

CITY OF HATTIESBURG, MISSISSIPPI

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

Year Ended September 30, 2018

CITY OF HATTIESBURG, MISSISSIPPI

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS

	SCHEDULE/ EXHIBIT NUMBER	PAGE
INTRODUCTORY SECTION (UNAUDITED)		
Letter of Transmittal		1 - 4
List of Public Officials		5
FINANCIAL SECTION		
Independent Auditor's Report		6 - 9
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	Exhibit A	10 - 11
Statement of Activities	Exhibit B	12
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Exhibit C	13 - 14
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position	Exhibit C.1	15 - 16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	Exhibit D	17 - 18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	Exhibit D.1	19 - 20
Statement of Net Position - Proprietary Fund	Exhibit E	21 - 22
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	Exhibit F	23
Statement of Cash Flows - Proprietary Fund	Exhibit G	24 - 25
Statement of Fiduciary Assets and Liabilities	Exhibit H	26
NOTES TO THE FINANCIAL STATEMENTS		27 - 76
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund	Schedule 1	77 - 84
Notes to the Budgetary Comparison Schedule – General Fund		85
Schedule of the City's Proportionate Share of the Net Pension Liability – PERS	Schedule 2	86
Schedule of City Contributions – Public Employees' Retirement System	Schedule 3	87

CITY OF HATTIESBURG, MISSISSIPPI

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS - PAGE TWO

	SCHEDULE/ EXHIBIT NUMBER	PAGE
REQUIRED SUPPLEMENTARY INFORMATION (Cont.)		
Schedule of Changes in the City's Total OPEB Liability and Related Ratios	Schedule 4	88
Schedule of City Contributions – OPEB	Schedule 5	89
Notes to the Required Supplementary Information		90 - 91
SUPPLEMENTARY INFORMATION		
Combining Balance Sheet – Nonmajor Governmental Funds	Schedule 6	92 - 93
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	Schedule 7	94 - 95
Combining Balance Sheet – Nonmajor Special Revenue Funds	Schedule 8	96 - 97
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds	Schedule 9	98 - 99
Combining Balance Sheet – Nonmajor Debt Service Funds	Schedule 10	100 - 101
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds	Schedule 11	102 - 103
Combining Balance Sheet – Nonmajor Capital Project Funds	Schedule 12	104
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Capital Project Funds	Schedule 13	105
Statement of Departmental Expenditures – Budgetary Basis – General Fund	Schedule 14	106 - 109
Combining Statement of Other Fiduciary Funds, Assets and Liabilities – Agency Funds	Schedule 15	110 - 111
Schedule of Surety Bonds for Municipal Officials	Schedule 16	112
Full Cost Accounting – Solid Waste Management Services	Schedule 17	113
Water and Sewer Budget Basis Operation and Maintenance Cost Centers	Schedule 18	114
Water and Sewer Budget Basis Balance Sheets	Schedule 19	115 - 116
Water and Sewer Budget Basis Statements of Revenues, Expenses, and Changes in Fund Balances	Schedule 20	117 - 118

CITY OF HATTIESBURG, MISSISSIPPI

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS - PAGE THREE

	SCHEDULE/ EXHIBIT NUMBER	PAGE
SUPPLEMENTARY INFORMATION (Cont.)		
Schedule of Expenditures of Federal Awards	Schedule 21	119 - 122
Notes to Schedule of Expenditures of Federal Awards		123
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Schedule 22	124 - 125
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	Schedule 23	126 - 129
Schedule of Findings and Questioned Costs	Schedule 24	130 - 149
Auditee Corrective Action Plan	Appendix A	150 - 155
Summary Schedule of Prior Audit Findings	Schedule 25	156 - 162
Independent Auditor's Report on Compliance with State Laws and Regulations	Schedule 26	163 - 166
STATISTICAL INFORMATION (UNAUDITED)		
Financial Trends:		
Net Position by Components Last Ten Fiscal Years	Table 1	167
Changes in Net Position Last Ten Fiscal Years	Table 2	168 - 169
Fund Balances – Governmental Funds Last Ten Fiscal Years	Table 3	170
Changes in Fund Balances – Governmental Funds Last Ten Fiscal Years	Table 4	171
Revenue Capacity:		
Governmental Funds – Tax Revenues by Source Last Ten Fiscal Years	Table 5	172 - 173
Direct and Overlapping Property Tax Rates – Forrest and Lamar Counties Last Ten Fiscal Years	Table 6	174
Top Ten Property Taxpayers Property Taxes Assessed in Fiscal Year 2017, Collected Fiscal Year 2018	Table 7	175
Debt Capacity:		
Computation of Legal Debt Margin Using Most Current Tax Rolls	Table 8	176
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net Bonded Debt Per Capita Last Ten Fiscal Years	Table 9	177

CITY OF HATTIESBURG, MISSISSIPPI

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2018**

TABLE OF CONTENTS - PAGE FOUR

	SCHEDULE/ EXHIBIT NUMBER	PAGE
STATISTICAL INFORMATION (UNAUDITED) (Cont.)		
Water and Sewer Revenue Bond Coverage Last Ten Fiscal Years	Table 10	178
Demographic Information:		
Demographic Statistics	Table 11	179
Operating Information:		
City Employees by Function Last Ten Fiscal Years	Table 12	180
Construction, Bank Deposits, and Assess Property Values Last Ten Fiscal Years	Table 13	181
Capital Asset and Infrastructure Statistics by Function Last Ten Fiscal Years	Table 14	182

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

June 13, 2019

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

The Department of Administration is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Hattiesburg, Mississippi, prepared in accordance with accounting principles generally accepted in the United States of America for the fiscal year ended September 30, 2018. These accompanying financial statements are prepared and presented in conformity with GASB Statement No 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The format, which includes Government-wide and Major Fund presentations, provides citizens, investors and creditors, grantor agencies, and other interested parties with reliable financial information about the City. Management assumes full responsibility for the completeness and reliability of the information contained in this report, and we believe the report is accurate in all material respects.

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

Profile of Government

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

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

Current Economic Conditions

Hattiesburg ended the fiscal year with stable revenues in both sales tax and property taxes. Property tax revenue increased 7.9% over the prior year, and sales tax revenue saw a 1% increase. The General Fund's fund balance decreased by 3%, due to increases in paving and further salary adjustments across all departments in order to better compete with private sector wages and attract and retain quality employees. The goal of raising all full-time employees' hourly rate to \$10.00 has been met, and a schedule of further increases based on years of service has been implemented. Analysis of salaries is a continuous process, and further adjustments are evaluated and implemented annually as the budget permits.

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

Future Economic Outlook

The Midtown District plan has seen phenomenal growth and development since the plan was put into action, and there are new restaurants in the area, in addition to a boutique hotel. Planet Fitness opened and has contributed to an increased tax base in the Midtown area. Enhancements along Hardy Street and Highway 49 are making the major entrance corridors into the City more visually appealing, and further improvements to the 38th and 39th Avenue corridors are scheduled. Another boutique hotel has secured property for construction in the 40th Avenue area, and construction should begin in the next fiscal year.

Tax increment financing projects that have been completed are now providing sufficient increased property tax revenue, and bonds have been issued for the Whispering Pines, Hattiesburg Clinic Midtown, and Midtown Market developers to be reimbursed for the infrastructure improvements made as part of those developments.

Regions bank recently completed a move of their operations from the downtown area to west Hattiesburg, and the infrastructure enhancements necessary to accommodate this facility are nearly complete. The relocation ensured retention of 329 existing jobs and creation of 91 new jobs over the next few years. The former Regions Bank buildings in the downtown area will be renovated and converted to mixed-use residential and commercial development, similar to the recently completed America and Carter buildings.

Demolition was completed on the Public Safety Complex site, and construction on the new facility is beginning in FY 2019. Mayor Barker and staff met with Moody's Investors Service in December, and the City's bond rating was restored. This enabled the City to enter the bond market once again and issue bonds for the construction of the Public Safety Complex. A second phase of the Complex development will address road improvements and overpass over the railway system in the eastern section of the City. Also planned for construction is a new fire station in North Hattiesburg, anticipated to occur in FY 2020.

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 reduce and eventually eliminate the structural spending deficit in the General Fund. For several years, the City's expenditure budget has exceeded the revenue budget. This can be detrimental to building a strong fund balance. Based upon today's economy, it is recommended that the City seek to have a \$7 Million to \$8 Million ending cash balance. It is Mayor Barker's goal to accomplish these objectives during his term of office.

Water and sewer projects continue to be a priority. Evaluation of the water and sewer infrastructure has been ongoing and is revealing the areas of the City needing repair or replacement. Many areas in older sections of the City have already been repaired, but it will take several years to complete the task.

Enterprise Funds

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

Debt Administration

The City maintains the Municipal Bond and Interest Fund to retire debt associated with general obligation bonds. The funding source comes from levy and collection of ad valorem property taxes. Mississippi law limits the amount of general obligation debt a municipality may issue to 15% of total assessed value. As of September 30, 2018, the City's remaining margin for further debt issuance stands at \$64,420,421. As stated earlier, the City placed high importance on completing prior year financial audits and correcting findings reported in those audits. Those efforts resulted in the City having the Aa3 bond rating restored in December 2018. This accomplishment enabled the City to enter the bond market and issue \$29,850,000 in special obligation bonds for the Public Safety Complex renovation and construction.

Risk Management

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

Independent Auditors

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

Acknowledgments

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

Sincerely,



Connie Everett
Chief Financial Officer

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



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2018, 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

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

Auditor's Responsibility

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

- 6 -



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

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Deficit Fund Balance

As described in Note 16 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule and corresponding notes, the Schedule of the City's Proportionate Share of the Net Pension Liability, the Schedule of City Contributions – PERS, the Schedule of the City's Proportionate Share of the OPEB Liability, and the Schedule of City Contributions – OPEB be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

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

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis (MD&A) 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 financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and 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 Combining Fund Financial Statements, Schedule of Surety Bonds for Municipal Officials, Schedule of Full Cost Accounting – Solid Waste Services, and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Combining Fund Financial Statements, Schedule of Surety Bonds for Municipal Officials, Schedule of Full Cost Accounting – Solid Waste Services, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Fund Financial Statements, Schedule of Surety Bonds for Municipal Officials, Schedule of Full Cost Accounting – Solid Waste Services, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

The accompanying Statistical Information 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 June 13, 2019, on our consideration of the City of Hattiesburg, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hattiesburg, Mississippi's internal control over financial reporting and compliance.


Hattiesburg, Mississippi
June 13, 2019

FINANCIAL STATEMENTS

EXHIBIT A
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
September 30, 2018**

	PRIMARY		GOVERNMENT	Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 17,156,316	\$ 8,415,802	\$ 25,572,118	\$ 6,630,281
Cash with fiscal agent	976,487	21,748,960	22,725,447	-
Sales tax receivable	3,746,640	-	3,746,640	900,166
Property taxes receivable	21,451,741	-	21,451,741	-
Accounts receivable - Water and Sewer, net	-	1,514,996	1,514,996	-
Accounts receivable - Solid Waste Services	313,905	-	313,905	-
Intergovernmental receivable	4,814,557	-	4,814,557	-
Fines receivable, net	3,687,561	-	3,687,561	-
Other receivables	987,191	-	987,191	106,399
Internal balances	201,636	(201,636)	-	-
Due from other agencies	10,423	-	10,423	-
Inventory - food and beverage	-	-	-	91,117
Inventory - gas and oil	13,443	-	13,443	-
Notes receivable	1,504,339	-	1,504,339	-
Capital assets not being depreciated:				
Land and construction in progress	32,918,523	7,609,801	40,528,324	1,977,790
Capital assets, net of accumulated depreciation:				
Infrastructure	63,277,035	100,279,244	163,556,279	-
Buildings and improvements	32,849,773	168,333	33,018,106	14,470,625
Machinery and equipment	4,917,318	391,850	5,309,168	151,087
Total assets	188,826,888	139,927,350	328,754,238	24,327,465
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	4,709,784	393,394	5,103,178	-
Related to OPEB	15,654	1,250	16,904	-
Prepaid bond insurance	126,751	146,598	273,349	-
Total deferred outflows of resources	4,852,189	541,242	5,393,431	-

The accompanying notes are an integral part of these financial statements.

EXHIBIT A
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
September 30, 2018**

	PRIMARY		GOVERNMENT	Component Unit
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Accounts payable	\$ 853,656	\$ 1,740,876	\$ 2,594,532	\$ 180,617
Accrued wages and benefits	693,993	54,915	748,908	113,570
Other liabilities	1,199,774	17,658	1,217,432	111,433
Due to other agencies	448,683	-	448,683	-
Accrued expenses	297,610	-	297,610	-
Accrued interest	285,790	522,850	808,640	-
Claims and judgments payable	50,000	-	50,000	-
Non-current liabilities:				
Portion due or payable within one year:				
General obligation bonds	910,000	2,159,000	3,069,000	-
Revenue bonds	-	3,010,000	3,010,000	-
Unamortized bond premium	43,507	45,384	88,891	-
Limited obligation tax increment financing bonds	1,068,000	-	1,068,000	-
Economic development limited obligation bonds and notes	115,527	-	115,527	-
General obligation notes payable	-	24,683	24,683	-
Certificate of participation	185,000	-	185,000	-
Capital leases	895,251	-	895,251	-
Unamortized certificate of participation premium	13,158	-	13,158	-
Compensated absences	286,204	22,994	309,198	-
Portion due or payable after one year:				
General obligation bonds	2,745,000	8,141,000	10,886,000	-
Revenue bonds	-	54,935,000	54,935,000	-
Unamortized bond premium	87,012	301,649	388,661	-
Limited obligation tax increment financing bonds	8,971,000	-	8,971,000	-
Economic development limited obligation bonds and notes	1,594,398	-	1,594,398	-
Certificate of participation	4,940,000	-	4,940,000	-
Capital leases	7,474,830	-	7,474,830	-
Unamortized certificate of participation premium	223,670	-	223,670	-
Compensated absences	1,621,821	130,301	1,752,122	126,406
Claims and judgements payable	549,250	-	549,250	-
Net pension liability	71,030,509	4,694,270	75,724,779	-
Net OPEB liability	7,559,903	603,569	8,163,472	-
Customer meter deposits	-	1,560,089	1,560,089	-
Total liabilities	114,143,546	77,964,238	192,107,784	532,026
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	1,299,599	81,692	1,381,291	-
Deferred revenues	-	562,149	562,149	-
Unearned revenue - property taxes	21,192,600	-	21,192,600	-
Total deferred inflows of resources	22,492,199	643,841	23,136,040	-
NET POSITION				
Net investment in capital assets	117,185,329	39,832,512	157,017,841	16,599,502
Restricted for:				
Debt service	7,169,815	8,094,960	15,264,775	-
Capital projects	-	-	-	134,914
Unrestricted	(67,311,812)	13,933,041	(53,378,771)	7,061,023
Total net position	\$ 57,043,332	\$ 61,860,513	\$ 118,903,845	\$ 23,795,439

The accompanying notes are an integral part of these financial statements.

EXHIBIT B

CITY OF HATTIESBURG, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	\$ 10,331,281	\$ -	\$ -	\$ -	\$ (10,331,281)		\$ (10,331,281)	
Public safety	24,554,459	1,543,036	896,143	7,689	(22,107,591)		(22,107,591)	
Public services	18,216,227	2,187,957	2,234,448	-	(13,793,822)		(13,793,822)	
Other services	1,395,047	-	-	938,745	(456,302)		(456,302)	
Mass transit	1,802,171	158,000	920,347	280,547	(443,277)		(443,277)	
Culture and recreation	4,893,041	97,614	-	500	(4,794,927)		(4,794,927)	
Human/social assistance	947,143	-	382,350	-	(564,793)		(564,793)	
Economic development	305,000	-	-	-	(305,000)		(305,000)	
Interest and fiscal charges	960,978	-	-	-	(960,978)		(960,978)	
Total governmental activities	63,405,347	3,986,607	4,433,288	1,227,481	(53,757,971)		(53,757,971)	
Business-Type Activities:								
Water and sewer system	17,568,985	22,821,070	228,348	-	-	\$ 5,480,433	5,480,433	
Interest and fiscal charges	2,446,012	-	-	-	-	(2,446,012)	(2,446,012)	
Total business-type activities	20,014,997	22,821,070	228,348	-	-	3,034,421	3,034,421	
Total primary government	\$ 83,420,344	\$ 26,807,677	\$ 4,661,636	\$ 1,227,481	(53,757,971)	3,034,421	(50,723,550)	
COMPONENT UNIT:								
Hattiesburg Convention Commission	\$ 7,373,425	\$ 2,938,366	\$ -	\$ -				\$ (4,435,059)
Total component unit	\$ 7,373,425	\$ 2,938,366	\$ -	\$ -				(4,435,059)
GENERAL REVENUES:								
Taxes:								
Property taxes, levied for general purposes					18,447,096	-	18,447,096	-
Property taxes, levied for debt service					3,813,240	-	3,813,240	-
Sales taxes					22,688,619	-	22,688,619	-
Franchise taxes and other licenses and permits					4,319,076	-	4,319,076	-
Special sales tax					-	-	-	5,387,604
Grants and contributions not restricted to specific programs					41,100	-	41,100	-
Unrestricted investment earnings					275,691	300,545	576,236	51,646
Other local sources					2,139,629	-	2,139,629	-
Miscellaneous					548,540	98,280	646,820	-
Gain (loss) on sale of assets					4,529	-	4,529	-
TRANSFERS:								
Transfers, component unit					127,849	-	127,849	(127,849)
Transfers, net					500,000	(500,000)	-	-
Total general revenues and transfers					52,905,369	(101,175)	52,804,194	5,311,401
CHANGE IN NET POSITION					(852,602)	2,933,246	2,080,644	876,342
NET POSITION - BEGINNING					63,503,991	59,332,924	122,836,915	22,919,097
Prior period adjustment					(5,608,057)	(405,657)	(6,013,714)	-
NET POSITION - BEGINNING, AS ADJUSTED					57,895,934	58,927,267	116,823,201	22,919,097
NET POSITION - ENDING					\$ 57,043,332	\$ 61,860,513	\$ 118,903,845	\$ 23,795,439

The accompanying notes are an integral part of these financial statements.

EXHIBIT C
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 6,920,898	\$ 10,235,420	\$ 17,156,318
Cash with fiscal agent	500,894	475,593	976,487
Sales tax receivable	1,906,861	-	1,906,861
Intergovernmental receivable	1,965,684	2,748,673	4,714,357
Fines receivable, net of allowance	3,687,561	-	3,687,561
Other receivables	874,024	13,652	887,676
Due from other funds	783,327	110,397	893,724
Property taxes receivable	18,292,139	3,080,431	21,372,570
Due from other agencies	10,423	-	10,423
Gas and oil inventory	13,443	-	13,443
Advances to other funds	300,000	-	300,000
Prepaid insurance	126,751	-	126,751
Total assets	\$ 35,382,005	\$ 16,664,166	\$ 52,046,171
LIABILITIES			
Accounts payable	\$ 768,425	\$ 85,231	\$ 853,656
Accrued wages and benefits	626,261	67,706	693,967
Due to other funds	92,474	599,614	692,088
Other liabilities	1,157,627	339,774	1,497,401
Due to other agencies	448,683	-	448,683
Advances from other funds	-	300,000	300,000
Total liabilities	3,093,470	1,392,325	4,485,795
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	18,137,600	3,055,000	21,192,600
Unavailable revenue - fines	3,687,561	-	3,687,561
Total deferred inflows of resources	21,825,161	3,055,000	24,880,161
FUND BALANCES			
Nonspendable:			
Inventories	13,443	-	13,443
Prepaid expenses	126,751	-	126,751
Long-term interfund advance	300,000	-	300,000
Restricted:			
Fire protection	-	465,276	465,276
Street improvements and repairs	-	2,149,499	2,149,499
Law enforcement	-	835,099	835,099
Mass transit	-	133,959	133,959

The accompanying notes are an integral part of these financial statements.

EXHIBIT C
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018**

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>FUND BALANCES (Cont.)</i>			
Restricted: (Cont.)			
Debt service	\$ -	\$ 7,169,815	\$ 7,169,815
Parks and recreation projects	-	43,470	43,470
Committed:			
Parks and recreation	-	1,573,334	1,573,334
Assigned:			
General government	97,596	-	97,596
Public safety	296,433	-	296,433
Public services	784,010	-	784,010
Other services	2,780	-	2,780
Unassigned	<u>8,842,361</u>	<u>(153,611)</u>	<u>8,688,750</u>
Total fund balances	<u>10,463,374</u>	<u>12,216,841</u>	<u>22,680,215</u>
 <i>Total liabilities, deferred inflows of resources, and fund balances</i>	 <u><u>\$ 35,382,005</u></u>	 <u><u>\$ 16,664,166</u></u>	 <u><u>\$ 52,046,171</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT C.1
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
September 30, 2018**

Total *fund balances* for governmental funds (Exhibit C) \$ 22,680,215

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

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

Land	\$ 30,049,119	
Construction in progress	2,869,404	
Infrastructure, net of \$91,439,239 accumulated depreciation	63,277,035	
Buildings and improvements, net of \$29,469,549 accumulated depreciation	32,849,773	
Machinery and equipment, net of \$32,257,337 accumulated depreciation	<u>4,917,318</u>	
Total capital assets		133,962,649

Other long-term assets are not available to pay for current period expenditures and therefore are reported as deferred revenue in the funds. 3,687,561

Receivables not received within thirty days of year end are not reported in the funds. 2,432,559

Notes receivable are not available to pay for current period expenditures and therefore are not reported in the funds. 1,504,339

Deferred outflows related to pensions and OPEB are not reported in the funds 4,725,438

EXHIBIT C.1
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
September 30, 2018**

Deferred inflows related to pensions are not reported in the funds. \$ (1,299,599)

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

Balances for these liabilities at September 30, 2018 are:

Accrued interest on bonds and notes		(285,790)
Claims and judgments		(599,250)
General obligation bonds	\$ (3,655,000)	
Limited obligation tax increment financing bonds	(10,039,000)	
Limited obligation economic development bonds and notes	(1,709,925)	
Unamortized premiums on bonds	(130,519)	
Certificates of participation	(5,125,000)	
Unamortized premiums on certificates of participation	(236,828)	
Capital leases	(8,370,081)	
Compensated absences	(1,908,025)	
Net pension liability	(71,030,509)	
Net OPEB liability	(7,559,903)	
Total long-term liabilities		<u>(109,764,790)</u>

Total *net position* of governmental activities (Exhibit A) \$ 57,043,332

EXHIBIT D
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2018**

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
General property taxes	\$ 17,000,696	\$ 4,959,578	\$ 21,960,274
Sales tax collections	22,685,867	-	22,685,867
Other taxes	35,819	-	35,819
Licenses and permits	4,128,281	-	4,128,281
Fines, forfeitures and penalties	1,143,110	85,455	1,228,565
Interest, rents and concessions	173,802	62,717	236,519
Intergovernmental revenues	944,111	6,404,232	7,348,343
Charges for services	2,421,915	562,838	2,984,753
Other revenues	620,429	38,438	658,867
Total revenues	49,154,030	12,113,258	61,267,288
EXPENDITURES			
Current:			
General government	9,153,798	-	9,153,798
Public safety	21,518,444	1,139,573	22,658,017
Public services	11,280,865	4,083,525	15,364,390
Other services	1,528,924	921,275	2,450,199
Mass transit	-	1,705,775	1,705,775
Culture and recreation	-	3,987,521	3,987,521
Human/social assistance	186,920	350,950	537,870
Economic development	305,000	-	305,000
Debt service:			
Principal payments	1,069,600	3,072,755	4,142,355
Interest and fiscal charges	471,178	2,743,116	3,214,294
Total expenditures	45,514,729	18,004,490	63,519,219
Excess (deficiency) of revenues over expenditures	3,639,301	(5,891,232)	(2,251,931)

The accompanying notes are an integral part of these financial statements.

EXHIBIT D
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>OTHER FINANCING SOURCES (USES)</i>			
Proceeds from long-term debt	\$ -	\$ 444,291	\$ 444,291
Proceeds from sale of capital asset	4,529	-	4,529
Compensation for loss of capital assets	108,863	-	108,863
Proceeds from sale of real estate	-	2,163,817	2,163,817
Transfers in	575,162	4,518,064	5,093,226
Transfers out	(4,517,890)	(75,336)	(4,593,226)
Other sources	57,083	29,925	87,008
<i>Total other financing sources (uses)</i>	<i>(3,772,253)</i>	<i>7,080,761</i>	<i>3,308,508</i>
<i>NET CHANGE IN FUND BALANCES</i>	<i>(132,952)</i>	<i>1,189,529</i>	<i>1,056,577</i>
Fund balances – beginning	10,825,804	11,027,312	21,853,116
Prior period adjustment	(229,478)	-	(229,478)
Fund balances – beginning, as adjusted	10,596,326	11,027,312	21,623,638
Fund balances – ending	<u>\$ 10,463,374</u>	<u>\$ 12,216,841</u>	<u>\$ 22,680,215</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT D.1
PAGE 1 OF 2

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, 2018**

Net change in *fund balances* - governmental funds (Exhibit D) \$ 1,056,577

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$8,895,663) exceeded capital outlay (\$6,582,840) in the current period. (2,312,823)

Intergovernmental revenues are recognized on the full-accrual basis in the statement of activities for revenues received thirty days after year end. This is the amount of effect of the change in revenue. 4,197,576

Fine revenue deferred in the funds for the modified accrual basis during the current year decreased because prior year recognition would have been required in the statement of activities using the full-accrual basis of accounting. 483,736

Proceeds from issuance of long-term debt are reported in the governmental funds. However, in the statement of net position a long-term liability is recorded. Repayments of long-term debt are reported as expenses in the governmental funds but are recorded against the liability in the statement of net position. Thus, the change in net positions differs from the change in fund balances by the net amount of the debt proceeds and repayments. 3,698,064

EXHIBIT D.1
PAGE 2 OF 2

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, 2018**

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

Claims and judgments	\$ (599,250)	
Compensated absences	(545,454)	
Amortization of certificates of participation premium	13,157	
Amortization of bond premium	43,507	
Accrued interest on bonds and notes	11,463	
Combined adjustment		\$ (1,076,577)
Change related to pension deferred outflows and inflows and obligations		(4,453,560)
Change related to other post employment benefit obligations		(580,419)
Governmental funds report annual note repayment received (\$2,005,344) as the installment receipt of the sale of real estate. In the statement of activities, only the portion of these payments attributable to interest is reported as interest revenue (\$140,168).		<u>(1,865,176)</u>
Change in <i>net position</i> of governmental activities (Exhibit B)		<u>\$ (852,602)</u>

EXHIBIT E
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
Proprietary Fund
September 30, 2018**

	Combined Water and Sewer System
<i>CURRENT ASSETS</i>	
Cash and cash equivalents - unrestricted	\$ 8,415,802
Cash with fiscal agent	21,748,960
Accounts receivable - trade (net of allowance for doubtful accounts of \$3,069,493)	1,514,996
Total current assets	<u>31,679,758</u>
<i>NONCURRENT ASSETS</i>	
Capital assets	
Land	321,243
Construction in progress	7,288,558
Infrastructure, net	100,279,244
Buildings and improvements, net	168,333
Machinery and equipment, net	391,850
Total noncurrent assets	<u>108,449,228</u>
<i>Total assets</i>	<u>140,128,986</u>
<i>DEFERRED OUTFLOW OF RESOURCES</i>	
Related to pensions	393,394
Related to OPEB	1,250
Prepaid bond insurance	146,598
<i>Total deferred outflows</i>	<u>541,242</u>
<i>CURRENT LIABILITIES</i>	
Due to governmental funds	201,636
Sales tax payable	17,658
Accounts payable	1,740,876
Accrued wages and benefits	54,915
Accrued interest payable	522,850
Unamortized bond premium - current	45,384
Revenue bonds - current	3,010,000
General obligation bonds - current	2,159,000
General obligation note payable - current	24,683
Compensated absences - current	22,994
Total current liabilities	<u>7,799,996</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT E
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Net Position
Proprietary Fund
September 30, 2018**

	Combined Water and Sewer System
<i>NON-CURRENT LIABILITIES</i>	
Revenue bonds	\$ 54,935,000
General obligation bonds	8,141,000
Unamortized bond premium	301,649
Compensated absences	130,301
Net pension liability	4,694,270
Net OPEB liability	603,569
Customer meter deposits	1,560,089
Total non-current liabilities	<u>70,365,878</u>
<i>Total liabilities</i>	<u>78,165,874</u>
<i>DEFERRED INFLOWS OF RESOURCES</i>	
Related to pension	81,692
Deferred revenues	562,149
<i>Total deferred inflows</i>	<u>643,841</u>
<i>NET POSITION</i>	
Net investment in capital assets	39,832,512
Restricted for debt service	8,094,960
Unrestricted	13,933,041
<i>Total net position</i>	<u><u>\$ 61,860,513</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT F

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Revenues, Expenses, and Changes In Net Position
Proprietary Fund
Year Ended September 30, 2018**

	Combined Water and Sewer System
OPERATING REVENUES	
Water charges	\$ 10,985,049
Sewer charges	11,437,574
Sewer connections	127,169
Turn-on fees	58,905
Taps	212,373
Total operating revenues	<u>22,821,070</u>
OPERATING EXPENSES	
Personal services	2,785,900
Other services and charges	9,346,336
Supplies and expenses	760,017
Depreciation	3,803,227
Other operating expenses	873,505
Total operating expenses	<u>17,568,985</u>
OPERATING INCOME	<u>5,252,085</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	300,545
Interest expense	(2,446,012)
Intergovernmental revenue	228,348
Other revenues	98,280
Total non-operating revenues (expenses)	<u>(1,818,839)</u>
INCOME BEFORE TRANSFERS	3,433,246
Transfers out	<u>(500,000)</u>
CHANGE IN NET POSITION	2,933,246
NET POSITION - beginning	59,332,924
Prior period adjustment	<u>(405,657)</u>
NET POSITION - beginning, as adjusted	<u>58,927,267</u>
NET POSITION - ending	<u><u>\$ 61,860,513</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT G
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2018**

	Combined Water and Sewer System
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	
Receipts from customers	\$ 22,747,957
Payments to suppliers and service providers	(9,898,735)
Payments to employees for salaries and benefits	(2,509,865)
Net cash provided by operating activities	<u>10,339,357</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</i>	
Transfers to other funds	(500,000)
Net cash used by noncapital financing activities	<u>(500,000)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>	
Principal payments - bonds and notes	(5,037,001)
Intergovernmental cash receipts	228,348
Acquisition and construction of capital assets	(8,843,957)
Other receipts	98,280
Interest paid on capital debt	(2,503,002)
Net cash used by capital and related financing activities	<u>(16,057,332)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	
Interest income	300,545
Net cash provided by investing activities	<u>300,545</u>
<i>NET DECREASE IN CASH AND CASH EQUIVALENTS</i>	(5,917,430)
<i>CASH AND CASH EQUIVALENTS - Beginning</i>	<u>36,082,192</u>
<i>CASH AND CASH EQUIVALENTS - Ending</i>	<u>\$ 30,164,762</u>
Displayed on Exhibit E as:	
Cash and cash equivalents	\$ 8,415,802
Cash with fiscal agent	<u>21,748,960</u>
	<u>\$ 30,164,762</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT G
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2018**

	<u>Combined Water and Sewer System</u>
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
<i>OPERATING INCOME</i>	\$ 5,252,085
<i>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>	
Depreciation expense	3,803,227
Changes in assets and liabilities:	
(Increase) in accounts receivable - trade	(217,239)
Decrease in other receivables	57,000
Decrease in prepaid insurance - bonds	41,781
Decrease in deferred outflows related to pension	73,293
(Increase) in deferred outflows related to OPEB	(1,250)
Increase in accounts payable	936,729
Increase in wages and benefits payable	7,842
Increase in customer meter deposits	143,334
(Decrease) in sales tax payable	(1,168)
Increase in due from/to other governmental funds	102,613
Increase in compensated absences	56,238
Increase in net pension obligation	90,376
Increase in other post employment benefits	46,340
Increase in deferred inflows related to pension	3,196
(Decrease) in deferred revenues	(55,040)
Total adjustments	<u>5,087,272</u>
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i>	<u><u>\$ 10,339,357</u></u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT H

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Fiduciary Assets and Liabilities
September 30, 2018**

	<u>Agency Funds</u>
<i>ASSETS</i>	
Cash and cash equivalents	\$ 2,145,457
Property taxes and fees receivable	431,268
Sales tax receivable	<u>458,008</u>
<i>Total assets</i>	<u>\$ 3,034,733</u>
<i>LIABILITIES</i>	
Employee contributions payable	\$ 1,544,446
Due to other agencies	978,234
Other liabilities	5,958
Amounts held in custody for others	<u>506,095</u>
<i>Total liabilities</i>	<u>\$ 3,034,733</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Information

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

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

B. Reporting Entity

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

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2018

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

C. Government-wide and Fund Financial Statements

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

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

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

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2018

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term debt.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2018

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

Capital Project Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Agency Funds - These funds are used to account for employee payroll tax withholdings, initial tax deposits from the county tax collectors, initial special sales tax receipts, the Police and Firemen Disability and Relief Fund, and the Forrest County Industrial Park Commission Fund.

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

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

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

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2018

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

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

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

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

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

Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds". Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds". Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables

All receivables for sales taxes, property taxes, and notes 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 in the amount of \$20,620,686 at September 30, 2018. 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2018

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

Customer accounts receivable in the enterprise fund are attributable to unpaid balances at year-end for charges for services and are netted with an allowance for doubtful accounts. The City estimates the allowance for doubtful water and sewer account balances based upon a review of outstanding 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 they are 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 cost using the first-in/first-out (FIFO) method, which approximates market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, street lights, sewer and water lines, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2018

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

Property, plant, equipment, and infrastructure 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

Pensions

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/Inflows 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 outflow of resources (expense/expenditure) until then. The City reports prepaid insurance on the Water and 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 and OPEB, including contributions subsequent to the measurement date of the actuarial valuations for the plans.

Deferred inflows of resources are a separate financial statement element that represents an acquisition of net position or fund balance 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2018

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

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 financial statements and in the proprietary fund financial 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 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 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.

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 another 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 inflows/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 the 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:

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2018

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

- *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 City Council, 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* - 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, modifies, or rescinds fund balance commitments by passage of resolutions that also establish the City's spending policy, which 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.

F. 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 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2018

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

4. All funds, with the exception of Agency Funds, are budgeted, including the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Proprietary Funds. These budgets are prepared on a cash basis, modified for encumbrances for goods and services which have been received.

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, and 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.

G. 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 expenditures/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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED SEPTEMBER 30, 2018

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

H. Change in Accounting Standard

The City implemented the following standard issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The provisions of this standard have been incorporated into the financial statements and notes.

NOTE 2 - PRIOR PERIOD ADJUSTMENTS

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

<u>Explanation</u>	<u>Amount</u>
Exhibit B (Governmental Activities)	
<i>Change in Accounting Standard:</i>	
To adjust beginning balance of net OPEB liability	\$ (5,378,579)
<i>Correction of Error:</i>	
To adjust for vouchered transaction processing error	<u>(229,478)</u>
Total prior period adjustments - governmental activities	<u><u>\$ (5,608,057)</u></u>
Exhibit B (Business-Type Activities) and Exhibit F	
<i>Change in Accounting Standard:</i>	
To adjust beginning balance of net OPEB liability	<u><u>\$ (405,657)</u></u>

NOTE 3 - DEPOSITS

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWELVE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 - DEPOSITS (Cont.)

The carrying amount of the City's deposits with financial institutions reported in the government-wide statements was \$25,572,118 (exclusive of cash with fiscal agents disclosed below). The bank balance was \$28,006,041. 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, 2018, 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 \$22,725,447.

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 \$2,500,000 promissory note requiring annual payments not to exceed \$219,000 at an interest rate not to exceed 5.5% to coincide with the scheduled principal, interest and servicing fees attributable to the City's Series 2010 bonds. As described in Note 10, during fiscal year 2018, the entire \$1,810,000 outstanding balance attributable to this note was repaid and the repayment proceeds were utilized for the advance refunding of the City's corresponding General Obligation Pool Loan Refunding, Taxable Series 2010 Bonds.

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 resulting payments to MDA. At September 30, 2018, the balance of this note receivable was \$1,504,339.

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE THIRTEEN
YEAR ENDED SEPTEMBER 30, 2018**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018, was as follows:

	Primary Government		
	Beginning Balance	Additions	Ending Balance
Governmental Activities:			
Capital assets not being depreciated:			
Land	\$ 29,934,169	\$ 114,950	\$ -
Construction in progress	1,620,996	5,115,995	(3,867,587)
Total capital assets not being depreciated	<u>31,555,165</u>	<u>5,230,945</u>	<u>(3,867,587)</u>
Capital assets being depreciated:			
Buildings and improvements	62,191,473	127,849	-
Machinery and equipment	35,960,249	1,224,046	(9,640)
Infrastructure	150,848,687	3,867,587	-
Total capital assets being depreciated	<u>249,000,409</u>	<u>5,219,482</u>	<u>(9,640)</u>
Less accumulated depreciation for:			
Buildings and improvements	27,043,565	2,425,984	-
Machinery and equipment	30,484,690	1,782,287	(9,640)
Infrastructure	86,751,847	4,687,392	-
Total accumulated depreciated	<u>144,280,102</u>	<u>8,895,663</u>	<u>(9,640)</u>
Total capital assets being depreciated, net	<u>104,720,307</u>	<u>(3,676,181)</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 136,275,472</u>	<u>\$ 1,554,764</u>	<u>\$ (3,867,587)</u>

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE FOURTEEN
YEAR ENDED SEPTEMBER 30, 2018**

NOTE 5 - CAPITAL ASSETS (Cont.)

	Primary Government		
	Beginning Balance	Additions	Ending Balance
Business-type Activities:			
Capital assets not being depreciated:			
Land	\$ 321,243	\$ -	\$ 321,243
Construction in progress	1,851,863	8,811,718	7,288,558
Total capital assets not being depreciated	<u>2,173,106</u>	<u>8,811,718</u>	<u>7,609,801</u>
Capital assets being depreciated:			
Buildings and improvements	478,071	-	478,071
Machinery and equipment	9,065,410	32,239	9,097,649
Infrastructure	131,232,793	3,375,023	134,607,816
Total capital assets being depreciated	<u>140,776,274</u>	<u>3,407,262</u>	<u>144,183,536</u>
Less accumulated depreciation for:			
Buildings and improvements	300,585	9,153	309,738
Machinery and equipment	8,521,241	184,558	8,705,799
Infrastructure	30,719,056	3,609,516	34,328,572
Total accumulated depreciation	<u>39,540,882</u>	<u>3,803,227</u>	<u>43,344,109</u>
Total capital assets being depreciated, net	<u>101,235,392</u>	<u>(395,965)</u>	<u>100,839,427</u>
Business-type activities capital assets, net	<u>\$ 103,408,498</u>	<u>\$ 8,415,753</u>	<u>\$ (3,375,023)</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2018

NOTE 5 - CAPITAL ASSETS (Cont.)

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

Governmental Activities:

General government	\$ 725,889
Public safety	1,033,999
Public works – which includes the depreciation of infrastructure assets	5,415,988
Health and welfare	22,728
Other services	464,111
Culture and recreation	576,505
Mass transit	656,443

Total depreciation expense - governmental activities	\$ 8,895,663
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NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Balances due to/from various City funds at September 30, 2018, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 589,795
General fund	Combined water and sewer system	193,532
Nonmajor governmental funds	Combined water and sewer system	8,104
Nonmajor governmental funds	General fund	102,293
Total		\$ 893,724

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 at September 30, 2018, consist of the following:

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED SEPTEMBER 30, 2018

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

The amount payable to the General 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, 2018, is as follows:

Transfers out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General fund	\$ -	\$ 4,517,890	\$ 4,517,890
Nonmajor governmental funds	75,162	174	75,336
Combined water and sewer system	500,000	-	500,000
Total	\$ 575,162	\$ 4,518,064	\$ 5,093,226

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 fund 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.

NOTE 7 - AD VALOREM TAXES LEVIED FOR OTHER GOVERNMENTAL ENTITIES

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVENTEEN

YEAR ENDED SEPTEMBER 30, 2018

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

For the fiscal year 2018, the following ad valorem tax levies were made in accordance with the applicable statutory requirements and authorizations:

<u>Entity/Purpose of Levy</u>	<u>Applicable State Law</u>	<u>Mills Levied</u>
School District:		
Operational Support	37-57-105	55.00
School Bonded Indebtedness	37-59-23	7.10
Library (support, upkeep and maintenance of Hattiesburg Public Library System)	39-3-7	1.95

NOTE 8 - CLAIMS AND JUDGMENTS

Self-Funded Health Insurance Program - 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 are 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.

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 2018, 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% or 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

PAGE EIGHTEEN

YEAR ENDED SEPTEMBER 30, 2018

NOTE 8 - CLAIMS AND JUDGMENTS (Cont.)

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The following table provides changes in the balances of claims liabilities for fiscal year 2018:

Unpaid claims, beginning of fiscal year	\$ 344,757
Plus: Incurred claims (including IBNRs)	4,366,351
Less: Claims payments	<u>(4,413,498)</u>
Unpaid claims, end of fiscal year	<u>\$ 297,610</u>

Cash on deposit in the Group Insurance Fund at September 30, 2018 was \$188,002. Based on the above projection of net unpaid claims in excess of cash on deposit, interfund receivables were established from the respective operating funds at September 30, 2018.

Kohler Tax Exemption Judgment - Pursuant to the settlement and mutual release, effective January 31, 2019, the City has agreed to pay Kohler Company \$599,250 in tax refunds over a period of 10 years. The first installment of \$50,000 is due no later than December 31, 2019, with subsequent years' payments due by the same time. These payments may be processed as either cash settlements or ad valorem tax credits each year at the option of the City. See Note 10 for additional information related to the payment schedule.

NOTE 9 - LEASE OBLIGATIONS

The City has entered into various lease agreements as lessee for financing equipment purchases and for a major energy improvement project for various City facilities. The assets under capital lease have useful lives ranging from 7 to 10 years for machinery and equipment and from 10 to 15 years for buildings and improvements and are being depreciated based on those useful lives.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINETEEN

YEAR ENDED SEPTEMBER 30, 2018

NOTE 9 - LEASE OBLIGATIONS (Cont.)

For fiscal year 2018, the 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	\$ 4,302,564
Buildings and improvements	<u>7,726,727</u>
Less accumulated depreciation	<u>(3,003,224)</u>
Net book value	<u><u>\$ 9,026,067</u></u>
Current year depreciation expense	<u><u>\$ 1,049,627</u></u>

These leases qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value of minimum lease payments as of September 30, 2018 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2019	\$ 1,098,210
2020	802,467
2021	638,860
2022	655,926
2023	655,345
2024-2028	3,311,595
2029-2032	<u>2,768,812</u>
Total minimum lease payments	9,931,215
Less: amount representing interest	<u>(1,561,134)</u>
Present value of minimum lease payments	<u><u>\$ 8,370,081</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY

YEAR ENDED SEPTEMBER 30, 2018

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, 2018. 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, 2018 are as follows:

General Obligation Bonds

<u>Governmental Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/18</u>
Public Improvements	2015	\$ 5,400,000	3.50 - 5.00%	2022	<u>\$ 3,655,000</u>
<i>Total</i>					<u><u>\$ 3,655,000</u></u>
<u>Business-type Activities:</u>					
Public Improvements	2010	\$ 7,500,000	2.75 - 3.80%	2030	\$ 2,525,000
Public Improvements	2015	4,605,000	2.00 - 3.00%	2024	3,435,000
Public Improvements	2016	7,125,000	1.60%	2021	<u>4,340,000</u>
<i>Total</i>					<u><u>\$ 10,300,000</u></u>

Economic Development Limited Obligation 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-ONE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Limited obligation bonds and notes outstanding at September 30, 2018 are as follows:

Economic Development Limited Obligation Bonds and Notes

<u>Governmental Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/18</u>
MDB Limited Obligation Bonds	2009	\$ 2,937,000	2.90 - 6.00%*	2030	\$ 205,586
Hub City Lofts	2012	2,000,000	2.00%	2033	<u>1,504,339</u>
Total					<u><u>\$ 1,709,925</u></u>

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

Limited Obligation Tax Increment Financing 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 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-TWO

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Limited obligation TIF bonds outstanding at September 30, 2018 are as follows:

Limited Obligation TIF Bonds

Governmental Activities:	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/18
Chauvet Square	2003	\$ 1,100,000	4.50 - 5.35%	2023	\$ 410,000
Chauvet Square	2007	1,400,000	4.50%	2027	980,000
Turtle Crossing	2007	4,100,000	4.35%	2021	1,125,000
Lincoln Center	2008	610,000	4.00%	2023	245,000
Turtle Creek Crossing	2011	400,000	5.68%	2025	190,000
Kohl's	2012	715,000	5.00%	2021	245,000
Southern Pointe	2014	2,600,000	4.85%	2029	2,075,000
Hattiesburg Clinic - Midtown Project	2015	845,000	4.00%	2031	759,000
Ridge at Turtle Creek	2015	1,225,000	5.50%	2031	1,108,000
Midtown Market	2015	210,000	5.50%	2031	190,000
Whispering Pines	2016	3,021,000	4.00 - 4.75%	2031	2,712,000
Total					<u>\$ 10,039,000</u>

Certificates of Participation

In accordance with Section 31-8-1, et seq. Miss. Code Ann. (1972), the City issued Certificates of Participation and transferred the proceeds to the Southern Mississippi Investment Company, Inc. (Corporation). The funds were used to construct a City Public Safety Complex, including renovations of an existing building to be used as a multi-purpose building and a Parks and Recreation administration building.

At completion, the Corporation entered into a 20 year agreement with the City, with the City being obligated to make payments to the Corporation equal to the principal and interest payments on the debt. When the debt is paid, the City will assume ownership of the facilities. The obligation is not a general obligation and does not constitute a pledge of full faith and credit of the City.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-THREE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

There is an unamortized premium of \$263,142 which is not included in the principal in the following schedule:

Certificates of Participation

<u>Governmental Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/18</u>
Certificates of Participation	2016	\$ 5,300,000	3.00 - 5.00%	2035	<u>\$ 5,125,000</u>

Advance Refunding

On August 16, 2018, the City utilized the \$1,810,000 proceeds of the full repayment of its note receivable from Sacred Heart School for advance refunding of the corresponding City of Hattiesburg General Obligation Pool Loan Refunding Bonds, Taxable Series 2010. The defeased bonds from that issue that are outstanding at year end are presented in the following schedule:

<u>Issue</u>	<u>Average Interest Rate</u>	<u>Outstanding Amount Refunded</u>
Taxable General Obligation Refunding Bonds, Series 2010	4.50 - 6.00%	<u>\$ 1,810,000</u>

Business-type Activities (Water and Sewer) Revenue Bonds

In addition to water and sewer general obligation bonds, the City also 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 secured by water and sewer operating revenues and are subject to the requirements of the respective revenue bond documents. These bond documents include important parity debt requirements with the issuance of each new series of revenue bonds and require annual net revenue tests to be performed in accordance with the prescribed calculations.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-FOUR

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

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, 2018 are as follows:

Revenue Bonds

<u>Business-type Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/18</u>
W&S Revenue Project, Series 2012	2012	\$ 12,500,000	2.50 - 5.00%	2032	\$ 9,560,000
W&S Refunding Bonds, Series 2014	2014	28,000,000	3.00 - 5.00%	2039	27,800,000
W&S Refunding Bonds, Series 2016	2016	25,000,000	3.03%	2026	<u>20,585,000</u>
Total					<u><u>\$ 57,945,000</u></u>

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

In addition to water and sewer revenue bonds, the City has utilized 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 this note 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 note outstanding at September 30, 2018 is as follows:

State Revolving Loan Funds

<u>Business-type Activities:</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturity</u>	<u>Final Maturity</u>	<u>Outstanding 9/30/2018</u>
SRF #3	1999	\$ 1,293,195	4.50%	2019	<u><u>\$ 24,682</u></u>

Compensated Absences

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-FIVE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Compensated absences at September 30, 2018 are as follows:

	Governmental Activities	Business-Type Activities	Primary Government
Accrued vacation pay	\$ 1,734,666	\$ 151,399	\$ 1,886,065
Accrued overtime pay	11,513	1,896	13,409
Accrued holiday pay	161,846	-	161,846
<i>Total</i>	<u>\$ 1,908,025</u>	<u>\$ 153,295</u>	<u>\$ 2,061,320</u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-SIX
YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Changes in Long-Term Liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2018 are as follows:

<i>Governmental Activities:</i>	Balance September 30, 2017	Additions	Reductions	Adjustments	Balance September 30, 2018	Due Within One Year
Bonds and notes payable						
General obligation bonds and notes	\$ 7,165,000	\$ -	\$ (1,700,000)	\$ (1,810,000)	\$ 3,655,000	\$ 910,000
Limited obligation TIF bonds	11,061,000	-	(1,022,000)	-	10,039,000	1,068,000
Certificates of participation	5,300,000	-	(175,000)	-	5,125,000	185,000
Economic development limited obligation bonds and notes	1,827,482	-	(117,557)	-	1,709,925	115,527
Unamortized premium on bonds	174,026	-	(43,507)	-	130,519	43,507
Unamortized premium on certificates of participation	249,985	-	(13,157)	-	236,828	13,158
Total bonds and notes payable	<u>25,777,493</u>	<u>-</u>	<u>(3,071,221)</u>	<u>(1,810,000)</u>	<u>20,896,272</u>	<u>2,335,192</u>
Capital leases	9,053,588	444,291	(1,127,798)	-	8,370,081	895,251
Compensated absences	1,362,571	545,454	-	-	1,908,025	286,204
Claims and judgments	-	599,250	-	-	599,250	50,000
<i>Governmental activities long-term liabilities</i>	<u>\$ 36,193,652</u>	<u>\$ 1,588,995</u>	<u>\$ (4,199,019)</u>	<u>\$ (1,810,000)</u>	<u>\$ 31,773,628</u>	<u>\$ 3,566,647</u>
<i>Business-type Activities:</i>	Balance September 30, 2017	Additions	Reductions	Adjustments	Balance September 30, 2018	Due Within One Year
Bonds and notes payable						
General obligation bonds and notes	\$ 12,411,000	\$ -	\$ (2,111,000)	\$ -	\$ 10,300,000	\$ 2,159,000
Revenue bonds	60,775,000	-	(2,830,000)	-	57,945,000	3,010,000
State revolving loan funds	120,683	-	(96,000)	-	24,683	24,683
Unamortized premium on bonds	392,417	-	(45,384)	-	347,033	45,384
Total bonds and notes payable	<u>73,699,100</u>	<u>-</u>	<u>(5,082,384)</u>	<u>-</u>	<u>68,616,716</u>	<u>5,239,067</u>
Compensated absences	97,057	56,238	-	-	153,295	22,994
<i>Business-type activities long-term liabilities</i>	<u>\$ 73,796,157</u>	<u>\$ 56,238</u>	<u>\$ (5,082,384)</u>	<u>\$ -</u>	<u>\$ 68,770,011</u>	<u>\$ 5,262,061</u>

Note: Adjustments represent advance refunding of the General Obligation Pool Loan Refunding Bonds, Taxable Series 2010.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-SEVEN

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

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

Governmental Activities:

Year Ending September 30,	G.O. Bonds and Notes		Limited Obligation TIF Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 910,000	\$ 82,100	\$ 1,068,000	\$ 461,023
2020	935,000	63,650	1,116,000	411,880
2021	965,000	39,825	1,157,000	360,700
2022	845,000	12,675	706,000	307,452
2023	-	-	741,000	274,318
2024-2028	-	-	3,651,000	858,467
2029-2031	-	-	1,600,000	129,408
Total	\$ 3,655,000	\$ 198,250	\$ 10,039,000	\$ 2,803,248

Year Ending September 30,	Economic Development Limited Obligation Bonds and Notes		Certificates of Participation	
	Principal	Interest	Principal	Interest
2019	\$ 115,527	\$ 31,899	\$ 185,000	\$ 219,025
2020	115,590	29,774	190,000	209,650
2021	117,488	27,637	200,000	199,900
2022	119,424	25,486	205,000	191,825
2023	121,400	23,316	220,000	185,450
2024-2028	626,210	82,784	1,245,000	809,875
2029-2033	494,286	21,717	1,665,000	480,312
2034-2036	-	-	1,215,000	83,363
Total	\$ 1,709,925	\$ 242,613	\$ 5,125,000	\$ 2,379,400

(Table Continued on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-EIGHT

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Year Ending September 30,	Claims and Judgments		Total Governmental Activities	
	Principal	Interest	Principal	Interest
2019	\$ 50,000	\$ -	\$ 2,328,527	\$ 794,047
2020	50,000	-	2,406,590	714,954
2021	50,000	-	2,489,488	628,062
2022	64,178	-	1,939,602	537,438
2023	64,178	-	1,146,578	483,084
2024-2028	320,894	-	5,843,104	1,751,126
2029-2033	-	-	3,759,286	631,437
2034-2036	-	-	1,215,000	83,363
Total	\$ 599,250	\$ -	\$ 21,128,175	\$ 5,623,511

Business-type Activities:

Year Ending September 30,	G.O. Bonds and Notes		State Revolving Loan Funds	
	Principal	Interest	Principal	Interest
2019	\$ 2,159,000	\$ 225,154	\$ 24,683	\$ 185
2020	2,206,000	184,665	-	-
2021	2,260,000	145,109	-	-
2022	815,000	101,359	-	-
2023	850,000	77,089	-	-
2024-2028	1,490,000	194,710	-	-
2029-2030	520,000	25,384	-	-
Total	\$ 10,300,000	\$ 953,470	\$ 24,683	\$ 185

(Tables Continued on Next Page)

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-NINE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 10 - LONG-TERM LIABILITIES (Cont.)

Year Ending September 30,	Revenue Bonds		Total Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 3,010,000	\$ 2,124,593	\$ 5,193,683	\$ 2,349,932
2020	3,155,000	2,032,550	5,361,000	2,217,215
2021	3,240,000	1,936,961	5,500,000	2,082,070
2022	3,535,000	1,836,225	4,350,000	1,937,584
2023	4,325,000	1,719,190	5,175,000	1,796,279
2024-2028	17,635,000	6,461,086	19,125,000	6,655,796
2029-2033	10,995,000	3,948,154	11,515,000	3,973,538
2034-2038	9,795,000	1,747,906	9,795,000	1,747,906
2038-2039	2,255,000	53,863	2,255,000	53,863
Total	\$ 57,945,000	\$ 21,860,528	\$ 68,269,683	\$ 22,814,183

During the year ended September 30, 2018, interest expense paid for governmental activities and business-type activities totaled \$960,978 and \$2,446,012, respectively.

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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY

YEAR ENDED SEPTEMBER 30, 2018

NOTE 11 - SCHEDULE OF STATUTORY DEBT LIMITATIONS (Cont.)

Presented in the schedule below are the calculations of the applicable statutory debt limitations as of September 30, 2018:

		<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2018			
(\$453,836,138) times applicable percentage	[a]	\$ 68,075,421	\$ 90,767,228
Present debt subject to debt limits as of September 30, 2018:			
Total bonds and notes other than water and sewer		15,403,925	15,403,925
Less: Bonds exempt from debt limitation calculations		(11,748,925)	(11,748,925)
Add: Water & Sewer debt other than revenue bonds		<u>N/A</u>	<u>10,300,000</u>
General obligation debt subject to applicable tests	[b]	<u>3,655,000</u>	<u>13,955,000</u>
Margin for additional debt [a] minus [b]		<u>\$ 64,420,421</u>	<u>\$ 76,812,228</u>

NOTE 12 - TAX ABATEMENTS

GASB Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they would otherwise be entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the government or citizens of those governments.

The City negotiates property tax abatements on an individual basis. All abatements are for 5 and/or 10 years and are for economic development purposes. The City has two types of abatements, as follows:

Section 27-31-101 and 27-31-105, Miss. Code (Ann.) 1972 – All allowable tax levies
There are twenty-five companies that have tax abatements under this statute.

Section 17-21-5, Miss. Code (Ann.) 1972 – Historic district exemptions
There are six companies that had tax abatements under this statute.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-ONE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 12 - TAX ABATEMENTS (Cont.)

Category	Amount of Taxes Abated During the Fiscal Year	Direct Employment Impact	Indirect Employment Impact
Construction and expansion of a manufacturing facility	\$ 1,433,138	5,421 jobs	4,762 jobs
Historic district exemptions	73,412	15 jobs	10 jobs

The projected public investment for jobs impacted by industrial expansions is \$376 per direct job and \$203 per indirect job. The projected public investment for historic district exemptions is \$2,065 per direct job and \$1,237 per indirect job.

The economic impact information presented above was compiled by consultants contracted by the City and was prepared in conjunction with fiscal year 2018 tax abatement totals obtained from the Forrest County Tax Assessor's office. There were no tax abatement agreements for Lamar County properties in fiscal year 2018.

The companies were required to comply with certain special provisions, and did so in order to receive the abatements, and the City made no commitments as part of the agreements other than to reduce taxes.

NOTE 13 - RELATED ORGANIZATION

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

Hattiesburg Tourism Commission - The Commission consists of seven 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, 2018 totaled \$633,188. Amount due from special tax agency fund to the Tourism Commission at September 30, 2018 was \$111,056 and was included in the accompanying statement of fiduciary net position under the caption due to other agencies and was distributed within thirty days.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-TWO

YEAR ENDED SEPTEMBER 30, 2018

NOTE 14 - JOINT VENTURES

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

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

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

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-THREE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 16 - DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

At September 30, 2018, the City's Community Development Block Grant Fund and the Airport Improvement Fund reported deficit fund balances of \$9,393 and \$144,218, respectively, which are attributable to the cumulative effect of program expenditures in excess of grant reimbursements.

NOTE 17 - COMMITMENTS

Significant encumbrances at September 30, 2018, included \$869,935 for paving projects, \$203,210 for police vehicles, \$431,052 for Mass Transit vehicles, and \$288,283 for water and sewer projects.

Commitments for construction projects in progress are as follows:

September 30, 2018	Amount
Airport improvements	\$ 670,876
Infrastructure projects	340,700
Water and sewer projects	9,296,932
<i>Commitments for construction projects in progress, end of fiscal year</i>	<i>\$ 10,308,508</i>

NOTE 18 - CONTINGENCIES

USA Yeast Facility - During fiscal year 2015, the City completed construction of a wastewater pretreatment facility, or evaporator plant, for a manufacturing facility located within the City. Project costs were funded with CDBG Economic Development Grant funds along with private funds provided by the manufacturer. Under the terms of the grant agreement, the City has title to assets constructed with grant funds, and the manufacturing company owns the assets constructed with its funds. Pursuant to an agreement between the City and the company and to terms stated in the CDBG grant agreement, title to the facility, 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-FOUR

YEAR ENDED SEPTEMBER 30, 2018

NOTE 18 - CONTINGENCIES (Cont.)

Mississippi Department of Environmental Quality Consent Order - Stipulated Order Terminating Amended Consent Judgment - 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 has suspended certain project elements that were in development and design stages in prior years. 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.

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

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

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-FIVE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 18 - CONTINGENCIES (Cont.)

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.

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS

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 75 as a single employer defined benefit health care plan. This type of plan is considered an "other postemployment benefit plan", or "OPEB".

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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-SIX

YEAR ENDED SEPTEMBER 30, 2018

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (Cont.)

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, 2017 totaled \$388 and \$638, respectively. For the years ended September 30, 2018, 2017, and 2016, the City contributed \$228,209, \$211,305, and \$161,224, respectively, to the plan for expected payouts for retiree benefits, which represented 19.32%, 19.05%, and 21.15%, respectively, of the actuarially determined annual required contribution of \$1,180,987, \$1,109,013, and \$762,287, respectively. No amounts have been contributed to finance future medical benefits under the plan for either current or future retirees.

Actuarially Determined Contribution and Total OPEB Liability - The Annual OPEB cost associated with the city's retiree health care costs for the current year is as follows:

Actuarially determined contribution before timing adjustment	\$ 1,180,897
Timing adjustment	<u>-</u>
Actuarially determined contribution	<u>1,180,897</u>
Contribution made	(309,914)
Net OPEB liability before timing adjustment	7,536,713
Timing adjustment	<u>-</u>
Net OPEB liability, after timing adjustment	7,536,713
Change in Net OPEB liability	<u>626,759</u>
Net OPEB liability, end of year	<u><u>\$ 8,163,472</u></u>

<u>Year Ended September 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Liability</u>
2018	<u>\$ 838,064</u>	36.98%	<u><u>\$ 8,163,472</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-SEVEN

YEAR ENDED SEPTEMBER 30, 2018

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (Cont.)

Membership - As of the most recent actuarial valuation of the net OPEB liability, membership data is as follows:

Retirees and beneficiaries currently receiving	50
Active members	<u>622</u>
Total participants	<u><u>672</u></u>

Net OPEB Liability - The Net OPEB Liability was measured as of September 30, 2017. The Total OPEB Liability was determined from an actuarial valuation as of October 1, 2017. The Net OPEB Liability is the Total OPEB Liability less the Plan Fiduciary Net Position. The Total OPEB Liability is the present value of all future benefit payments for current retirees and active employees, considering assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

Measurement date	September 30, 2017
Reporting date	September 30, 2018
 Total OPEB Liability	 \$ 8,163,472
Less: Fiduciary Net Position	<u>-</u>
 Net OPEB Liability	 <u><u>\$ 8,163,472</u></u>

A schedule of Net OPEB Liability, in addition to the information above, includes multi-year trend information (beginning with fiscal year 2018) and is presented as Required Supplementary Information in this report.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-EIGHT

YEAR ENDED SEPTEMBER 30, 2018

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (Cont.)

Schedule of Changes in Net OPEB Liability - The change in Net OPEB Liability for the year ended September 30, 2018 is as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Service cost	\$ 601,832	\$ 211,305	\$ 390,527
Interest	236,232	-	236,232
Benefit payments	(211,305)	(211,305)	-
Net change	626,759	-	626,759
Beginning Net OPEB Liability	7,536,713	-	7,536,713
Ending Net OPEB Liability	<u>\$ 8,163,472</u>	<u>\$ -</u>	<u>\$ 8,163,472</u>

OPEB Expense - For the year ended September 30, 2018, the City recognized OPEB expense of \$838,064. OPEB expense is recognized in the following components:

Service Cost	\$ 601,832
Interest	<u>236,232</u>
OPEB Expense	<u><u>\$ 838,064</u></u>

Schedule of Deferred Outflows of Resources - Deferred outflows of resources are differences between actual and expected experience that are not reflected in the current year's expenses.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTY-NINE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (Cont.)

Deferred outflows of resources related to OPEB reported by the City at September 30, 2018 is as follows:

	Deferred Outflow of Resources
Recognition of prior post-measurement contribution	\$ (211,305)
Post-measurement contribution	228,209
Total	\$ 16,904

Amounts reported as deferred outflows of resources related to Net OPEB Liability at September 30, 2018, will be recognized in OPEB expense as follows:

Year Ending September 30,	Deferred Outflow of Resources
2019	\$ 4,257
2020	4,257
2021	4,257
2022	3,833
Total	\$ 16,604

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Net OPEB Liability, calculated using the discount rate, as well as what the City's Net OPEB Liability would have been if it were calculated using a discount rate that is 1-percent-point lower and 1-percent-point higher than the current rate:

1% Increase 1.98%	Current Discount Rate 2.98%	1% Decrease 3.98%
\$ 9,271,384	\$ 8,163,472	\$ 7,214,267

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY

YEAR ENDED SEPTEMBER 30, 2018

NOTE 19 - OTHER POSTEMPLOYMENT BENEFITS (Cont.)

Schedule of Assumptions - The Total OPEB Liability was rolled forward from an actuarial valuation as of October 1, 2017 using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increase	2.50% per annum
Discount rate	2.98%
Measurement date	September 30, 2017
Medical costs trends rate	8% to grade uniformly to 5% over a 10 year period
Administrative costs	\$383 per member
Healthy mortality rate	RP-2014 Blue Collar Adjusted Mortality Table adjusted to 2006 with generational mortality improvement to current year under projection on Scale MP-2017.

NOTE 20 - DEFINED BENEFIT PENSION PLANS

Public Employees Retirement Plans

Pension Plan Descriptions - The City 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 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, 2018, included one active member and 143 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.

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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-ONE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 20 - DEFINED BENEFIT PENSION PLANS (Cont.)

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, 2018. The auditor's opinion on that report, which includes in an accompanying schedule of collective pension amounts as of June 30, 2018 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 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% 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% 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.

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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-TWO

YEAR ENDED SEPTEMBER 30, 2018

NOTE 20 - DEFINED BENEFIT PENSION PLANS (Cont.)

A cost-of-living adjustment payment is made to eligible retirees and beneficiaries equal to 3.0% 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% 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 requirements of PERS members and employers are established by the State of Mississippi Legislature, and at September 30, 2018, PERS members were required to contribute 9% of their annual salary, and employers were required to contribute 15.75% of covered payroll. The City's contributions (employer share only) to PERS for the years ended September 30, 2018, 2017 and 2016 were \$3,719,626, \$3,707,145, and \$3,738,948, respectively, equal to the required contributions each year.

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. The employee contribution rate as of September 30, 2018, was 10% 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.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-THREE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 20 - DEFINED BENEFIT PENSION PLANS (Cont.)

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, 2017 under the Pre-2011 and Post-2011 Funding Policy rates are 30.23 mills and 2.75 mills, respectively. The actual tax levy set in 2017 for the pension fund for policemen and firemen for the year ended September 30, 2018 was 3.33 mills.

For the year ended September 30, 2018, contributions totaling \$1,511,097 (\$1,505,257 employer and \$5,570 employee) were made in accordance with contribution requirements determined by an actuarial valuation of the System as of June 30, 2018. The employer's annual required contribution (ARC) was actuarially determined to be \$1,549,927 (consisting of \$0- normal ARC and \$1,549,927 accrued liability ARC).

Pension Liabilities and Pension Expense - At September 30, 2018, the City reported a liability of approximately \$75,724,779 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, 2018, and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2018 for the Cost-Sharing Plan and for the PFDR Plan. The NPL recorded as of September 30, 2018, and the pension expense recognized by the City for the year ended September 30, 2018, was as follows:

	Cost - Sharing Plan	PFDR	Total
Net pension liability	<u>\$ 60,876,674</u>	<u>\$ 14,848,105</u>	<u>\$ 75,724,779</u>
Net pension expense	<u>\$ 4,249,993</u>	<u>\$ 1,432,629</u>	<u>\$ 5,682,622</u>

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, 2018, the City's proportion was 0.366040% as compared to its proportion measured at June 30, 2017 of 0.365585%, or an increase of 0.000455%.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-FOUR

YEAR ENDED SEPTEMBER 30, 2018

NOTE 20 - DEFINED BENEFIT PENSION PLANS (Cont.)

The change in the NPL for PFDR was as follows:

<u>Year Ended September 30, 2018</u>	<u>Total Pension Liability</u>	<u>Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Service cost	\$ -	\$ -	\$ -
Interest	2,698,813	-	2,698,813
Changes of assumptions	145,391	-	145,391
Difference between expected and actual experience	251,676	-	251,676
Contributions - employer	-	1,346,302	(1,346,302)
Contributions - employee	-	5,383	(5,383)
Net investment income	-	2,778,391	(2,778,391)
Benefit payments, including refunds of employee contributions	(3,394,117)	(3,394,117)	-
Administrative expense	-	(26,926)	26,926
Other changes	-	(16,601)	16,601
Net change	(298,237)	692,432	(990,669)
Net pension liability, beginning of year	36,520,448	20,681,674	15,838,774
Net pension liability, end of year	\$ 36,222,211	\$ 21,374,106	\$ 14,848,105

Sensitivity to the City's Proportionate Share of the Net Pension Liabilities to Changes in the Discount Rate - 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 they 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:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Cost-sharing plan net pension liability	\$ 80,157,111	\$ 60,876,674	\$ 44,852,085
PFDR plan net pension liability	\$ 17,302,960	\$ 14,848,105	\$ 11,616,394

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-FIVE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 20 - DEFINED BENEFIT PENSION PLANS (Cont.)

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 Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
September 30, 2018				
Differences between expected and actual experience	\$ 198,449	\$ 190,824	\$ -	\$ -
Changes of assumptions	26,715	25,000	-	-
Net difference between projected and actual earnings on investments	-	968,117	89,484	197,350
Changes in proportion and differences between employer contributions and proportionate share of contribution	3,622,280	-	-	-
Employer contributions subsequent to the measurement date	1,035,627	-	130,623	-
Total	\$ 4,883,071	\$ 1,183,941	\$ 220,107	\$ 197,350

Deferred outflows of resources related to the Cost-Sharing Plan and PFDR resulting from City contributions subsequent to June 30, 2018 (the measurement date) were \$1,035,627 and \$130,623, respectively, and will be recognized as a reduction of the net pension liability in the year ending September 30, 2019.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-SIX

YEAR ENDED SEPTEMBER 30, 2018

NOTE 20 - DEFINED BENEFIT PENSION PLANS (Cont.)

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:

<u>Year Ending September 30,</u>	<u>Cost - Sharing Plan</u>		<u>PFDR</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 1,006,433	\$ (316,451)	\$ 299,443	\$ (50,603)
2020	1,006,433	(316,451)	67,269	(50,603)
2021	998,668	(309,008)	(264,189)	(50,603)
2022	835,910	(242,031)	(13,039)	(45,541)
Total	<u>\$ 3,847,444</u>	<u>\$ (1,183,941)</u>	<u>\$ 89,484</u>	<u>\$ (197,350)</u>

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% 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:

	<u>Cost - Sharing Plan</u>	<u>PFDR Plan</u>
Inflation	3.00%	3.25%
Investment rate of return (net of plan investment expense and inflation)	7.75%	7.75%
Projected salary increases, including inflation	3.25% - 18.50%	4.00% - 5.50%

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, 2012 to June 30, 2016. The experience report was dated April 18, 2017.

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 2022 and set forward one year for males.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-SEVEN

YEAR ENDED SEPTEMBER 30, 2018

NOTE 20 - DEFINED BENEFIT PENSION PLANS (Cont.)

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 the assumed rate of 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:

<u>Investment Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
U.S. Broad	27.00%	4.60%
International equity	18.00%	4.50%
Emerging markets equity	4.00%	4.75%
Global	12.00%	4.75%
Fixed income	18.00%	0.75%
Real estate	10.00%	3.50%
Private equity	8.00%	5.10%
Emerging debt	2.00%	2.25%
Cash	1.00%	0.00%
Total	<u>100.00%</u>	

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
PAGE FORTY-EIGHT
YEAR ENDED SEPTEMBER 30, 2018**

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNIT

Capital asset activity for the Hattiesburg Convention Commission (Commission) for the year ended September 30, 2018 was as follows:

	Beginning Balances	Additions	Retirements	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,319,313	\$ 103,573	\$ -	\$ 1,422,886
Construction in progress - Eureka	3,796,815	714,973	(4,511,788)	-
Construction in progress - Saenger Theater	24,705	24,705	(49,410)	-
Construction in progress - Zoo projects	43,719	529,532	(78,439)	494,812
Construction in progress - Osceola McCarty House Museum	55,910	4,182	-	60,092
Total capital assets not being depreciated	<u>5,240,462</u>	<u>1,376,965</u>	<u>(4,639,637)</u>	<u>1,977,790</u>
Capital assets being depreciated:				
Buildings, parking lot, etc.	18,133,585	4,511,788	-	22,645,373
Furniture and fixtures	474,945	12,997	-	487,942
Equipment and vehicles	1,596,199	23,327	-	1,619,526
Assets acquired under capital lease	34,737	-	-	34,737
Total capital assets being depreciated	<u>20,239,466</u>	<u>4,548,112</u>	<u>-</u>	<u>24,787,578</u>
Less accumulated depreciation for:				
Buildings, parking lot, etc.	7,703,358	471,390	-	8,174,748
Furniture and fixtures	435,840	495	-	436,335
Equipment and vehicles	1,507,208	12,838	-	1,520,046
Assets acquired under capital lease	34,737	-	-	34,737
Total accumulated depreciation	<u>9,681,143</u>	<u>484,723</u>	<u>-</u>	<u>10,165,866</u>
Total capital assets being depreciated, net	<u>10,558,323</u>	<u>4,063,389</u>	<u>-</u>	<u>14,621,712</u>
Governmental activities capital assets, net	<u><u>\$ 15,798,785</u></u>	<u><u>\$ 5,440,354</u></u>	<u><u>\$ (4,639,637)</u></u>	<u><u>\$ 16,599,502</u></u>

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FORTY-NINE

YEAR ENDED SEPTEMBER 30, 2018

NOTE 21 - DISCRETELY PRESENTED COMPONENT UNIT (Cont.)

The City entered into a contract with the 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 Commission that allowed for the Commission to accept full financial responsibility for any subsidy requirement necessary for operations of the Hattiesburg Zoo, thus ending the monthly management fee as contained in the original contract. Six months prior to the end date of the contract (September 30, 2020), all parties have agreed 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, 2018, the Commission contracted for certain capital projects. The Commission transferred completed construction projects totaling \$127,849 to the City, which are reflected in capital assets of the City as of September 30, 2018.

NOTE 22 - SUBSEQUENT EVENTS

Management has evaluated subsequent events after the financial statement date of September 30, 2018 through June 13, 2019, which is the date the financial statements were available to be issued. Significant subsequent events are described below.

Commitments for Additional Debt

In October 2018, the City adopted the intent resolution for the issuance of general obligation bonds to be sold by the Mississippi Development Authority of the State of Mississippi in an aggregate amount not to exceed \$45,000,000. These bonds are to be used to provide funding for various infrastructure projects, municipal building and improvement projects, and other purposes authorized under Mississippi Code Ann. Sections 21-33-301 et seq. and Sections 31-25-1 et seq.

In March 2019, the City approved a Tax Increment Financing (TIF) Plan that authorized the issuance of TIF Bonds in an amount not to exceed \$600,000 for The Avid Hotel Project to provide funds to finance a portion of construction of various infrastructure and related site improvements for this project. This project is considered to be a continuation and expansion of a phased Tax Increment Plan at Chauvet Square previously authorized and adopted by the City.

In April 2019, the City approved an interlocal agreement with Forrest County in connection with the City's Tax Increment Financing (TIF) Plan approved in February 2016 for the Elam Arms Development project. The TIF Plan provides for the City to issue an aggregate not to exceed \$9,000,000 in TIF Bonds in one or more series to fund certain infrastructure for the project as described in the TIF Plan that also calls for the City's and the County's mutual pledge and division of the incremental increase in tax revenues generated by the development within the TIF District as security for the bonds.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTY

YEAR ENDED SEPTEMBER 30, 2018

NOTE 22 - SUBSEQUENT EVENTS (Cont.)

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.

Ad Valorem Tax Exemption Judgment

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 was settled in March, 2019, and the settlement included a Memorandum of Understanding with the company that included Kohler's commitment for capital investment of \$16,200,000, with at least 250 full-time positions and a corresponding ten-year ad valorem tax exemption from the City and County upon completion of the expansion. Additionally, the City and the County agreed to a total of \$599,250 in ad valorem tax exemptions for property set forth in Kohler's application for tax exemption filed before June 1, 2018 and it is to be settled to the company by the City over a ten year period either as cash payments or ad valorem tax credits.

Additional 1 Percent Restaurant, Hotel, and Motel Tax

In a special election held on April 23, 2019, voters approved a proposed additional 1% sales tax that will be in effect beginning June 1, 2019. This tax is in addition to the current 2% sales tax that is used to fund the Hattiesburg Convention Commission, and it is projected to generate \$1.2 million annually. Half of the revenues from this new tax will be used for renovating the Reed Green Coliseum at the University of Southern Mississippi, and the other half will be used for improvements to the City's parks and recreation facilities. Any revenues in excess of the projected \$1.2 million will be used for sidewalks and multi-use paths with focus on seven designated areas within the City. The tax is authorized for a three-year period.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1
PAGE 1 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2018**

	Original Budget	Final Budget
REVENUES		
Intergovernmental:		
Federal grants	\$ 2,844,703	\$ 4,376,886
State grants	168,299	268,299
State - shared revenue	22,799,000	23,155,166
County - shared revenue		
General property taxes	17,114,000	17,114,000
Other taxes	35,000	35,000
Licenses and permits	4,520,900	4,520,900
Charges for services:		
Public safety	202,000	242,000
Streets	1,000	1,000
Sanitation	2,195,000	2,195,000
Fines and forfeitures	1,238,000	1,238,000
Miscellaneous	299,400	324,400
Non-revenue receipts	1,127,412	1,702,412
Total revenues	52,544,714	55,173,063
EXPENDITURES		
General government:		
Personnel	4,774,444	4,744,318
Supplies and expenses	284,914	312,322
Other services and charges	5,288,766	5,040,668
Capital outlays	348,250	847,438
Total general government	10,696,374	10,944,746
Police Department:		
Personnel	11,111,742	11,050,082
Supplies and expenses	701,487	761,586
Other services and charges	487,797	533,297
Capital outlays	592,822	1,056,000
Total police department	12,893,848	13,400,965
Police and fire training:		
Personnel	37,615	37,615
Supplies and expenses	149,732	150,732
Other services and charges	105,695	90,695
Capital outlays	-	17,000
Total police and fire training	293,042	296,042

The accompanying notes are an integral part of this schedule.

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 1,929,546	\$ (2,447,340)
149,411	(118,888)
22,768,027	(387,139)
15,877	15,877
16,864,811	(249,189)
35,819	819
4,039,903	(480,997)
269,806	27,806
1,640	640
2,180,845	(14,155)
1,079,751	(158,249)
329,298	4,898
357,701	(1,344,711)
<u>50,022,435</u>	<u>(5,150,628)</u>
4,342,909	401,409
208,319	104,003
4,279,746	760,922
599,716	247,722
<u>9,430,690</u>	<u>1,514,056</u>
9,743,844	1,306,238
705,094	56,492
498,666	34,631
511,218	544,782
<u>11,458,822</u>	<u>1,942,143</u>
37,657	(42)
96,922	53,810
61,761	28,934
-	17,000
<u>196,340</u>	<u>99,702</u>

SCHEDULE 1
PAGE 2 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2018**

	Original Budget	Final Budget
<i>EXPENDITURES (Cont.)</i>		
Fire Department:		
Personnel	\$ 8,048,588	\$ 8,015,588
Supplies and expenses	314,913	383,496
Other services and charges	305,523	282,277
Capital outlays	-	13,300
Total fire department	<u>8,669,024</u>	<u>8,694,661</u>
Land development administration:		
Personnel	585,558	645,537
Supplies and expenses	28,100	34,100
Other services and charges	158,700	152,700
Capital outlays	-	-
Total land development administration	<u>772,358</u>	<u>832,337</u>
Public safety contractual services:		
Personnel	221,800	226,800
Other services and charges	1,326,000	1,296,000
Total public safety contractual services	<u>1,547,800</u>	<u>1,522,800</u>
Public services:		
Personnel	6,633,747	6,577,958
Supplies and expenses	1,466,376	1,487,439
Other services and charges	4,052,463	4,314,363
Capital outlays	779,000	1,409,450
Total public services	<u>12,931,586</u>	<u>13,789,210</u>
Animal Control:		
Personnel	157,074	157,074
Supplies and expenses	15,400	15,400
Other services and charges	126,685	156,685
Total animal control	<u>299,159</u>	<u>329,159</u>

Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 7,458,858	\$ 556,730
327,706	55,790
234,049	48,228
13,286	14
<u>8,033,899</u>	<u>660,762</u>
562,030	83,507
27,930	6,170
84,272	68,428
-	-
<u>674,232</u>	<u>158,105</u>
218,728	8,072
<u>1,065,666</u>	<u>230,334</u>
<u>1,284,394</u>	<u>238,406</u>
5,846,267	731,691
1,206,730	280,709
3,149,240	1,165,123
518,935	890,515
<u>10,721,172</u>	<u>3,068,038</u>
131,415	25,659
11,664	3,736
131,217	25,468
<u>274,296</u>	<u>54,863</u>

SCHEDULE 1
PAGE 3 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2018**

	Original Budget	Final Budget
<i>EXPENDITURES (Cont.)</i>		
Human/social assistance:		
Other services and charges	\$ 239,880	\$ 204,880
Total human/social assistance	239,880	204,880
Economic development:		
Other services and charges	305,000	305,000
Total economic development	305,000	305,000
Airport:		
Personnel	82,260	82,260
Supplies and expenses	38,200	38,200
Other services and charges	85,958	75,958
Total airport	206,418	196,418
Cemetery:		
Personnel	777,558	777,103
Supplies and expenses	84,950	92,950
Other services and charges	61,351	61,351
Capital outlays	93,000	85,000
Total cemetery	1,016,859	1,016,404
Parking garages:		
Personnel	238,330	238,330
Supplies and expenses	8,850	8,850
Other services and charges	70,350	70,350
Total parking garages	317,530	317,530

Actual	Variance with Final Budget Favorable (Unfavorable)
<u>\$ 186,920</u>	<u>\$ 17,960</u>
<u>186,920</u>	<u>17,960</u>
<u>305,000</u>	<u>-</u>
<u>305,000</u>	<u>-</u>
79,028	3,232
23,176	15,024
69,206	6,752
<u>171,410</u>	<u>25,008</u>
703,387	73,716
75,086	17,864
46,749	14,602
19,118	65,882
<u>844,340</u>	<u>172,064</u>
188,951	49,379
4,467	4,383
56,797	13,553
<u>250,215</u>	<u>67,315</u>

SCHEDULE 1
PAGE 4 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**Budgetary Comparison Schedule
General Fund
Year Ended September 30, 2018**

	Original Budget	Final Budget
EXPENDITURES (Cont.)		
Debt service:		
Principal payments	\$ 2,633,444	\$ 2,433,344
Interest payments	487,225	466,225
Pay agent fees	3,000	3,000
Total debt service	<u>3,123,669</u>	<u>2,902,569</u>
Total expenditures	<u>53,312,547</u>	<u>54,752,721</u>
Excess (deficiency) of revenues over expenditures	(767,833)	420,342
OTHER FINANCING SOURCES (USES)		
Transfers in	890,000	964,465
Transfers out	<u>(3,600,000)</u>	<u>(4,517,890)</u>
Total other financing sources (uses)	<u>(2,710,000)</u>	<u>(3,553,425)</u>
NET CHANGE IN FUND BALANCES	(3,477,833)	(3,133,083)
Fund balances - beginning (Non-GAAP Budgetary Basis)	<u>6,500,000</u>	<u>5,342,290</u>
Fund balances - ending (Non-GAAP Budgetary Basis)	<u>\$ 3,022,167</u>	<u>\$ 2,209,207</u>
ADJUSTMENTS:		
To adjust for sales tax accrual		
To adjust for other receivables/accruals		
Fund balances - ending (GAAP Basis)		

<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
\$ 1,069,600	\$ 1,363,744
468,178	(1,953)
3,000	
<u>1,540,778</u>	<u>1,361,791</u>
<u>45,372,508</u>	<u>9,380,213</u>
4,649,927	4,229,585
1,070,205	105,740
(4,517,890)	-
<u>(3,447,685)</u>	<u>105,740</u>
1,202,242	<u>\$ 4,335,325</u>
<u>5,342,290</u>	
6,544,532	
73,533	
<u>3,845,609</u>	
<u>\$ 10,463,674</u>	

CITY OF HATTIESBURG, MISSISSIPPI

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2018**

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - BUDGET/GAAP RECONCILIATION

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

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

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

SCHEDULE 2

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule of the City's Proportionate Share of the Net Pension Liability - PERS
Last Ten Fiscal Years*
Year Ended September 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.366040%	0.365585%	0.356159%	0.354714%
City's proportionate share of the net pension liability (asset)	\$ 60,876,674	\$ 60,775,128	\$ 63,626,214	\$ 54,831,789
City's covered payroll	\$23,616,660	\$23,537,422	\$23,739,349	\$22,228,762
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	257.77%	258.21%	268.02%	246.67%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	61.49%	57.47%	61.70%

*The amounts presented for each fiscal year were determined as of the twelve months ended at the measurement date of June 30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the year ended September 30, 2015, and until a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

SCHEDULE 3

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule of City Contributions
Public Employees' Retirement System (PERS)
Last Ten Fiscal Years*
Year Ended September 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 3,719,626	\$ 3,707,145	\$ 3,738,948	\$ 3,501,030
Contributions in relation to the contractually required contribution	<u>3,719,626</u>	<u>3,707,145</u>	<u>3,738,948</u>	<u>3,501,030</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 23,616,673	\$ 23,537,429	\$ 23,739,352	\$ 22,228,762
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	15.75%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the year ended September 30, 2015, and until a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

SCHEDULE 4

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule of Changes in the City's Total OPEB Liability and Related Ratios
Last Ten Fiscal Years*
Year Ended September 30, 2018**

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 601,832
Interest	236,232
Benefit payments	<u>(211,305)</u>
Net change in total OPEB liability	626,759
Total OPEB liability - beginning	<u>7,536,713</u>
Total OPEB liability - ending	<u><u>8,163,472</u></u>
City's covered payroll	\$ 23,616,673
Total OPEB liability as a percentage of its covered payroll	34.57%

*The amounts presented for each fiscal year were determined as of the twelve months ended at the measurement date of September 30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 75 was implemented for the year ended September 30, 2018, and until a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

The accompanying notes are an integral part of this schedule.

SCHEDULE 5

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule of City Contributions - OPEB
Last Ten Fiscal Years*
Year Ended September 30, 2018**

	<u>2018</u>
Contractually required contribution	\$ 309,914
Contributions in relation to the contractually required contribution	<u>309,914</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered payroll	\$ 23,616,673
Contributions as a percentage of covered payroll	1.31%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 75 was implemented for the year ended September 30, 2018, and until a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 - PENSION SCHEDULES

A. Changes of Assumptions:

2015

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

2017

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022 rather than projected with Scale BB to 2016, which was used prior to 2017. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumptions was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6.00% to 7.00%.

B. Changes in Benefit Provisions:

2016

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

CITY OF HATTIESBURG, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 - PENSION SCHEDULES (Cont.)

The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in the schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation method	5-year smoothed market
Price inflation	3.00%
Salary increase	3.75% to 19.00%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

NOTE 2 - OPEB SCHEDULES

A. Changes of Assumptions:

2017

The discount rate is 2.98% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of September 29, 2017, compared to the prior year Statement No. 45 discount rate of 4.0%.

The mortality improvement was changed from scale MP-2014 to scale MP-2017.

The medical trend was changed from 8% grading to 5% over 6 years beginning in 2014 to 8% grading to 5% over 10 years beginning in 2017.

The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in the schedule:

Actuarial valuation method	Entry age normal
Discount rate	2.98% per annum
Salary increases	2.50% per annum
Medical annual claims cost	\$8,927, rates at age 65, 3.0% decreases each year
Health care cost trend rate	8.0% to grade uniformly to 5.0% over a 10 year period
Amortization period	20 years (closed)

SUPPLEMENTARY INFORMATION

SCHEDULE 6

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2018**

	Special Revenue Funds (Schedule 8)	Debt Service Funds (Schedule 10)
ASSETS		
Cash and cash equivalents	\$ 3,081,336	\$ 7,151,833
Cash with fiscal agent	-	-
Due from other funds	110,397	-
Intergovernmental receivable	2,748,673	-
Other receivables	13,652	-
Property taxes receivable	1,127,449	1,952,982
Total assets	\$ 7,081,507	\$ 9,104,815
LIABILITIES		
Accounts payable	\$ 85,231	\$ -
Due to other funds	599,614	-
Accrued wages and benefits	67,706	-
Other liabilities	339,774	-
Advances from other funds	300,000	-
Total liabilities	1,392,325	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	1,120,000	1,935,000
	1,120,000	1,935,000
FUND BALANCES		
Restricted:		
Fire protection	465,276	-
Public services	2,149,499	-
Public safety	400,725	-
Mass transit	133,959	-
Debt service	-	7,169,815
Culture and recreation projects	-	-
Committed:		
Culture and recreation	1,573,334	-
Unassigned	(153,611)	-
Total fund balances	4,569,182	7,169,815
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,081,507	\$ 9,104,815

The accompanying notes are an integral part of this schedule.

Capital Project Funds (Schedule 12)	Total Nonmajor Governmental Funds (Exhibit C)
\$ 2,251	\$ 10,235,420
475,593	475,593
-	110,397
-	2,748,673
-	13,652
-	3,080,431
<u>\$ 477,844</u>	<u>\$ 16,664,166</u>
\$ -	\$ 85,231
-	599,614
-	67,706
-	339,774
-	300,000
<u>-</u>	<u>1,392,325</u>
-	3,055,000
-	3,055,000
<u>-</u>	<u>-</u>
-	465,276
-	2,149,499
434,374	835,099
-	133,959
-	7,169,815
43,470	43,470
-	1,573,334
-	(153,611)
<u>477,844</u>	<u>12,216,841</u>
<u>\$ 477,844</u>	<u>\$ 16,664,166</u>

SCHEDULE 7

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2018**

	Special Revenue Funds (Schedule 9)	Debt Service Funds (Schedule 11)
REVENUES		
General property taxes	\$ 1,146,338	\$ 3,813,240
Fines, forfeitures and penalties	85,455	-
Interest, rents and concessions	10,743	43,775
Intergovernmental	5,863,157	541,075
Charges for services	562,838	-
Other revenues	38,438	-
Total revenues	<u>7,706,969</u>	<u>4,398,090</u>
EXPENDITURES		
Current:		
Public safety	785,162	-
Public services	4,083,525	-
Other services	894,070	27,205
Mass transit	1,705,775	-
Culture and recreation	3,924,978	-
Human/social assistance	350,950	-
Debt service:		
Principal payments	350,755	2,722,000
Interest and fiscal charges	12,526	2,730,590
Total expenditures	<u>12,107,741</u>	<u>5,479,795</u>
Excess (deficiency) of revenues over expenditures	(4,400,772)	(1,081,705)
OTHER FINANCING SOURCES (USES)		
Proceeds from long-term debt	444,291	-
Proceeds from sale of capital assets	-	2,163,817
Transfers in	4,517,890	174
Transfers out	-	(74,940)
Other sources	29,925	-
Total other financing sources (uses)	<u>4,992,106</u>	<u>2,089,051</u>
NET CHANGE IN FUND BALANCES	591,334	1,007,346
Fund balances - beginning	<u>3,977,848</u>	<u>6,162,469</u>
Fund balances - ending	<u>\$ 4,569,182</u>	<u>\$ 7,169,815</u>

The accompanying notes are an integral part of this schedule.

Capital Project Funds (Schedule 13)	Total Nonmajor Governmental Funds (Exhibit D)
\$ -	\$ 4,959,578
-	85,455
8,199	62,717
-	6,404,232
-	562,838
-	38,438
<u>8,199</u>	<u>12,113,258</u>
354,411	1,139,573
-	4,083,525
-	921,275
-	1,705,775
62,543	3,987,521
-	350,950
-	3,072,755
-	2,743,116
<u>416,954</u>	<u>18,004,490</u>
(408,755)	(5,891,232)
-	444,291
-	2,163,817
-	4,518,064
(396)	(75,336)
-	29,925
<u>(396)</u>	<u>7,080,761</u>
(409,151)	1,189,529
<u>886,995</u>	<u>11,027,312</u>
<u>\$ 477,844</u>	<u>\$ 12,216,841</u>

SCHEDULE 8

CITY OF HATTIESBURG, MISSISSIPPI

Combining Balance Sheet
Nonmajor Special Revenue Funds
September 30, 2018

	PARKS & RECREATION	MUNICIPAL FIRE PROTECTION	SPECIAL STREET	POLICE FORFEITURES	AIRPORT IMPROVEMENT	MUNICIPAL ROAD & BRIDGE
ASSETS						
Cash and cash equivalents	\$ 1,055,798	\$ 467,280	\$ 3,759	\$ 427,624	\$ 57	\$ 109,230
Due from other funds	-	-	-	789	-	-
Intergovernmental receivables	-	-	-	-	440,551	2,046,236
Other receivables	-	-	-	476	3,304	9,872
Property taxes receivable	906,207	-	-	-	-	-
Total assets	\$ 1,962,005	\$ 467,280	\$ 3,759	\$ 428,889	\$ 443,912	\$ 2,165,338
LIABILITIES						
Accounts payable	\$ 5,676	\$ 2,004	\$ -	\$ -	\$ 9,130	\$ 19,598
Due to other funds	5,146	-	-	-	579,000	-
Accrued wages and benefits	33,549	-	-	-	-	-
Other liabilities	-	-	-	28,164	-	-
Advances from other funds	-	-	-	-	-	-
Total liabilities	44,371	2,004	-	28,164	588,130	19,598
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	900,000	-	-	-	-	-
Total deferred inflows of resources	900,000	-	-	-	-	-
FUND BALANCES						
Restricted:						
Fire protection	-	465,276	-	-	-	-
Street improvements and repairs	-	-	3,759	-	-	2,145,740
Law enforcement	-	-	-	400,725	-	-
Mass transit	-	-	-	-	-	-
Committed:						
Parks and recreation	1,017,634	-	-	-	-	-
Unassigned	-	-	-	-	(144,218)	-
Total fund balances	1,017,634	465,276	3,759	400,725	(144,218)	2,145,740
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,962,005	\$ 467,280	\$ 3,759	\$ 428,889	\$ 443,912	\$ 2,165,338

MASS TRANSIT OPERATING	COMMUNITY CENTERS	CDBG FUND	GROUP INSURANCE	TOTAL
\$ 78,013	\$ 579,668	\$ 171,905	\$ 188,002	\$ 3,081,336
-	-	-	109,608	110,397
125,027	-	136,859	-	2,748,673
-	-	-	-	13,652
221,242	-	-	-	1,127,449
<u>\$ 424,282</u>	<u>\$ 579,668</u>	<u>\$ 308,764</u>	<u>\$ 297,610</u>	<u>\$ 7,081,507</u>
\$ 45,080	\$ 196	\$ 3,547	\$ -	\$ 85,231
2,409	1,679	11,380	-	599,614
20,334	10,593	3,230	-	67,706
2,500	11,500	-	297,610	339,774
-	-	300,000	-	300,000
<u>70,323</u>	<u>23,968</u>	<u>318,157</u>	<u>297,610</u>	<u>1,392,325</u>
220,000	-	-	-	1,120,000
<u>220,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,120,000</u>
-	-	-	-	465,276
-	-	-	-	2,149,499
-	-	-	-	400,725
133,959	-	-	-	133,959
-	555,700	-	-	1,573,334
-	-	(9,393)	-	(153,611)
<u>133,959</u>	<u>555,700</u>	<u>(9,393)</u>	<u>-</u>	<u>4,569,182</u>
<u>\$ 424,282</u>	<u>\$ 579,668</u>	<u>\$ 308,764</u>	<u>\$ 297,610</u>	<u>\$ 7,081,507</u>

SCHEDULE 9

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended September 30, 2018**

	<u>PARKS & RECREATION</u>	<u>MUNICIPAL FIRE PROTECTION</u>	<u>SPECIAL STREET</u>	<u>POLICE FORFEITURES</u>	<u>AIRPORT IMPROVEMENT</u>	<u>MUNICIPAL ROAD & BRIDGE</u>
REVENUES						
General property taxes	\$ 918,617	\$ -	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures and penalties	-	663	-	84,792	-	-
Interest, rents and concessions	1,710	4,436	416	212	1,066	294
Intergovernmental revenues	12,500	262,519	47,113	-	938,745	3,432,750
Charges for services	51,416	95,652	-	6,852	-	-
Other revenues	-	-	-	-	38,438	-
Total revenues	984,243	363,270	47,529	91,856	978,249	3,433,044
EXPENDITURES						
Current:						
Public safety	-	746,937	-	38,225	-	-
Public services	-	-	111,832	-	-	3,971,693
Other services	-	-	-	-	894,070	-
Mass transit	-	-	-	-	-	-
Culture and recreation	3,159,935	-	-	-	-	-
Human/social assistance	-	-	-	-	-	-
Debt service:						
Principal payments	-	350,755	-	-	-	-
Interest and fiscal charges	-	12,526	-	-	-	-
Total expenditures	3,159,935	1,110,218	111,832	38,225	894,070	3,971,693
Excess (deficiency) of revenues over expenditures	(2,175,692)	(746,948)	(64,303)	53,631	84,179	(538,649)
OTHER FINANCING SOURCES (USES)						
Proceeds from long-term debt	-	444,291	-	-	-	-
Transfers in	2,570,000	-	-	-	-	1,117,890
Miscellaneous	(135)	-	-	-	-	-
Total other financing sources (uses)	2,569,865	444,291	-	-	-	1,117,890
NET CHANGE IN FUND BALANCES	394,173	(302,657)	(64,303)	53,631	84,179	579,241
Fund balances - beginning	623,461	767,933	68,062	347,094	(228,397)	1,566,499
Fund balances - ending	<u>\$ 1,017,634</u>	<u>\$ 465,276</u>	<u>\$ 3,759</u>	<u>\$ 400,725</u>	<u>\$ (144,218)</u>	<u>\$ 2,145,740</u>

The accompanying notes are an integral part of this schedule.

MASS TRANSIT OPERATING	COMMUNITY CENTERS	CDBG FUND	GROUP INSURANCE	TOTAL
\$ 227,721	\$ -	\$ -	\$ -	\$ 1,146,338
-	-	-	-	85,455
1,642	918	49	-	10,743
787,180	-	382,350	-	5,863,157
375,220	33,698	-	-	562,838
	-	-	-	38,438
1,391,763	34,616	382,399	-	7,706,969
-	-	-	-	785,162
-	-	-	-	4,083,525
-	-	-	-	894,070
1,705,775	-	-	-	1,705,775
-	765,043	-	-	3,924,978
-	-	350,950	-	350,950
-	-	-	-	350,755
-	-	-	-	12,526
1,705,775	765,043	350,950	-	12,107,741
(314,012)	(730,427)	31,449	-	(4,400,772)
-	-	-	-	444,291
230,000	600,000	-	-	4,517,890
30,135	(75)	-	-	29,925
260,135	599,925	-	-	4,992,106
(53,877)	(130,502)	31,449	-	591,334
187,836	686,202	(40,842)	-	3,977,848
\$ 133,959	\$ 555,700	\$ (9,393)	\$ -	\$ 4,569,182

SCHEDULE 10

CITY OF HATTIESBURG, MISSISSIPPI

Combining Balance Sheet
Nonmajor Debt Service Funds
September 30, 2018

	1999 TIF BOND AND INTEREST	CITY BOND AND INTEREST	2002 TIF BOND AND INTEREST SOUTHERN POINTE	2004 TIF BOND AND INTEREST HOME DEPOT	2003 TIF BOND AND INTEREST CHAUVET SQUARE	2007 TIF BOND AND INTEREST TURTLE CROSSING
ASSETS						
Cash and cash equivalents	\$ -	\$ 5,973,993	\$ 281,735	\$ 43	\$ 284,502	\$ 74,306
Property taxes receivable	-	1,952,982	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 7,926,975</u>	<u>\$ 281,735</u>	<u>\$ 43</u>	<u>\$ 284,502</u>	<u>\$ 74,306</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	-	1,935,000	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>1,935,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Restricted:						
Debt service	-	5,991,975	281,735	43	284,502	74,306
Total fund balances	<u>-</u>	<u>5,991,975</u>	<u>281,735</u>	<u>43</u>	<u>284,502</u>	<u>74,306</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ -</u>	<u>\$ 7,926,975</u>	<u>\$ 281,735</u>	<u>\$ 43</u>	<u>\$ 284,502</u>	<u>\$ 74,306</u>

2008 TIF BOND AND INTEREST LINCOLN CENTER	2012 TIF BOND AND INTEREST KOHL'S	2016 TIF BOND AND INTEREST WHISPERING PINES	2016 TIF BOND AND INTEREST HATTIESBURG CLINIC	2015-A TIF BOND AND INTEREST ACADEMY SPORTS	2015-B TIF BOND AND INTEREST MIDTOWN MARKET	TOTAL
\$ 65,769	\$ 19,351	\$ 251,664	\$ 90,305	\$ 99,812	\$ 10,353	\$ 7,151,833
-	-	-	-	-	-	1,952,982
\$ 65,769	\$ 19,351	\$ 251,664	\$ 90,305	\$ 99,812	\$ 10,353	\$ 9,104,815
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	1,935,000
-	-	-	-	-	-	1,935,000
65,769	19,351	251,664	90,305	99,812	10,353	7,169,815
65,769	19,351	251,664	90,305	99,812	10,353	7,169,815
\$ 65,769	\$ 19,351	\$ 251,664	\$ 90,305	\$ 99,812	\$ 10,353	\$ 9,104,815

SCHEDULE 11

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended September 30, 2018**

	1999 TIF BOND AND INTEREST	CITY BOND AND INTEREST	2002 TIF BOND AND INTEREST SOUTHERN POINTE	2004 TIF BOND AND INTEREST HOME DEPOT	2003 TIF BOND AND INTEREST CHAUVET SQUARE	2007 TIF BOND AND INTEREST TURTLE CROSSING
REVENUES						
General property taxes	\$ -	\$ 2,664,936	\$ 133,704	\$ -	\$ 282,127	\$ 343,109
Interest, rents and concessions	10	37,013	106	508	1,495	1,197
Intergovernmental revenues	-	-	133,704	-	-	112,860
Total revenues	<u>10</u>	<u>2,701,949</u>	<u>267,514</u>	<u>508</u>	<u>283,622</u>	<u>457,166</u>
EXPENDITURES						
Current:						
Other services	-	27,205	-	-	-	-
Debt service:						
Principal payments	-	1,700,000	140,000	-	120,000	375,000
Interest and fiscal charges	-	2,178,267	105,283	-	73,688	79,941
Total expenditures	<u>-</u>	<u>3,905,472</u>	<u>245,283</u>	<u>-</u>	<u>193,688</u>	<u>454,941</u>
Excess (deficiency) of revenues over expenditures	10	(1,203,523)	22,231	508	89,934	2,225
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of real estate	-	2,163,817	-	-	-	-
Transfers in	-	174	-	-	-	-
Transfer out	(6,905)	-	-	(68,035)	-	-
Total other financing sources (uses)	<u>(6,905)</u>	<u>2,163,991</u>	<u>-</u>	<u>(68,035)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(6,895)	960,468	22,231	(67,527)	89,934	2,225
Fund balances - beginning	<u>6,895</u>	<u>5,031,507</u>	<u>259,504</u>	<u>67,570</u>	<u>194,568</u>	<u>72,081</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 5,991,975</u>	<u>\$ 281,735</u>	<u>\$ 43</u>	<u>\$ 284,502</u>	<u>\$ 74,306</u>

2008 TIF BOND AND INTEREST LINCOLN CENTER	2012 TIF BOND AND INTEREST KOHL'S	2016 TIF BOND AND INTEREST WHISPERING PINES	2016 TIF BOND AND INTEREST HATTIESBURG CLINIC	2015-A TIF BOND AND INTEREST ACADEMY SPORTS	2015-B TIF BOND AND INTEREST MIDTOWN MARKET	TOTAL
\$ -	\$ 64,530	\$ 152,575	\$ 38,023	\$ 117,891	\$ 16,345	\$ 3,813,240
655	213	1,568	356	569	85	43,775
-	31,850	183,260	38,023	29,878	11,500	541,075
655	96,593	337,403	76,402	148,338	27,930	4,398,090
-	-	-	-	-	-	27,205
45,000	75,000	156,000	44,000	57,000	10,000	2,722,000
12,450	17,940	125,603	32,045	92,708	12,665	2,730,590
57,450	92,940	281,603	76,045	149,708	22,665	5,479,795
(56,795)	3,653	55,800	357	(1,370)	5,265	(1,081,705)
-	-	-	-	-	-	2,163,817
-	-	-	-	-	-	174
-	-	-	-	-	-	(74,940)
-	-	-	-	-	-	2,089,051
(56,795)	3,653	55,800	357	(1,370)	5,265	1,007,346
122,564	15,698	195,864	89,948	101,182	5,088	6,162,469
\$ 65,769	\$ 19,351	\$ 251,664	\$ 90,305	\$ 99,812	\$ 10,353	\$ 7,169,815

SCHEDULE 12

CITY OF HATTIESBURG, MISSISSIPPI

Combining Balance Sheet
Nonmajor Capital Project Funds
September 30, 2018

	PUBLIC SAFETY/ RECREATION PROJECTS	MDA ENERGY EFFICIENCY PROJECTS CONSTRUCTION	TIF CONSTRUCTION	BOND CONSTRUCTION	KAMPER PARK/ZOO IMPROVEMENTS	TOTAL
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 2,251	\$ 2,251
Cash with fiscal agents	274,795	200,798	-	-	-	475,593
Total assets	<u>\$ 274,795</u>	<u>\$ 200,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,251</u>	<u>\$ 477,844</u>
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES						
Restricted:						
Public safety	233,576	200,798	-	-	-	434,374
Culture and recreation	41,219	-	-	-	2,251	43,470
Total fund balances	<u>274,795</u>	<u>200,798</u>	<u>-</u>	<u>-</u>	<u>2,251</u>	<u>477,844</u>
Total liabilities and fund balances	<u>\$ 274,795</u>	<u>\$ 200,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,251</u>	<u>\$ 477,844</u>

SCHEDULE 13

CITY OF HATTIESBURG, MISSISSIPPI

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended September 30, 2018

	PUBLIC SAFETY/ RECREATION PROJECTS	MDA ENERGY EFFICIENCY PROJECTS CONSTRUCTION	TIF CONSTRUCTION	BOND CONSTRUCTION	KAMPER PARK/ZOO IMPROVEMENTS	TOTAL
REVENUES						
Interest, rents and concessions	\$ 8,181	\$ -	\$ 15	\$ -	\$ 3	\$ 8,199
Total revenues	<u>8,181</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>3</u>	<u>8,199</u>
EXPENDITURES						
Current:						
Public safety	354,411	-	-	-	-	354,411
Culture and recreation	62,543	-	-	-	-	62,543
Total expenditures	<u>416,954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>416,954</u>
Excess (deficiency) of revenues over expenditures	(408,773)	-	15	-	3	(408,755)
OTHER FINANCING SOURCES (USES)						
Transfers out	-	-	(222)	(174)	-	(396)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(222)</u>	<u>(174)</u>	<u>-</u>	<u>(396)</u>
NET CHANGE IN FUND BALANCES	(408,773)	-	(207)	(174)	3	(409,151)
Fund balances - beginning	683,568	200,798	207	174	2,248	886,995
Fund balances - ending	<u>\$ 274,795</u>	<u>\$ 200,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,251</u>	<u>\$ 477,844</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE 14
PAGE 1 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2018

	PERSONAL SERVICES	SUPPLIES & EXPENSES
GENERAL GOVERNMENT		
City Council	\$ 358,560	\$ 2,344
Mayor/Administration	714,580	11,354
Elections	-	-
Municipal Clerk	145,395	2,071
Accounting Division	304,948	3,360
Purchasing Division	139,114	1,748
City Attorney	86,682	-
Human Resources Division	184,803	33,988
Loss Control Division	111,459	3,384
Urban Development	834,638	18,326
Information Systems	526,497	156,874
Metro Planning	237,562	4,889
General Government Building	-	12,439
General Government - Other	-	499
Intermodal Facility	-	10,676
Federal Grant Administration	107,035	54,537
City Court	961,737	29,569
Total General Government	4,713,010	346,058
PUBLIC SAFETY		
Police Department	9,743,844	705,094
Police and Fire Training	37,657	96,920
Fire Department	7,458,859	327,708
Land Development Administration	562,030	37
Total Public Safety	17,802,390	1,129,759
PUBLIC SERVICE		
Traffic Maintenance	232,278	-
Street Division	1,657,241	423,630
Street Lights	-	-
Engineering	357,838	7,361
Shop Division	431,242	34,807
Garage and Office	227,225	5,296
Drainage Division	159,080	42,561
Construction Division	728,575	104,071
Sanitation Division	1,336,260	314,258
Street Cleaning Division	76,114	12,971
Health Division	500,935	151,932
Total Public Service	5,706,788	1,096,887

The accompanying notes are an integral part of this schedule.

OTHER SERVICES/ CHARGES	CAPITAL OUTLAYS	DEBT SERVICE	TOTAL
\$ 378,536	\$ -	\$ -	\$ 739,440
103,866	420	-	830,220
4,857	-	-	4,857
41,106	-	-	188,572
1,872	-	-	310,180
1,725	-	-	142,587
2,351	-	-	89,033
75,709	-	-	294,500
3,739	-	-	118,582
1,121,229	-	-	1,974,193
612,415	250,108	-	1,545,894
72,605	-	-	315,056
177,630	349,188	-	539,257
2,475,956	-	-	2,476,455
80,658	-	-	91,334
85,782	-	-	247,354
198,201	-	-	1,189,507
<u>5,438,237</u>	<u>599,716</u>	<u>-</u>	<u>11,097,021</u>
498,668	511,218	-	11,458,824
61,763	-	-	196,340
234,051	13,286	-	8,033,904
27,477	-	-	589,544
<u>821,959</u>	<u>524,504</u>	<u>-</u>	<u>20,278,612</u>
237	-	-	232,515
477,739	-	-	2,558,610
1,162,726	-	-	1,162,726
355,394	-	-	720,593
31,924	-	-	497,973
16,800	-	-	249,321
20,489	498,963	-	721,093
20,074	-	-	852,720
1,019,650	19,972	-	2,690,140
1,561	-	-	90,646
6,619	-	-	659,486
<u>3,113,213</u>	<u>518,935</u>	<u>-</u>	<u>10,435,823</u>

SCHEDULE 14
PAGE 2 OF 2

CITY OF HATTIESBURG, MISSISSIPPI

**Statement of Departmental Expenditures - Budgetary Basis
General Fund
Year Ended September 30, 2018**

	PERSONAL SERVICES	SUPPLIES & EXPENSES
HEALTH AND WELFARE		
Human/Social Assistance	\$ -	\$ -
Total Health and Welfare	-	-
OTHER SERVICES		
Animal Control	131,416	11,665
Airport	79,028	24,676
Cemetery	703,388	75,086
Parking Operations	188,950	4,468
Total Other Services	1,102,782	115,895
DEBT SERVICE	-	-
TOTAL DEPARTMENTAL EXPENDITURES	\$ 29,324,970	\$ 2,688,599

OTHER SERVICES/ CHARGES	CAPITAL OUTLAYS	DEBT SERVICE	TOTAL
<u>\$ 491,920</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 491,920</u>
<u>491,920</u>	<u>-</u>	<u>-</u>	<u>491,920</u>
131,218	-	-	274,299
67,707	-	-	171,411
46,751	19,118	-	844,343
56,796	-	-	250,214
<u>302,472</u>	<u>19,118</u>	<u>-</u>	<u>1,540,267</u>
-	-	1,540,778	1,540,778
<u>\$ 10,167,801</u>	<u>\$ 1,662,273</u>	<u>\$ 1,540,778</u>	<u>\$ 45,384,421</u>

SCHEDULE 15

CITY OF HATTIESBURG, MISSISSIPPI

**Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
September 30, 2018**

	Police & Fire Disability & Relief Fund	Payroll Withholding Fund
ASSETS		
Cash and cash equivalents	\$ 64,261	\$ 1,173,900
Property taxes and fees receivable	10,310	-
Sales tax receivable		-
Total assets	\$ 74,571	\$ 1,173,900
LIABILITIES		
Employee contributions payable	\$ -	\$ 1,173,900
Due to other agencies	-	-
Other liabilities	-	-
Amounts held in custody for others	74,571	-
Total liabilities	\$ 74,571	\$ 1,173,900

The accompanying notes are an integral part of this schedule.

Tax Collectors Fund	Hattiesburg Special Sales Tax	Industrial Park Fund	Claims Fund	Total
\$ 85,426	\$ -	\$ 427,956	\$ 1,953	\$ 1,753,496
357,316	-	-	-	367,626
-	559,579	-	-	559,579
<u>\$ 442,742</u>	<u>\$ 559,579</u>	<u>\$ 427,956</u>	<u>\$ 1,953</u>	<u>\$ 2,680,701</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,173,900
442,742	559,579	-	-	1,002,321
-	-	-	1,953	1,953
-	-	427,956	-	502,527
<u>\$ 442,742</u>	<u>\$ 559,579</u>	<u>\$ 427,956</u>	<u>\$ 1,953</u>	<u>\$ 2,680,701</u>

SCHEDULE 16

CITY OF HATTIESBURG, MISSISSIPPI

**Schedule of Surety Bonds for Municipal Officials
September 30, 2018**

<u>Name</u>	<u>Position</u>	<u>Insurance Company</u>	<u>Amount</u>
Jeffrey George	Council Member	FCCI Insurance Co.	\$ 100,000
Deborah Denard Delgado	Council Member	FCCI Insurance Co.	100,000
Carter Carroll	Council Member	FCCI Insurance Co.	100,000
Mary Dryden	Council Member	FCCI Insurance Co.	100,000
Nicholas Brown	Council Member	FCCI Insurance Co.	100,000
Kermas Eaton	City Clerk	FCCI Insurance Co.	100,000
Anthony Parker	Police Chief	FCCI Insurance Co.	50,000

SCHEDULE 17

CITY OF HATTIESBURG, MISSISSIPPI

**Full Cost Accounting
Solid Waste Management Services
Year Ended September 30, 2018**

EXPENSES - Sanitation Cost Center (General Fund):

Personnel costs	\$ 1,336,260
Supplies	343,704
Other services and charges	1,019,650
Total expenses (other than capital outlay) Sanitation Cost Center	<u>2,699,614</u>

Interest on capital leases - sanitation trucks 7,764

Depreciation expense 514,580

Allocation of certain expenses in Other Cost Centers:

50% of shop cost center - Repair and maintenance	248,987
Indirect cost allocation - 10% of administration cost centers	<u>488,113</u>

Total calculated expenses - full cost basis \$ 3,959,058

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

Sanitation trucks:	
Garbage (tons)	**
Trash (tons)	**
<i>Total tons solid waste</i>	<u><u>**</u></u>

Distribution of residential and non-residential costs:

Residential (84%)	\$ 3,325,610
Non-residential (16%)	<u>633,448</u>
<i>Total distribution</i>	<u><u>\$ 3,959,058</u></u>

NOTES:

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

** This information is not available for fiscal year 2018.

SCHEDULE 18

CITY OF HATTIESBURG, MISSISSIPPI

**Water and Sewer Budget Basis Operation and Maintenance Cost Centers
Year Ended September 30, 2018**

	Personal Services	Supplies and Expenses	Other Services and Charges	Capital Outlays	Total
Office	\$ 455,372	\$ 36,494	\$ 196,528	\$ -	\$ 688,394
Transmission	682,633	232,131	1,225,250	-	2,140,014
Plant	615,170	132,128	994,596	76,832	1,818,726
Sewer	562,448	247,559	2,097,963	14,829	2,922,799
Sewer lagoon	194,639	226,208	2,263,567	9,570	2,693,984
<i>Total expenses</i>	\$ 2,510,262	\$ 874,520	\$ 6,777,904	\$ 101,231	\$ 10,263,917

The accompanying notes are an integral part of this schedule.

SCHEDULE 19

CITY OF HATTIESBURG, MISSISSIPPI

**Water and Sewer Budget Basis Balance Sheets
Year Ended September 30, 2018**

	REVENUE FUND	OPERATIONS AND MAINTENANCE FUND	CONSTRUCTION FUND
ASSETS			
<i>CURRENT ASSETS</i>			
Cash and cash equivalents	\$ 2,826,698	\$ 5,065	\$ -
Cash with fiscal agent	-	-	-
Due from other funds	-	1,670,940	700,000
Total current assets	<u>2,826,698</u>	<u>1,676,005</u>	<u>700,000</u>
<i>Total assets</i>	<u><u>\$ 2,826,698</u></u>	<u><u>\$ 1,676,005</u></u>	<u><u>\$ 700,000</u></u>
LIABILITIES AND NET POSITION			
<i>CURRENT LIABILITIES</i>			
Accounts payable	\$ 20,608	\$ 73,548	\$ 13,790
Due to other funds	2,059,761	-	1,456,646
Total current liabilities	<u>2,080,369</u>	<u>73,548</u>	<u>1,470,436</u>
Total liabilities	<u>2,080,369</u>	<u>73,548</u>	<u>1,470,436</u>
<i>NET POSITION</i>	<u>746,329</u>	<u>1,602,457</u>	<u>(770,436)</u>
<i>Total liabilities and net position</i>	<u><u>\$ 2,826,698</u></u>	<u><u>\$ 1,676,005</u></u>	<u><u>\$ 700,000</u></u>

BOND AND INTEREST FUND	USA YEAST BOND AND INTEREST FUND	2012 CONSTRUCTION FUND	2016 CONSTRUCTION FUND	2010 CONSTRUCTION FUND
\$ 5,584,038	\$ -	\$ -	\$ -	\$ -
2,665,708	-	62	19,682,770	353,270
951,935	-	-	-	-
<u>9,201,681</u>	<u>-</u>	<u>62</u>	<u>19,682,770</u>	<u>353,270</u>
<u>\$ 9,201,681</u>	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ 19,682,770</u>	<u>\$ 353,270</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
<u>9,201,681</u>	<u>-</u>	<u>62</u>	<u>19,682,770</u>	<u>353,270</u>
<u>\$ 9,201,681</u>	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ 19,682,770</u>	<u>\$ 353,270</u>

SCHEDULE 20

CITY OF HATTIESBURG, MISSISSIPPI

**Water and Sewer Budget Basis Statements of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2018**

	REVENUE FUND	OPERATIONS AND MAINTENANCE FUND	CONSTRUCTION FUND
OPERATING REVENUES	<u>\$ 21,508,712</u>	<u>\$ 27,270</u>	<u>\$ -</u>
OPERATING EXPENSES			
Personal services	-	2,510,262	-
Supplies and expenses	-	874,520	-
Other services and charges	35,092	6,777,904	1,148,291
Other operating expenses	-	101,231	3,470,113
Total operating expenses	<u>35,092</u>	<u>10,263,917</u>	<u>4,618,404</u>
OPERATING INCOME (LOSS)	<u>21,473,620</u>	<u>(10,236,647)</u>	<u>(4,618,404)</u>
NON-OPERATING REVENUES (EXPENSES)			
Principal payments on notes	96,001	-	-
Interest expense	(16,717)	-	-
Bonds redeemed	-	-	-
Interest revenue	3,371	6,982	1,396
Rents	-	-	-
Proceeds from general obligation note	-	-	-
Intergovernmental revenues	-	-	228,348
Other revenue (expense)	(7,512)	62,839	44,913
Total non-operating revenues (expenses)	<u>75,143</u>	<u>69,821</u>	<u>274,657</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>21,548,763</u>	<u>(10,166,826)</u>	<u>(4,343,747)</u>
OPERATING TRANSFERS			
Operating transfers in	-	10,450,000	856,618
Operating transfers out	(20,181,618)	-	-
Total operating transfers	<u>(20,181,618)</u>	<u>10,450,000</u>	<u>856,618</u>
NET INCOME (LOSS)	<u>1,367,145</u>	<u>283,174</u>	<u>(3,487,129)</u>
NET POSITION, beginning of year	<u>(620,816)</u>	<u>1,319,283</u>	<u>2,716,693</u>
NET POSITION, end of year	<u>\$ 746,329</u>	<u>\$ 1,602,457</u>	<u>\$ (770,436)</u>

The accompanying notes are an integral part of this schedule.

BOND AND INTEREST FUND	USA YEAST BOND AND INTEREST FUND	2012 CONSTRUCTION FUND	2016 CONSTRUCTION FUND	2010 CONSTRUCTION FUND
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	169,954	-
-	-	-	4,455,416	-
-	-	-	4,625,370	-
-	-	-	(4,625,370)	-
-	-	-	-	-
(2,494,310)	-	-	-	-
(4,941,000)	-	-	-	-
45,154	-	-	225,997	2,104
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(7,390,156)	-	-	225,997	2,104
(7,390,156)	-	-	(4,399,373)	2,104
8,375,022	-	-	-	-
-	(22)	-	-	-
8,375,022	(22)	-	-	-
984,866	(22)	-	(4,399,373)	2,104
8,216,815	22	62	24,082,143	351,166
\$ 9,201,681	\$ -	\$ 62	\$ 19,682,770	\$ 353,270

SUPPLEMENTARY INFORMATION

SCHEDULE 21
PAGE 1 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Provided to Subrecipients
<i>U.S. Department of Agriculture</i>				
Pass-Through Programs From:				
MS Forestry Commission				
Urban Forestry Challenge Grant	10.675	17-DG-11073128-001	\$ 4,972	
Total U.S. Department of Agriculture Pass-Through Programs			4,972	
<i>U.S. Department of Commerce</i>				
Pass-Through Programs From:				
Economic Development Administration				
EDA Public Works Grant	11.300	04-01-07043	228,348	
Total U.S. Department of Commerce Pass- Through Programs			228,348	
<i>U.S. Department of Housing and Urban Development</i>				
Pass-Through Programs From:				
Governor's Department of Housing and Urban Development				
CDBG Entitlement Grants - Cluster:				
Community Development Block Grants/ Entitlement Grants	14.218	B17-MC-28-0006	370,083	\$ 18,189
Total - CDBG Entitlement Grants Cluster			370,083	
HOME Investment Partnerships Program	14.239	M17-MC-28-0201	12,266	
Total U.S. Department of Housing and Urban Development Pass-Through Programs			382,349	

The accompanying notes are an integral part of this schedule.

SCHEDULE 21
PAGE 2 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Provided to Subrecipients
<i>U.S. Department of Justice</i>				
Pass-Through Programs From:				
Office of Justice Programs				
OVW Technical Assistance Initiative	16.526	STOP-2016-078	\$ 18,012	
OVW Technical Assistance Initiative	16.526	STOP-2017-078	4,143	
			<u>22,155</u>	
Bulletproof Vest Partnership Program	16.607	2016 Award	7,794	
Bulletproof Vest Partnership Program	16.607	2017 Award	6,768	
			<u>14,562</u>	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0570	19,703	\$ <u>7,881</u>
Criminal and Juvenile Justice and Mental Health Collaboration Program - Jail Diversion Project Grant	16.745	2014-MO-BX-0030	<u>38,220</u>	
Total U.S. Department of Justice Pass- Through Programs			<u>94,640</u>	
<i>U.S. Department of Transportation</i>				
Federal Aviation Administration				
Airport Improvement Program	20.106	3-28-0031-0024-2017	396,823	
Airport Improvement Program	20.106	3-28-0031-0024-2018	<u>440,551</u>	
Total - Federal Aviation Administration Direct Programs			<u>837,374</u>	
Federal Transit Administration				
<i>Federal Transit Cluster:</i>				
Mass Transit Capital	20.507	MS-90-X002	204,100	
Mass Transit Capital	20.507	MS-90-X090	36,196	
Mass Transit Preventive	20.507	MS-90-0090	9,956	
Mass Transit JARC	20.507	MS-90-X093	36,030	

The accompanying notes are an integral part of this schedule.

SCHEDULE 21
PAGE 3 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Provided to Subrecipients
U.S. Department of Transportation (Cont.)				
Mass Transit Capital	20.507	MS-90-X095	\$ 27,456	
Mass Transit Capital	20.507	MS-90-X102	8,765	
Mass Transit Capital	20.507	MS-90-X103	4,030	
Mass Transit Operating	20.507	MS-90-4090	13,714	
Mass Transit Operating	20.507	MS-90-4095	8,513	
Mass Transit Operating	20.507	MS-90-4102	437,305	
Mass Transit Preventative	20.507	MS-90-0102	181,471	
Mass Transit Preventative	20.507	MS-90-0103	23,864	
Total - Federal Transit Formula Grants			<u>991,400</u>	
Total U.S. Department of Transportation Direct Programs			<u>1,828,774</u>	
Federal Highway Administration				
Pass-Through Programs From:				
Mississippi Department of Transportation				
<i>Highway Planning and Construction Cluster:</i>				
Metropolitan Planning Organization	20.205	107326-101000	211,681	
Fourth Street Improvements Phase II	20.205	HPP-7194-00(003)/105845/801000	957,588	
Western Beltway Phase II	20.205	STPD-8776-00(004)LPA/105844/812000	92,413	
LLT Train Depot to Chain Park	20.205	STP-8771-00(002)LPA/106943-701000	413,790	
Total - <i>Highway Planning and Construction Cluster</i>			<u>1,675,472</u>	
National Highway Traffic Safety Administration				
Pass-Through Programs From:				
Mississippi Department of Public Safety - Office of Highway Safety				
Alcohol Open Container Requirements	20.607	154AL-2018-ST-21-51	<u>28,945</u>	

The accompanying notes are an integral part of this schedule.

SCHEDULE 21
PAGE 4 OF 4

CITY OF HATTIESBURG, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Provided to Subrecipients
Total U.S. Department of Transportation Pass-Through Programs			<u>\$ 1,704,417</u>	
<i>U.S. Department of Health and Human Services</i>				
Pass-Through Program From:				
Mississippi Bureau of Narcotics				
HIDTA-High Intensity Drug Trafficking Areas Program	95.001	G17GC0003A	<u>17,514</u>	
Total U.S. Department of Health and Human Services Pass-Through Programs			<u>17,514</u>	
<i>U.S. Department of Homeland Security</i>				
Pass-Through Programs From:				
Mississippi Emergency Management Agency				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4268-DR-MS	<u>256,957</u>	
Total Mississippi Emergency Management Agency Pass-Programs			<u>256,957</u>	
Pass-Through Programs From:				
Office of Homeland Security				
Homeland Security Grant	97.067	EMW-2016-SS-00045	<u>7,689</u>	
Total Office of Homeland Security Pass- Through Programs			<u>7,689</u>	
Total U.S. Department of Homeland Security Pass-Through Programs			<u>264,646</u>	
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 4,525,660</u></u>	<u><u>\$ 26,070</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF HATTIESBURG

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2018

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, 2018. 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 on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, 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 Edward Byrne Memorial Justice Assistance Program during the year ended September 30, 2018 totaled \$18,189 and \$7,881, respectively.

NOTE 4 - DE MINIMIS COST RATE

The City elected not to recover indirect costs for federal programs using the 10% de minimis cost rate allowed by the Uniform Guidance in Section 414.



Schedule 22

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hattiesburg, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Hattiesburg, Mississippi's basic financial statements, and have issued our report thereon dated June 13, 2019.

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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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.

- 124 -



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Columbia, MS 39429-6447

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Columbia, MS 39429-0609

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2019 23rd Avenue
Gulfport, MS 39501-2968

P. O. Box 1842
Gulfport, MS 39502-1842

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-011, and 2018-013 to be material weaknesses.

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 deficiency as described in the accompanying schedule of findings and questioned costs as item 2018-012 to be a significant deficiency.

Compliance and Other Matters

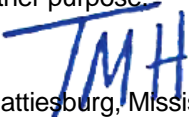
As part of obtaining reasonable assurance about whether the City of Hattiesburg, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 2018-010 through 2018-013.

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.

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 entity'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.


Hattiesburg, Mississippi
June 13, 2019



Schedule 23

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2018. The City of Hattiesburg, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hattiesburg, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

- 126 -



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P. O. Box 1842
Gulfport, MS 39502-1842

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

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the 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 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 2018-013 for Equipment and Real Property Management. Compliance with such requirement is necessary, in our opinion, for the City of Hattiesburg, Mississippi to comply with the requirements applicable to that program.

Qualified Opinion on the 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, 2018.

Unmodified Opinion on the Federal Aviation Administration Airport Improvement 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 Federal Aviation Administration Airport Improvement Program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2018.

Unmodified Opinion on the Federal Transit Formula Grant 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 Federal Transit Formula Grant Program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings 2018-010 through 2018-013. Our opinion on each major federal program is not modified with respect to these matters.

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

The City of Hattiesburg, Mississippi'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.

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 the 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 with the Uniform Guidance, 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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

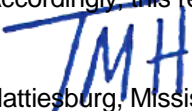
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2018-010, 2018-011, and 2018-013, 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-012 to be a significant deficiency.

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.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Hattiesburg, Mississippi
June 13, 2019

SCHEDULE 24
PAGE 1 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the financial statements:

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

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
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Federal Awards

Internal control over the major federal program:

Material weaknesses identified?	Yes
Significant deficiencies identified?	Yes

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

Federal Aviation Administration Airport Improvement Program	Unmodified
Highway Planning and Construction	Qualified
Federal Transit Formula Grants	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes

SCHEDULE 24
PAGE 2 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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

Identification of the major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Federal Aviation Administration Airport Improvement Program
20.205	Highway Planning and Construction
20.507	Federal Transit Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

Section II - Financial Statement Findings

Finding:

Finding # 2018-001 Entity-Level Control Environment and Risk Assessment Processes

Finding Type: Material Weakness

Criteria - The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model has been adopted as the generally accepted framework for evaluating internal controls 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, 2015.

Context - The City has previously developed a comprehensive plan in response to certain material entity-level control weaknesses related to financial reporting, but the City had not yet implemented corrective actions during fiscal year 2018.

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.

SCHEDULE 24
PAGE 3 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-001 Entity-Level Control Environment and Risk Assessment Processes
(Cont.)

Effect - Previously identified material weaknesses and significant deficiencies in internal control, along with other deficiencies, continued unmitigated in fiscal year 2017.

Identification of Repeat Finding 2017-001

Recommendation - The Administration should take steps to implement corrective actions for identified material weaknesses and significant deficiencies in internal controls and assess its overall control environment and risk assessment processes.

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

Finding:

Finding # 2018-002 Entity-Level Information, Communication and Monitoring

Finding Type: Material weakness

Criteria - The City must maintain effective internal accounting procedures over information, communication, and monitoring functions that relate to financial reporting and legal compliance.

Condition - The City's financial reporting system and monitoring processes lack 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.

Context - The City's centralized accounting system does not have a structured and cohesive process to obtain, maintain, and analyze data from 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.

SCHEDULE 24
PAGE 4 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-002 Entity-Level Information, Communication and Monitoring (Cont.)

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. In addition, lines of authority and responsibility under the City's organizational structure are incompatible with the structure of its financial reporting process. 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 delays in completion of the annual financial reporting process thus limiting the City's ability to meet legal, regulatory, and contractual deadlines for submission of annual financial statements.

Identification of Repeat Finding 2017-002

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. Procedures should be formally documented and incorporated into the financial reporting process on an ongoing basis, and personnel responsible for financial reporting monitoring and oversight should have appropriate levels of authority in order to enforce accountability of personnel responsible for accumulating, maintaining, and communicating data.

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

Finding:

Finding # 2018-003 Timeliness of Financial Reporting

Finding Type: Material Weakness

Criteria - Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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.

SCHEDULE 24
PAGE 5 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-003 Timeliness of Financial Reporting (Cont.)

Condition - During the year ended September 30, 2018, the City failed to meet financial reporting deadlines for its financial statements for the fiscal year ended September 30, 2017.

Context - The City did not complete its financial reporting process before financial reporting deadlines had passed.

Cause - The financial reporting system of the City was not adequate for timely production of financial statements. See also Finding 2018-004.

Effect - Failure to maintain compliance with financial reporting requirements and deadlines exposes the City to risk of delay or curtailment of funding. Costs of funds may also increase because of liquidity drains or noncompliance with reporting requirements.

Identification of Repeat Finding 2017-003

Recommendation - The City should implement procedures that will allow for timely financial reporting in accordance with all applicable reporting deadlines.

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

Finding:

Finding # 2018-004 Financial Statement Adjustment, Close, and Disclosure

Finding Type: Material weakness

Criteria - The City's internal accounting controls, including year-end procedures, 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.

SCHEDULE 24
PAGE 6 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-004 Financial Statement Adjustment, Close, and Disclosure (Cont.)

Condition - The City does not routinely maintain data necessary to prepare required conversions from its cash basis accounting records to the modified accrual and/or accrual bases of accounting required for financial reporting purposes. Additionally, the City's accounting system does not consistently ensure proper cut-off and valuation or completeness of transactions and balances at year-end for reporting purposes.

Context - The City's financial reporting system centers on its budgetary cash basis accounting processes and this typically requires extensive manual processes after the end of the fiscal year for financial reporting purposes. These year-end processes have become increasingly difficult due to the complexity of governmental financial reporting requirements. In particular, 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. 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.

Cause - The City's reliance on its budgetary cash basis general ledger system and year-end conversion processes to provide financial reporting information does not allow for the timely preparation of its basic financial statements along with the necessary disclosures and supplemental schedules.

Effect - The City cannot readily prepare conversion adjustments required for financial reporting purposes and cannot readily produce necessary disclosures and supplemental schedules and increases the risk of omission of information which should be reported under U.S. generally accepted accounting principles.

Identification of Repeat Finding 2017-004

Recommendation - The City should develop a plan to address deficiencies in its financial statement adjustment, close, and disclosure processes.

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

SCHEDULE 24
PAGE 7 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding:

Finding # 2018-005 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.

Condition - The City lacks sufficient internal controls over Municipal Court fines to ensure that all amounts are properly recorded, that only authorized 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 take into account collection activity, nonmonetary credits and other pertinent data. 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 estimated 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.

SCHEDULE 24
PAGE 8 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-005 Municipal Court Fines (Cont.)

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 the 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 periodically. 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.

Subsidiary software does not effectively maintain accounting period cut-off data and there are system design and limitations that result in the reports that 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. This lack of proper accounting period information also distorts the aging analyses of outstanding balances that are required by law and are essential support for estimating collectability.

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. 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. 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.

SCHEDULE 24
PAGE 9 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-005 Municipal Court Fines (Cont.)

Cause - The City has not established appropriate procedures for accounting for Municipal Court fines in accordance with U.S. generally accepted accounting principles or to comply with Mississippi law. City personnel responsible for Municipal Court accounting and case management lack sufficient skill, knowledge, and expertise to administer the process and lack an understanding of basic requirements for accounting for Court fines in accordance with U.S. generally accepted accounting principles and Mississippi law.

The City has not established and enforced effective segregation of duties for case management processes, including limiting access to information technology system functions, and the current application software used for case management and accounting is not adequate to meet requirements of State law or to produce sufficient financial reports. The City did not prepare interim or annual reconciliations or analyses of Municipal 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, 2018.

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 and do not meet applicable 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.

Identification of Repeat Finding 2017-005

Recommendation - The City should develop a comprehensive plan for addressing deficiencies in its Municipal Court accounting systems and procedures that allows for daily verification of case data entry and daily roll-forward of balances in fines and assessments. The City should also 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. Additionally, the City should prepare, reconcile, review, and retain monthly case detail and summary reports, including account aging reports that are reported to appropriate City management for review and approval.

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

SCHEDULE 24
PAGE 10 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding:

Finding # 2018-006 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 does not allow for the proper evaluation of collectability. The City does not routinely perform reconciliations or analyses of customer receivable detail records. Additionally, 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. The City is also unable to produce reliable reports of subsequent collections on year-end outstanding balances for proper assessment of collectability and has no formal documentation of methodology or calculations supporting its estimated allowance for doubtful accounts.

Context - The City utilizes a separate module of its general ledger accounting software for its Water and Sewer billing functions that does not include an interface with the City's general ledger accounting system, and the City does not routinely review, reconcile, or analyze aggregate Water and Sewer customer account receivables.

Cause - While the City routinely processes and reviews billing route reports and reports of unpaid accounts subject to service cut-off, the City's procedures do not require periodic generation, reconciliation, and retention of detail accounts receivable and activity reports.

Effect - Without timely reconciliations and proper aging of its customer account balances and related activity, the City cannot readily determine net realizable value of outstanding Water and Sewer customer accounts receivable at fiscal year-end. This lack of timely review and reconciliation of subsidiary account balances could allow significant errors to go undetected.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-006 Water and Sewer Customer Accounts Receivable (Cont.)

Identification of Repeat Finding 2017-006

Recommendation - The City should implement procedures to routinely prepare and reconcile Water and Sewer customer accounts receivable activity and balances at each interim period, and a formal analysis of collectability of outstanding balances should be performed on at least an annual basis in order to estimate the related allowance for doubtful accounts.

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

Finding:

Finding # 2018-007 Water and Sewer Billings

Finding Type: Material weakness

Criteria - Effective internal accounting controls should ensure that recorded transactions pursuant to billings for all Water and Sewer services are complete and accurate.

Condition - The City's internal controls do not include analysis of accounting data in conjunction with the Water and Sewer volumes that are processed and billed. The City also does not formally document, reconcile, or monitor adjustments to customer billings to ensure propriety and accuracy.

Context - The City was unable to explain increases in unaccounted for water volume or to readily provide amounts attributable to usage by City facilities.

Cause - Certain City facilities are not metered for Water and Sewer volume, and no periodic review of volumes not billed, also known as "unaccounted for" volumes, is performed.

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.

Identification of Repeat Finding 2017-007

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-007 Water and Sewer Billings (Cont.)

Recommendation - We recommend that the City install meters at all City facilities to monitor Water and Sewer system internal usage. In addition, we recommend that the City generate periodic reports of volumes used in order to monitor economic resources and system usage to facilitate effective management of "unaccounted for" volumes.

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

Finding:

Finding # 2018-008 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. Additionally, meter deposits applied against customer account balances are not timely reconciled.

Context - The City does not routinely generate, reconcile, or review reports of Water and Sewer System customer meter deposit balances. Additionally, 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.

Cause - The City's 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 routinely performed.

Effect - The City has been unable to ascertain the cumulative amount of unrecorded applied meter deposits or to identify the nature and amounts of other errors.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-008 Water and Sewer Customer Meter Deposits (Cont.)

Identification of Repeat Finding 2017-008

Recommendation - The City should perform a review of its subsidiary records of customer meter deposits, and any errors that are identified should be corrected. The City should also implement procedures to routinely prepare and reconcile customer meter deposit activity and balances.

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

Finding:

Finding # 2018-009 Capital Assets

Finding Type: Material weakness

Criteria - Internal controls over capital assets should be sufficient to ensure that assets are properly recorded, depreciated, assessed for impairment, and reported. Detail subsidiary ledgers should be reconciled on a timely basis, and disposals should be timely recognized and reported. Rights and obligations related to ownership and pledges of capital assets should also be properly reported.

Condition - The City's procedures and controls are not sufficient to ensure that all City-owned assets are properly recorded. Additionally, the City's procedures related to construction projects are not sufficient to ensure that all project costs are identified and captured in the proper period.

Context - Existing accounting procedures do not ensure inclusion of contributed assets received or transfers of infrastructure from developers or other governmental entities, and the City does not routinely reconcile capital outlay expenditures to additions to fixed assets and additional inventoried items. 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 for impairment nor does the City have an adequate system of accounting for its construction project activity.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section II - Financial Statement Findings (Cont.)

Finding # 2018-009 Capital Assets (Cont.)

Cause - The City did not routinely and formally reconcile capital asset subsidiary detail to its financial statements, and the City does not maintain a comprehensive schedule of construction projects sufficient to support financial reporting.

Effect - The City's procedures are not adequate to ensure that capital outlay expenditures are reported in the proper period, properly classified as capital expenditure or expense, or that interest is properly capitalized for proprietary fund projects. Detail records are not timely reconciled to detect errors or irregularities, or to ensure that required disclosures are accurate and complete.

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 Finding 2017-009

Recommendation - The City should take immediate steps to develop and implement a comprehensive system for accounting for capital assets, including construction projects. Subsidiary records should include adequate descriptions and should be periodically reviewed to identify any assets no longer in service or those with indicated impairment.

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

Section III - Federal Awards Findings and Questioned Costs

Finding:

Finding # 2018-010 Federal Expenditure Management (A/B, C, G, H, L)

Finding Type: Material Weakness

Program Tested: CFDA No. 20.205: Highway Planning and Construction

SCHEDULE 24
PAGE 15 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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

Finding # 2018-010 Federal Expenditure Management (A/B, C, G, H, L) (Cont.)

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, name of the Federal agency and any pass-through entity, as well as accurate, current, and complete disclosure of financial results of each Federal award 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, 2018. 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

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.

SCHEDULE 24
PAGE 16 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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

Finding # 2018-010 Federal Expenditure Management (A/B, C, G, H, L) (Cont.)

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.

Identification of Repeat Finding 2017-011

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 Appendix A.

Finding:

Finding # 2018-011 Non-compliance resulting from deficiencies in financial statement internal control over timeliness of financial reporting (L)

Finding Type: Material Weakness

Program Tested: CFDA No. 20.205: Highway Planning and Construction

Criteria - According to the Uniform Guidance, 2 CFR 200.501(a), non-Federal entities that expend \$750,000 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 § 200.205 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 Uniform Guidance 2 CFR 200.512(a).

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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

Finding # 2018-011 Non-compliance resulting from deficiencies in financial statement internal control over timeliness of financial reporting (L) (Cont.)

Condition - The City's audit package for the fiscal year ended September 30, 2017 was not timely submitted to the Federal Audit Clearinghouse.

Questioned Costs - Undetermined

Context - See Financial Statement Finding # 2018-003.

Cause - See Financial Statement Finding # 2018-003.

Effect - The City did not comply with Federal Single Audit requirements for timely submission of its audit package.

Identification of Repeat Finding 2017-012

Recommendation - See Financial Statement Finding # 2018-003.

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

Finding:

Finding # 2018-012 Non-compliance resulting from deficiencies in financial statement internal control over financial statement adjustment close, and disclosure (A/B, C, G, H, L)

Finding Type: Significant Deficiency/Significant Noncompliance

Program Tested: CFDA No. 20.205: Highway Planning and Construction

SCHEDULE 24
PAGE 18 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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

Finding # 2018-012 Non-compliance resulting from deficiencies in financial statement internal control over financial statement adjustment close, and disclosure (A/B, C, G, H, L) (Cont.)

Criteria - According to the Uniform Guidance, the auditee shall identify, in its accounts, all Federal awards received and expended and 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 effect on each of its Federal programs and prepare appropriate financial statements, including the schedule of expenditures of Federal awards. In addition, 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 # 2018-004.

Cause - See Financial Statement Finding # 2018-004.

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.

SCHEDULE 24
PAGE 19 OF 20

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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

Finding # 2018-012 Non-compliance resulting from deficiencies in financial statement internal control over financial statement adjustment close, and disclosure (A/B, C, G, H, L) (Cont.)

Identification of Repeat Finding 2017-013

Recommendation - See Financial Statement Finding # 2018-004.

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

Finding:

Finding 2018-013 Non-compliance resulting from deficiencies in financial statement internal control over capital assets (A/B, F)

Finding Type: Material Weakness

Program Tested: CFDA No. 20.205: Highway Planning and Construction

Criteria - Costs incurred for capital assets are subject to property standards prescribed in the Uniform Guidance 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 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.

CITY OF HATTIESBURG, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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

Finding 2018-013 Non-compliance resulting from deficiencies in financial statement internal control over capital assets (A/B, F) (Cont.)

Questioned Costs - Undetermined

Context - See Financial Statement Finding # 2018-009.

Cause - See Financial Statement Finding # 2018-009.

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.

Identification of Repeat Finding 2017-014

Recommendation - See Financial Statement Finding # 2018-009.

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

CITY OF HATTIESBURG, MISSISSIPPI

AUDITEE CORRECTIVE ACTION PLAN

Year Ended September 30, 2018

APPENDIX A



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

Auditee Corrective Action Plan

The City of Hattiesburg respectfully submits the following corrective action plan

Audit Period: September 30, 2018

The findings discussed below are numbered consistently with the numbers assigned in the schedule of findings and questioned costs.

Corrective Action Plan for Financial Statement Findings

2018-001 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 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, 2019.

Name of Responsible Person:	Ann Jones, Chief Administrative Officer; Connie Everett, Interim Chief Financial Officer
Name of Department Contact:	Ann Jones, Chief Administrative Officer
Expected Date of Completion:	Fall 2019

2018-002 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.

Auditee Corrective Action Plan (Cont.)

As noted in Finding 2018-002, 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 2018-002. 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 2019

2018-003 Timeliness of Financial Reporting

As noted in the City's response to Finding 2018-002, the City's accounting system does provide reliable and timely budgetary 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 Administration acknowledges that there are important reporting deadlines for the 2017 audit that were not met. We had a firm commitment to complete the 2018 audit as quickly and efficiently as possible and as a result were able to meet all applicable deadlines.

Name of Responsible Person:	Connie Everett, Interim Chief Financial Officer
Name of Department Contact:	Lisa Hanson, Comptroller
Expected Date of Completion:	Completed with timely submission of the 2018 audit

2018-004 Financial Statement Adjustment, Close, and Disclosure

The City's Comptroller was allowed to add a CPA to her existing staff. Finding 2018-004 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.

Auditee Corrective Action Plan (Cont.)

As noted in our response to findings 2018-002 and 2018-003, the City will continue to produce reliable and timely budgetary 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 2019 audit in the fall months of 2019.

Name of Responsible Person: Lisa Hanson, Comptroller
Expected Date of Completion: Fall 2019

2018-005 Municipal Court Fines

The Administration will 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 began in August 2017 and is ongoing; other measures were implemented throughout 2018.

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

2018-006 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 began in fall 2018 and is ongoing.

Name of Responsible Person: Allen Howe, Director of Water and Sewer
Name of Department Contact: Wanda Turner, Office Manager
Estimated Date of Completion: Fall 2019

Auditee Corrective Action Plan (Cont.)

2018-007 Water and Sewer Billings

The 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 have initiated our efforts to ascertain any problems that may need to be addressed in order to implement these reports and agree that an enhanced role by the Customer Accounts staff may be appropriate. These initial efforts began in May 2018 and are ongoing.

Name of Responsible Person:	Allen Howe, Director of Water and Sewer
Name of Department Contact:	Wanda Turner, Office Manager
Estimated Date of Completion:	Fall 2019

2018-008 Water and Sewer Customer Meter Deposits

As noted in Finding 2018-007, 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 deposit 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 2019.

Name of Responsible Person:	Allen Howe, Director of Water and Sewer
Name of Department Contact:	Wanda Turner, Office Manager; Angie Sanford, Information Technology Manager
Estimated Date of Completion:	Fall 2019

2018-009 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 2019 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 2019

Auditee Corrective Action Plan (Cont.)

2018-010 Federal Expenditure Management (A/B, C, G, H, L)
CFDA No. 20.205: Highway Planning and Construction

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: Lamar Rutland, City Engineer
Expected Date of Completion: Fall 2019

2018-011 Non-Compliance Resulting from Deficiencies in Financial Statement Internal Control over
Timeliness of Financial Reporting (L)

The 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 2018-002 and Finding 2018-003. It is the 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 continue timely completion of the 2019 audit as was accomplished in 2018.

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 2019 and ongoing

2018-012 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 2018-004, 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, 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 2019 and ongoing

2018-013 Non-Compliance Resulting From Deficiencies in Financial Statement Internal Control over
Capital Assets (A/B, F)

Auditee Corrective Action Plan (Cont.)

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 2019 and ongoing

CITY OF HATTIESBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2018



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

SCHEDULE 25

**Summary Schedule of Prior Audit Findings
Year Ended September 30, 2018**

The following is an update of the prior audit findings and is prepared in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

2017-001 Entity-Level Control Environment and Risk Assessment Process

Condition - This finding was a material weakness stating that entity-wide controls and procedures were not effectively initiated or implemented for 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, 2015.

Recommendation - The auditor recommended that the City take steps to implement corrective actions for identified material weaknesses and significant deficiencies in internal controls.

Current Status - In early 2018, the Administration implemented changes to the organizational structure, adding a Department of Finance and Procurement, and assigning responsibility for this function to the Chief Financial Officer. The change has provided improved communication and oversight for financial functions with the City Clerk and the Department of Administration. An additional accountant was hired in early 2017, and that position serves as liaison with the various city departments to ensure greater accountability and documentation of ongoing projects.

2017-002 Entity-Level 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.

Summary Schedule of Prior Audit Findings Year Ended September 30, 2018 (Cont.)

Current Status - As mentioned in the current status to Finding 2017-001, the additional accountant hired in 2017 has been assigned the responsibility of communicating with various city departments to ensure proper capture and documentation of financial information on various projects. This position is responsible for compiling and documenting information for federal awards, and preparation and maintenance of supplementary spreadsheets has been developed and is being utilized at this time. City Administration acknowledges that updating the financial software is necessary in order to properly report financial information in accordance with generally accepted accounting principles, and the Administration has engaged a consultant to perform a needs assessment. Evaluation of available software will be paired with the results of the needs assessment to determine the software best suited to the City's needs. Selection and implementation of updated financial software will follow. In the interim, greater emphasis is being placed on capture and documentation of required information, as stated above.

2017-003 Timeliness of Financial Reporting

Condition - This finding was a material weakness stating the City failed to meet financial reporting deadlines for submitting its financial statements for the year ended September 30, 2017.

Recommendation - The auditor recommended that the City should take steps to overhaul its financial reporting process to enable it to meet its legal, regulatory, and contractual financial reporting requirements.

Current Status - As stated in the current status to Finding 2017-002, the City has engaged a consultant to conduct a needs assessment to determine the appropriate financial software, as well as supplementary software for other city departments which can integrate with the financial software, to ensure the City's ability to meet the required reporting requirements. Upon selection of an audit firm to perform the 2016, 2017 and 2018 audits, the City officials stressed the importance of expeditious completion of the audits. As a result, the 2016 audit was completed in six months, and the 2017 audit was completed in November 2018. The 2018 audit was timely completed.

2017-004 Financial statement Adjustment, Close, 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.

Summary Schedule of Prior Audit Findings Year Ended September 30, 2018 (Cont.)

Current Status - As stated in the current status to Finding 2017-002, a needs assessment and subsequent selection and implementation of updated financial software is underway. The Administration acknowledges that during the period 2014 – 2018, staffing changes due to retirements resulted in loss of institutional knowledge which had, in the past, afforded timely and accurate production of financial information at year-end. The Administration has taken steps to provide the needed support and institutional knowledge to ensure improvement in this area through the hiring process and subsequent training of current staff.

2017-005 Municipal Court Fines

Condition - This finding was a material weakness stating that the City's internal controls are not adequate to ensure that Municipal Court fines 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 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 - . The Administration reorganized the Municipal Court system in 2018, with selection of new judges and support personnel. The staff has been analyzing the court software and obtaining training in order to assess modifications necessary to meet reporting requirements. The City has engaged auditors to work with Court personnel to assess prior years' data to determine outstanding fines account balances to correct reporting deficiencies. It is believed that, with additional staff training and assessment of software modifications needed, that the Court software will be adequate to provide accurate data presentation. The needs assessment being conducted, as mentioned in the current status to Finding 2017-002, will serve to determine whether the current Court software will be compatible with future selection of financial reporting software.

2017-006 Water and Sewer Customer Accounts Receivable

Condition - This finding was a material weakness stating that the City's internal controls for recording and reconciling 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.

Recommendation - The auditor recommended that the City develop and implement procedures to routinely prepare and reconcile Water and Sewer customer accounts receivable activity and balances at each interim period and that formal analysis of collectability of outstanding balances should be prepared to estimate the related allowance for doubtful accounts. Management concurred with the recommendation and indicated that the procedures would be implemented.

Summary Schedule of Prior Audit Findings Year Ended September 30, 2018 (Cont.)

Current Status - The Administration adjusted the organization structure of the Water and Sewer Department by placing responsibility for the Billing Office with the Water and Sewer Director. (It was previously the responsibility of the Director of Administration.) Review of current procedures has been completed, and adjustments have been made for better accountability and communication with the service departments. An outside company has been contracted with to aid in evaluation of water meter performance in order to assess lost revenue. Non-functioning meters are being replaced. New procedures are assessed after implementation to determine their viability, and adjustments are made as needed.

2017-007 Water and Sewer Billings

Condition - This finding was a material weakness stating that 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, and that the City does not formally document, reconcile, and monitor adjustments to customer billings to ensure propriety and accuracy.

Recommendation - The auditor recommended that the City install meters at all City facilities to monitor volumes used and to generate periodic reports of City usage in order to monitor economic resources and system usage to facilitate effective management of unaccounted for volumes.

Current Status - Adjustments to the use of a work order system in conjunction with the method by which problems, such as water leaks, are reported has resulted in shorter response time in addressing problem areas. Engineering analysis of areas where aging infrastructure could contribute to unaccounted for water losses has been conducted and priority for repairs established. Feasibility of metering city properties to measure unbilled water usage has been reviewed, and the formula by which unaccounted for water loss has also been reviewed for accuracy.

2017-008 Water and Sewer Customer Meter Deposits

Condition - This finding was a material weakness stating that the City's liability for customer meter deposits does not agree to its customer detail records, and that meter deposits are not timely and effectively reconciled.

Recommendation - The auditor recommended that the City perform a review of its subsidiary records of customer meter deposits and perform timely reconciliations at interim periods.

Current Status - The Billing Office, with the assistance of the Information Technology department, has begun the process of reconciling outstanding meter deposits. Each account is reviewed to determine whether the deposit was returned and, if so, that account is removed from the outstanding balance list. Additionally, meter deposits are now applied to the final bill when a customer closes an account, thereby reducing or eliminating a deposit balance. Once the review is complete, the Billing Office will develop the procedures necessary to reconcile and account for the meter deposits on hand.

Summary Schedule of Prior Audit Findings Year Ended September 30, 2018 (Cont.)

2017-009 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 recommendation and indicated that the procedures would be implemented.

Current Status - The Accounting Department has obtained additional training for and has implemented use of a subsidiary asset management system, which will capture asset information and provide the needed reports. The Chief Financial Officer will provide additional oversight to ensure that this subsidiary system is updated throughout the year. The City's staff engineer, as well as engineer consultants, will be included when assessing potential impairment as well as reporting construction in progress.

2017-010 Procurement and Suspension and Debarment (I)
CFDA No. 20.205: Highway Planning and Construction

Condition - This finding was a material weakness stating that the City did not have adequate internal controls in place to monitor compliance with the federal debarment and suspension regulations for contracts and subawards.

Recommendation - The Auditor recommended that the City implement procedures to ensure compliance with debarment and suspension regulations for contracts related to federal programs.

Current Status - During fiscal year 2018, the City Council adopted an amendment to the City's procurement manual establishing procedures for monitoring compliance with federal debarment and suspension regulations when selecting vendors for materials or services which are funded in whole or in part with federal grants. Implementation of this procedure began immediately.

2017-011 Federal Expenditure Management (A/B, C, G, H, L)
CFDA No. 20.205: Highway Planning and Construction

Condition - This finding was a material weakness stating that federal and non-federal expenditures were not readily identifiable from grant records maintained by the City for the year ended September 30, 2017.

Recommendation - The auditor recommended that the City should implement procedures to maintain comprehensive schedules of program expenditures that distinguish Federal and non-federal expenditures and identifying matching funds provided. Management concurred with the recommendation and indicated that the procedures would be implemented.

Summary Schedule of Prior Audit Findings Year Ended September 30, 2018 (Cont.)

Current Status - As stated in the current status to Finding 2017-002, the accountant hired in 2018 has been assigned the responsibility federal expenditure management. Spreadsheets have been developed and are being utilized for each project, identifying expenditures as federal and non-federal, as well as identifying matching funds received.

2017-012 Non-compliance resulting from deficiencies in the financial statement internal control over timeliness of financial reporting (L)

Condition - This finding was a material weakness stating that the City did not timely submit the required annual reporting package to the Federal Audit Clearinghouse for audit years 2014 - 2017.

Recommendation - The auditor recommended that the City implement procedures to overhaul the financial reporting process to enable it to meet its legal, regulatory and contractual financial reporting requirements. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status - As stated in current status to Findings 2017-002 and 2017-003, the City has retained a consultant to conduct a needs assessment for the purpose of updating the financial software, as well as determining the software needs of other city departments. The City's 2018 audit was timely completed.

2017-013 Non-compliance resulting from deficiencies in financial statement internal control over financial statement adjustment, close and disclosure (A/B, C, G, H, L)

Condition - This finding was a material weakness for the CDBG and Airport Improvement projects and a significant deficiency for the Highway Planning and Construction project stating that the City did not 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.

Recommendation - The auditor recommended that the City implement procedures to address deficiencies in its financial statement adjustment, close and disclosure processes, specifically to address procedures related to the annual conversion process from budgetary cash basis accounting records to the bases of financial reporting required under U.S. GAAP. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status - As stated in the current status to Finding 2017-002, the Accounting Department now has an accountant assigned with the task of developing spreadsheets to document expenditures on federally funded projects and properly segregate federal and non-federal expenditure amounts. These procedures have been implemented and are currently in use.

Summary Schedule of Prior Audit Findings Year Ended September 30, 2018 (Cont.)

2017-014 Non-compliance resulting from deficiencies in financial statement internal control over capital assets (A/B, F)

Condition - This finding was a material weakness stating that the City did not adequately account for its capital projects funded by Federal awards and that project detail records do not adequately identify allowable and unallowable costs or matching funds.

Recommendation - The auditor recommended that the City implement procedures to develop and implement a comprehensive system for accounting for capital assets, including construction projects, that will incorporate policies and procedures for recording and valuing capital asset additions, with segregation for those purchased or constructed with federal funds. Management concurred with this recommendation and indicated that the procedures would be implemented.

Current Status - The Accounting Department is now using a subsidiary asset management software, which will track capital assets, including construction projects. This system, in conjunction with other subsidiary spreadsheets can also identify expenditures which purchased or constructed with federal funds. Communication with the City Engineer to ascertain that all such projects are appropriately documented will be part of the process.



Schedule 26

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

To the Honorable Mayor and 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, 2018, and have issued our report dated June 13, 2019. 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 Municipal Auditing and Accounting Guide.

Criteria, Context, and Condition

The property accounting system must follow prescribed procedures for recording acquisition cost of fixed assets, and certain professional fees, such as appraisal, architectural, engineering, and legal fees, should also be capitalized into fixed asset records. Additionally, the City's property accounting system must maintain the required fixed asset data elements as listed in the Municipal Auditing and Accounting Guide.

- 163 -



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Hattiesburg, MS 39404-5099

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Columbia, MS 39429-6447

P. O. Box 609
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GULFPORT
2019 23rd Avenue
Gulfport, MS 39501-2968

P. O. Box 1842
Gulfport, MS 39502-1842

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

Recommendation

The Administration should implement procedures to properly capture and maintain fixed asset detail, including the required data elements, in accordance with prescribed procedures.

Response

The City Administration agrees with this finding, and management is in the process of implementing a corrective action plan to address all fixed asset recordkeeping requirements.

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.

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; the Court records must include an accounts receivable system that allows for balancing receivable accounts monthly, and periodic analysis of 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, 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 was unable to generate an accurate summary or aging of outstanding accounts as of September 30, 2018 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, 2018.

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.

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

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 Court data. The City should 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, the newly elected Administration has undertaken the task of assessment of the Municipal Court operations. All aspects of operations will be assessed, from current software to personnel. If current software is deemed inadequate to satisfy the City's Court functions, as well as those required by 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 - Annual Inventory of Assets

The City did not conduct an annual inventory of its assets in accordance with the guidelines established by the Office of the State Auditor.

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

Criteria, Context, and Condition

The Municipal Audit and Accounting Guide published by the State of Mississippi Office of the State Auditor requires municipalities to conduct a "thorough inventory of all fixed assets" at the end of each fiscal year in order to verify the existence of all fixed assets. The Municipal Audit and Accounting Guide also prescribes inventory procedures to be followed, including the assignment of the general oversight of the inventory process to an appropriate municipal officer, the use of inventory forms and a tagging system, and the investigation of discrepancies and missing inventory tags.

Recommendation

The City should follow the specific instructions of the Municipal Audit and Accounting Guide in order to update the City inventory records. This process, as prescribed by the Office of the State Auditor, must be considered to be an important legal compliance procedure that must be performed at the end of each fiscal year.

Response

The City Administration agrees with this finding and has implemented procedures to update the City's detailed fixed asset inventory records. Additionally, the prescribed update of inventory records will be completed at the end of each fiscal year on a timely basis.

[See Schedule 24 - Schedule of Findings and Questioned Costs.]

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.


Hattiesburg, Mississippi
June 13, 2019

STATISTICAL INFORMATION
(UNAUDITED)

TABLE 1

CITY OF HATTIESBURG, MISSISSIPPI

**NET POSITION BY COMPONENTS
LAST TEN FISCAL YEARS**

	FISCAL YEAR									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
GOVERNMENTAL ACTIVITIES:										
Invested in capital assets, net of related debt	\$ 117,185,329	\$ 114,719,895	\$ 100,533,244	\$ 110,313,874	\$ 108,266,535	\$ 112,905,526	\$ 108,901,420	\$ 94,987,280	\$ 93,714,770	\$ 94,294,279
Restricted for:										
Capital projects	-	-	-	-	50,515	-	-	915,715	3,047,031	3,161,144
Debt service	7,169,815	6,162,469	4,100,910	4,067,078	3,764,608	3,403,781	535,670	4,202,271	4,001,449	3,634,390
Other purposes	-	-	-	-	1,794,732	-	-	-	-	-
Federal program	-	-	-	1,913,562	10,593	-	-	-	-	-
Unrestricted	(67,311,812)	(57,378,373)	(37,764,759)	(46,057,590)	12,182,338	10,786,997	13,801,803	12,534,415	11,374,445	8,926,370
Governmental activities net position	<u>\$ 57,043,332</u>	<u>\$ 63,503,991</u>	<u>\$ 66,869,395</u>	<u>\$ 70,236,924</u>	<u>\$ 126,069,321</u>	<u>\$ 127,096,304</u>	<u>\$ 123,238,893</u>	<u>\$ 112,639,681</u>	<u>\$ 112,137,695</u>	<u>\$ 110,016,183</u>
BUSINESS-TYPE ACTIVITIES:										
Invested in capital assets, net of related debt	\$ 39,832,512	\$ 29,709,397	\$ 23,460,573	\$ 44,493,366	\$ 60,747,195	\$ 63,029,378	\$ 45,223,694	\$ 44,616,923	\$ 42,142,047	\$ 37,239,290
Restricted for:										
Debt service	8,094,960	7,685,090	-	4,833,982	4,838,130	-	-	-	-	-
Unrestricted	13,933,041	21,938,437	33,737,335	(921,448)	4,758,857	5,522,689	17,607,456	8,940,970	6,140,570	7,863,497
Business-type activities net position	<u>\$ 61,860,513</u>	<u>\$ 59,332,924</u>	<u>\$ 57,197,908</u>	<u>\$ 48,405,900</u>	<u>\$ 70,344,182</u>	<u>\$ 68,552,067</u>	<u>\$ 62,831,150</u>	<u>\$ 53,557,893</u>	<u>\$ 48,282,617</u>	<u>\$ 45,102,787</u>
PRIMARY GOVERNMENT:										
Invested in capital assets, net of related debt	\$ 157,017,841	\$ 144,429,292	\$ 123,993,817	\$ 154,807,240	\$ 169,013,730	\$ 175,934,904	\$ 154,125,114	\$ 139,604,203	\$ 135,856,817	\$ 131,533,569
Restricted for:										
Capital projects	-	-	-	-	50,515	-	-	915,715	3,047,031	3,161,144
Debt service	15,264,775	13,847,559	4,100,910	8,901,060	8,602,738	3,403,781	535,670	4,202,271	4,001,449	3,634,390
Other purposes	-	-	-	-	1,794,732	-	-	-	-	-
Federal program	-	-	-	1,913,562	10,593	-	-	-	-	-
Unrestricted	(53,378,771)	(35,439,936)	(4,027,424)	(46,979,038)	16,941,195	16,309,686	31,409,259	21,475,385	17,515,015	16,789,867
Primary government net position	<u>\$ 118,903,845</u>	<u>\$ 122,836,915</u>	<u>\$ 124,067,303</u>	<u>\$ 118,642,824</u>	<u>\$ 196,413,503</u>	<u>\$ 195,648,371</u>	<u>\$ 186,070,043</u>	<u>\$ 166,197,574</u>	<u>\$ 160,420,312</u>	<u>\$ 155,118,970</u>

TABLE 2

CITY OF HATTIESBURG, MISSISSIPPI

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	FISCAL YEAR									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
GOVERNMENTAL ACTIVITIES:										
General government	\$ 10,331,281	\$ 9,454,614	\$ 8,601,383	\$ 11,569,276	\$ 7,641,758	\$ 6,424,709	\$ 7,329,898	\$ 6,925,636	\$ 6,592,285	\$ 6,414,171
Public safety	24,554,459	24,876,846	24,355,235	20,821,509	21,476,883	21,339,689	20,763,051	20,097,532	19,961,821	19,507,269
Public services	18,216,227	22,301,631	20,621,611	16,434,765	15,253,508	18,356,293	17,341,042	17,767,209	18,248,607	19,790,101
Other services	1,395,047	1,429,409	980,641	2,093,259	1,847,824	1,751,307	6,281,474	5,384,474	6,089,579	5,594,820
Mass transit	1,802,171	1,901,374	1,861,405	1,217,110	1,203,191	1,104,428	1,176,837	1,145,590	993,835	925,506
Cultural and recreation	4,893,041	4,336,206	4,298,347	4,323,579	4,039,345	4,481,390	3,916,227	4,421,402	4,494,146	4,175,345
Human/social assistance	947,143	772,346	746,355	712,985	1,130,925	889,795	1,310,363	1,864,618	567,679	569,049
Economic development	305,000	255,000	5,319,409	208,115	286,500	160,000	160,000	150,000	150,000	150,000
Interest and fiscal charges	960,978	1,119,296	976,120	990,023	893,887	1,089,410	1,287,540	1,299,623	1,261,015	1,427,014
Total governmental activities expenses	63,405,347	66,446,722	67,760,506	58,370,621	53,773,821	55,597,021	59,566,432	59,056,084	58,358,967	58,553,275
BUSINESS-TYPE ACTIVITIES:										
Water and sewer system	17,568,985	16,373,370	18,507,187	31,166,774	14,349,426	10,448,403	10,018,978	9,582,704	10,263,712	8,302,628
Interest and fiscal charges	2,446,012	2,389,665	2,197,054	2,235,365	2,034,814	1,421,749	1,148,066	-	-	-
Total business-type activities expenses	20,014,997	18,763,035	20,704,241	33,402,139	16,384,240	11,870,152	11,167,044	9,582,704	10,263,712	8,302,628
Total primary government expenses	\$ 83,420,344	\$ 85,209,757	\$ 88,464,747	\$ 91,772,760	\$ 70,158,061	\$ 67,467,173	\$ 70,733,476	\$ 68,638,788	\$ 68,622,679	\$ 66,855,903
PROGRAM REVENUES:										
Governmental Activities:										
Charges for services	\$ 3,986,607	\$ 3,827,142	\$ 4,843,653	\$ 3,854,495	\$ 5,718,952	\$ 4,654,384	\$ 8,558,345	\$ 8,287,847	\$ 8,853,022	\$ 8,467,560
Operating grants and contributions	4,433,288	6,598,716	4,886,946	4,614,942	4,783,239	4,988,000	4,982,172	5,956,487	5,375,052	7,624,535
Capital grants and contributions	1,227,481	1,519,484	437,183	25,901,537	3,669,922	3,185,681	2,813,432	2,800,969	3,186,741	2,355,657
Total governmental activities program revenues	9,647,376	11,945,342	10,167,782	34,370,974	14,172,113	12,828,065	16,353,949	17,045,303	17,414,815	18,447,752
Business-Type Activities:										
Charges for services	22,821,070	20,748,288	20,627,608	17,086,586	16,361,169	14,811,137	13,218,896	11,734,715	12,245,747	9,907,131
Operating grants and contributions	228,348	-	38,718	-	-	-	-	-	-	-
Capital grants and contributions	-	-	-	474,084	1,407,145	3,152,032	7,053,303	3,023,224	-	-
Total business-type activities program revenues	23,049,418	20,748,288	20,666,326	17,560,670	17,768,314	17,963,169	20,272,199	14,757,939	12,245,747	9,907,131
Total primary government program revenues	\$ 32,696,794	\$ 32,693,630	\$ 30,834,108	\$ 51,931,644	\$ 31,940,427	\$ 30,791,234	\$ 36,626,148	\$ 31,803,242	\$ 29,660,562	\$ 28,354,883

TABLE 2
PAGE TWO

CITY OF HATTIESBURG, MISSISSIPPI

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	FISCAL YEAR									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net Revenues (Expenses):										
Governmental activities	\$ (53,757,971)	\$ (54,501,380)	\$ (57,592,724)	\$ (23,999,647)	\$ (39,601,708)	\$ (42,768,956)	\$ (43,212,483)	\$ (42,010,781)	\$ (40,944,152)	\$ (40,105,523)
Business-type activities	3,034,421	1,985,253	(37,915)	(15,841,469)	1,384,074	6,093,017	9,105,155	5,175,235	1,982,035	1,604,503
Total primary government net revenues (expenses)	\$ (50,723,550)	\$ (52,516,127)	\$ (57,630,639)	\$ (39,841,116)	\$ (38,217,634)	\$ (36,675,939)	\$ (34,107,328)	\$ (36,835,546)	\$ (38,962,117)	\$ (38,501,020)
GENERAL REVENUES AND OTHER CHANGES:										
Governmental Activities:										
Property taxes	\$ 22,260,336	\$ 20,782,953	\$ 19,777,229	\$ 17,947,847	\$ 17,685,196	\$ 17,528,265	\$ 16,812,683	\$ 17,261,796	\$ 16,978,749	\$ 15,273,539
Sales taxes	22,688,619	22,440,431	21,824,103	22,375,186	21,777,709	21,596,080	20,709,684	19,902,590	19,746,092	20,520,329
Franchise and other taxes	4,319,076	4,228,559	4,221,931	4,613,330	4,728,782	4,820,407	3,977,566	4,493,197	4,719,547	4,538,419
Grants and contributions (not restricted)	41,100	98,932	34,000	-	-	4,795	-	126,500	-	25
Unrestricted investment earnings	275,691	227,856	171,400	180,344	181,505	171,405	145,510	149,627	357,369	382,761
Other local sources	2,139,629	2,441,347	2,371,106	634,572	454,117	-	-	-	-	-
Miscellaneous revenues	548,540	1,889,376	3,465,856	664,028	1,002,980	2,256,331	1,637,625	1,348,789	1,264,527	1,295,352
Gain on sale of assets	4,529	1,484	24,104	373,707	77,984	-	-	-	-	-
Transfers, net	500,000	306,908	(56,908)	-	-	-	-	-	-	-
Transfers, component unit	127,849	24,733	885,597	-	-	-	-	-	-	-
Total governmental activities	52,905,369	52,442,579	52,718,418	46,789,014	45,908,273	46,377,283	43,283,068	43,282,499	43,066,284	42,010,425
Business-type Activities:										
Unrestricted investment earnings	300,545	99,295	44,846	13,769	10,144	7,949	11,101	21,264	17,758	34,590
Miscellaneous revenues	98,280	200,116	80,270	32,972	207,496	(494,189)	157,001	78,777	52,826	809,864
Gain on sale of assets	-	-	11,822	-	-	-	-	-	-	-
Transfers, net	(500,000)	(306,908)	56,908	-	-	-	-	-	-	-
Total business-type activities	(101,175)	(7,497)	193,846	46,741	217,640	(486,240)	168,102	100,041	70,584	844,454
Total primary government general revenues and other changes	52,804,194	52,435,082	52,912,264	46,835,755	46,125,913	45,891,043	43,451,170	43,382,540	43,136,868	42,854,879
CHANGE IN NET POSITION										
Governmental activities	(852,602)	(2,058,801)	(4,874,306)	22,789,367	6,306,565	3,608,327	70,585	1,271,718	2,122,132	1,904,902
Business-type activities	2,933,246	1,977,756	155,931	(15,794,728)	1,601,714	5,606,777	9,273,257	5,275,276	2,052,619	2,448,957
Total primary government	\$ 2,080,644	\$ (81,045)	\$ (4,718,375)	\$ 6,994,639	\$ 7,908,279	\$ 9,215,104	\$ 9,343,842	\$ 6,546,994	\$ 4,174,751	\$ 4,353,859

TABLE 3

CITY OF HATTIESBURG, MISSISSIPPI

FUND BALANCES - GOVERNMENTAL FUNDS ^{(1) (2)}
LAST TEN FISCAL YEARS

	FISCAL YEAR									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Fund:										
Nonspendable	\$ 440,194	\$ 454,574	\$ 569,541	\$ 435,392	\$ 386,595	\$ 330,950	\$ 332,300	\$ 30,750	\$ 252,349	\$ 82,057
Restricted	-	-	-	-	10,593	-	-	-	-	-
Committed	-	-	-	1,913,562	-	-	-	-	-	-
Assigned	1,180,819	647,722	636,600	1,051,324	2,587,414	720,979	452,842	386,144	-	-
Unassigned	8,842,361	9,723,508	9,246,396	4,312,475	4,797,067	6,624,690	6,963,113	7,661,673	-	-
Unreserved	-	-	-	-	-	-	-	-	6,824,621	7,739,081
Total general fund	10,463,374	10,825,804	10,452,537	7,712,753	7,781,669	7,676,619	7,748,255	8,078,567	7,076,970	7,821,138
% Change from Prior Year	-3.3%	3.6%	35.5%	-0.9%	1.4%	-0.9%	-4.1%	14.2%	-9.5%	25.9%
Other Governmental Funds:										
Debt service funds										
Restricted	7,169,815	6,162,469	4,100,910	4,067,078	3,764,608	3,403,781	3,814,777	4,202,271	4,001,449	2,718,167
Special revenue funds										
Restricted	3,627,303	3,719,558	8,272,804	2,298,861	1,842,847	1,638,380	1,596,461	2,616,964	-	-
Committed	1,573,334	1,309,663	1,003,527	1,402,252	1,566,729	1,466,250	1,132,055	1,019,456	-	-
Unassigned	(153,611)	(269,240)	(53,901)	(1,913,562)	(10,593)	-	-	-	-	-
Unreserved	-	-	-	-	-	-	-	-	3,540,426	3,634,390
Capital projects funds										
Restricted	-	104,862	426,237	2,414	2,400	-	382,454	915,715	3,047,031	3,161,144
Total other governmental funds	12,216,841	11,027,312	13,749,577	5,857,043	7,165,991	6,508,411	6,925,747	8,754,406	10,588,906	9,513,701
Total governmental funds	\$ 22,680,215	\$ 21,853,116	\$ 24,202,114	\$ 13,569,796	\$ 14,947,660	\$ 14,185,030	\$ 14,674,002	\$ 16,832,973	\$ 17,665,876	\$ 17,334,839
% Change from Prior Year	3.8%	-9.7%	78.4%	-9.2%	5.4%	-3.3%	-12.8%	-4.7%	1.9%	-28.8%

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

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

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

TABLE 4

CITY OF HATTIESBURG, MISSISSIPPI

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

	FISCAL YEAR									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
REVENUE:										
Property taxes	\$ 21,960,274	\$ 20,359,735	\$ 19,431,748	\$ 17,786,031	\$ 17,761,953	\$ 17,166,167	\$ 16,455,997	\$ 16,892,639	\$ 16,978,749	\$ 15,273,539
Sales taxes	22,685,867	22,443,414	21,893,993	22,326,946	21,654,593	21,502,243	20,612,267	19,925,608	19,746,092	20,381,753
Licenses and permits	4,128,281	4,035,805	4,098,361	4,436,024	4,458,451	4,526,547	3,690,104	4,114,371	4,305,480	4,296,709
Fines and forfeitures	1,228,565	1,301,651	1,682,040	2,233,379	1,895,137	1,786,960	1,770,972	1,846,516	2,009,057	1,589,861
Interest, rents, concessions	236,519	267,967	102,171	107,701	119,886	158,110	153,158	170,965	170,191	211,214
Intergovernmental	7,348,343	10,190,234	10,390,045	4,751,144	8,484,671	8,480,909	8,250,033	9,281,209	9,354,293	10,291,647
Charges for services	2,984,753	2,585,219	2,661,173	2,494,796	2,570,846	2,586,517	2,603,390	2,572,647	2,650,845	2,763,676
Other revenues	694,686	1,060,847	1,069,997	2,845,545	1,160,908	1,408,970	794,243	512,591	251,219	888,749
Total revenues	61,267,288	62,244,872	61,329,528	56,981,566	58,106,445	57,616,423	54,330,164	55,316,546	55,465,926	55,697,148
% Change from prior year	-1.6%	1.5%	7.6%	-1.9%	0.9%	6.0%	-1.8%	-0.3%	-0.4%	-2.7%
EXPENDITURES:										
General government	9,153,798	10,993,323	14,721,956	8,318,077	7,045,870	6,227,218	6,930,283	6,271,409	6,081,588	5,679,589
Public safety	22,658,017	23,163,301	23,608,888	20,149,021	20,861,852	21,433,140	20,322,888	18,632,140	18,436,079	18,269,998
Public services	15,364,390	17,980,097	14,762,421	14,389,762	14,639,074	15,680,396	14,345,604	11,454,151	12,698,983	13,739,073
Other services	2,450,199	2,286,430	2,398,528	3,905,401	2,545,714	2,143,005	7,681,825	5,175,661	5,924,909	5,463,648
Mass transit	1,705,775	1,487,305	1,209,658	977,307	1,375,538	1,110,275	1,408,435	858,601	773,695	719,882
Cultural and recreation	3,987,521	4,113,007	4,292,584	4,015,886	4,105,118	4,512,676	4,796,921	3,840,540	4,125,885	3,877,083
Human/Social assistance	537,870	924,065	961,856	954,584	1,116,530	870,323	1,291,384	740,165	545,507	547,544
Economic development	305,000	255,000	5,319,409	208,115	2,464,222	160,000	2,160,000	150,000	150,000	150,000
Capital outlays		-	-	-	-	-	-	8,364,094	12,058,220	7,299,488
Debt service:										
Principal	4,142,355	3,858,694	10,325,679	5,198,449	5,356,375	5,753,744	5,257,186	5,044,999	17,181,940	11,440,741
Interest and fiscal charges	3,214,294	1,446,252	818,052	1,018,199	987,934	1,153,639	1,281,791	1,447,781	1,101,913	1,376,530
Total expenditures	63,519,219	66,507,474	78,419,031	59,134,801	60,498,227	59,044,416	65,476,317	61,979,541	79,078,719	68,563,576
% Change from prior year	-4.5%	-15.2%	32.6%	-2.3%	2.5%	-9.8%	5.6%	-21.6%	15.3%	-1.9%
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(2,251,931)	(4,262,602)	(17,089,503)	(2,153,235)	(2,391,782)	(1,427,993)	(11,146,153)	(6,662,995)	(23,612,793)	(12,866,428)
OTHER FINANCING SOURCES (USES):										
Proceeds from long-term debt	444,291	-	24,817,411	-	-	-	3,588,096	1,718,710	18,836,240	10,112,970
Transfers from other funds	5,093,226	4,072,890	3,699,759	3,540,140	4,112,759	4,326,191	5,075,412	3,854,721	4,609,574	4,671,908
Transfers to other funds	(4,593,226)	(3,765,982)	(3,631,543)	(3,215,016)	(3,713,424)	(3,307,283)	(3,966,924)	(2,914,020)	(3,678,323)	(3,977,272)
Other sources	2,364,217	1,606,696	2,836,194	450,247	2,755,077	119,492	4,292,047	3,940,413	4,176,339	4,051,725
Net other financing sources	3,308,508	1,913,604	27,721,821	775,371	3,154,412	1,138,400	8,988,631	6,599,824	23,943,830	14,859,331
NET CHANGE IN FUND BALANCES	<u>\$ 1,056,577</u>	<u>\$ (2,348,998)</u>	<u>\$ 10,632,318</u>	<u>\$ (1,377,864)</u>	<u>\$ 762,630</u>	<u>\$ (289,593)</u>	<u>\$ (2,157,522)</u>	<u>\$ (63,171)</u>	<u>\$ 331,037</u>	<u>\$ 1,992,903</u>
Debt service as % of non-capital expenditures	13.1%	8.7%	16.6%	11.7%	11.7%	13.2%	11.1%	13.8%	37.5%	26.5%

TABLE 5

CITY OF HATTIESBURG, MISSISSIPPI

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

Fiscal Year	Property Taxes	Sales Taxes (City's Share)	Total - Property and Sales Taxes	Gross Sales Subject to Sales Taxes (Per State Sales Tax Bureau)
2018	\$ 21,960,274	\$ 22,685,867	\$ 44,646,141	\$ 4,150,726,114
2017	20,359,735	22,408,645	42,768,380	4,150,726,114
2016	19,431,748	21,862,011	41,293,759	4,071,245,759
2015	17,786,031	22,301,782	40,087,813	3,675,561,903
2014	17,761,953	21,630,769	39,392,722	3,650,169,764
2013	17,166,167	21,474,084	38,640,251	1,777,513,216
2012	16,455,997	20,612,267	37,068,264	1,725,142,031
2011	16,892,639	19,902,590	36,795,229	1,662,704,275
2010	16,978,749	19,746,092	36,724,841	1,624,585,790
2009	15,273,539	20,381,753	35,655,292	1,720,117,514
% Change in Dollars over the 10 Year Period	43.8%	11.3%	25.2%	141.3%

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

Gross Sales Subject to Sales By County - Forrest	(%)	Gross Sales Subject to Sales By County - Lamar	(%)	Component Unit - 2% Food & Beverage Tax
\$ 2,591,355,312	62%	\$ 1,764,550,561	43%	\$ 5,387,604
2,418,705,512	58%	1,732,020,602	42%	5,224,823
2,321,862,820	57%	1,749,382,939	43%	4,849,927
2,103,530,476	57%	1,572,031,427	43%	4,825,364
2,128,804,157	58%	1,521,365,607	42%	4,636,322
907,039,107	51%	870,474,109	49%	4,619,521
889,634,286	52%	835,507,745	48%	4,887,222
877,852,622	53%	784,851,653	47%	4,655,680
866,344,980	53%	780,912,173	48%	4,625,748
899,713,933	52%	807,144,739	47%	4,627,244
188.0%		118.6%		16.4%

TABLE 6

CITY OF HATTIESBURG, MISSISSIPPI

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

FORREST COUNTY:

Year Ended Sept. 30,	Tax Roll Year	City of Hattiesburg				Hattiesburg School District			Forrest County Taxes	Total
		Operations	City Bond & Interest	Other (Library & Pension Fund)	City- Total	Hattiesburg School District Operations	School Bond & Interest Taxes	Schools- Total		
2009	2008	33.50	7.58	6.47	47.55	58.30	7.54	65.84	60.86	174.25
2010	2009	33.50	7.15	6.27	46.92	51.75	6.43	58.18	55.09	160.19
2011	2010	33.50	7.15	6.27	46.92	54.13	7.52	61.65	55.09	163.66
2012	2011	33.50	7.15	6.77	47.42	57.23	6.08	63.31	55.09	165.82
2013	2012	34.65	7.00	5.77	47.42	58.50	7.73	66.23	57.08	170.73
2014	2013	34.60	7.00	5.82	47.42	56.54	8.35	64.89	61.18	173.49
2015	2014	34.60	7.00	5.82	47.42	56.54	8.35	64.89	61.18	173.49
2016	2015	37.60	7.00	4.92	49.52	57.45	7.44	64.89	63.17	177.58
2017	2016	36.20	7.50	5.82	49.52	57.45	8.35	65.80	65.19	180.51
2018	2017	42.30	5.80	5.28	53.38	55.00	7.10	62.10	66.19	181.67

LAMAR COUNTY:

Year Ended Sept. 30,	Tax Roll Year	City of Hattiesburg				Hattiesburg School District			Lamar County Taxes	Total
		Operations	City Bond & Interest	Other (Library & Pension Fund)	City - Total	Hattiesburg School District Operations	School Bond & Interest Taxes	Schools- Total		
2009	2008	33.50	7.58	6.47	47.55	58.30	7.54	65.84	50.87	164.26
2010	2009	33.50	7.15	6.27	46.92	51.75	6.43	58.18	50.86	155.96
2011	2010	33.50	7.15	6.27	46.92	54.13	7.52	61.65	50.86	159.43
2012	2011	33.50	7.15	6.77	47.42	57.23	6.08	63.31	50.85	161.58
2013	2012	34.65	7.00	5.77	47.42	58.50	7.73	66.23	50.83	164.48
2014	2013	34.60	7.00	5.82	47.42	56.54	8.35	64.89	50.83	163.14
2015	2014	34.60	7.00	5.82	47.42	56.54	8.35	64.89	50.65	162.96
2016	2015	37.60	7.00	4.92	49.52	57.45	7.44	64.89	50.65	165.06
2017	2016	36.20	7.50	5.82	49.52	57.45	8.35	65.80	54.17	169.49
2018	2017	42.30	5.80	5.28	53.38	55.00	7.10	62.10	53.38	168.86

TABLE 7

CITY OF HATTIESBURG, MISSISSIPPI

**TOP TEN PROPERTY TAXPAYERS
PROPERTY TAXES ASSESSED IN FISCAL YEAR 2017, COLLECTED FISCAL YEAR 2018**

Taxpayer	Type of Business	Assessment	Percentage of Total Assessed Valuation	Taxes
Mississippi Power	Public Utility	\$ 10,715,500	2.4%	\$ 571,993
Kohler Company	Industrial	7,886,016	1.7%	281,392
Merit Health - Wesley	Health Care	3,854,971	0.8%	205,778
Western Container	Industrial	7,007,860	1.5%	196,526
Bell South Communications	Public Utility	10,752,493	2.4%	172,190
Hattiesburg Clinic	Health Care	18,224,780	4.0%	145,926
Hattiesburg Breckenridge	Housing	2,640,971	0.6%	140,975
SPG Holdings	Industrial	25,008,721	5.5%	131,556
TNHYIF Reiv Golf LLC	Commercial	1,845,500	0.4%	98,513
Pointe Properties LLC	Commercial	1,824,370	0.4%	97,385
Total of top ten taxpayers		89,761,182	19.8%	
Tax roll total - all other taxpayers		364,074,956	80.2%	
Total taxable assessed values for FY 2017		\$ 453,836,138	100.0%	

TABLE 8

CITY OF HATTIESBURG, MISSISSIPPI

**COMPUTATION OF LEGAL DEBT MARGIN USING MOST CURRENT TAX ROLLS
SEPTEMBER 30, 2018**

	15% Test	20% Test
Property tax base valuation as prepared by Tax Assessors during the summer months of 2018	\$ 453,836,138	\$ 453,836,138
Times Applicable %	X 15%	X 20%
Product of Tax Base Times Applicable Percentage (a)	68,075,421	90,767,228
Present General Obligation Debt Subject to Statutory Debt Limits:		
General obligation bonds outstanding at September 30, 2018	15,403,925	15,403,925
Less: exempt bonds	(11,748,925)	(11,748,925)
Add: water and sewer general obligation bonds	n/a	10,300,000
Total general obligation debt outstanding (b)	3,655,000	13,955,000
Margin for Additional General Obligation Debt - (a) minus (b)	\$ 64,420,421	\$ 76,812,228

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

TABLE 9

CITY OF HATTIESBURG, MISSISSIPPI

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

Year Ended Sept. 30,	Population	Assessed Value	Bonded General Obligation Debt	Less: Bonded Debt Service Funds Available	Net Bonded General Obligation Debt	Ratio of G.O. Bonded Debt to Assessed Values	Net General Obligation Debt Per Capita
2009	48,012	\$ 419,964,225	\$ 36,038,232	\$ 3,634,390	\$ 32,403,842	7.72%	\$ 674.91
2010	53,582	419,672,358	35,028,538	4,001,449	31,027,089	7.39%	579.06
2011	45,989	404,544,340	31,591,157	4,202,271	27,388,886	6.77%	595.55
2012	46,626	416,993,266	30,307,943	3,817,444	26,490,499	6.35%	568.15
2013	47,169	416,993,266	26,217,567	3,403,781	22,813,786	5.47%	483.66
2014	46,379	425,665,993	25,100,170	3,764,608	21,335,562	5.01%	460.03
2015	46,396	417,449,613	21,463,521	4,067,078	17,396,443	4.17%	374.96
2016	46,481	426,507,409	23,295,987	4,100,910	19,195,077	4.50%	412.97
2017	46,377	457,006,290	25,777,493	6,162,469	19,615,024	4.29%	422.95
2018	46,377	453,836,138	20,896,272	5,973,993	14,922,279	3.29%	321.76

TABLE 10

CITY OF HATTIESBURG, MISSISSIPPI

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

Year Ended Sept. 30,	Gross Revenues	Expenses	Net Revenues Available for Debt Service	Required Ratio Based Upon Applicable % Times Prescribed Annual P & I	Debit Service Requirement Calculated with Applicable %	Coverage Ratio
2009	\$ 9,907,131	\$ 6,797,027	\$ 3,110,104	105% of P & I	(1) \$ 1,650,640	1.88
2010	12,245,747	7,006,259	5,239,488	105% of P & I	(1) 1,650,640	3.17
2011	11,734,715	8,937,208	2,797,507	105% of P & I	(1) 1,650,640	1.69
2012	13,218,896	9,700,671	3,518,225	105% of P & I	(2) 2,555,155	1.38
2013	14,890,384	12,178,164	2,712,220	105% of P & I	(2) 2,585,546	1.05
2014	16,578,810	11,838,903	4,739,907	105% of P & I	(3) 3,116,786	1.52
2015	17,133,327	10,623,572	6,509,755	105% of P & I	(3) 3,864,394	1.68
2016	20,803,264	15,625,973	5,177,291	105% of P & I	(3) 3,854,944	1.34
2017	21,505,356	14,641,407	6,863,949	105% of P & I	(4) 5,042,769	1.36
2018	21,921,474	15,596,114	6,325,360	105% of P & I	(4) 5,041,892	1.25

(1) Calculations based upon debt service for the 2006 Revenue Bonds.

(2) Calculations based upon debt service for the 2006 and 2012 Revenue Bonds.

(3) Calculations based upon debt service for the 2006, 2012, and 2013 Revenue Bonds.

(4) Calculations based upon debt service for the 2012, 2013 and 2016 Revenue Bonds.

"Gross Revenues" and "Expenses" compiled based upon definitions contained in the applicable revenue bond documents.

TABLE 11

CITY OF HATTIESBURG, MISSISSIPPI

DEMOGRAPHIC STATISTICS

Year	Hattiesburg	Forrest County	Hattiesburg MSA
2000	44,779	72,727	111,674
2001	45,088	73,184	113,179
2002	45,538	73,916	114,438
2003	45,779	73,465	115,849
2004	45,988	74,565	117,599
2005	47,598	76,056	119,135
2006	48,012	76,372	123,102
2007	48,012	78,241	126,259
2008	48,012	79,425	128,546
2009	48,012	81,078	143,093
2010	53,582	75,007	143,093
2011	45,989	75,798	144,666
2012	46,626	75,842	142,842
2013	17,169	76,894	148,675
2014	14,016	76,330	147,835
2015	46,396	75,643	148,655
2016	46,481	75,637	149,016
2017	46,377	75,471	148,719

Demographic Age Groupings Projected Based On Census 2010 Totals:

Age	Hattiesburg 2010	Forrest County 2010
0 - 17 Years	9,696	17,703
18 - 34 Years	18,360	23,285
35 - 64 Years	12,983	25,282
Over 65 Years	4,950	8,664
Median Age	27.1 Years	29.7 Years
% Population 18 - 64 Years	68.15%	64.81%
% Population over 65 Years	10.76%	11.56%

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

TABLE 12

CITY OF HATTIESBURG, MISSISSIPPI

CITY EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS ⁽¹⁾

	2018 Employees	2017 Employees	2016 Employees	2015 Employees	2014 Employees	2013 Employees	2012 Employees	2011 Employees	2010 Employees	2009 Employees
Governmental Activities:										
<i>General Fund:</i>										
City Council	7	8	7	7	7	8	7	6	6	6
Department of Administration	30	35	34	37	36	33	35	37	36	32
Urban Planning:										
Planning	13	11	10	10	9	9	8	10	11	11
Intermodal Facility	-	-	-	-	-	-	0	-	-	-
Metropolitan Planning	5	5	6	6	4	4	5	4	5	5
Federal Programs Administraton	1	2	4	3	2	1	1	2	2	-
Code Enforcement	13	10	13	11	13	13	14	12	13	13
Public Safety:										
City Courts	20	16	12	16	19	19	25	27	25	26
Police - Officers	107	96	100	99	113	111	120	120	124	132
Police Department - Non-Sworn	67	63	64	63	62	61	62	64	61	69
Fire Department - Firefighters	112	107	99	99	104	112	114	119	114	118
Fire Department - Other than Firefighters	5	5	5	5	6	6	4	5	6	6
Other Public Safety	1	1	1	1	1	1	1	1	1	1
Public Services:										
Traffic Maintenance	8	9	7	9	10	7	8	8	9	9
Streets	28	42	41	38	41	42	42	46	38	40
Engineering	6	5	6	6	7	7	7	7	5	7
Shop	8	11	11	12	12	11	12	11	12	13
Construction	16	16	16	16	15	16	13	15	15	14
Sanitation	36	30	34	33	32	34	33	34	51	58
Other Public Services	18	26	23	26	23	26	29	31	28	29
Animal Control	4	4	4	4	4	4	2	4	3	4
Cemetery and Forestry	15	14	18	18	18	18	18	18	17	17
Parking Operations	9	10	10	8	8	8	8	8	8	9
Total General Fund	529	526	525	527	546	551	568	589	590	619
<i>Other Governmental Funds:</i>										
Parks and Recreation	36	32	39	37	37	34	37	32	38	69
Community Centers	13	13	14	13	14	14	14	13	15	14
Mass Transit	18	16	15	17	16	15	14	15	14	14
CDBG	4	4	4	5	4	5	5	6	6	5
Total Governmental Activities	600	591	597	599	617	619	638	655	663	721
Business-type Activities:										
Water and Sewer System:										
Customer Accounts	13	13	13	13	12	10	7	7	7	7
Water - Plant and Transmission	29	30	34	33	34	31	31	32	37	38
Sewers and Lagoons	17	17	22	22	20	21	20	24	24	26
Total Business-type Activities	59	60	69	68	66	62	58	63	68	71
Total Primary Government	659	651	666	667	683	681	696	718	731	792

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

TABLE 13

CITY OF HATTIESBURG, MISSISSIPPI

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

Year Ended Sept. 30,	Commercial Construction		Residential Construction		Hattiesburg MSA Bank Deposits (000's omitted)	Total assessed Valuation
	Permits Issued	Value	Permits Issued	Value		
2009	42	\$ 83,256,364	67	\$ 7,417,942	\$ 2,282,467	\$ 419,964,225
2010	187	29,397,654	395	7,214,963	2,429,065	419,672,358
2011	247	53,929,531	493	17,926,574	2,495,371	404,544,340
2012	215	85,713,105	430	11,346,201	2,510,860	416,993,266
2013	272	62,005,982	643	13,806,903	2,516,268	416,993,266
2014	493	50,008,704	1062	45,109,175	2,597,524	425,665,993
2015	612	52,733,055	964	16,202,669	2,727,971	417,449,613
2016	622	92,385,429	847	17,623,035	2,727,360	426,507,409
2017	576	219,926,473	899	21,656,544	2,897,772	457,006,290
2018	760	325,811,798	1392	21,176,351	2,955,425	453,836,138

TABLE 14

CITY OF HATTIESBURG, MISSISSIPPI

CAPITAL ASSET AND INFRASTRUCTURE STATISTICS BY FUNCTION LAST TEN FISCAL YEARS

[illegible]