. In addition, system-generated reports are not adequate to support reconciliation and roll-forward of case balances or to facilitate effective review. Periodic analyses are neither prepared nor reported to management for review, and the City lacks formal procedures and methodology to support its estimates net realizable value of outstanding fines.

*Context:*

The Municipal Court department is responsible for maintaining detail case data, including original estimated fines, adjusted fines as legally imposed, payments and nonmonetary credits applied against fines, mandated State assessments, and various data related to each citation and offense. The City utilizes specialized peripheral software systems to record and maintain case information and related activity.

Amounts of fines receivable and State assessments payable for each case are maintained in the separate peripheral system but are not recorded in the City's general ledger system. Instead, the general ledger reflects only daily cash receipt amounts, summarized by account, and detail of expenditures, which consist primarily of payments of State assessments. Recorded cash receipts and disbursements are the only information routinely reported to or reviewed by management. However, since such cash basis excludes amounts of fines imposed, related State assessment obligations, adjustments to case amounts, nonmonetary credits, and balances outstanding, it is insufficient to allow effective monitoring of case balances or activity related to fines.

Receivables and payables are recognized only for annual financial reporting purposes and are not reconciled or reviewed at interim. Year-end recognition of these balances, net of the allowance for uncollectible accounts, is based upon retrospective review of data available after fiscal year-end and is accomplished via conversion adjustments recorded during preparation of the CAFR.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-005 – Municipal Court Fines  
(Continued)

Subsidiary software does not effectively maintain accounting period cut-off data. Due to system design and limitations of application software, integrity of cut-off reflected in periodic subsidiary detail reports is not preserved in reports generated after period end. Therefore, reports generated after period-end have limited value. During the course of our audit procedures, we noted that certain system-generated reports do not accurately reflect accounting period cut-off since records do not consistently or effectively capture dates upon which case fines legally attach or base balance calculations on dates of underlying transactions. Not only does this impair reliability of reports of outstanding balances, but lack of proper accounting period information also distorts any aging analyses of those outstanding balances. Aging analyses are required by law and are essential support for estimating collectability. However, we noted that the City was unable to readily provide or prepare effective aging analyses or other reports supporting collectability of accounts, such as detail of subsequent receipts for year-end balances outstanding or reliable collection trend data.

The City did not timely or effectively monitor data recorded into the subsidiary system or reports generated therefrom to ensure completeness, accuracy, or agreement to underlying records. Further, access to subsidiary computer system functions was not effectively restricted, and personnel duties were not adequately segregated to ensure that employees could not commit and conceal errors or irregularities. During the course of our audit procedures, we noted that no procedures are routinely performed to monitor accuracy or completeness of cases initially recorded into the subsidiary records maintained in specialized application software or to reconcile or monitor recorded activity in those cases. We further noted that the City did not prepare analyses or reconciliations of nonmonetary credits applied against fines for jail time served, community service, or house arrest, and other account adjustments were not monitored or reconciled. During the course of our audit procedures, we identified errors in subsidiary case data and balances, including duplicate cases, differences between physical records and subsidiary system records, and instances where the sum of detail field data did not agree to case balance fields.

*Cause:*

The City has not established appropriate procedures for accounting for Municipal Court fines in accordance with U.S. generally accepted accounting principles or Mississippi law.

The City did not maintain permanent dockets or minute records for the year ended September 30, 2015, as required by law and to provide support for verification of completeness of population of recorded cases.

City personnel responsible for Municipal Court accounting and case management lack sufficient skill, knowledge, and expertise to administer the process. City personnel lacked an understanding of basic requirements for accounting for Court fines in accordance with U.S. generally accepted accounting principles and Mississippi law.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-005 – Municipal Court Fines  
(Continued)

The City has not established and enforced effective segregation of duties for case management processes, including limiting access to information technology system functions.

Current application software used for case management and accounting is not adequate to meet requirements of State law, produce sufficient financial reports, or maintain an effective audit trail of activity and changes to data. Reports generated from the City's subsidiary Court system do not include sufficient information to establish accounting periods in which fines were earned, support accurate roll forward of case balances from period to period, or to provide a complete ledger of each type of activity recorded by case. Inherent limitations in current application software and its utilization severely impede the City's ability to prepare reports of activity by nature or to accurately roll-forward activity in overall account balances from period-to-period. The City has not established sufficient peripheral procedures to overcome limitations of its application software.

The City has no established verification and reconciliation processes related to overall Court case activity and does not require periodic generation, reconciliation, and retention of detail accounts receivable and activity reports. The City did not prepare interim or annual reconciliations or analyses of Court fines receivable or related assessments payable, compare recorded fines to underlying Court documents, or maintain an effective audit trail of account adjustments for the year ended September 30, 2015.

Factors used in determining net realizable value of fines receivable, including consideration of assessments payable, nonmonetary credits and subsequent collection activity, were not readily available, and no related estimates had been timely prepared.

*Effect:*

The City's systems and procedures for accounting for Municipal Court fines do not achieve effective control over completeness, accuracy, or cut-off of recorded amounts. Further, the City's procedures do not meet requirements of State Law.

Data deficiencies, system limitations, absence of effective procedures, and lack of effective oversight impede the City's ability to properly account for its fines revenues and assess collectability of its related receivable balances and State assessment obligations or to ensure accuracy and completeness of recorded and reported data. Failure to routinely generate, reconcile, review, and retain detail and summary reports at the end of each accounting period impairs the City's ability to timely detect and correct errors and irregularities.

Lack of proper oversight, inadequate segregation of duties, insufficiently skilled personnel, failure to maintain permanent records, and absence of routine verification and reconciliation procedures - individually and in combination - represent material weaknesses in internal controls over accounting for Municipal Court fines. As a result of deficiencies in the City's accounting policies and



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-005 – Municipal Court Fines  
(Continued)

procedures for Municipal Court fines, material adjustments were proposed by the auditor to properly recognize balances outstanding and activity for the fiscal year. Noted deficiencies in internal controls could result in material misstatement of the City's reported balances of fines revenue, net fines receivable, and State assessment liabilities.

*Identification of Repeat Findings:*  
2014-003

*Recommendation:*

The City should immediately develop a comprehensive plan for addressing deficiencies in its Municipal Court accounting systems and procedures. That plan should specify timelines and responsible parties for each task or phase. Status of progress should be reviewed periodically, but not less than monthly, by the Administration and key management personnel. The comprehensive plan should specifically address how and when compliance with State law will be achieved and maintained.

The City should immediately implement procedures for daily verification of case data entry and daily roll-forward of balances in fines and assessments. In addition, the City should immediately develop procedures to capture dates of legal attachment for all fines, as well as procedures to monitor that such data is timely and properly maintained.

The City should periodically, but no less than monthly, generate, reconcile, review, and retain monthly case detail and summary reports, including account agings. Periodic reconciliations and aging analyses should be reported to appropriate City management for review and approval. Periodic reports and related trends should be analyzed in assessing collectability and in estimating the allowance for doubtful accounts. The City should also consider periodically confirming outstanding State assessment balances with the appropriate State agencies and reconcile that information to City records or develop and implement other procedures to address accounting for State assessments.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on pages 147 – 148.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

**Finding:**

*Finding #:* 2015-006 - Water and Sewer Customer Accounts Receivable

*Finding Type:* Material weakness

*Criteria:*

Internal accounting controls should be sufficient to ensure that recorded Water and Sewer System customer accounts receivable are complete, accurate, properly valued, and reported in the proper period.

*Condition:*

The City's internal controls for recording and reconciling Water and Sewer customer account balances outstanding are not sufficient to ensure that account balances are accurate and reflect valid amounts receivable and that collectability is properly evaluated.

The City does not routinely perform reconciliations or analyses of customer receivable detail to ensure that periodic balances properly roll forward and to assess propriety of overall underlying adjustments to accounts.

Aged receivable reports do not segregate finance charges from service fees, thereby distorting brackets and limiting effectiveness for monitoring propriety of service cut-off and assessing overall collectability. Further, the City is unable to produce reliable reports of subsequent collections on year-end outstanding balances for utilization in assessment of collectability. In addition, the City had no formal documentation of methodology or calculations supporting its estimated allowance for doubtful accounts.

*Context:*

The City utilizes a discrete module of its general ledger accounting software for its Water and Sewer billing functions and to maintain customer account data. However, the general ledger system does not include an interface with that module or between cash basis and accrual basis data. Therefore, billing and receivable balances maintained in the separate module are not reflected in general ledger accounts.

Since the City manages its Water and Sewer accounts from operational and cash perspectives, its procedures related to customer receivables generally focus on triggers for service termination and management of cash receipts. In addition, City procedures address individual billing adjustments and corrections, as well as applications of meter deposits against final billing for terminated customers. However, the City does not routinely review, reconcile, or analyze aggregate Water and Sewer customer account receivables or assess overall collectability thereof. Since those procedures are not performed on an interim basis, the City does not require that interim receivable and aging

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-006 – Water and Sewer Customer Accounts Receivable  
(Continued)

reports be processed, analyzed, or retained. Due to software system limitations relating to period cut-off, subsidiary detail and activity reports cannot be accurately regenerated after the end of the relevant interim or annual period; therefore, the City cannot generate or reproduce accurate accounts receivable reports after the calendar period close. Thus, reports not routinely utilized in operations are not regularly available to support annual financial reporting or retrospective analysis.

*Cause:*

While the City routinely processes and reviews billing route reports and reports of unpaid accounts subject to service cut-off, City procedures do not require periodic generation, reconciliation, and retention of detail accounts receivable and activity reports. Periodic subsidiary detail reports may not be regenerated after period end due to application software limitations, so reliable reports cannot be subsequently produced to support retrospective analysis.

*Effect:*

Without timely reconciliations and agings of its customer account balances and related activity, the City cannot readily determine net realizable value of outstanding Water and Sewer customer accounts receivable as of fiscal year-end.

As a result of deficiencies in the City's accounting policies and procedures for accounting for Water and Sewer customer accounts, material adjustments were proposed by the auditor to properly recognize net realizable values of those accounts at fiscal year-end. In addition, lack of timely review and reconciliation of subsidiary account balances could allow errors to go undetected, and the effects of those errors could be significant.

*Identification of Repeat Findings:*

2014-003

*Recommendation:*

The City should implement procedures to routinely prepare and reconcile Water and Sewer customer accounts receivable activity and balances at each interim period. Periodically, at least annually, the City should prepare a formal analysis of collectability of outstanding balances in order to estimate the related allowance for doubtful accounts.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 148. See also auditors' rebuttal on page 154.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

**Finding:**

*Finding #:* 2015-007 – Water and Sewer Billings

*Finding Type:* Material weakness

*Criteria:*

Effective internal accounting controls should ensure that recorded transactions are complete and accurate. In order to ensure that the City bills for all Water and Sewer services to customers, procedures should include comparison of volumes processed to volumes billed, and differences should be timely investigated and resolved or explained.

*Condition:*

The City's internal controls do not include analysis of accounting data in conjunction with underlying operations data for Water and Sewer volumes processed and billed. Further, the City does not compare the volumes used by City facilities to total unbilled volume in order to identify adverse trends or anomalies which could identify major system breaches due to leaks or unauthorized tie-ins to City infrastructure. In addition, the City does not formally document, reconcile, and monitor adjustments to customer billings to ensure propriety and accuracy.

*Context:*

During the course of our audit procedures, we analyzed certain volume data for consistency with system billings and considered trends and reasonableness of unbilled volume percentages. We also considered periodic variances in system billings in total and by route.

The City was unable to explain increases in unaccounted for water volume or to readily provide amounts attributable to usage by City facilities. The City subsequently entered into a contract with a vendor to analyze system activity to identify unbilled or under-billed amounts. However, despite known deficiencies in control over completeness of billed volumes, the City had not completed metering City facilities or performed analyses of unbilled amounts attributable to such internal use.

*Cause:*

Certain City facilities are not metered for Water and Sewer volumes. Further, no periodic analysis or summaries of usage by the City's metered facilities is prepared or considered in overall analysis or review of volumes not billed, also known as "unaccounted for" volumes.

*Effect:*

As a result of ineffective control procedures, there is a risk that the City could fail to detect Water and Sewer usage at unmetered locations or significant leaks in City infrastructure. Unmetered usage would not be routinely billed by the City, resulting in failure to realize related revenues.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-007 – Water and Sewer Billings  
(Continued)

Unmanaged infrastructure leaks could lead to extensive repair and maintenance costs and increased damage to capital assets. The effects of unrealized revenues or unmanaged infrastructure problems could result in material loss of resources to the City.

*Identification of Repeat Findings:*  
2014-006

*Recommendation:*

We recommend that the City install meters at all City facilities to monitor Water and Sewer system volumes used. In addition, we recommend that the City generate periodic reports of City usage in order to monitor economic resources and system usage to facilitate effective management of “unaccounted for” volumes. The City should also establish thresholds for tolerable “unaccounted for” volumes and percentage changes. Analyses should be timely prepared and monitored, and variances outside tolerance limits should be investigated so that significant breaches from leaks, pipe tests, or unauthorized system access may be timely detected and addressed. The City should also consider allocating costs among user departments at established system rates in order to effectively manage departmental overhead and full cost.

*Views of Responsible Officials:*

The City’s Corrective Action Plan is presented on page 148.

**Finding:**

*Finding #:* 2015-008 – Water and Sewer Customer Meter Deposits

*Finding Type:* Material Weakness

*Criteria:*

Effective internal accounting controls should ensure that recorded liabilities for customer meter deposits accurately reflect detail balances and that activity in such accounts is properly recorded and reported.

*Condition:*

The City’s liability for customer meter deposits does not agree to its customer detail records, and no effective reconciliation has been performed. Monitoring is ineffective in identifying obvious errors in subsidiary detail records. In addition, meter deposits applied against customer account balances are not timely and effectively reconciled.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-008 – Water and Sewer Customer Meter Deposits  
(Continued)

*Context:*

The City does not routinely generate, reconcile, or review reports of Water & Sewer System customer meter deposit balances. Physical records are not periodically summarize or compared to electronic ledgers, and electronic subsidiary records are not periodically compared or reconciled to recorded general ledger control totals.

Historically, Water Billing Department personnel have been responsible for submitting reports of applied meter deposits to the Accounting Department so that such activity may be appropriately captured and recorded in the general ledger. However, cumulative errors have resulted from ineffective controls over this process. During the course of our audit procedures, the City acknowledged that relevant formation was not provided to the Accounting Department in certain prior periods and that the City had not undertaken steps to quantify unrecorded amounts of meter deposits applied.

Meter deposit rates vary by nature of customer and meter, and rates change from time to time pursuant to City Council action. However, the City has no effective procedures to ensure that amounts reflected in subsidiary account detail are reasonable. During the course of our audit procedures, we noted 2 instances of obvious overstatement of residential customer deposit amounts that had not been detected or corrected by the City. Such overstatements represented approximately 10% of the total subsidiary balance and approximately 7% of the recorded general ledger balance.

Although the City has physical and electronic subsidiary records and access to historical general ledger detail, it has not initiated a process to reconcile its general ledger balance of customer meter deposits to supporting detail.

*Cause:*

City procedures for reviewing customer meter deposit balances are not adequate to ensure that recorded amounts are reasonable and consistent with established rates. In addition, reconciliations of balances and periodic activity are not timely and routinely performed to ensure that recorded transactions are complete and accurate.

*Effect:*

The reported balance of customer meter deposits exceeds subsidiary detail, and the amount of the difference is material. The City has been unable to ascertain the cumulative amount of unrecorded applied meter deposits, which should have been recognized as income, or to identify the nature and amounts of other errors.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-008 – Water and Sewer Customer Meter Deposits  
(Continued)

*Recommendation:*

The City should immediately commence a review of its subsidiary records of customer meter deposit. Obvious errors should be corrected. The City should also analyze historical activity in its meter deposit account to identify periods in which applied meter deposits were not recorded, regenerate transaction reports for those periods, and prepare appropriate adjustments to recognize unrecorded activity.

The City should also implement procedures to routinely prepare and reconcile customer meter deposit activity and balances at each interim period.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 148.

**Finding:**

*Finding #:* 2015-009 – Capital Assets

*Finding Type:* Material weakness

*Criteria:*

Internal accounting controls over capital assets should be sufficient to ensure that such assets are properly recorded, depreciated, assessed for impairment, and reported. Costs of assets acquired or constructed should be capitalized in accordance with U.S. generally accepted accounting. Detail descriptions should be adequate to allow identification of specific underlying assets, and detail subsidiary ledgers should be timely reconciled to reported amounts. Detail records should include construction periods and dates placed in or removed from service. Disposals should be timely recognized and reported. Rights and obligations related to ownership and pledges of capital assets should be properly reported.

*Condition:*

The City's procedures and controls are not sufficient to ensure that all owned assets are properly recorded, that only assets owned by the City are included in reported capital assets, that acquisitions and disposals are reported in the appropriate periods, and that balances are reported in appropriate account captions pursuant to the cash, modified accrual, and accrual bases of accounting, and that commitments are appropriately disclosed.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-009 – Capital Assets  
(Continued)

The City's procedures and controls related to construction projects are not sufficient to ensure that all ongoing projects are identified, that criteria affecting interest capitalization are adequately identified and considered, and that appropriate costs are capitalized. Further, the City was unable to readily produce dates constructed assets, including assets transferred to the City by developers or other governmental entities, were acquired or placed in service.

The City did not properly capitalize certain professional fees in accordance with U.S. generally accepted accounting principles. Although the City was aware of material weaknesses in control over classification of such expenditures, it did not timely implement effective corrective action to determine amounts of misclassified expenditures in order to properly adjust accounts or prevent recurrence of such errors.

The City was unable to readily produce a schedule of open commitments and restrictions related to construction projects and capital assets as of its fiscal year-end.

*Context:*

The City's process for capturing additions to fixed assets does not ensure inclusion of contributed assets received or transfers of infrastructure from developers or other governmental entities. The City has historically relied upon its independent auditors to identify omissions of fixed assets and to propose audit adjustments for recognition of those assets. Since independent auditors may not be considered a part of an entity's internal control or accounting system, reliance on audit adjustments to capture fixed asset additions indicates a material weakness in internal controls over financial reporting.

The City has not routinely reconciled its capital outlay expenditures to its detail listing of additions to fixed assets and additional inventoried items which are below capitalization thresholds. In addition, the City does not routinely monitor assets acquired with grants or other restricted funds to ensure that any disposition of those assets is in accordance with terms of agreements and/or regulations and to ensure proper disclosure of commitments relating to those assets. Also, the City does not periodically assess its long-term assets, including but not limited to infrastructure, for impairment in order to determine whether adjustment to basis is necessary.

The City does not have a cohesive and comprehensive system of accounting for its construction project activity. In order to properly account for and report activity and balances related to construction projects, the City must maintain complete data reflecting costs invested to date and in the current period, distinguishing between costs to be capitalized and other expenses. Since individual expenditures for construction projects may be significant or material, it is important that the City capture and maintain not only dates of cash expenditures, but also accounting period data



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-009 – Capital Assets  
(Continued)

reflecting when underlying construction activity was performed. In addition, the City must maintain data regarding construction period commencement and completion dates for each significant project phase, whether assets were in service during construction, funding sources and related restrictions for each project or significant phase, and unexpended balances of awarded project contracts.

Management of City construction projects is performed by various departments based on the nature of the project and terms of related contracts and agreements. Each department has separately developed procedures for its management and oversight of projects, and such procedures are not consistent among departments. While cash transactions are processed through the general ledger accounting system and are therefore reflected in system-generated reports such as the trial balance, the City has no formal procedures for compiling periodic and cumulative cash basis summaries of project activity or for preparing necessary conversion adjustments for reporting pursuant to the modified accrual and/or accrual basis of accounting. Further, the City prepares no formal reconciliation of projects completed and placed in service to additions to its detail capital asset records. Additionally, certain projects of the Combined Water and Sewer System are subject to capitalization of interest on debt, and the City has no established procedures for identifying those projects or calculating and recording capitalized interest.

During the course of our audit procedures, we noted that detail depreciation schedules and other peripheral schedules did not reconcile to capital asset recorded amounts. During the course of testing, errors in cost basis of certain constructed assets were identified. Further, detail asset records included some items which had been disposed.

*Cause:*

The City does not maintain a comprehensive schedule of construction projects sufficient to support financial reporting in accordance with governmental accounting requirements.

The City did not routinely and formally reconcile capital asset subsidiary detail to its financial statements. Also, the City did not routinely capture construction period data or calculate construction period interest which should be capitalized for certain proprietary fund assets. City procedures do not permit disposing of assets from City records without Council approval; however, procedures in place were not sufficient to achieve timely identification of assets destroyed or lost in order to support preparation of a complete and accurate request for disposal approval by the Council.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-009 – Capital Assets  
(Continued)

*Effect:*

The City's procedures are not adequate to ensure that material transactions are reported in the proper accounting periods under the required bases of accounting, that material capital outlay expenditures are properly classified as capital expenditure or expense for modified accrual and accrual purposes, that interest is properly capitalized for proprietary fund projects, that underlying detail is timely reconciled to detect errors or irregularities, or that required disclosures are accurate and complete. Lack of procedures and controls to integrate information from various departments into the financial reporting process is indicative of internal control deficiencies related to the control environment, risk assessment, information and communication, monitoring, and reporting.

Deficiencies in the City's capital asset procedures directly contributed to extended delays in completion of the annual financial reporting process. Material adjustments were proposed by the auditor to properly capitalize costs of additions, including construction projects and assets conveyed to the City by developers and other governmental entities. Deficiencies in monitoring rights to ownership resulted in the City's capitalizing amounts to which it had no such rights, and material audit adjustments were proposed to correct that error. Other audit adjustments were proposed to recognize capitalized interest, recognize depreciation, and properly reflect reconciled balances of capital assets, net of accumulated depreciation. In addition, lack of adequate descriptions in detail asset records impairs the City's ability to effectively inventory its physical assets to ensure existence and appropriate consideration of impairment of value of recorded assets. Noted deficiencies could result in material misstatement of capital asset balances and related disclosures, as well as misstatements in reported professional fees and interest.

The City's deficiencies in procedures related to construction projects and capital assets indicate material weaknesses in internal controls over financial reporting.

*Identification of Repeat Findings:*  
2014-005

*Recommendation:*

The City should take immediate steps to develop and implement a comprehensive system for accounting for capital assets, including construction projects. This system should incorporate policies and procedures for initial identification of approved construction projects and acquisitions of assets achieved outside the routine cash disbursement process. In conjunction with this, the City should develop and implement a formal process through which appropriate documentation is timely transmitted to the Accounting Department for any contributions or transfers of fixed assets to the City. Such additions should be timely recorded in the accounting records, including both the

## City of Hattiesburg, Mississippi

### Schedule 4 - Schedule of Findings and Questioned Costs

#### **Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-009 – Capital Assets  
(Continued)

general ledger and subsidiary fixed asset records. Any restrictions on use or disposal should be communicated formally to the Accounting Department and incorporated into subsidiary fixed assets records to facilitate preparation of annual financial statements including disclosures.

Fixed asset subsidiary records should include adequate descriptions to allow management to identify specific asset items. These subsidiary records should be periodically reviewed by the management team to identify any assets no longer in service or assets with indicated impairment. Documentation should be submitted to the Accounting Department by the management team to support asset transfers or removal from service or to support impairment recognition adjustments. Assets awaiting City Council approval of removal from fixed asset accounts should be separately identified as not in use.

Additions to infrastructure should be reviewed and approved by the Public Works Department. Upon acceptance, detail of infrastructure additions should be formally communicated to the Accounting Department, including appropriate descriptions, dates placed in service, and cost basis. Cost basis of infrastructure additions should be supported by formal reconciliation to construction costs or payments to developers or other parties.

The City should immediately implement procedures to ensure that personnel responsible for coding and approving project expenditures are adequately trained and able to identify costs subject to capitalization. Criteria for capitalizing professional services should be specifically addressed in training and formal policies and procedures.

The City should designate an individual to be responsible for construction project financial reporting. That individual should have the authority to oversee departmental operations related to construction project accounting. A master schedule of projects and related contracts should be maintained by the designated individual and timely reviewed and approved by management. This master schedule should be utilized in periodic reconciliation and preparation of construction project financial reports and should facilitate achievement of completeness of data and propriety of cut-off reflected in such reports. All active projects should be included in the master schedule, regardless of department responsible for administration.

A formal process should be developed to account for construction projects, including use of templates with standard formats and protected formulas. This process should include specific procedures for capture of essential data related to awarded project contracts, including but not limited to, awardee, date awarded, current contract amount including approved change orders, commencement date, completion date, reporting requirements, and any significant funding or

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-009 – Capital Assets  
(Continued)

contractual restrictions. This process should be uniformly implemented by all departments responsible for project administration. Departmental personnel should be responsible for periodically submitting formal reconciled reports to the designated individual for review, monitoring, and integration into the City's financial reporting process. The designated person should submit periodic reports to the Mayor and/or his designee for incorporation into financial information provided to the City Council to ensure that those in governance are kept abreast of progress and the status of commitments. Periodic frequency of reporting should be determined by City management and should be no less often than quarterly.

Month-end construction project balances should be timely reconciled, and month-end reports should be retained. Periodic reconciliation processes should include roll-forward from prior periods, reconciliation to cash basis general ledger activity for the period, reconciliation to funding or disbursement request packages, preparation of necessary adjustments to address reconciling items, and evidence of review by management personnel.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 149.

**Finding:**

*Finding #:* 2015-010 – Preparation of Schedule of Expenditures of Federal Awards (SEFA)

*Finding Type:* Material Weakness

*Criteria:*

Pursuant to OMB Circular A-133, the City must present a complete and accurate schedule of expenditures of federal awards (SEFA) for the period covered by its financial statements. Determination of Federal expenditures must be made in accordance with relevant cost principles, terms of awards, and sources of expended funds. Circular A-133 further states that the period in which federal award expenditures are reported is determined by when the activity related to the award occurs. In preparing its SEFA as required under 2 CFR 200.302(b)(1), the City must identify all federal awards received and expended, as well as the federal programs under which they were received, and must be able to reconcile amounts presented in the financial statements to related amounts in the SEFA.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-010 – Preparation of Schedule of Expenditures of Federal Awards (SEFA)  
(Continued)

*Condition:*

The City did not timely prepare a complete and accurate SEFA for the year ended September 30, 2015. The basis used by the City to prepare its SEFA for fiscal year 2015 was not consistent with the accrual basis of accounting used in the prior year, and conversion effects were not appropriately adjusted. In addition, the City's process for identifying Federal expenditures was ineffective in distinguishing Federal and non-Federal costs to ensure that all Federal expenditures and only Federal expenditures were included in the SEFA. Certain program expenditures representing matching costs, unallowable costs, or additional costs were improperly included as Federal expenditures in the client-prepared SEFA.

*Context:*

In order to accurately and properly prepare its annual SEFA, the City must identify all Federal expenditures for the reporting period. This requires (1) identification of all Federal awards, (2) determination of program costs as allowable or unallowable, (3) classification of expenditures as paid with Federal funds, matching funds, or other funds, (4) reconciliation of expenditures to financial and program information, and (5) recognition of accruals based on dates of underlying activity. The City's financial reporting system does not contemporaneously capture and accumulate all necessary elements of transactions related to Federal awards. Instead, the City constructs its SEFA from data available in the general ledger system, cost reimbursement requests, and various departmental data.

The City relies heavily on its general ledger fund account structure to segregate and report Federal program expenditures. However, matching portions of program expenditures are generally not separately identified and maintained within the general ledger, and allowable costs are generally not segregated from unallowable costs. Further, some Federal programs are not maintained in discrete funds but are instead commingled with other transactions in various funds and accounts. Also, since the general ledger is maintained on a budgetary cash basis, accrual conversion adjustments are required for financial reporting purposes, including SEFA preparation. Those accrual adjustments are based on dates of underlying activity rather than expenditure date, and such information is not maintained within the general ledger system. Therefore, general ledger data alone is insufficient to support preparation of the SEFA. Peripheral schedules and data must be used extensively in order to produce a correct and accurate SEFA.

At such time as transactions are initiated, departmental personnel determine whether costs are allowable for Federal funding, whether match requirements apply, and appropriate account coding. However, departments do not routinely maintain schedules distinguishing Federal expenditures from non-Federal portions of program costs or routinely communicate such information to the Accounting Department in a manner that facilitates preparation and reconciliation of the SEFA.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-010 – Preparation of Schedule of Expenditures of Federal Awards (SEFA)  
(Continued)

Further, dates of underlying activities that trigger recognition of Federal expenditures were not contemporaneously captured during transaction processing. Such information in a usable format is essential to the SEFA preparation process.

*Cause:*

Financial reporting requirements are not adequately addressed in grant administration policies and procedures. The City maintains no comprehensive schedule of its Federal awards or status thereof in order to assure completeness of the SEFA. Further, the City's general ledger and organizational structure do not facilitate determination or reconciliation of Federal expenditures apart from non-Federal expenditures.

The City does not contemporaneously maintain a comprehensive schedule of Federal awards, or activity therein, throughout the fiscal year. Further, the City does not effectively coordinate its grant program delivery, compliance management, and financial reporting activities into a cooperative and cohesive grant administration process. Federal awards are administered in various departments with no cohesive oversight, review, or monitoring as a whole. Although cash basis transactions are recorded in the general ledger as they occur, transaction detail does not fully segregate Federal expenditures from non-federal expenditures or identify the period in which the expenditure activity occurred. Account and fund structure are not adequate to readily distinguish and segregate Federal expenditures from those pertaining to match requirements or other program costs. Therefore, Federal expenditures and related costs funded by matching efforts or other sources cannot be readily determined solely from general ledger fund accounts utilized in transaction processing. Instead, manual procedures must be used to identify Federal expenditures, related matching funds, and other program costs in order to compile the SEFA. Such manual procedures are time-consuming and demand personnel resources generally devoted to ongoing operations of the City. Decentralized grant administration, inconsistencies in recordkeeping among divisions and departments, and failure to appropriately capture transaction accounting dates and funding sources exacerbate the issue.

During the year ended September 30, 2015, the City did not maintain grant data in a manner conducive to preparation of the SEFA. Data necessary for determining Federal portions of program expenditures and for establishing accounting period cut-off of such expenditures was not contemporaneously captured and maintained or routinely reconciled and reviewed at interim. Therefore, such data was not readily available at year-end to support the SEFA preparation process.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-010 – Preparation of Schedule of Expenditures of Federal Awards (SEFA)  
(Continued)

Decentralization of grant management and inadequate training of personnel responsible for transaction recordkeeping and reporting hinder the City's ability to prepare a timely, complete, and accurate SEFA. While personnel in each division or department are responsible for specific program functions, each department's operations are virtually autonomous and segregated from functions performed by personnel in other departments. Lines of responsibility and authority are not consistent in grant accounting and reporting. Although the Accounting Department is responsible for preparation of the SEFA, transaction initiation and coding, determination of allowable costs, and compliance with match requirements are functions of various other departments which administer Federally-funded programs. Under the City's current structure and process, the Accounting Department is responsible for SEFA preparation but has no authority over departments maintaining program records and no control over data maintained therein.

*Effect:*

The City is unable to properly identify Federal expenditures and prepare a complete and accurate SEFA on a timely basis or to demonstrate that its SEFA properly reconciles to the financial statements or relevant underlying records.

The nature and quality of underlying data impede reconciliation, adjustment, and completion of the SEFA. Adjustments to achieve proper accounting period cut-off and to properly exclude non-Federal expenditures from program costs for the year ended September 30, 2015 indicate material weaknesses in internal controls over SEFA reporting.

*Recommendation:*

Correlation of program delivery, compliance management, and financial reporting functions is essential to allow timely and effective assessment of compliance and adequacy of procedures. Therefore, the City should immediately implement procedures to identify all Federal awards and should establish a comprehensive schedule in which to track activity therein. The City should designate a responsible party for maintaining this schedule and should establish appropriate lines of authority consistent with this responsibility. The City should also immediately enhance its transaction processing procedures to incorporate the capture and maintenance of accounting period data of all Federal award transactions based on dates of occurrence of underlying activity. Procedures should also be developed and implemented to contemporaneously distinguish Federal and non-Federal expenditures. Non-federal expenditures should be further segmented to distinguish matching costs, unallowable costs, and other costs. Summaries of Federal and non-federal expenditures, by category, should be periodically prepared for each Federal award program and formally reconciled to the general ledger and program reports at least quarterly. Interim and



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section II: Financial Statement Findings (Continued)**

*Finding #:* 2015-010 – Preparation of Schedule of Expenditures of Federal Awards (SEFA)  
(Continued)

annual reports and reconciliations should be reviewed by management personnel with an appropriate level of oversight authority. Such review should include comparison of reconciled expenditure reports to the comprehensive schedule of Federal awards and grants.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 149.



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs**

**Finding:**

*Finding #:* 2015-011 – Cash Management (C): Timing of Reimbursement Request Submissions

*Finding Type:* Material Weakness

*Program Tested:* CFDA No. 20.205: Highway Planning and Construction:  
U. S. Department of Transportation Federal Highway  
Administration Pass-Through from Mississippi  
Department of Transportation

*Criteria:*

The requirements for cash management are contained in the A-102 Common Rule ((§\_\_\_\_.21), OMB Circular A-110 (2 CFR section 215.22), 45 CFR 74.22, 45 CFR 92.21, Treasury regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and conditions of the award. Non-federal entities shall include in their internal controls policies and procedures designed to allow for compliance with applicable cash management requirements. Pursuant to Subpart A, section 205.12(5), under reimbursable funding programs, Federal funds are remitted after program expenditures have been paid.

*Condition:*

During the fiscal year ended September 30, 2015, the City received Federal reimbursements through the Mississippi Department of Transportation (MDOT) for expenditures that had not yet been paid by the City at the time the reimbursements were received. Reimbursement requests were prepared and submitted on behalf of the City by third-party consulting engineers, and the City did not have sufficient controls over outsourced functions to ensure compliance with requirements that reimbursements be requested only after expenditures had been paid.

*Questioned Costs:*

Undetermined

*Context:*

During the course of our audit procedures, we performed tests of compliance with cash management requirements that expenditures be paid before reimbursements requests were submitted to the funding agency. Out of thirteen (13) tested items, we identified one (1) reimbursement totaling \$5,425 which the City received from MDOT before payment was made to vendors by the City for the underlying expenditures. Such exceptions represented approximately 8% of the number of items tested and approximately 2% of the total dollar amount tested. While the dollar amount of tested items which were prematurely reimbursed is insignificant, the deficiencies in the City's tracking and monitoring systems could allow material amounts to be requested for reimbursement before underlying costs have actually been paid to vendors.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-011 – Cash Management (C): Timing of Reimbursement Request Submissions  
(Continued)

*Cause:*

The City utilizes services of third-party consulting engineers for management of certain Highway Planning and Construction projects. The City permits those consulting engineers to review and approve project invoices received from vendors, after which the invoices are submitted to the Engineering Department of the City for payment processing. The consulting engineers also prepare related requests for reimbursement of costs from Federal grant funds and submit those requests directly to MDOT. In some cases, the consulting engineers have submitted invoices to the City for payment at the same time they submitted reimbursement requests to MDOT. Under this procedure, the City would not have had the invoice available for processing before the reimbursement request was submitted, so the expenditure could not have been paid at the time of such request. This demonstrates that both the design and execution of the reimbursement request process are inadequate to ensure that costs are paid before reimbursement requests are submitted to the funding agency. This weakness is exacerbated by the intermittent nature of the City's payable processing system, which consists of biweekly batch preparation of disbursements that are released upon City Council approval. The nature and frequency of batch processing and payment release inherently affects turnaround time from invoice receipt to vendor payment. Because of intermittent batch processing, risk is increased that MDOT may process reimbursement requests before the City processes invoice payments. This increases the risk that remittances may be received by the City before expenditures are actually paid. Further, since vendor checks are processed and electronically dated and signed before payments are approved by the City Council for release to vendors and since recorded payment dates reflect check dates rather than payment release dates, readily available system-generated reports provide insufficient basis for determining when payments to vendors have actually been effected.

In addition, the City lacks a comprehensive grant management system through which it initially determines whether costs are allowable under Federal programs and determines any related matching obligations; tracks disbursements, requests for reimbursements, and receipt of reimbursements; and identifies and assigns costs used to meet matching requirements. Schedules are not maintained in a manner that facilitates monitoring and management review of compliance with cash management requirements related to reimbursement-based grants in order to timely detect and correct any noncompliance.

*Effect:*

City procedures did not effectively ensure that only paid expenditures were submitted to MDOT for reimbursement from Federal grant funds. As a result, the City prematurely received reimbursements for transactions totaling \$106,220. While the City subsequently paid vendors for the reimbursed costs, its process resulted in noncompliance with requirements that only paid expenditures be submitted for reimbursement. Noncompliance with grant requirements could result in questioned cost or could jeopardize the City's access to funding.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-011 – Cash Management (C): Timing of Reimbursement Request Submissions  
(Continued)

*Identification of Repeat Findings:*  
2014-007

*Recommendation:*

The City should implement policies and procedures to ensure that project costs are paid before related requests for reimbursement are submitted to its funding agency, regardless of whether reimbursement requests are submitted directly by the City or by a third party. Payment release dates should be captured in grant administration records and should be provided to consulting engineers to authorize their submission of reimbursement requests. In addition, the City should monitor dates of release of expenditures and reimbursement request submissions to ensure that controls over cash management compliance are effective.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 150.

**Finding:**

*Finding #:* 2015-012 – Subrecipient Monitoring (M)

*Finding Type:* Material Weakness

*Program Tested:* CFDA No. 14.218: CDGB Entitlement Grants – Cluster:  
Community Development Block Grants/Entitlement Grants  
U.S. Housing & Urban Development Pass-  
through from Governor's Department of HUD

*Criteria:*

Pursuant to Subpart J of 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," which applies to CDBG grants, grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities and must monitor subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity. Additional requirements for subrecipient monitoring are contained in OMB Circular A-133, Subpart D, § .400(d), § .500(d) and 24 CFR 92.506 and compliance with CDBG Guidebook for Grantees on Subrecipient Oversight. The City, as grantee, is required to

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-012 – Subrecipient Monitoring (M)  
(Continued)

develop a monitoring and tracking system for monitoring subrecipients' compliance with the Single Audit Act of 1996 as contained in OMB Circular A-133. While data may be contained in individual files, certain elements must be compiled and tracked within a tracking system, such as in a spreadsheet, so that audit compliance can be verified and easily reviewed in a single location.

*Condition:*

During the fiscal year ended September 30, 2014, the City did not maintain a tracking and monitoring system that provided a single location for verifying and reviewing specified elements of its subrecipients' compliance with the requirements of the Single Audit Act of 1996 as contained in OMB Circular A-133 and compliance with the CDBG Guidebook for Grantees on Subrecipient Oversight. Although certain data is maintained in individual files, the City did not have a system for overall tracking and monitoring as required by the Single Audit Act and as reiterated as an area of concern in a Monitoring Review Report issued by the U. S. Department of Housing and Urban Development (HUD) in September 2014. The City had no effective process to ensure that all data necessary for adequately monitoring each and every subrecipient's activity was obtained and reviewed for compliance. Despite the City's awareness of deficiencies in its tracking and monitoring system, it failed to take appropriate corrective action and implement required procedures in a timely manner.

*Questioned Costs:*

Undetermined

*Context:*

As a Federal grantee, the City is responsible for managing the day-to-day operations of grant and subgrant supported activities and must monitor subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity. In performing our fiscal year 2015 audit procedures, which included examination of program and activities files for the projects and activities selected for testing, we noted that the City had not developed or implemented the required compliance monitoring and tracking system so that subrecipients' compliance with program policies and procedures and the requirements contained in the Single Audit Act of 1996 as contained in OMB Circular A-133 could be verified and easily reviewed in a single location. No comprehensive schedule was available listing all subrecipients, amounts of funds passed through to those subrecipients, terms and conditions of such amounts, or subrecipient compliance and reporting requirements. Therefore, the City had no mechanism to readily identify elements to be subjected to monitoring procedures for each subrecipient. The City was unable to readily demonstrate the sufficiency of its overall or individual subrecipient monitoring activities.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-012 – Subrecipient Monitoring (M)  
(Continued)

During the prior fiscal year, which ended September 30, 2014, the City experienced significant personnel turnover in its Department of Federal and State Programs. The City determined that such turnover resulted in failure to implement and maintain an appropriate tracking and monitoring system for subrecipient compliance with the Single Audit Act of 1996 as contained in OMB Circular A-133. However, the City was made aware of deficiencies in its tracking and monitoring system during 2014 in the course of HUD monitoring activities. As of the date of our fiscal year 2015 procedures, which were performed subsequent to September 30, 2015, the City had not yet implemented an appropriate tracking and monitoring system.

The City did not maintain appropriate evidence of final certification of inspections or progress inspections for one of seven subrecipients tested. In addition, the City did not perform site visits for two out of five subrecipients for which project duration was long enough to allow such inspections, but instead relied solely on desk audit procedures for those entities.

For one of seven tested subrecipient programs, the City was not able to produce the final report pursuant to CDBG regulations at 24 CFR 570.200(a), which describes how each program participant is required to maintain records that fully describe the assisted activity, including related financial and eligibility information. For one other subrecipient of the seven selected for testing, the final report was delinquent and did not include appropriate accomplishment data and detail as required by the subrecipient agreement. City monitoring procedures did not detect subrecipient noncompliance with reporting requirements.

Review of subrecipient agreements identified certain provisions other than deed restrictions through which additions to property and equipment became property of or would revert to the City. Four of seven agreements tested had such provisions, but the City had not identified any related monitoring responsibilities.

*Cause:*

The City's risk assessment processes and controls over compliance with requirements related to Federal programs were insufficient to ensure that necessary corrective action was timely taken in response to known deficiencies, including those previously reported in HUD monitoring reports. In addition, the City did not have an effective process for maintaining and monitoring subrecipient award data or for reviewing subrecipient contracts and agreements to identify provisions which should be separately tracked and monitored for compliance with Federal regulations.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-012 – Subrecipient Monitoring (M)  
(Continued)

*Effect:*

The City's procedures for subrecipient monitoring are not adequate to assure compliance of subgrant supported activities with applicable Federal requirements and that program performance goals are being achieved. The City's related internal controls over compliance with its subrecipient monitoring requirements are not sufficient to ensure that necessary monitoring activities are consistently performed on a timely basis. As a result of deficiencies in its procedures and its documentation of monitoring activities and results, the City cannot readily demonstrate that subrecipients have complied with program and reporting requirements and that the City has appropriately managed the day-to-day operations of grant and subgrant related activities. The combination of deficiencies in the City's internal controls over compliance with subrecipient monitoring requirements represents a material weakness in such requirements.

*Identification of Repeat Findings:*  
2014-008

*Recommendation:*

The City must implement and maintain an appropriate subrecipient tracking and monitoring system in order to meet its requirements for subgrantee monitoring. The City should also review its existing policies and procedures and enhance its process for identifying requirements imposed on its subrecipients by agreements, contracts, and program specifications so that appropriate monitoring procedures may be developed and incorporated into internal controls over compliance.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 150.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

**Finding:**

*Finding #:* 2015-013 – Federal Expenditure Management (A/B, C, G, H, L)

*Finding Type:* Material Weakness

*Programs Tested:* CFDA No. 14.218: CDGB Entitlement Grants – Cluster:  
Community Development Block Grants/Entitlement Grants  
U.S. Housing & Urban Development Pass-  
through from Governor’s Department of HUD

Section 200.300 of 2 CFR, Subpart D – Post Federal Award Requirements, requires Federal costs to be identified in accordance with cost principles and grant requirements. Financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program specific terms and conditions and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. The financial management system must provide for identification of the Federal program, CFDA title and number, award identification number and year, named of the Federal agency and any pass-through entity, as well as accurate, current, and complete disclosure of financial results of each Federal award of program. Records must adequately identify the source and application of funds for federally-funded activities and must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest, and such information must be supported by source documentation.

*Condition:*

Federal and non-Federal expenditures were not readily identifiable from grant records maintained by the City for the year ended September 30, 2015. Costs allowable and not allowable are not specifically identified in financial records or reconciled to reimbursement requests. Category of cost, such as program delivery or administrative cost, is not initially captured upon recording expenditures in the City’s financial records, and adjustments to classifications are not timely reconciled to underlying accounts or submitted reimbursement requests. Transaction dates are based on cash payment processing, and payment release dates and service periods for underlying costs are not readily determinable.

*Questioned Costs:*

Undetermined

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-013 – Federal Expenditure Management (A/B, C, G, H, L)  
(Continued)

*Context:*

The City utilizes fund accounts in its general ledger system to capture, maintain, and report activity related to its grant programs. The City also utilizes peripheral manual and electronic applications in its grant administration process. However, these procedures do not readily provide data necessary to distinguish Federal expenditures from non-Federal costs incurred. Total program cost is not segregated between allowable and unallowable costs, and expenditures of Federal funds are not segregated from costs funded by matching funds or other funds. Further, expenditures are captured solely on a cash basis, and dates of underlying activity are not contemporaneously captured to identify expenditure date for Federal purposes.

*Cause:*

The City's general ledger system structure lacks complexity necessary to capture all accounting data related to Federal program expenditures, and peripheral systems and procedures are not sufficient to readily fill the gap in that data so that all categories of costs of Federal programs may be readily identified and reported.

*Effect:*

The City was unable to readily segregate Federal from non-Federal program expenditures or reconcile reimbursement requests to specific Federal expenditures.

*Recommendation:*

The City should immediately implement procedures to maintain comprehensive schedules of program expenditures that distinguish Federal and non-Federal expenditures and identify matching funds provided. Reconciliations of Federal expenditures to allowable costs and total program expenditures should be timely performed and monitored. Reimbursement requests should be reconciled to supporting schedules of Federal expenditures, and appropriate cut-off should be established for periodic reporting.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 150.



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

**Finding:**

*Finding #:* 2015-014 – Reporting (L)

*Finding Type:* Material Weakness

*Program Tested:* CFDA No. 20.106: FAA Airport Improvement Plan:  
U. S. Department of Transportation Federal Aviation  
Administration

*Criteria:*

The requirements for reporting are contained in OMB Circular A-133, Subpart L, §.400 (d), §.500 (d) and 24 CFR 92.506, the FAA Airport Improvement Plan Handbook, and conditions of the award. Pursuant to such guidance, annual reports must be submitted at least every 12 months starting from the date of grant acceptance. Annual Federal Financial Report form SF-425, or equivalent, must be submitted no less than 90 working days after the end of each fiscal year, and a final form SF-425 must be filed upon close-out of each grant. Once a final report is submitted with the grant closeout, no additional reports are due at the end of the fiscal year for that grant. FAA Form 5370-1 Construction Progress and Inspection Report, which satisfies the performance reporting requirement, must be submitted within 30 days of the end of each quarter until the construction project is completed. Within 90 days of final payment to contractors for each grant project, final form SF-271 Outlay Report and Request for Reimbursement for Construction Programs, or its equivalent, summarizing final project costs must be filed.

*Condition:*

During the fiscal year ended September 30, 2015, the City did not file required annual Federal Financial Report forms SF-425 or alternative annual forms SF-271 Outlay Report and Request for Reimbursement for Construction Programs for any of the three (3) grants selected for testing. In addition, the City failed to timely file forms SF-271 to close out either of two (2) grants which had been completed. Further, one required final report was not timely filed. Also, none of nine filed quarterly reports were submitted timely, and one additional delinquent quarterly report had not yet been filed as of the date of this report. Thus, none of the ten required quarterly reports for FAA Airport Improvement Program grants were timely submitted. Also, since quarterly reports must be filed until each grant's final report is filed, two (2) additional quarterly reports should have been filed for grants for which final reports were not timely submitted.

*Questioned Costs:*

Undetermined

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-014 – Reporting (L)  
(Continued)

*Context:*

Pursuant to FAA Airport Improvement Program guidance, quarterly and annual reports must be submitted for all active grants. These reporting requirements continue until appropriate grant close-out procedures and reports have been completed. The City relied on third party consultants to prepare and submit its FAA Airport Improvement Program reports and did not obtain, maintain, or monitor submitted reports or timeliness of such submissions. Correspondence obtained from FAA representatives in conjunction with independent audit procedures affirmed the City's noncompliance with its reporting requirements.

*Cause:*

The City's grant administration process is decentralized and lacks effective controls to ensure that required reports are timely filed with funding agencies. The City's lack of centralized oversight over Federal programs, use of formal tracking systems, and timely and periodic monitoring of compliance with reporting requirements result in risk that individual grant administrators may fail to timely file required reports and that such noncompliance may not be timely detected through routine procedures. Personnel turnover and lack of formal and structured procedures exacerbated deficiencies in the City's controls over maintaining compliance with grant reporting requirements.

*Effect:*

The City failed to comply with certain reporting requirements related to its FAA grant programs. Failure to maintain compliance with grant requirements could result in questioned costs or could jeopardize the City's access to funding.

*Recommendation:*

The City should designate a responsible party to be in charge of maintaining compliance with Federal reporting requirements. The City should also review existing policies and procedures, identify and assess specific deficiencies, and develop enhanced procedures for maintaining and monitoring compliance with reporting requirements. Such procedures should include the use of checklists and tracking schedules and should require documentation of periodic management review.

*Views of Responsible Officials:*

The City's Corrective Action Plan is presented on page 151.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

**Finding:**

*Finding #:* 2015-015 – Non-compliance resulting from deficiencies in financial statement internal control over timeliness of financial reporting (L)

| CFDA # | Major Programs   | Finding Type:                             |   |
|--------|--|---|---|
|        |  | Material weakness/ material noncompliance | Significant deficiency/ significant noncompliance |
| 14.218 | Community Development Block Grants/Entitlement Grants                | X   |   |
| 14.228 | Katrina Community Revitalization - USA Yeast Wastewater Pretreatment | X   |   |
| 20.106 | Airport Improvement Program  | X   |   |
| 20.205 | Highway Planning and Construction                                    | X   |   |

*Criteria:*

According to the OMB Circular A-133, Subpart B--Audits § \_\_\_\_.200(a), and Uniform Guidance, 2 CFR 200.501(a), non-Federal entities that expend \$500,000 (\$750,000 for fiscal years beginning on or after December 26, 2014) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of these parts. Guidance on determining Federal awards expended is provided in § \_\_\_\_.205 and 2 CFR 200.502. The audit package and the data collection form shall be submitted 30 days after receipt of the auditor's report(s), or 9 months after the end of the fiscal year —whichever comes first – pursuant to OMB Circular A-133 § \_\_\_\_.320 (a) and Uniform Guidance 2 CFR 200.512(a).

*Condition:*

The City's audit packages for the fiscal years ended September 30, 2014 and September 30, 2015 were not timely submitted to the Federal Audit Clearinghouse.

*Questioned Costs:*

Undetermined

*Context:*

See Financial Statement Finding 2015-003.

*Cause:*

See Financial Statement Finding 2015-003.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-015 – Non-compliance resulting from deficiencies in financial statement internal control over timeliness of financial reporting (L)  
 (Continued)

*Effect:*  
 The City did not comply with Federal Single Audit requirements for timely submission of its audit package.

*Recommendation:*  
 See Financial Statement Finding 2015-003.

*Views of Responsible Officials:*  
 The City’s Corrective Action Plan is presented on page 151.

**Finding:**

*Finding #:* 2015-016 – Non-compliance resulting from deficiencies in financial statement internal control over financial statement adjustment, close, and disclosure (A/B, C, G, H, L)

| CFDA # | Program   | Finding Type:                             |   |
|--------|---|---|---|
|        |   | Material weakness/ material noncompliance | Significant deficiency/ significant noncompliance |
| 14.218 | Community Development Block Grants/Entitlement Grants | X   |   |
| 20.106 | Airport Improvement Program                           | X   |   |
| 20.205 | Highway Planning and Construction                     |   | X   |

*Criteria:*  
 According to the OMB Circular A–133, Subpart C--Auditees § \_\_\_\_.300(a)-(, the auditee shall identify, in its accounts, all Federal awards received and expended ant the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The auditee shall also maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-016 – Non-compliance resulting from deficiencies in financial statement internal control over financial statement adjustment, close, and disclosure (A/B, C, G, H, L)  
(Continued)

effect on each of its Federal programs and prepare appropriate financial statements, including the schedule of expenditures of Federal awards. In addition, OMB Circular A-133, Subpart C--Auditees § \_\_\_\_.310 requires the auditee to provide total Federal awards expended in accordance with Subpart B § \_\_\_\_.205, which requires the determination to be based on when the activity related to the award occurs. Further, Title 2: Grants and Agreements, PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS, Subpart D—Post Federal Award Requirements section 200.302(b), each non-Federal entity's financial management system must provide accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the appropriate reporting requirements, including distinguishing allowable costs from costs not allowable, direct costs from indirect costs, and Federal expenditures from costs paid to meet match requirements or paid from other non-Federal funds.

*Condition:*

The City did not contemporaneously distinguish allowable Federal program costs from ineligible costs, distinguish Federal expenditures from non-Federal expenditures, or specifically identify costs used to meet match and cost-sharing requirements. In addition, the City had no effective processes to ensure that direct and indirect costs were treated consistently among all Federal awards administered by various City departments.

*Questioned Costs:*

Undetermined

*Context:*

See Financial Statement Finding 2015-004.

*Cause:*

See Financial Statement Finding 2015-004.

*Effect:*

The City could not readily produce schedules of its Federal program costs, obligated funds, or funds receivable. Further, the City could not reconcile obligated, expended, received, and available Federal funds to its accounting records.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-016 – Non-compliance resulting from deficiencies in financial statement internal control over financial statement adjustment, close, and disclosure (A/B, C, G, H, L)  
 (Continued)

*Recommendation:*  
 See Financial Statement Finding 2015-004.

*Views of Responsible Officials:*  
 The City’s Corrective Action Plan is presented on page 151.

**Finding:**

*Finding #:* 2015-017 – Non-compliance resulting from deficiencies in financial statement internal control over capital assets (A/B, F)

| CFDA # | Programs Tested  | Finding Type:                                   |  |
|--------|--|---|--|
|        |  | Material weakness/<br>material<br>noncompliance | Significant<br>deficiency/<br>significant<br>noncompliance |
| 14.218 | Community Development Block Grants/Entitlement Grants                | X   |  |
| 14.228 | Katrina Community Revitalization - USA Yeast Wastewater Pretreatment | X   |  |
| 20.106 | Airport Improvement Program  | X   |  |
| 20.205 | Highway Planning and Construction                                    | X   |  |

*Criteria:*  
 Pursuant to Department of Transportation Cross-Cutting Section compliance requirements and A-102 Common Rule (§\_\_\_.31-32), non-Federal entities must meet certain requirements for maintaining and disposing of equipment and real property. In addition, costs incurred for capital assets are subject to cost principles per Section 200.300 of 2 CFR, Subpart D – Post Federal Award Requirements.

*Condition:*  
 The City does not adequately account for its capital projects funded by Federal awards. Project detail records do not adequately identify allowable and unallowable costs or matching fund obligations, and Federal and non-Federal expenditures are not effectively segregated or reconciled

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-017 – Non-compliance resulting from deficiencies in financial statement internal control over capital assets (A/B, F)  
(Continued)

to reimbursement requests. The City does not effectively monitor its capital project cost reimbursement requests prepared by third party service providers or recalculate and reconcile Federal costs to those reimbursement requests. The City does not critically evaluate the terms of its Federal awards and agreements related to property ownership and reversionary provisions in order to assess its rights and obligations under such agreements and to ensure that capital assets and commitments are properly monitored.

In addition, the City could not readily provide a list of assets subject to reversionary provisions if not continually used for appropriate program purposes and therefore could not demonstrate effective monitoring of ongoing use of such Federally-funded assets.

*Questioned Costs:*  
Undetermined

*Context:*  
See Financial Statement Finding 2015-009.

*Cause:*  
See Financial Statement Finding 2015-009.

*Effect:*

The City may be subject to disallowed costs or obligations under reversionary provisions for assets acquired or constructed using Federal funds, and the amounts of potential disallowed costs could be material.

*Recommendation:*  
See Financial Statement Finding 2015-009.

*Views of Responsible Officials:*  
The City's Corrective Action Plan is presented on page 152.

**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

**Finding:**

*Finding #:* 2015-018 – Non-compliance resulting from deficiencies in financial statement internal control over preparation of Schedule of Expenditures of Federal Awards (SEFA) (A/B, C, G, H, L)

| CFDA # | Programs Tested  | Finding Type:                                   |  |
|--------|--|---|--|
|        |  | Material weakness/<br>material<br>noncompliance | Significant<br>deficiency/<br>significant<br>noncompliance |
| 14.218 | Community Development Block<br>Grants/Entitlement Grants | X   |  |
| 20.106 | Airport Improvement Program                              | X   |  |
| 20.205 | Highway Planning and Construction                        | X   |  |

*Criteria:*

Section 200.300 of 2 CFR, Subpart D – Post Federal Award Requirements, requires Federal costs to be identified in accordance with cost principles and grant requirements. Financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program specific terms and conditions and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. The financial management system must provide for identification of the Federal program, CFDA title and number, award identification number and year, named of the Federal agency and any pass-through entity, as well as accurate, current, and complete disclosure of financial results of each Federal award of program. Records must adequately identify the source and application of funds for federally-funded activities and must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest, and such information must be supported by source documentation.

*Condition:*

The City could not readily produce a schedule of expenditures of Federal awards or reconcile Federal costs to total costs of the related project or program.

*Questioned Costs:*

Undetermined

*Context:*

See Financial Statement Finding 2015-010.



**City of Hattiesburg, Mississippi**  
**Schedule 4 - Schedule of Findings and Questioned Costs**

**Section III: Federal Awards Findings and Questioned Costs (Continued)**

*Finding #:* 2015-018 – Non-compliance resulting from deficiencies in financial statement internal control over preparation of Schedule of Expenditures of Federal Awards (SEFA) (A/B, C, G, H, L)  
(Continued)

*Cause:*  
See Financial Statement Finding 2015-010.

*Effect:*  
The City was unable to prepare a complete and accurate schedule of Federal expenditures which reconciled to underlying financial records on a timely basis.

*Recommendation:*  
See Financial Statement Finding 2015-010.

*Views of Responsible Officials:*  
The City's Corrective Action Plan is presented on page 152.

**CITY OF HATTIESBURG, MISSISSIPPI**

**AUDITEE CORRECTIVE ACTION PLAN**

**Year Ended September 30, 2015**



MAYOR  
*Toby Barker*

COUNCIL - WARD ONE  
*Jeffrey George*

COUNCIL - WARD TWO  
*Deborah Denard Delgado*

COUNCIL - WARD THREE  
*Carter Carroll*

COUNCIL - WARD FOUR  
*Mary Dryden*

COUNCIL - WARD FIVE  
*Nicholas Brown*

October 25, 2017

The City of Hattiesburg respectfully submits the following corrective action plan for the year ended September 30, 2015.

Carr, Riggs, & Ingram, LLC  
P. O. Box 2418  
Ridgeland, MS 39158-2418

Audit Period: September 30, 2015

The findings from the September 30, 2015 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Corrective Action Plan for Financial Statement Findings

2015-001 Entity-Level Control Environment and risk Assessment Processes

The City's Administration acknowledges the importance of the control environment and, in particular, the organizational structure, with the assignment of authority and responsibility in addressing risks relevant to the achievement of financial reporting objectives. The incoming Administration has initiated an entity-wide assessment of the existing organizational structure, and establishment and monitoring of internal controls will be an inherent component of this assessment. We expect this process to be completed by late fall, 2017.

Name of Responsible Person: Ann Jones, Chief Administrative Officer; Connie Everett, Chief Financial Officer

Name of Department Contact: Ann Jones, Chief Administrative Officer

Expected Date of Completion: Fall, 2017

2015-002 Entity-Level Information, Communication and Monitoring

**Please note in the section "Views of Responsible Officials": The City agrees with this finding in general, but with certain qualifications.**

As noted in Finding 2015-002, the City "utilizes a centralized system of accounting for its budgetary cash basis transactions." This accounting system has consistently allowed for the accurate and timely financial reports that provide, at all times, a reliable monitoring of the City's compliance with its legally adopted budgets. There will typically be significant conversion procedures at year-end that are necessary for financial reporting purposes, and this will, we believe, be the norm for most local

governments as opposed to the “periodic accounting cut-off data for conversion from budgetary cash basis to financial reporting basis.”

The Administration’s efforts to promptly assess the existing internal control structure will incorporate the identification of opportunities to improve upon the production of financial information pursuant to specific items noted in Finding 2015-002. Some items, such as list of active Federal awards, will be implemented immediately. Other items, such as a list of debt compliance, have always been readily available.

Name of Responsible Person: Connie Everett, Interim Chief Financial Officer  
Name of Department contact: Lisa Hanson, Comptroller  
Expected Date of Completion: Fall, 2017

2015-003 Timeliness of Financial Reporting

As noted in the City’s response to Finding 2015-002, the City’s accounting system does provide reliable and timely budget basis financial reporting. The Administration is committed to facilitating procedures that will allow for the financial reporting accounting conversion process at year-end to be completed on a timely basis in order to allow for the City to meet all financial reporting deadlines.

The incoming Administration acknowledges that there are important reporting deadlines for the 2016 audit that have already not been met. It is our firm commitment to complete the 2016 audit as quickly and efficiently as possible. The Administration will ascertain that the 2017 audit reporting process meets all applicable deadlines.

Name of Responsible Person: Connie Everett, Interim Chief Financial Officer  
Name of Department Contact: Lisa Hanson, Comptroller  
Expected Date of Completion: Fall, 2017

2015-004 Financial Statement Adjustment, Close, and Disclosure

In spring, 2017, the City’s Comptroller was allowed to add a CPA to her existing staff. Finding 2015-004 emphasizes the “increasing complexity of financial reporting requirements” and it includes other notations that generally describe the difficulties encountered by the City in its financial accounting functions. Other points, including the need for a formal process for ensuring the accuracy and completeness of various peripheral systems and reconciliation procedures are, in the opinion of the Administration, valid concerns.

As noted in our response to findings 2015-002 and 2015-003, the City will continue to produce reliable and timely budget-basis accounting reports, and the Accounting Department will facilitate improved conversion procedures that are needed in order for the financial statements to be prepared in accordance with generally accepted accounting principles. We anticipate substantial improvements will be made in conjunction with the 2016 audit in the fall months of 2017.

Name of Responsible Person: Lisa Hanson, Comptroller  
Expected Date of Completion: Fall, 2017

2015-005 Municipal Court Fines

The incoming Administration will promptly assess the ongoing difficulties experienced pursuant to the court fines recordkeeping function. If the determination is made that additional training and/or independent Information Technology services are necessary, the City will immediately take corrective measures to allow for reliable financial statement reporting as well as compliance with applicable state

law. This assessment will begin in August 2017; other measures, if required, will be implemented in fall, 2017.

Name of Responsible Person: Ann Jones, Chief Administrative Officer

Name of Department Contact: Ann Jones, Chief Administrative Officer; Greg Ladner, Assistant to Mayor

Estimated Date of Completion: will depend upon Information Technology assessment

2015-006 Water and Sewer Customer Accounts Receivable

The Administration will implement procedures to routinely prepare and reconcile Water and Sewer customer accounts receivable activity and balances periodically, along with a formal analysis of the collectability of outstanding balances in order to estimate the related allowances for doubtful accounts. The centralized accounting department does provide a daily tracking of recorded receipts in conjunction with the daily deposits at the bank, and this has provided a reliable internal control procedure. There may be a need, however, for the water and sewer billing office staff to assist in the maintenance of important subsidiary records that are subject to routine oversight by the accounting department. Assessment of operations may reveal the need for additional training of personnel on accounting procedures, and the Information Technology staff may need to assist in facilitation of these shared responsibilities. Implementation will begin in Fall 2017 and may extend into winter of 2017-18.

Name of Responsible Person: Kermas Eaton, Director of Administration/City Clerk

Name of Department Contact: Frances Reid, Customer Accounts Department Manager

Estimated Date of Completion: Winter 2017-18

2015-007 Water and Sewer Billings

The incoming Administration will assess the current organizational structure as it relates to the water and sewer billing function. In particular, the Administration will emphasize the need for periodic analysis procedures to be performed. We will promptly begin our efforts to ascertain any problems that may need to be addressed in order to implement these reports, and, as noted in Finding 2015-006, an enhanced role by the Customer Accounts staff may be appropriate. These initial efforts will be made in August, 2017.

Name of Responsible Person: Kermas Eaton, Director of Administration/City Clerk

Name of Department Contact: Frances Reid, Customer Accounts Department Manager

Estimated Date of Completion: Fall 2017

2015-008 Water and Sewer Customer Meter Deposits

As noted in Finding 2015-007, the City will assess the current water and sewer organizational structure, as a component of the Administration's entity-wide study of the existing assignment of responsibilities and personnel assessment. The improvements needed for meter deposits' subsidiary records may require a reassignment of duties, improved reporting procedures and/or cross-training with existing accounting and Information Technology personnel. The importance of routine reconciliation procedures will be emphasized, and we anticipate these procedures to be implemented in Fall 2017.

Name of Responsible Person: Kermas Eaton, Director of Administration/City Clerk

Name of Department Contact: Frances Reid, Customer Accounts Department Manager; Angie Sanford, Information Technology Manager

Estimated Date of Completion: Fall 2017

2015-009 Capital Assets

The City will implement a comprehensive system of policies and procedures for accounting for capital assets. This system will accommodate both approved construction projects and acquisitions of assets achieved outside the routine cash disbursement process, as well as any contributions or transfers of fixed assets to the City. Additionally, fixed asset subsidiary records will include adequate descriptions to allow management to identify specific asset items, and the system will allow for periodic review by the City's management team for the identification of impaired assets or assets no longer in service. As noted, these procedures should allow for adequate training of employees for proper coding as well as ascertaining that capitalization policies and procedures are followed. The Administration will schedule capitalization policies and procedures training sessions for the various operating departments in fall 2017 to update responsible employees and answer any questions they may have.

Name of Responsible Person: Connie Everett, Interim Chief Financial Officer; Ann Jones, Chief Administrative Officer

Name of Department Contact: Lamar Rutland, Director of Engineering; Lisa Hanson, Comptroller

Estimated Date of Completion: Fall 2017

2015-010 Preparation of Schedule of Expenditures of Federal Awards (SEFA)

The City's accounting department will prepare a complete and accurate SEFA on the accrual basis. This schedule for fiscal 2016 will be available in August 2017. Any commingling procedures as described in Finding 2015-010 will be improved upon to allow for reliable tracking procedures. Additionally, the incoming Administration has hired a new Director of Urban Development and Federal Programs who has extensive training and experience in the administration of federal grant programs. The accounting department will continue to be responsible for the preparation of the SEFA. This document will be subject to final review and approval as to completeness and accuracy by this newly hired director.

Name of Responsible Person: Connie Everett, Interim Chief Financial Officer

Name of Department Contact: Andrew Ellard, Director of Urban Development and Federal Programs; Lisa Hanson, Comptroller

Estimated Date of Completion: August 2017

**2015-011      Cash Management (C): Timing of Reimbursement Request Submissions  
Highway Planning and Construction**

The City acknowledges that current procedures allow for the possibility of receipt of reimbursement funds prior to the expenditure for work completed, due to inefficiencies in communication between the third-party engineers and the City Engineer's office. Procedures will be established to enhance communication, to include having completed documents pass through the City Engineer's office prior to submission to MDOT to ensure that appropriate expenditures are paid prior to request for reimbursement of funds.

Name of Responsible Person – Lamar Rutland, City Engineer  
Expected Date of Completion: Fall, 2017

**2015-012      Subrecipient Monitoring (M)  
CDBG Entitlement Grants**

The City acknowledges a subrecipient monitoring and tracking system needs to be established to ensure compliance with program policies and procedures contained in the Single Audit Act of 1996 and OMB Circular A-133. Staffing changes subsequent to the recent mayoral election have included appointment of a new Director of Urban Development and Federal Programs, and he is currently reviewing all federal programs and results of monitoring visits recently held with HUD. Necessary changes to current procedures will be developed with department staff to ensure future compliance with program guidelines.

Name of Responsible Person – Andrew Ellard, Director of Urban Development and Federal Programs  
Expected Date of Completion: January 2018

**2015-013      Federal Expenditure Management (A/B, C, G, H, L)  
CDBG Entitlement Grants**

The City acknowledges that detailed information distinguishing federal and non-federal expenditures is not easily identified within the current accounting structure. The ability to track expenditures in this manner does exist and will be implemented in the current accounting system. Supporting spreadsheets can be developed within the departments responsible for documenting federal and non-federal expenditures to provide added documentation.

Name of Responsible Person – Andrew Ellard, Director of Urban Development and Federal Programs  
Expected Date of Completion: January 2018

**2015-014      Reporting (L)  
FAA Airport Improvement Plan**

The City acknowledges that required reporting procedures were not followed with FAA grants. The Engineering Office experienced a high level of staff turnover over a two-year period, which resulted in a failure to communicate required duties to new staff. Written procedures should be established describing required duties for compliance with grant requirements, thereby affording a readily available manual of instructions for new and existing staff to follow.

Name of Responsible Person – Lamar Rutland, City Engineer  
Name of Department Contact – Ann Jones, Chief Administrative Officer  
Expected Date of Completion – January 2018 and ongoing

**2015-015      Non-Compliance Resulting from Deficiencies in Financial Statement Internal  
Control Over Timeliness of Financial Reporting (L)**

The incoming Administration acknowledges that there are important reporting deadlines for submission of completed audits to the Federal Audit Clearinghouse. The City's position concerning current financial statement reporting abilities has been addressed in the response to Finding 2015-002 and Finding 2015-003. It is the incoming Administration's intent to explore updating financial software in order to more easily comply with financial reporting requirements. In the interim, efforts will be made to facilitate expedited completion of the 2016 audit and timely completion of the 2017 audit.

Name of Responsible Persons – Lisa Hanson, Comptroller; Connie Everett, Interim Chief Financial Officer  
Name of Department Contact – Ann Jones, Chief Administrative Officer  
Expected Date of Completion – Fall 2017 and ongoing

**2015-016      Non-Compliance Resulting from Deficiencies in Financial Statement Internal  
Control Over Financial Statement Adjustment, Close, and Disclosure  
(A/B, C, G, H L)**

As discussed in the City's response to Financial Statement Finding 2015-004, the City has added to its Accounting Department staff an individual who has the capability of undertaking the more complex aspects of financial statement reporting, in order to ensure compliance with guidelines. In addition, as stated above in Finding 2015-015, the City intends to explore updating the financial software in order to more easily comply with financial reporting requirements. In the interim, supplementary schedules can be developed to better track federal program costs and funds received and expended.

Name of Responsible Person – Lisa Hanson, Comptroller  
Expected Date of Completion – Fall, 2017



**2015-017      Non-Compliance Resulting From Deficiencies in Financial Statement Internal Control Over Capital Assets (A/B, F)**

The City acknowledges that deficiencies exist in current procedure as to detailed accounting procedure for recording capital assets and accounting for federal grant monies associated with capital assets. The capability exists within the current accounting system for better segregation of federal and non-federal expenditures and allowable and unallowable costs. Supplementary schedules can be maintained in the City Engineer's office for projects that department oversees, in order to provide an additional level of detail and accountability.

Name of Responsible Persons – Lamar Rutland, City Engineer; Lisa Hanson, Comptroller; Connie Everett, Interim Chief Financial Officer  
Name of Department Contact – Ann Jones, Chief Administrative Officer  
Expected Date of Completion – Fall, 2017 and ongoing

**2015-018      Non-Compliance Resulting from Deficiencies in Financial Statement Internal Control Over Preparation of Schedule of Expenditures of Federal Awards (SEFA) (A/B, C, G, H, L)**

As Stated in the City's Response to Financial Statement Finding 2015-010, the City will prepare a complete and accurate SEFA on the accrual basis. The City now has on staff a Director of Urban Development and Federal Programs, who has extensive training and experience in administration of federal grant programs.

Name of Responsible Person – Connie Everett, Interim Chief Financial Officer  
Name of Department Contact – Andrew Ellard, Director of Urban Development and Federal Programs; Lisa Hanson, Comptroller  
Expected Date of Completion – Fall, 2017

## **Schedule 4, Appendix B**

### **INDEPENDENT AUDITORS' REBUTTAL TO MANAGEMENT'S RESPONSE TO FINDINGS AND CORRECTIVE ACTION PLAN**

Carr, Riggs & Ingram, LLC, in consideration of the views presented by the management of the City of Hattiesburg, Mississippi (the auditee), presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify facts and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. The absence of a rebuttal indicates that Carr, Riggs & Ingram, LLC does not deem it necessary to correct or clarify any response of the auditee.

Pursuant to paragraph 4.41 of Government Auditing Standards (Yellow Book), independent auditors must provide certain rebuttals relating to disagreement with an audited entity's responses to findings, conclusions, or recommendations or when planned corrective actions do not adequately address the auditors' recommendations. Our rebuttal to the City's Corrective Action Plan, including its responses to audit findings, is presented below.

#### Finding # 2015-002

We disagree with the following statement by the City, as further explained below.

City's statement: "This accounting system has consistently allowed for the accurate and timely financial reports that provide, at all times, a reliable monitoring of the City's compliance with its legally adopted budgets. There will typically be significant conversion procedures at year-end that are necessary for financial reporting purposes, and this will, we believe, be the norm for most local governments as opposed to the "periodic accounting cut-off data for conversion from budgetary cash basis to financial reporting basis."

The above statement by the City implies that City management has not grasped the severity of its financial reporting deficiencies. While the budget basis of accounting is appropriate for maintaining data for legal budgetary compliance, it is not sufficient for financial reporting in accordance with generally accepted accounting principles (GAAP). Further, CRI noted omissions of cash-basis transactions and coding errors between professional services and capital outlay, which indicated that the City's accounting system did not provide accurate financial reports for use in budget monitoring. Certain significant architectural and engineering fees subject to capitalization were recorded as professional service expenditures rather than capital outlay, thereby distorting budget category data included in reports. The accounting system referred to by the City omits certain current period transactions, including material expenditures from trust/escrow funds maintained for capital projects such as the sewer system comprehensive rehabilitation project. In addition, at least one cash account was completely omitted from the cash reconciliation and general ledger trial

balance as of 9/30/15. Also, the City's general ledger accounts for "received not vouchered" items do not remain static as of a given date as future time passes. In addition, cash basis transaction records, even if they are complete and accurate, are not sufficient to support preparation of financial statements in accordance with requirements imposed on the City by Federal and State entities, bonds and other loan agreements, grants and other contracts. Failure to maintain non-cash data on an ongoing basis and to assimilate relevant data into the financial reporting process in a formal and systematic basis is a material weakness in internal controls over financial reporting that is unlikely to be significantly mitigated by post-closing procedures alone. Effective cut-off for each of the City's reporting bases must be properly established and maintained in order to produce reliable annual financial information.

Finding # 2015-003

As noted above, CRI disagrees with the City's position that its accounting system provides reliable and timely budget basis reporting that would be sufficient to support timely preparation of annual financial statements on required bases of accounting.

Finding # 2015-004

As noted above, CRI disagrees with the City's position that its accounting system provides reliable and timely budget basis reporting that would be sufficient to support timely preparation of annual financial statements on required bases of accounting. As CRI has noted, the Accounting Department has not historically been responsible for or provided with data necessary for such conversion, including preparation of disclosures. The preparation of annual financial statements in accordance with U.S. generally accepted accounting principles extends well beyond preparation of simple conversion entries.

Finding # 2015-006

The City asserted that the Accounting Department's process for tracking recorded receipts and daily deposits is a reliable internal control procedure for Water and Sewer customer accounts receivable. CRI has noted that no roll-forward of customer activity or reconciliation of customer subsidiary records to system totals is performed at interim or at year-end, either by the Accounting Department or by the Water Billing Department. Without those processes, current procedures are effective in determining that amounts posted as cash receipts reconcile to amounts deposited; however, such procedures provide no assurance that all credits posted against customer accounts are proper. CRI noted also that the City's response indicated there may be a need for water and sewer billing staff to assist in maintenance of subsidiary records. Under current processes, those staff members are solely responsible for such maintenance, and detail balance and activity reports are not routinely generated, reconciled, or submitted to the Accounting Department for review.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi

November 29, 2017

**CITY OF HATTIESBURG, MISSISSIPPI**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year Ended September 30, 2015**



MAYOR  
*Toby Barker*

COUNCIL - WARD ONE  
*Jeffrey George*

COUNCIL - WARD TWO  
*Deborah Denard Delgado*

COUNCIL - WARD THREE  
*Carter Carroll*

COUNCIL - WARD FOUR  
*Mary Dryden*

COUNCIL - WARD FIVE  
*Nicholas Brown*

**Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2015**

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

**2014-001 – Information, Communication and Monitoring**

Condition: This finding was a material weakness stating that entity-wide controls and procedures did not effectively ensure that all information relevant to the financial reporting process was timely identified and communicated for assessment of financial reporting impact and for assimilation into the financial reporting process.

Recommendation: The auditor recommended that the City formalize its information, communications, and monitoring processes to ensure that data from external and internal sources is timely captured, retained, and available for financial reporting purposes. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

**2014-002 – Financial statement adjustment and disclosure**

Condition: This finding was a material weakness stating that the City's internal accounting controls were not sufficient to ensure that transactions and account balances were properly reported in conformity with bases of accounting required by generally accepted accounting principles.

Recommendation: The auditor recommended that the City assess the quality of existing peripheral processes and implement effective control procedures to ensure that data maintained therein is accurate and that errors or irregularities are prevented or timely

detected and corrected. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

2014-003 – Accounts receivable

Condition: This finding was a material weakness stating that the City's accounting policies and procedures related to accounts receivable are not adequate to ensure that Municipal Court fines receivable and Water and Sewer customer accounts receivable are properly valued and reported.

Recommendation: The auditor recommended that the City generate, reconcile, review, and retain monthly receivable detail and summary reports, including agings of outstanding fines and Water and Sewer customer account balances and that the City analyze periodic reports and related trends in assessing collectability and in estimating the allowance for doubtful accounts. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

2014-004 – Non-routine and noncash transactions

Condition: This finding was a material weakness stating that the City's accounting procedures do not provide an appropriate mechanism for capturing, recording, and reporting noncash or non-routine information to ensure that such information is properly reflected in the financial statements and disclosures.

Recommendation: The auditor recommended that the City develop and implement procedures to collect and manage non-routine, noncash, and disclosure-related information so that it may be timely reviewed and monitored and readily available for year-end financial reporting purposes and formalize closing procedures. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

2014-005 – Capital assets

Condition: This finding was a material weakness stating that the City did not appropriately identify and accurately capture, maintain, and report activity and balances relating to capital assets.

Recommendation: The auditor recommended that the City implement policies and procedures to initially identify capital asset transactions, enhance detail data maintained, perform periodic reconciliations of detail, review propriety of account coding, and

assessment of long-term assets for impairment. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

2014-006 – Water and sewer billings

Condition: This finding was a significant deficiency stating that the City's internal controls were not adequate to ensure that all water and sewer service provided was billed to customers.

Recommendation: The auditor recommended that the City implement procedures for monitoring volume usage attributable to City facilities and customers to manage unaccounted for volumes. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

2014-007 – Cash management

Program: CFDA No. 20.205: Highway Planning and Construction:  
U. S. Department of Transportation Federal Highway  
Administration Pass-Through from Mississippi  
Department of Transportation

Condition: This finding was a material weakness stating that City procedures did not ensure that expenditures were paid by the City before cost reimbursements were requested.

Recommendation: The auditor recommended that the City implement policies and procedures to ensure that project costs are paid before related requests for reimbursement are submitted to its funding agency and that controls encompass related procedures performed by third-party consulting engineers. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

2014-008 – Subrecipient monitoring

Program: CFDA No. 14.218: CDGB Entitlement Grants – Cluster:  
Community Development Block Grants/Entitlement Grants  
U.S. Housing & Urban Development Pass-through  
from Governor's Department of HUD

Condition: This finding was a significant deficiency stating that the City did not maintain an overall tracking and monitoring system that provided a single location for verifying and reviewing specified elements of its subrecipients' compliance with the requirements of the Single Audit Act of 1996 as contained in OMB Circular A-133 and compliance with CDBG Guidebook for Grantees on Subrecipient Oversight.

Recommendation: The auditor recommended that the City implement an audit monitoring and tracking system to meet its requirements for subgrantee monitoring and review its existing policies and procedures to ensure that current compliance requirements are met. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: Not corrected.

2013-2: Cash management procedures - Federal Transit Formula Grants, U.S. Department of Transportation, Federal Transit Administration, Pass-Through Entity Identifying Numbers, CFDA 20.507

Condition – This finding was a significant deficiency stating that cash reimbursement requests were initiated before payment of related transactions had been made by the City.

Recommendation: The auditor recommended that the City's accounting department implement procedures to prepare reimbursement requests from reliable expenditure reports that accurately identify paid transactions to ensure that such requests include only amounts which have been paid.

Current Status: Partially corrected.

The City implemented procedures to use cash-basis docket reports for preparation of reimbursement requests to ensure that unpaid transactions were not included in such requests. However, the City allowed certain third-party consulting engineers to submit reimbursement requests directly to the funding agency simultaneously with submission of project construction invoices to the City for payment. As a result, some reimbursements were received by the City before its payments of the underlying invoices were processed. The City has since implemented procedures requiring all pay applications be processed through the City Engineering Department and paid by the City before submission for reimbursement. In addition, third parties are no longer allowed to submit reimbursement requests on behalf of the City.

Contact: Lisa Hanson, Comptroller





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Schedule 6

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

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

We have audited the basic financial statements of the City of Hattiesburg, Mississippi as of and for the year ended September 30, 2015, and have issued our report dated November 29, 2017. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards.

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

The results of those procedures and our audit of the general purpose financial statements disclosed material instances of noncompliance with State laws and regulations. Our findings and recommendations and your responses are as follows:

### **Finding 1 – Fixed Asset Accounting**

The City's procedures for determining the total acquisition cost of fixed assets and maintaining fixed asset detail did not comply with accounting system procedures prescribed by the State Auditor under Mississippi law.

#### **Criteria, Context, and Condition**

The property accounting system set forth in the Municipal Auditing and Accounting Guide issued by the Office of the State Auditor establishes procedures for developing acquisition cost of fixed assets to be reflected in subsidiary ledgers and financial statements. Those procedures, in accordance with generally accepted accounting principles, specify that certain professional fees, such as appraisal, architectural, engineering, and legal fees, represent acquisition cost to be capitalized into fixed assets. In addition, procedures promulgated under the property accounting system establish required data elements to be maintained for all fixed assets.

The City did not properly capitalize certain material expenditures for professional fees into fixed assets in accordance with the property accounting system set forth in the Municipal Auditing and Accounting Guide issued by the Office of the State Auditor. In addition, the City did not timely identify and record acquisitions of fixed assets contributed or transferred from other parties. Further, the City did not timely maintain fixed asset detail schedules that included all required data elements in accordance with accounting procedures set forth by the Office of the State Auditor.

### **Recommendation**

The Administration should develop and implement procedures to properly capture and maintain fixed asset detail in accordance with prescribed procedures. Such procedures should ensure that detail ledgers include all required data elements and that all acquisition costs are timely identified, captured, and included in capitalized asset basis.

### **Response**

The City Administration agrees with this finding, and management is in the process of developing its corrective action plan. The City's corrective action plan is expected to be finalized and implementation commenced by November 29, 2017.

## **Finding 2 – City Court Accounting Procedures**

The City's accounting procedures for Municipal Court fines receivable are not in compliance with accounting system procedures prescribed by the State Auditor under Mississippi law. Noncompliance with prescribed Court accounting procedures is a recurring finding. See also related Findings 3 and 4.

### **Criteria, Context, and Condition**

Pursuant to Mississippi Code Section 21-23-11 and the Municipal Auditing and Accounting Guide issued by the Office of the State Auditor, the City must maintain separate accounting records for the Municipal Court, and those records must meet certain standards and requirements. Requirements include maintaining an accounts receivable system, balancing receivable accounts monthly, and periodically analyzing aging data. Relevant reports should be made to the judge and City Council as those parties may require. In addition, pursuant to Mississippi Code Section 99-19-73 and the Municipal Auditing and Accounting Guide issued by the Office of the State Auditor, State-imposed Court assessments collected by the Municipal Court must be settled monthly with the Department of Finance and Administration.

Although the City routinely records fines by case and posts collections against those fines in a subsidiary ledger system, it and was unable to generate an accurate summary or aging of

outstanding accounts as of September 30, 2015 or during the year then ended. Further, the City did not provide related reports to the judge and City Council during the year ended September 30, 2015.

City procedures do not include reconciliation or roll-forward of gross case activity. In addition, subsidiary account records do not include complete information from which to generate reports of fines which have met criteria for accounting recognition. Further, subsidiary account records are not adequately controlled to ensure completeness, accuracy, and integrity of data. Allocation of cash collections among City fines and various State-imposed assessments is not verified for accuracy or reconciled to periodic changes in balances of underlying detail.

Subsequent to September 30, 2015, the City undertook a project to assess deficiencies in its Court accounting and reporting system in order to develop a corrective action plan. However, development of an appropriate corrective action plan had not been completed as of the date of this report.

### **Recommendation**

The Administration should immediately implement procedures to ensure completeness and integrity of data and to contemporaneously capture all data elements for appropriate accounting for Municipal Court case activity. The City immediately implement procedures to produce periodic detail reports of outstanding balances and case fine activity, as well as to timely reconcile related balances. Ongoing assessment of the adequacy of the case management software applications utilized by the Municipal Court should be completed, and the City's corrective action plan should address any noted accounting or reporting limitations. Use of peripheral applications and procedures should be commenced immediately to address and contain identified deficiencies in existing systems. Periodic reports should be made to the judge and the City Council and should include balances of outstanding fines, aging of outstanding accounts, and related roll-forwards and analyses of activity. Activity roll-forwards should include, at a minimum, beginning balances, new case dispositions, collections, nonmonetary credits, other adjustments, and ending balances. In addition, reports of corresponding assessments payable on fines should be periodically produced, reconciled, analyzed, and provided to the judge and the City Council.

### **Response**

The City Administration agrees with this finding. As of July 2017, a newly elected Administration has undertaken the task of assessment of the Municipal Court operation. All aspects of operation will be assessed, from current software to personnel. If current software is deemed inadequate to satisfy the City's Court functions as well as required State of Mississippi reporting, the City's Information Technology Department will assist Municipal

Court personnel with reviewing and procuring new software. Additionally, personnel will be evaluated during this process to determine what training may be necessary to ensure optimal functioning of the department.

### **Finding 3 – Municipal Court Docket and Minutes**

For the year ended September 30, 2015, the City did not maintain permanent dockets or minute records of Municipal Court actions as required by State law.

#### **Criteria, Context, and Condition**

Mississippi Code Section 21-23-11 requires the clerk of the Municipal Court to keep permanent dockets of all cases, as well as a minute record of all orders and judgments. Pursuant to that Code section, one record may serve as both the docket record and the minute record. However, for the year ended September 30, 2015, the City did not maintain a permanent, unalterable docket of cases or minute record of Court actions on those cases. Instead, physical dockets used in Court were discarded upon data entry into application software. Internal controls over case entry and adjustment were not adequate to ensure completeness or accuracy of data. Further, since dockets and case activity maintained electronically could be subsequently altered, such records did not meet the standard of permanence required for dockets or provide a reliable minute record as required by Mississippi law.

#### **Recommendation**

The Administration should immediately implement procedures to retain physical Municipal Court dockets, upon the face of which all orders and judgments of the Court are entered, to serve as the combined permanent docket and minute record. Those permanent records should be reconciled periodically to case data recorded in subsidiary systems, and differences or exceptions should be timely investigated and resolved.

#### **Response**

The City Administration agrees with this finding, and management has developed a corrective action plan for addressing this issue. Initial phases of the corrective action plan, which ensure that all physical Court dockets are permanently retained, are being implemented. Additional phases for reconciling permanent docket detail to recorded case data are in the process of implementation and are expected to be fully implemented by winter 2017. In addition, the City's Administration will be assessing current software to determine if conversion to a new system is warranted. The Information Technology Department will assist in assessment efforts to determine corrective measures necessary to address reporting deficiencies.

### **Finding 4 – Control over Police Tickets**

For the year ended September 30, 2015, the City did not maintain effective control over issued and unissued Police ticket books in accordance with the Municipal Auditing and Accounting Guide issued by the Office of the State Auditor.

### **Criteria, Context, and Condition**

Pursuant to Mississippi Code Section 63-9-21 and the Municipal Auditing and Accounting Guide issued by the Office of the State Auditor, the City must maintain certain records related to uniform traffic tickets used by police officers. The clerk of the Municipal Court is required to keep a record of all traffic ticket books issue, including to whom those books are issued, and is required to maintain and account for all such ticket books in accordance with prescribed procedures.

During the year ended September 30, 2015, the City did not maintain complete records of ticket books, issue them consecutively, or account for tickets issued and returned.

In addition, during the course of our audit for the year ended September 30, 2015, we noted some instances where issued tickets had not been fully completed.

### **Recommendation**

The City should immediately implement procedures to control issuance, recordkeeping, and monitoring of uniform traffic ticket books in accordance with procedures prescribed by State law and the Office of the State Auditor. To address noted noncompliance and deficiencies, the City should review all policies and procedures related to police citations and documentation thereof and develop an appropriate corrective action plan to address identified weaknesses in current processes.

### **Response**

The City Administration agrees with this finding and will be performing a full assessment of current software and department procedures to determine necessary changes. Implementation may necessitate additional training of personnel and/or procurement of new or additional software to implement a corrective action plan related to Municipal Court accounting records, which will incorporate procedures related to control over Police tickets. Assessment will begin in August 2017. Date of completion will be dependent upon assessment by Information Technology and Municipal Court personnel.

## **Finding 5 – Vehicle Markings**

Inspection of City vehicles identified instances of non-compliance with vehicle marking parameters required under Section 25-1-87, Mississippi Code of 1972, Annotated. Noncompliance with vehicle marking procedures is a recurring finding.

### **Criteria, Context, and Condition**

Section 25-1-87, Mississippi Code of 1972, Annotated, requires that all municipal vehicles, except police vehicles used for undercover operation and authorized by governing authorities, be marked in accordance with specified standards regarding nature, size and color contrast.

Vehicle inspections performed during the course of our audit indicated that markings on 5 of 10 vehicles tested did not meet parameters required under State law.

The City initiated corrective action subsequent to the fiscal year ended September 30, 2015 in response to our prior year audit finding but had not fully completed such corrective action at the time of our inspection procedures related to the current period.

### **Recommendation**

The City should take necessary steps to ensure that all of their vehicles are brought into compliance with Section 25-1-87, Mississippi Code of 1972, Annotated. In addition, the City should centralize responsibility and formalize procedures for affixing appropriate markings and for verifying that applied markings meet State requirements.

### **Response**

The City Administration agrees with this finding and has implemented procedures under which all purchased vehicles will be marked with standard signage applied by the Public Works department mechanical shop. Additionally, upon detection of noncompliance during the prior audit, the City initiated the process of replacing noncompliant markings with markings of appropriate size, contrast, and placement. The City's corrective action regarding this matter was fully completed by December 31, 2016.

[See also Schedule 20 – Schedule of Findings and Questioned Costs.]

The instances of noncompliance of the prior year had not been corrected by management as of September 30, 2015, as described in the findings and recommendations noted above.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

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

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Ridgeland, Mississippi  
November 29, 2017