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The City of Hernando
Office of the Mayor

June 21, 2013

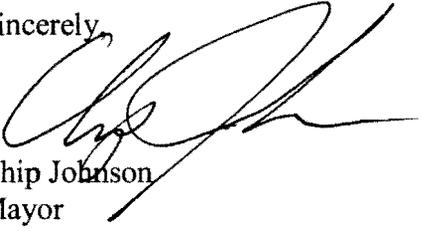
Office of the State Auditor
P. O. Box 956
Jackson, Mississippi 39205

Re: Annual Municipal Audit

Dear Sir/Madam:

Accompanying this letter is a copy of the annual audit of the City of Hernando, Mississippi, for the fiscal year ended September 30, 2012. In connection with this audit of the City of Hernando, a separate management letter was written to the City of Hernando. Enclosed you will find a copy of this management letter along with the audit report.

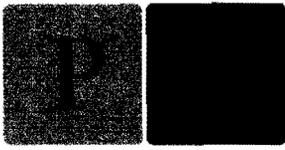
Sincerely,


Chip Johnson
Mayor

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WILLIAMS-PETERS REGISTERED
CERTIFIED PUBLIC ACCOUNTANTS

CN. A. C. W. 012345 | 2012 N. P. 12345, P. O. Box 1234
 F. R. G. W. 12345 | HERNANDO, MISSISSIPPI 38932
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 2012 N. P. 12345 | 601-999-1234

To Board of Aldermen
and Management of City of Hernando, Mississippi

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hernando, Mississippi ("the City") as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of 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 following deficiency in the City's internal control to be a material weakness:

12-1 **Criteria:** Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles ("GAAP"). Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition: The City required material audit adjustments in order to present the financial statements in accordance with GAAP.

Effect: The following audit adjustments were required in order to present the City's financial statements in accordance with GAAP:

- Prepaid expenses
- Grant receivables
- Fund balance
- Utility and ambulance receivables
- Accounts payable
- Notes payable

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Recommendation: Management should ensure that the financial statements are being prepared in accordance with GAAP.

Response: We are making changes in our process to prevent needing these adjustments at the end of the year.



This communication is intended solely for the information and use of management Board of Aldermen, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties. The City of Hernando, Mississippi's written response to the material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Williams, Pitts & Beard, PLLC

Williams, Pitts, and Beard, PLLC
Hernando, Mississippi
June 13, 2013

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**City of Hernando, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2012**

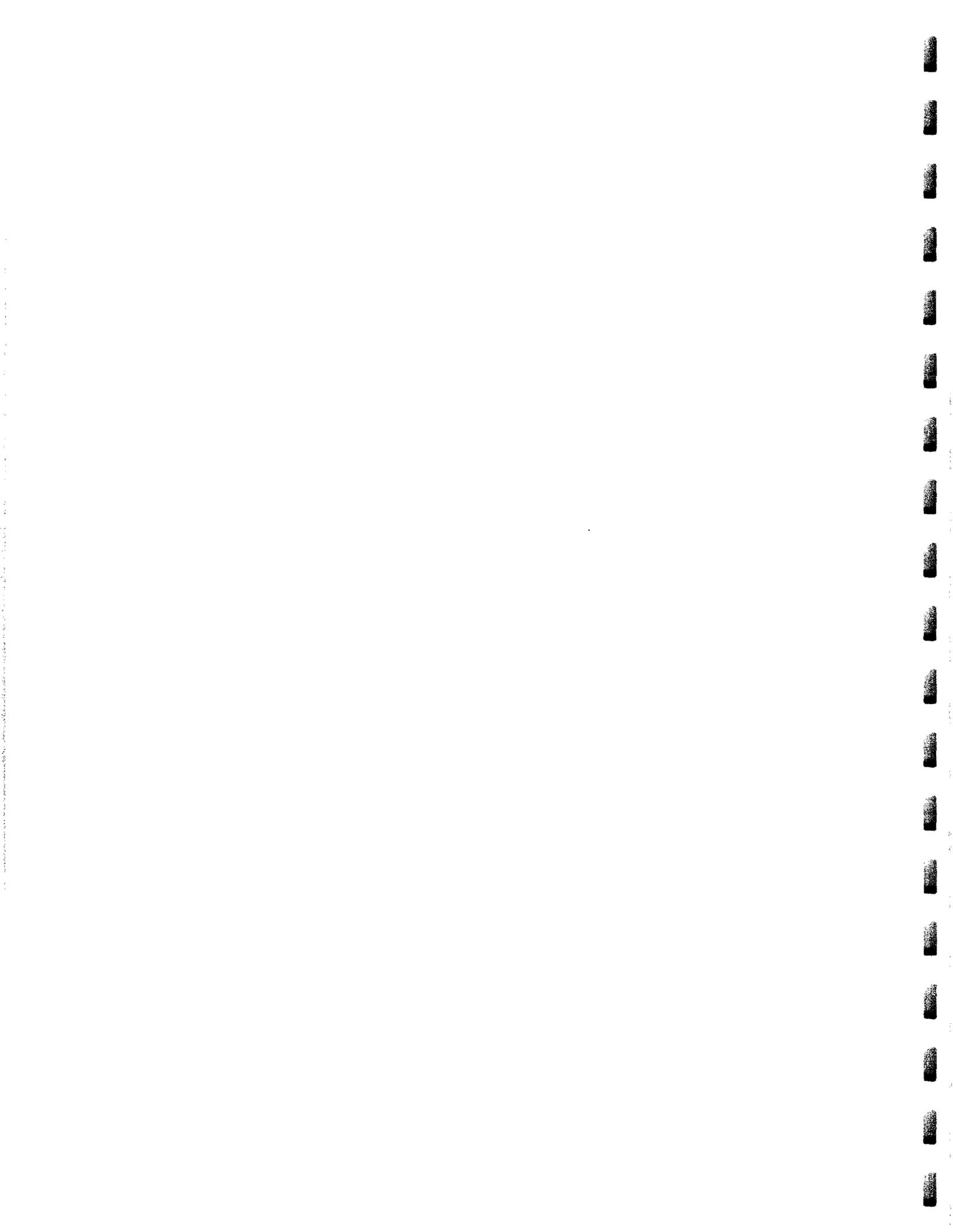
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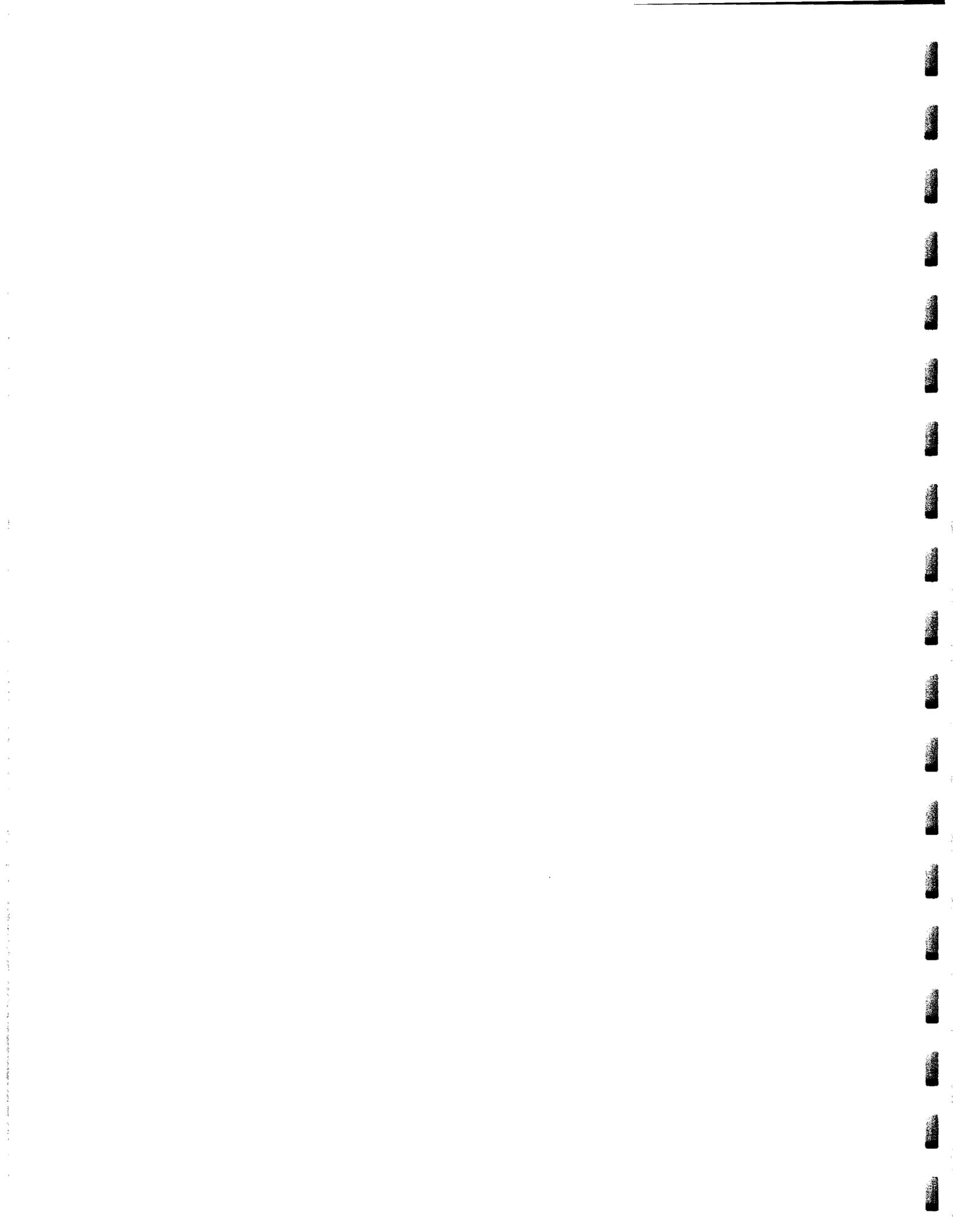
City of Hernando, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2012

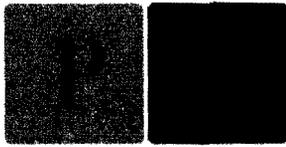
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WILLIAMS, PEES, BEARD, LLC
 CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Mayor and Board of Aldermen
 City of Hernando
 Hernando, Mississippi

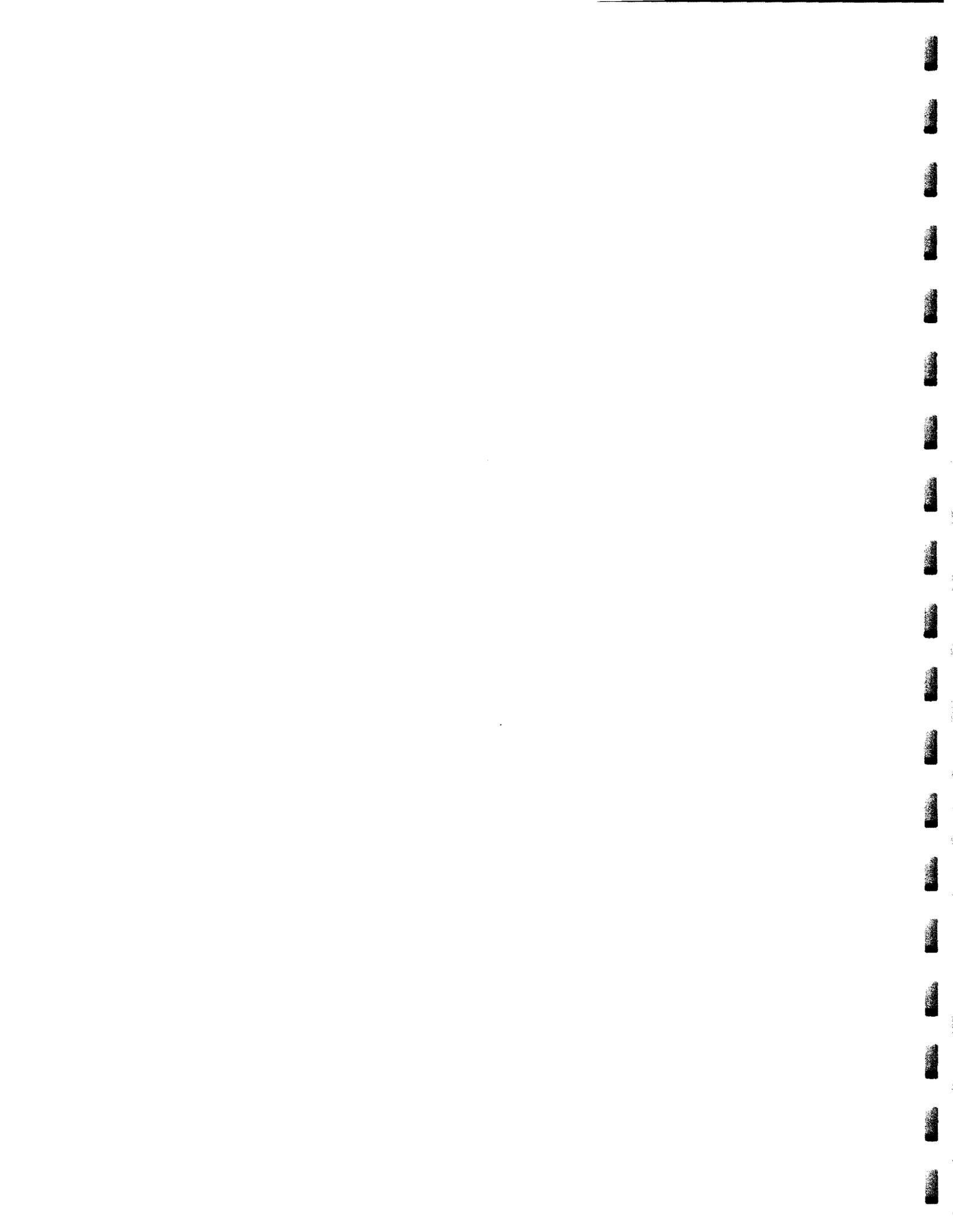
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi ("the City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and corresponding notes on pages i through viii and 26 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We



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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying supplemental information on surety bond coverage is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards and information on surety bond coverage 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 13, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012
Unaudited

This Discussion and Analysis of the City of Hernando's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

This discussion complies with the "Required Supplementary Information" specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis (MD&A) for State and Local Governments issued in June 1999, in order to give the reader a clear understanding of the financial activities that occurred during the fiscal year.

The statements presented in this audit consist of two types:

- Government-wide financial statements are prepared using the modified accrual basis of accounting and include all assets and liabilities of the City of Hernando as a whole. These statements provide an overall view of Hernando's finances. The Statement of Net Assets is found on page 4 of the audit report.
- In the Statement of Activities, the City's activities are reported as (1) Governmental Activities; which includes: administration, ambulance, fire, park, planning, police, and street departments, (2) Business-type Activities; which includes: water, sewer, and sanitation. This statement shows the revenues, expenses, and net assets. The Statement of Activities is found on page 5.

Fund Financial Statements – A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hernando, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – Governmental Funds and Proprietary Funds.

Governmental Funds – Governmental funds are used to account for essentially the functions reported as governmental activities in the governmental –wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, parkland and long-term liabilities such as bonds payable or long-term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near-term financing requirements.

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

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012
Unaudited

The City maintains several governmental funds. Information is presented separately in the Governmental Funds Balance Sheet (page 6) and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Capital Projects Fund which are considered to be major funds. All other Governmental Funds are combined into a single amount listed as Other Governmental Funds. The basic governmental funds financial statements can be found on pages 6-9.

Proprietary Funds – The City maintains one proprietary fund, which is an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Hernando uses enterprise funds to account for its Water, Sewer, and Sanitation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Water, Sewer, and Sanitation funds since they are considered major funds of the City. The combining proprietary fund financial statements can be found on pages 10-12 of this report.

Notes to the Financial Statements- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-23 of this report.

BRIEF DISCUSSION OF BASIC FINANCIAL STATEMENTS

Net assets and net assets by category may serve over time as a useful indicator of a government's financial position. The assets of the City of Hernando, Mississippi exceeded its liabilities at September 30, 2012 by \$13,609,517. The majority of the City's net assets are invested in capital assets, net of related debt and unrestricted assets and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. The remaining \$958,603 is restricted for specific purposes. Unrestricted net assets decreased by \$261,073, restricted assets increased in the amount of \$202,825, and invested in capital assets increased by \$422,440.

As of the close of the current fiscal year the City of Hernando's governmental funds reported combined ending fund balances of \$2,207,754 and a total liabilities and fund balances combined of \$6,453,000.

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012
Unaudited

CONDENSED COMPARATIVE FINANCIAL STATEMENTS

The City's combined net assets in 2012 increased 6% from a year ago. The combined net assets increased from \$12,723,179 in 2011 to \$13,609,517 in 2012, which is an increase of \$886,338.

NET ASSETS						
(IN THOUSANDS)						
	2012	2011	2012 Business	2011 Business		
	Governmental	Governmental	Type	Type		
	Activities (All	Activities (All	Activities	Activities	2011	2012
	other funds)	other funds)	(Utility Fund)	(Utility Fund)	Total	Total
<u>ASSETS</u>						
Current and Other Assets	\$ 6,620	\$ 6,757	\$ 1,517	\$ 1,015	\$ 7,772	\$ 8,137
Capital Assets, Net	12,355	12,223	9,255	8,524	20,747	21,610
TOTAL ASSETS	18,975	18,980	10,772	9,539	28,519	29,747
<u>LIABILITIES</u>						
Current and Other Liabilities	4,374	4,478	527	415	4,894	4,901
Long Term Liabilities:						
Due Within One Year	455	484	172	178	662	627
Due in More than One Year	7,846	8,348	2,763	1,892	10,240	10,609
TOTAL LIABILITIES	12,675	13,310	3,462	2,486	15,796	16,137
<u>NET ASSETS</u>						
Invest in Capital Assets Net of Debt	4,313	3,776	6,398	6,513	10,289	10,711
Restricted:						
Capital Projects	845	672	-	-	672	845
Prepaid Expenses	-	-	-	-	292	-
Special Revenue	32	28	-	-	28	32
Debt Services	82	56	-	-	56	82
Unrestricted	1,028	1,138	912	539	1,677	1,940
TOTAL NET ASSETS	\$ 6,300	\$ 5,670	\$ 7,310	\$ 7,052	\$ 12,723	\$13,610

Net assets of the City's governmental activities have increased by 11.1% (\$5,669,951 in 2011, compared to \$6,299,568 in 2012). Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$1,138,374 at 9-30-11 to \$1,027,756 at the end of this year which is a decrease of 9.7%.

Net assets of the City's business type activities (utility fund) increased by 3.63% (\$7,053,228 compared to \$7,309,949). Unrestricted net assets changed from \$539,986 at 9-30-11 to \$911,677 at the end of this year, which is an increase of 68.83%.

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012
Unaudited

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

The City's revenues have increased in sales tax, and in building permits. In order to continue to furnish quality services to the citizens, Hernando has been fortunate to receive grants and loans for projects such as water improvements, parks, and drainage improvements.

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The largest portion of the City of Hernando's assets can be found in fixed assets such as land, buildings, equipment, and infrastructure. Capital assets used in governmental activities are not financial resources but are used to provide services.

The Statement of Net Assets looks at the City as a whole. The following table provides a summary and comparison of the City's net assets for Governmental Activities, Business Type Activities and the two combined per year.

	2011 Governmental Activities	2012 Governmental Activities	2011 Business- Type Activities	2012 Business- Type Activities	2011 Total	2012 Total
Revenues						
Taxes - Property	\$3,822,052	\$ 3,964,844	\$ -	\$ -	\$ 3,822,052	\$ 3,964,844
Sales and Use	2,620,709	2,726,591	-	-	2,620,709	2,726,591
Other Taxes	375,973	355,707	-	-	375,973	355,707
Forfeitures	521,300	329,207	-	-	521,300	329,207
Intergovernmental	218,901	224,166	-	-	218,901	224,166
Charges for services	630,020	929,451	3,472,085	3,631,203	4,102,105	4,560,654
Interest	13,844	5,800	928	1,425	14,772	7,225
Grants	419,451	528,970	35,813	30,898	455,264	559,868
Interfund transfers	(52,806)	(123,262)	52,806	123,262	-	-
Miscellaneous	161,063	215,911	10,712	9,284	171,775	225,195
Sale of assets	23,531	(26,618)	14,697	6,920	38,228	(19,698)
Total revenues	8,754,038	9,130,767	3,587,041	3,802,992	12,341,079	12,933,759
Total expenses	(8,106,053)	(8,501,150)	(3,800,732)	(3,546,271)	(11,906,785)	(12,047,421)
Change in net assets	647,985	629,617	(213,691)	256,721	434,294	886,338
Net assets-beginning of year	5,021,966	5,669,951	7,266,918	7,053,228	12,288,884	12,723,179
Prior Period Adjustment	-	-	-	-	-	-
Net assets-end of year	\$5,669,951	\$6,299,568	\$7,053,227	\$ 7,309,949	\$12,723,178	\$ 13,609,517

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012
Unaudited

BUDGETARY ANALYSIS

The City of Hernando's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The Budgetary Analysis can be found on page 26.

During the fiscal year ending 9-30-12, the City amended its budget twice. The total dollar amount of the budget for all funds was increased in the amount of \$164,866, which was in the General Fund, Culture and Recreation Fund, CDBG/First Time Homebuyer, and Utility Fund. The amendment was necessary in the General Fund for revenues due to the grant money that we did not budget to receive, subdivision bonds recalled, and a Tax Anticipation Loan. Expenses in the General Fund were increased to account for the EECBG grant money spent on the A/C unit, for repaying the Tax Anticipation Loan, and for the Subdivision Bond recalled money being spent to repair subdivisions. In the General Fund budgeted amounts were moved from Planning Supplies and Commissioner travel to Travel for the Planning Department and to purchase file cabinets. The Police Department moved budgeted money from supplies to cover outside service charges. The CDBG/First Time Homebuyer expense was amended to account for the spending of the money received. The Culture and Recreation Fund was amended to move budgeted amounts from salaries to Temporary Staffing, also from publication expense to dues & subscriptions, and from contingency to cover Basketball services. In the Utility Fund, budgeted amounts were moved from contingency to purchase a vehicle, also moved from dues & subscriptions to cover professional fees.

All budget amendments must be approved by the Mayor and Board of Aldermen. If the amendment exceeds 10% of the original budget then the amendment must be published in a local newspaper.

The fund balance at the beginning of the year was \$1,305,898 for the General Fund and at the end of the year (GAAP basis) was \$1,512,134, which was an increase of \$206,236. The most significant revenues in the General Fund are derived from ad-valorem taxes, sales taxes, franchise taxes, building permit fees, police fines, and ambulance fees.

The revenue budgeted for the Business-Type Fund (Utility Fund) is derived from the sale of water and for services provided such as sanitary sewer and sanitation.

**City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012
Unaudited**

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CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. A comparison of these assets are shown as follows:

Description	FYE 9-30-11	FYE 9-30-12	Difference
Land	\$ 581,339	\$ 581,339	\$ 0
Buildings and improvements	5,627,896	5,627,896	0
Equipment	2,013,721	1,920,991	(92,730)
Vehicles	1,014,418	983,469	(30,949)
Infrastructure	8,136,267	8,832,713	696,446
Construction in progress	50,159	58,043	7,884
Improvements other than buildings	435,862	463,979	28,117
Accumulated depreciation	(5,636,280)	(6,113,747)	(477,467)
	<u>\$12,223,382</u>	<u>\$ 12,354,683</u>	<u>\$ 131,301</u>

Changes in General Fixed Assets can be found on page 19 and 20. In the category of Governmental Activities capital assets, net, increased from \$12,223,382 at 9-30-11 to \$12,354,683 at 9-30-12. This is an increase of \$131,301 after depreciation. In the category of Business-type Activities capital assets, net, increased from \$8,524,064 at 9-30-11 to \$9,254,899 at 9-30-12. This is an increase of \$730,835 after depreciation.

Long-Term Debt is located on pages 21-22. As of September 30, 2012, the City had \$7,900,000 in outstanding General Obligation Bonds, which is \$430,000 less than last year. Business-type activities had \$2,849,991 in notes payable, which is \$886,596 more than last year. The long-term debt is low interest loans from the State of Mississippi for water and sewer improvements.

INFRASTRUCTURE ACTIVITY

Over the past few years, the City has applied for state funding to improve the City water system and sanitary sewer system. The DWSIRLF loan application included major water projects for the city that would be completed in five phases. At this time, Hernando has received four DWSIRLF loans. The water improvements have included a new well, water tank, and larger water mains. The City of Hernando has also been able to install a new traffic signal at the McIngvale and Byhalia intersection. This was funded by the Surface Transportation Program Money through MDOT.

CURRENTLY KNOWN FACTS

Hernando has been growing at a very rapid pace; according to the Census in 1990, the population was 3,200, in 2000 the population was 6,812, and currently the population according to the 2012 US Census Population estimate is 14,763. In 2012, the City assessed value of property increased 2.49% and the sales tax revenue has gone up 3.23% over the last year. Residential and commercial building permits are seeing a rise again. People are continuing to move to Hernando as shown by the increased number of utility customers. Over the past year the City has added 109 sewer customers and 107 water customers. Since FYE 9-30-2000 the City has added 2,791 sewer customers, and 1,818 water customers. We have two rural water systems that also provide water inside the corporate limits of Hernando which is the reason there are more sewer customers than water. Over the last few years, the Mississippi Department of Environmental

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2012
Unaudited

quality has mandated that Hernando and the other cities in DeSoto County improve the level of sewage treatment. This mandate is in place to protect our environment and our groundwater. In order to satisfy this mandate more cost effectively, the cities joined with the county to create the DeSoto County Regional Utility Authority (DCRUA).

Each year we try to improve our facilities as funds become available either from tax revenues, grants, or donations. We have a community garden at the Gale Center that is open to the public and a farmers market on the square where the public can purchase locally grown produce. Our farmers market was named fifth favorite in the nation among large markets. Our park facilities include community center, tennis courts, basketball courts, football fields, and soccer fields, exercise equipment, walking trails, pavilions and playgrounds. We have made an effort to have facilities and programs to accommodate all ages. The City of Hernando has been given the "Playful City USA" designation for the fifth year as of 2012. Hernando was also previously given the "Healthiest Hometown" Award from Blue Cross Blue Shield and the City has been designated a "Tree City USA" for two years now. Hernando has been promoting a healthier city by improving and extending the sidewalks, and adding walking and biking trails on the streets.

Hernando has kept the property taxes at a reasonable rate, while continuing to provide the needed services. From 1988 to 1990, the millage for ad-valorem tax was 28.5, and in 1990, the millage was increased to 29.5. In the budget year 2001-2002, the millage for ad-valorem taxes was increased from 29.5 mills to 31.75 and this year the millage has remained the same. The taxes are distributed to the General Fund, Municipal Bond and Interest Fund, Library Fund, and the Park Fund. The General Fund is the main fund of the city, which provides for Administration, Fire, Police, Planning, Ambulance, and Court. The Municipal Bond and Interest Fund is to pay General Obligation Bond payments and fees. Library Fund provides funding for the Hernando Library. The Park Fund is used to pay for improvements in the park, cemetery maintenance, and beautification of the City.

CONTACT:

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information contact the City Clerk, at 475 West Commerce Street, Hernando, MS 38632 or by telephone at 662-429-9092.

FINANCIAL STATEMENTS

City of Hernando, Mississippi
Statement of Net Assets
September 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,820,722	\$ 597,273	\$ 2,417,995
Accounts receivable, net of allowance for doubtful accounts of \$1,056,814	101,671	551,857	653,528
Property tax receivable	3,814,629	-	3,814,629
Intergovernmental receivable	394,359	327,951	722,310
Prepaid expense	346,930	41,299	388,229
Internal balances	968	(968)	-
Bond issue costs, net	140,854	-	140,854
Capital assets, net of accumulated depreciation	12,354,683	9,254,899	21,609,582
Total Assets	<u>18,974,816</u>	<u>10,772,311</u>	<u>29,747,127</u>
Liabilities			
Accounts payable	326,984	159,370	486,354
Accrued expenses	232,546	21,711	254,257
Customer deposits	-	346,077	346,077
Deferred revenue	3,814,629	-	3,814,629
Long-term liabilities			
Due within one year:			
Capital debt	455,000	172,050	627,050
Due in more than one year:			
Capital debt	7,445,000	2,684,577	10,129,577
Non-capital debt	401,089	78,577	479,666
Total Liabilities	<u>12,675,248</u>	<u>3,462,362</u>	<u>16,137,610</u>
Net Assets			
Invested in capital assets, net of related debt	4,313,209	6,398,272	10,711,481
Restricted:			
Capital projects	845,245	-	845,245
Debt service	81,609	-	81,609
Special revenue	31,749	-	31,749
Unrestricted	1,027,756	911,677	1,939,433
Total Net Assets	<u>\$ 6,299,568</u>	<u>\$ 7,309,949</u>	<u>\$ 13,609,517</u>

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

City of Hernando, Mississippi
Statement of Activities
For the Year Ended September 30, 2012

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 1,473,401	\$ 206,003	\$ 37,076	\$ 31,117	\$ (1,199,205)	\$ -	\$ (1,199,205)
Public safety	5,514,083	285,791	53,787	-	(5,174,505)	-	(5,174,505)
Public works	566,240	-	-	306,990	(259,250)	-	(259,250)
Culture and recreation	530,099	114,739	100,000	-	(315,360)	-	(315,360)
Health and welfare	95,086	322,918	-	-	227,832	-	227,832
Interest on long-term debt	322,241	-	-	-	(322,241)	-	(322,241)
Total Governmental Activities	8,501,150	929,451	190,863	338,107	(7,042,729)	-	(7,042,729)
Business-Type Activities							
Utility	3,502,480	3,631,203	-	30,898	-	159,621	159,621
Interest on long-term debt	43,791	-	-	-	-	(43,791)	(43,791)
Total Business-Type Activities	3,546,271	3,631,203	-	30,898	-	115,830	115,830
Total Government	\$ 12,047,421	\$ 4,560,654	\$ 190,863	\$ 369,005	\$ (7,042,729)	\$ 115,830	\$ (6,926,899)

General Revenues

Property taxes	3,964,844	-	3,964,844
Intergovernmental	224,166	-	224,166
Sales tax	2,726,591	-	2,726,591
Franchise taxes	355,707	-	355,707
Forfeitures	329,207	-	329,207
Interest	5,800	1,425	7,225
Miscellaneous	215,911	9,284	225,195
Transfers other funds	(123,262)	123,262	-
Sale of assets	(26,618)	6,920	(19,698)
Total General Revenues	7,672,346	140,891	7,813,237
Change in Net Assets	629,617	256,721	886,338

Net Assets-Beginning of Year	5,669,951	7,053,228	12,723,179
Net Assets-End of Year	\$ 6,299,568	\$ 7,309,949	\$ 13,609,517

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

City of Hernando, Mississippi
Balance Sheet - Governmental Funds
September 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,318,075	\$ 81,609	\$ 421,038	\$ 1,820,722
Property tax receivable	2,696,440	771,145	347,044	3,814,629
Intergovernmental receivable	393,506	-	853	394,359
Other receivables	41,894	-	20,938	62,832
Prepaid expenses	113,113	231,119	2,698	346,930
Due from other funds	6,127	-	7,401	13,528
Total Assets	<u>\$ 4,569,155</u>	<u>\$ 1,083,873</u>	<u>\$ 799,972</u>	<u>\$ 6,453,000</u>
Liabilities				
Accounts payable	\$ 260,673	\$ -	\$ 66,312	\$ 326,985
Accrued expenses	87,348	-	3,724	91,072
Due to other funds	12,560	-	-	12,560
Deferred revenue	2,696,440	771,145	347,044	3,814,629
Total Liabilities	<u>3,057,021</u>	<u>771,145</u>	<u>417,080</u>	<u>4,245,246</u>
Fund Balances				
Nonspendable:				
Prepaid expenses	113,113	231,119	2,698	346,930
Restricted:				
Capital projects	686,954	-	158,291	845,245
Debt service	-	81,609	-	81,609
Special revenue	-	-	31,749	31,749
Assigned:				
General fund	5,484	-	-	5,484
Culture and recreation	-	-	160,673	160,673
Forfeiture	-	-	29,481	29,481
Unassigned	706,583	-	-	706,583
Total Fund Balances	<u>1,512,134</u>	<u>312,728</u>	<u>382,892</u>	<u>2,207,754</u>
Total Liabilities and Fund Balances	<u>\$ 4,569,155</u>	<u>\$ 1,083,873</u>	<u>\$ 799,972</u>	<u>\$ 6,453,000</u>

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

City of Hernando, Mississippi
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2012

Total Fund Balance - Governmental Funds \$ 2,207,754

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Land	581,339	
Buildings and improvements	5,627,896	
Equipment	1,920,991	
Vehicles	983,469	
Infrastructure	8,832,713	
Construction in progress	58,043	
Improvements other than buildings	463,979	
Accumulated depreciation	<u>(6,113,747)</u>	
		12,354,683

Bonds issued by the City have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the Statement of Net Assets. 140,854

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 38,840

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General obligation and revenue bonds	(7,900,000)	
Compensated absences	(401,089)	
Accrued interest	<u>(141,474)</u>	
		<u>(8,442,563)</u>

Net Assets of Governmental Activities \$ 6,299,568

City of Hernando, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
General property taxes	\$ 2,821,750	\$ 800,402	\$ 342,693	\$ 3,964,845
Intergovernmental	224,166	-	-	224,166
Sales tax	2,726,591	-	-	2,726,591
Franchise taxes	349,375	-	6,332	355,707
Charges for services	817,373	-	115,004	932,377
Forfeitures	329,207	-	-	329,207
Interest	3,816	563	1,421	5,800
Miscellaneous	100,064	-	115,847	215,911
Total Revenues	<u>7,372,342</u>	<u>800,965</u>	<u>581,297</u>	<u>8,754,604</u>
Expenditures				
General government	1,226,750	-	-	1,226,750
Public safety	5,279,821	-	17	5,279,838
Public works	248,553	-	-	248,553
Culture and recreation	-	-	481,806	481,806
Health and welfare	76,745	5,068	13,220	95,033
Capital outlay	487,740	-	596,089	1,083,829
Debt service:				
Principal	469,639	432,428	95,516	997,583
Interest	979	322,774	14,942	338,695
Total Expenditures	<u>7,790,227</u>	<u>760,270</u>	<u>1,201,590</u>	<u>9,752,087</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(417,885)</u>	<u>40,695</u>	<u>(620,293)</u>	<u>(997,483)</u>
Other Financial Sources				
Grant revenue	91,958	-	437,012	528,970
Sale of assets	74,943	-	20,300	95,243
Interfund transfers	7,220	-	(130,482)	(123,262)
Loan proceeds	450,000	-	-	450,000
Total Other Financing Sources	<u>624,121</u>	<u>-</u>	<u>326,830</u>	<u>950,951</u>
Net Change in Fund Balances	206,236	40,695	(293,463)	(46,532)
Fund Balance - Beginning of Year	<u>1,305,898</u>	<u>272,033</u>	<u>676,355</u>	<u>2,254,286</u>
Fund Balance - End of Year	<u>\$ 1,512,134</u>	<u>\$ 312,728</u>	<u>\$ 382,892</u>	<u>\$ 2,207,754</u>

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

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

Net Change in Fund Balances - Total Governmental Funds	\$ (46,532)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those material assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$855,926 exceeded depreciation expense of \$652,923 in the current period.</p>	203,003
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments of \$997,583 exceed amortization expense of \$11,298 and proceeds of \$450,000.</p>	536,285
<p>In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$71,702 and the proceeds from the sale of \$95,243 in the current period.</p>	(71,702)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Those amounts by which the (increase) decrease consist of are as follows:</p>	
Accrued interest payable	27,753
Compensated absences payable	(16,264)
<p>Some revenues will not be collected for several months after year-end. They are not considered available resources in the governmental funds.</p>	<u>(2,926)</u>
Change in Net Assets of Governmental Activities	<u>\$ 629,617</u>

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City of Hernando, Mississippi
Statement of Net Assets – Proprietary Fund
September 30, 2012

	Utility Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 597,273
Accounts receivable, net of allowance for doubtful accounts of \$170,132	551,857
Intergovernmental receivable	327,951
Prepaid expenses	41,299
Due from other funds	1,312
Total Current Assets	1,519,692
Noncurrent Assets	
Capital assets, net of accumulated depreciation	9,254,899
Total Noncurrent Assets	9,254,899
Total Assets	\$ 10,774,591
 Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 159,370
Accrued expenses	21,711
Due to other funds	2,280
Total Current Liabilities	183,361
Current Liabilities Payable From Restricted Assets:	
Customer deposits	346,077
Long-term liabilities due within one year:	
Capital debt	172,050
Total Current Liabilities Payable From Restricted Assets	518,127
Long-Term Liabilities Due in More Than One Year:	
Capital debt	2,684,577
Non-capital debt	78,577
Total Long-Term Liabilities	2,763,154
Total Liabilities	3,464,642
Net Assets	
Invested in capital assets, net of related debt	6,398,272
Unrestricted	911,677
Total Net Assets	7,309,949
Total Liabilities and Net Assets	\$ 10,774,591

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

City of Hernando, Mississippi
Statement of Revenues, Expenses and
Changes in Net Assets – Proprietary Fund
For the Year Ended September 30, 2012

	Utility Fund
Operating Revenues	
Sewer sales	\$ 2,102,336
Water sales	772,200
Sanitation sales	756,667
Miscellaneous	9,284
Total Operating Revenues	3,640,487
Operating Expenses	
Cost of sales	1,340,245
Personnel	1,152,755
Depreciation and amortization	491,863
Material and supplies	164,704
Repairs and maintenance	146,511
Other	206,402
Total Operating Expenses	3,502,480
Operating Income	138,007
Non-operating Revenues (Expenses)	
Grant proceeds	30,898
Interest income	1,425
Interest expense	(43,791)
Interfund transfers	123,262
Sales of asset	6,920
Total Non-operating Revenues (Expenses)	118,714
Change in Net Assets	256,721
Net Assets - Beginning of Year	7,053,228
Net Assets - End of Year	\$ 7,309,949

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

City of Hernando, Mississippi
Statement of Cash Flows – Proprietary Fund
For the Year Ended September 30, 2012

	Utility Fund
Cash Flows From Operating Activities	
Cash received from customers	\$ 3,565,283
Cash payments for goods and services	(1,791,770)
Cash payments to employees	(1,133,404)
Net Cash Provided By (Used In) Operating Activities	640,109
Cash Flows From Non-Capital Financing Activities	
Interfund transfers	103,813
Net Cash Provided By (Used In) Non-Capital Financing Activities	103,813
Cash Flows From Capital and Related Financing Activities	
Payments for capital acquisitions	(1,222,696)
Proceeds from sale of assets	6,920
Customer deposits	21,563
Grant proceeds	(251,618)
Proceeds from debt issuance	1,023,532
Principal payments on debt	(177,727)
Interest payments on debt	(43,791)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(643,817)
Cash Flows From Investing Activities	
Interest on investments	1,425
Net Cash Provided By (Used in) Investing Activities	1,425
Net Increase (Decrease) in Cash and Cash Equivalents	101,530
Cash and Cash Equivalents - Beginning of Year	495,743
Cash and Cash Equivalents - End of Year	\$ 597,273
Reconciliation of Operating Income to Net Cash	
Provided By (Used In) Operating Activities	
Operating Income	\$ 138,007
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation and amortization	491,863
(Increase) decrease in customer receivables	(75,204)
(Increase) decrease in prepaid items	(23,877)
Increase (decrease) in accounts payable	79,779
Increase (decrease) in accrued expenses	10,190
Increase (decrease) in accrued compensated absences	19,351
Total adjustments	502,102
Net Cash Provided By (Used In) Operating Activities	\$ 640,109

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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Hernando ("the City") was incorporated in 1866. The City operates under the Board of Aldermen-Mayor form of government and provides the following services; public safety, public works, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Financial Reporting Entity

These financial statements present all the accounts of the City. There are no component units as defined by GASB Statement 14, *The Financial Reporting Entity*.

Basis of Presentation

The government-wide financial statements (Statement of Net Assets and the Statement of Activities) report information on all the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

The City segregated transactions related to certain functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

General Fund:

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund:

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs. The primary revenue source is local property taxes levied specifically for Debt Service.

Proprietary Funds

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. FASB pronouncements issued subsequent to November 30, 1989 that conflict with GASB pronouncements have not been followed, as permitted under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. The City has presented the following major proprietary fund:

Utility Fund:

The Utility Fund is used to account for the provision of water, sewer and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and sanitation services, as well as billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water, sewer and sanitation debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditure are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water, sewer and sanitation services which are accrued. Expenses are recognized at the time the liability is incurred.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they both become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recognized when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

Budgets and Budgetary Accounting

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

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Clerk a budget of estimated expenditures for the ensuing fiscal year after which the City Clerk submits a budget of estimated expenditure and revenues to the Mayor and Board of Aldermen by August 1.

Upon receipt of the budget estimates, the Board of Aldermen holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

At the September board meeting, the budget is legally enacted through passage of ordinance. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.

The actual receipts and disbursements are accumulated each month and compared to the budgeted amounts and reviewed by the Mayor and Board of Aldermen. Any revisions on the budget during the year are approved by the Board of Aldermen.

Cash and Cash Equivalents

For the purpose of the Statement of Net Assets, "Cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "Cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Prepaid Expenses

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid expenses in the governmental funds has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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, when reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payable between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business type activities are reported in the government-wide financial statements as "Internal balances."

Restricted Assets

Proprietary fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

- | | |
|--------------------------|----------------|
| • Buildings/improvements | 20 to 40 years |
| • Infrastructure | 20 to 50 years |
| • Equipment | 3 to 10 years |

Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and proprietary fund financial statements. In fund financial statements, governmental funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by the Board of Aldermen ordinance or resolution.
- **Assigned** – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Aldermen.
- **Unassigned** – All amounts not included in other spendable classifications.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Net Assets

Net assets are the difference between assets and liabilities. Net assets "Invested in capital assets, net of related debt" are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as "Restricted" when there are legal limitations imposed on their use by City legislation or external restrictions by other governments, creditors or grantors.

Property Tax Revenues

Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Alderman, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien are due in the month that coincides with the month of the original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of the original purchase occurs.

NOTE B – CASH AND CASH EQUIVALENTS

The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of 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 Deposit Insurance Corporation ("FDIC").

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2012, the City's was exposed to \$192,496 in custodial credit risk.

As of September 30, 2012, the carrying amount of the City's deposits was \$2,417,995 and the bank balances totaled \$2,538,151. Of the bank balances, \$250,000 was insured by federal deposit insurance and \$2,095,655 was covered by pooled and/or pledged collateral with the State Treasurer.

NOTE C - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of sales tax and franchise tax.

	<u>General Fund</u>
Ad valorem	\$ 82,993
Franchise and sales tax	<u>311,366</u>
Total	<u><u>\$ 394,359</u></u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE D – CAPITAL ASSETS

	<u>Balance at 9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2012</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 581,339	\$ -	\$ -	\$ 581,339
Construction in progress	50,159	58,043	(50,159)	58,043
Total capital assets, not being depreciated:	<u>631,498</u>	<u>58,043</u>	<u>(50,159)</u>	<u>639,382</u>
Capital assets, being depreciated:				
Buildings and improvements	5,627,896	-	-	5,627,896
Infrastructure	8,136,267	696,446	-	8,832,713
Equipment	2,013,721	95,299	(188,029)	1,920,991
Vehicles	1,014,418	28,180	(59,129)	983,469
Improvements other than buildings	435,862	28,117	-	463,979
Total capital assets, being depreciated:	<u>17,228,164</u>	<u>848,042</u>	<u>(247,158)</u>	<u>17,829,048</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,382,454)	(81,736)	-	(1,464,190)
Infrastructure	(1,645,093)	(407,970)	-	(2,053,063)
Equipment	(1,681,963)	(52,649)	116,327	(1,618,285)
Vehicles	(879,330)	(87,051)	59,129	(907,252)
Improvements other than buildings	(47,440)	(23,517)	-	(70,957)
Total Accumulated Depreciation	<u>(5,636,280)</u>	<u>(652,923)</u>	<u>175,456</u>	<u>(6,113,747)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,591,884</u>	<u>195,119</u>	<u>(71,702)</u>	<u>11,715,301</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,223,382</u>	<u>\$ 253,162</u>	<u>\$ (121,861)</u>	<u>\$ 12,354,683</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 52,930	\$ -	\$ -	\$ 52,930
Construction in progress	135,864	961,634	-	1,097,498
Total Capital Assets, Not Being Depreciated:	<u>188,794</u>	<u>961,634</u>	<u>-</u>	<u>1,150,428</u>
Capital assets, being depreciated:				
Infrastructure	13,083,254	261,065	-	13,344,319
Equipment	1,223,040	-	(68,394)	1,154,646
Vehicles	403,426	-	-	403,426
Total Capital Assets, Being Depreciated:	<u>14,709,720</u>	<u>261,065</u>	<u>(68,394)</u>	<u>14,902,391</u>
Less accumulated depreciation for:				
Infrastructure	(4,993,888)	(417,484)	-	(5,411,372)
Equipment	(1,043,936)	(57,472)	68,394	(1,033,014)
Vehicles	(336,626)	(16,908)	-	(353,534)
Total Accumulated Depreciation	<u>(6,374,450)</u>	<u>(491,864)</u>	<u>68,394</u>	<u>(6,797,920)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,335,270</u>	<u>(230,799)</u>	<u>-</u>	<u>8,104,471</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,524,064</u>	<u>\$ 730,835</u>	<u>\$ -</u>	<u>\$ 9,254,899</u>

No interest was capitalized during the year due to immateriality.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

A summary of depreciation expense by function is as follows:

Governmental Activities:	
General government	\$ 68,233
Public safety	223,180
Public works	317,687
Culture and recreation	<u>43,823</u>
Total Governmental Activities Depreciation Expense	<u>\$ 652,923</u>
Business-Type Activities:	
Utility	<u>\$ 491,864</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 491,864</u>

Commitments under construction at September 30, 2012 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Lagoon Project	190,000	140,000	300

NOTE E - INTERFUND TRANSACTIONS

Interfund transactions are for the payment of monthly claims, and to provide funds for debt service and capital outlay. All transfers were routine and consistent with the activities of the fund, and all interfund balances are expected to be repaid within a year. The following is a summary of interfund transactions and balances as of September 30, 2012:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 6,127	\$ 12,560
Nonmajor funds	7,401	-
Utility fund	<u>1,312</u>	<u>2,280</u>
Total Funds	<u>\$ 14,840</u>	<u>\$ 14,840</u>
	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
General fund	\$ 7,220	\$ -
Nonmajor funds	-	130,482
Utility fund	<u>123,262</u>	<u>-</u>
Total Funds	<u>\$ 130,482</u>	<u>\$ 130,482</u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE F - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2012 was as follows:

	Balance at 9/30/2011	Additions	Deletions	Balance at 9/30/2012	Amounts Due Within One Year
Governmental Activities:					
General obligation bonds payable	\$ 8,330,000	\$ -	\$ 430,000	\$ 7,900,000	\$ 455,000
Notes payable	95,516	-	95,516	-	-
Loan payable	-	450,000	450,000	-	-
Leases payable	22,067	-	22,067	-	-
Compensated absences payable	384,825	16,264	-	401,089	-
Governmental Activities Long-Term Liabilities	\$ 8,832,408	\$ 466,264	\$ 997,583	\$ 8,301,089	\$ 455,000
Business-Type Activities:					
Notes payable	\$ 1,963,295	\$ 1,023,532	\$ 136,836	\$ 2,849,991	\$ 165,414
Leases payable	47,527	-	40,891	6,636	6,636
Compensated absences payable	59,226	19,351	-	78,577	-
Business-Type Activities Long-Term Liabilities	\$ 2,070,048	\$ 1,042,883	\$ 177,727	\$ 2,935,204	\$ 172,050

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding as of September 30, 2012 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount	
				Issued	Outstanding
2003	Various	4/1/2003	4/1/2023	\$ 2,000,000	\$ 1,315,000
2003	Various	10/1/2003	10/1/2023	3,500,000	2,455,000
2007	Various	5/31/2007	5/1/2027	5,000,000	4,130,000
Total General Obligation Bonds				\$ 10,500,000	\$ 7,900,000

Notes payable as of September 30, 2012 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount	
				Issued	Outstanding
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	10/31/2002	10/31/2021	288,000	152,620
State of Mississippi - DWSIRLF	3.00%	2/10/2002	10/10/2021	752,086	402,453
State of Mississippi - DWSIRLF	3.00%	2/10/2003	9/10/2022	391,232	228,197
Dept. of Environ. Quality - Water Pollution Control	1.75%	6/1/2003	1/1/2023	508,741	290,032
Dept. of Econ. and Community Dev. - Sewer Cap Loan	2.00%	2/1/2005	2/1/2025	237,400	158,022
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	11/1/2005	11/1/2025	191,116	144,684
State of Mississippi - DWSIRLF	4.00%	5/1/2006	2/1/2026	233,505	332,017
State of Mississippi - DWSIRLF	1.95%	11/5/2012	10/15/2032	1,141,966	1,141,966
Total Business-Type Activities				\$ 3,744,046	\$ 2,849,991

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City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

The aggregate maturities of general obligation bonds and notes for the years subsequent to September 30, 2012 are as follows:

Year ending September 30	Governmental Activities Fund		Business-Type Activities Fund	
	Principal	Interest	Principal	Interest
2013	\$ 455,000	\$ 277,914	\$ 165,414	\$ 53,391
2014	475,000	281,643	193,970	60,332
2015	495,000	260,627	198,739	55,250
2016	515,000	240,320	203,672	50,440
2017	535,000	220,795	211,113	45,529
2018-2022	3,090,000	773,070	1,057,913	148,232
2023-2027	2,335,000	213,815	479,725	55,715
2028-2032	-	-	333,636	17,369
2033	-	-	5,809	9
Total	\$ 7,900,000	\$ 2,268,184	\$ 2,849,991	\$ 486,267

Future minimum capital lease payments consist of payments in 2013 of \$6,636 in principal and \$36 in interest as of September 30, 2012.

Legal debt margin. The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$10,978,493 (the smaller of the two computed margins) as of September 30, 2012.

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2012:		
\$125,856,620 times applicable percentage	\$ 18,878,493	\$ 25,171,324
Less present debt subject to debt limits as of September 30, 2012:		
Total bonds outstanding (excluding proprietary)	<u>(7,900,000)</u>	<u>(7,900,000)</u>
Margin for additional debt	<u>\$ 10,978,493</u>	<u>\$ 17,271,324</u>

In December 2007, the City entered into an agreement with the City of Southaven, Mississippi whereby the City of Southaven will design and construct a sewer system ("the Hurricane Creek Project") by which it will collect and transport wastewater through the City of Hernando to the DeSoto County Regional Utility Authority's sewer system for treatment and disposal. Upon completion, the City of Hernando will operate and maintain the sewer line. Further, the City has agreed to pay the City of Southaven \$1,000,000 over seven years to reimburse the City of Southaven for its portion of the construction costs.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

The City will make the first annual payment to the City of Southaven within sixty days of completion of the project, and then annually on October 1. The project has not substantially begun as of September 30, 2012.

NOTE G – DEFINED BENEFIT PENSION PLAN

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

Funding Policy. At September 30, 2012, PERS members were required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The rate at September 30, 2012 was 14.26% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2012, 2011 and 2010 were \$661,818, \$606,362, and \$600,890 respectively, equal to the required contributions for each year.

NOTE H – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. This exposure is covered by purchase of commercial insurance.

NOTE I – LITIGATION

The City is subject to various legal proceedings in various stages of litigation, the outcome of which is not determinable at this time. Management of the City and its legal counsel do not anticipate that there will be a material effect on the financial statements as a result of the cases presently in progress.

NOTE J – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 13, 2013, which is the date the financial statements were available to be issued.

In October 2012, the City issued General Obligation Refunding Bonds, Series 2012 in the amount of \$5,200,000 for the advance refunding of the City's \$3,500,000 General Obligation Bonds, Series 2003 and \$2,000,000 General Obligation Bonds, Series 2003, as well as the current refunding of three DWSILF loans with a combined original principal balance of \$1,376,823..

In November 2012, the City signed a Series 2012 Tax Anticipation Note in the amount of \$800,000 with an interest rate of .98% which was paid in full in February 2013.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Hernando, Mississippi
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
General property taxes	\$ 2,797,479	\$ 2,797,479	\$ 2,820,462	\$ 22,983
Franchise taxes	385,000	385,000	336,294	(48,706)
Intergovernmental	3,119,500	3,114,905	2,950,757	(164,148)
Licenses and permits	97,700	97,700	205,983	108,283
Charges for services	350,800	350,800	343,602	(7,198)
Fines and forfeitures	295,000	295,000	614,723	319,723
Interest	10,000	10,000	3,816	(6,184)
Miscellaneous	87,000	87,000	100,064	13,064
Total Revenues	7,142,479	7,137,884	7,375,701	237,817
Expenditures				
General government	1,173,255	1,171,705	1,226,750	(55,045)
Public safety	5,551,003	5,551,003	5,279,821	271,182
Public works	301,021	301,021	248,553	52,468
Health and welfare	236,350	240,945	76,745	164,200
Capital outlay	577,000	688,111	487,740	200,371
Debt service	22,350	472,350	470,618	1,732
Total Expenditures	7,860,979	8,425,135	7,790,227	634,908
Excess (deficiency) of revenues over (under) expenditures	(718,500)	(1,287,251)	(414,526)	872,725
Other Financing Sources (Uses)				
Grant revenue	162,500	193,617	122,958	(70,659)
Loan proceeds	-	450,000	450,000	-
Interfund transfers	568,000	568,000	7,220	(560,780)
Sale of assets	3,000	3,000	74,943	71,943
Total Other Financing Sources (Uses)	733,500	1,214,617	655,121	(559,496)
Net Change in Fund Balances	\$ 15,000	\$ (72,634)	240,595	\$ 313,229
Fund Balance - Beginning of Year			1,305,898	
Fund Balance - End of Year			1,546,493	
Adjustments to Conform with GAAP:				
Revenues			(34,359)	
Expenditures			-	
Fund Balance - End of Year (GAAP Basis)			\$ 1,512,134	

Notes to Budgetary Comparison Schedule

Note A Section 21-35-17, Miss. Code Ann. (1972)

The City exceeded the final adopted budget for general government expenditures.

SUPPLEMENTARY INFORMATION

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City of Hernando, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

<u>Federal Grantor/ Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Passed-through Natural Resources Conservation Service Emergency Watershed Protection Program	10.923	68-4423-12-2314	\$ 30,898
Total U.S. Department of Agriculture			<u>30,898</u>
U.S. Department of Housing and Urban Development			
Passed-through Mississippi Development Authority Home Investment Partnerships Program	14.239	1220-M08-SG-280-912	30,022
Total U.S. Department of Housing and Urban Development			<u>30,022</u>
U.S. Department of Transportation			
Passed-through Mississippi Department of Transportation Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	105285-701000	306,990
Recreational Trails Program	20.219	28-RTP-194	100,000
			<u>406,990</u>
Passed-through Mississippi Office of Highway Safety State and Community Highway Safety	20.600	12-TA-286-1	28,489
Total U.S. Department of Transportation			<u>435,479</u>
U.S. Environmental Protection Agency			
Passed-through Mississippi Department of Health *Capitalization Grants for Drinking Water State Revolving Funds	66.468	DWI-L170009-04-2	1,023,532
			<u>1,023,532</u>
U.S. Department of Energy			
Direct Program: ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	N/A	31,117
			<u>31,117</u>
Total All Federal Awards			<u>\$ 1,551,048</u>

* Denotes Major Federal Program

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

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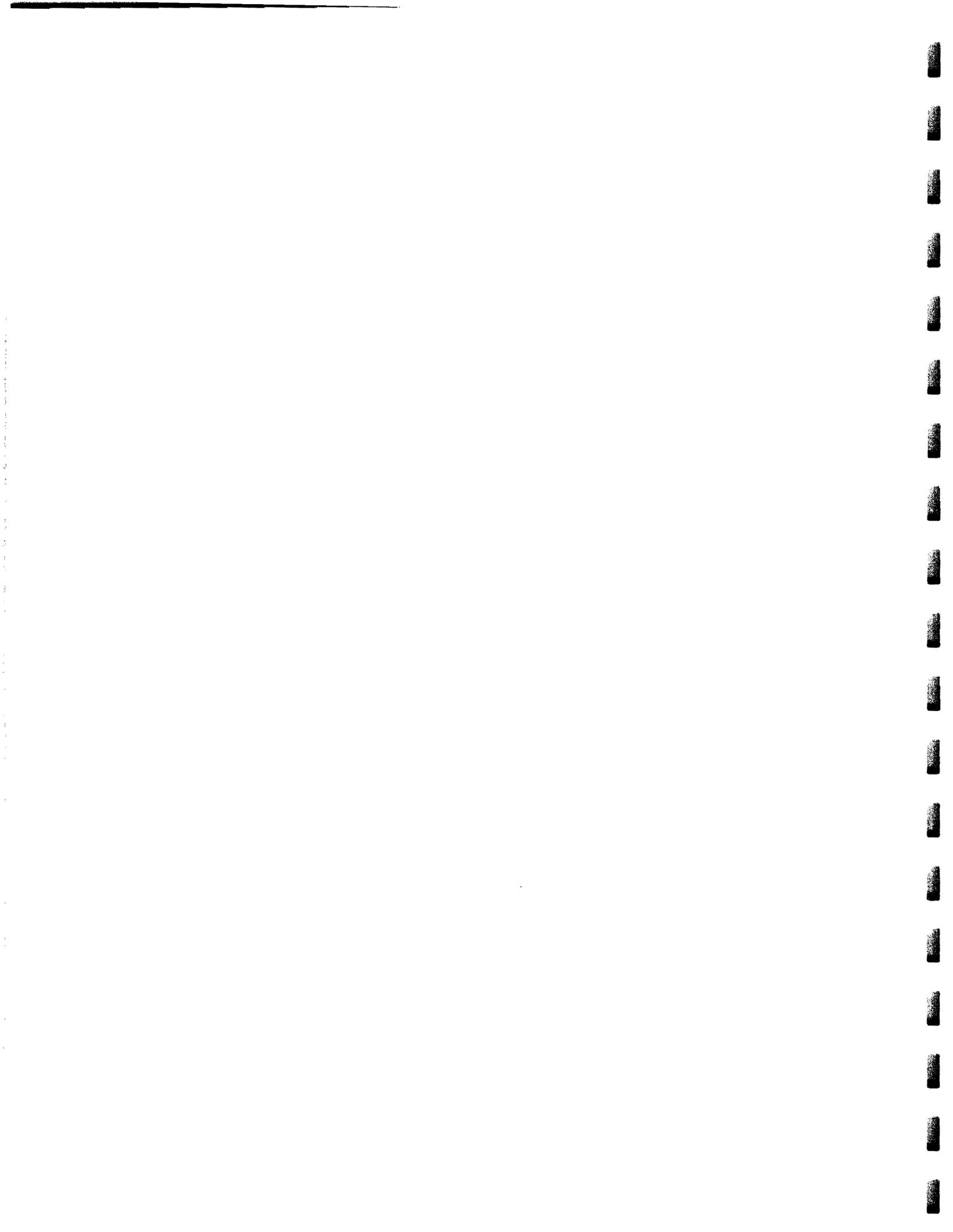
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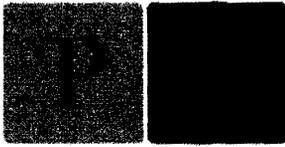
City of Hernando, Mississippi
Surety Bond Coverage
September 30, 2012

Surety bonds in force at September 30, 2012 were as follows:

<u>Name</u>	<u>Position</u>	<u>Insurance Company</u>	<u>Bond</u>
Willis W. Johnson	Mayor	Travelers Casualty and Surety Co.	\$100,000
Sonny Bryant	Alderman	Brierfield Insurance Co.	\$100,000
Gary N. Higdon	Alderman	Brierfield Insurance Co.	\$100,000
Jeff Hobbs	Alderman	Brierfield Insurance Co.	\$100,000
Sam Lauderdale	Alderman	Brierfield Insurance Co.	\$100,000
Marcus Manning	Alderman	Brierfield Insurance Co.	\$100,000
Andrew Miller	Alderman	Brierfield Insurance Co.	\$100,000
James P. Tipton, Jr	Alderman	Brierfield Insurance Co.	\$100,000
Katie Subia	City Clerk	Travelers Casualty and Surety Co.	\$50,000
Cassandra E. Perry	Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Robin Luttrell	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Donna Riales	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Kristin Duggan	Planning Clerk	Travelers Casualty and Surety Co.	\$50,000
Michelle Dunn	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Jackie Edwards	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Julie Harris	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Gwen House	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Dot Hughes	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Shelly Johnstone	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Marty Pickard	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Denise Stringfellow	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Debra Tipton	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Melissa Van Beurden	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
James M. Riley	Police Chief	Travelers Casualty and Surety Co.	\$50,000
Shane Ellis	Asst. Police Chief	Travelers Casualty and Surety Co.	\$50,000
Tarra Davis	Police Officer	Travelers Casualty and Surety Co.	\$50,000
Dewayne Williams	Park Director	Travelers Casualty and Surety Co.	\$50,000
Melissa Zizmann	Asst. Park Director	Travelers Casualty and Surety Co.	\$50,000

SPECIAL REPORTS





WILLIAM & DELOACH, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

JOHN J. WILLIAMS	BOB M. DELOACH
JEFF W. DELOACH	HERNANDO, MISSISSIPPI 39042
KAROLYN JONES	(601) 291-1000
KYLA S. WILLIAMS	(601) 291-1188 FAX

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

Mayor and Board of Aldermen
City of Hernando
Hernando, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi ("the City") as of and for the year ended, September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

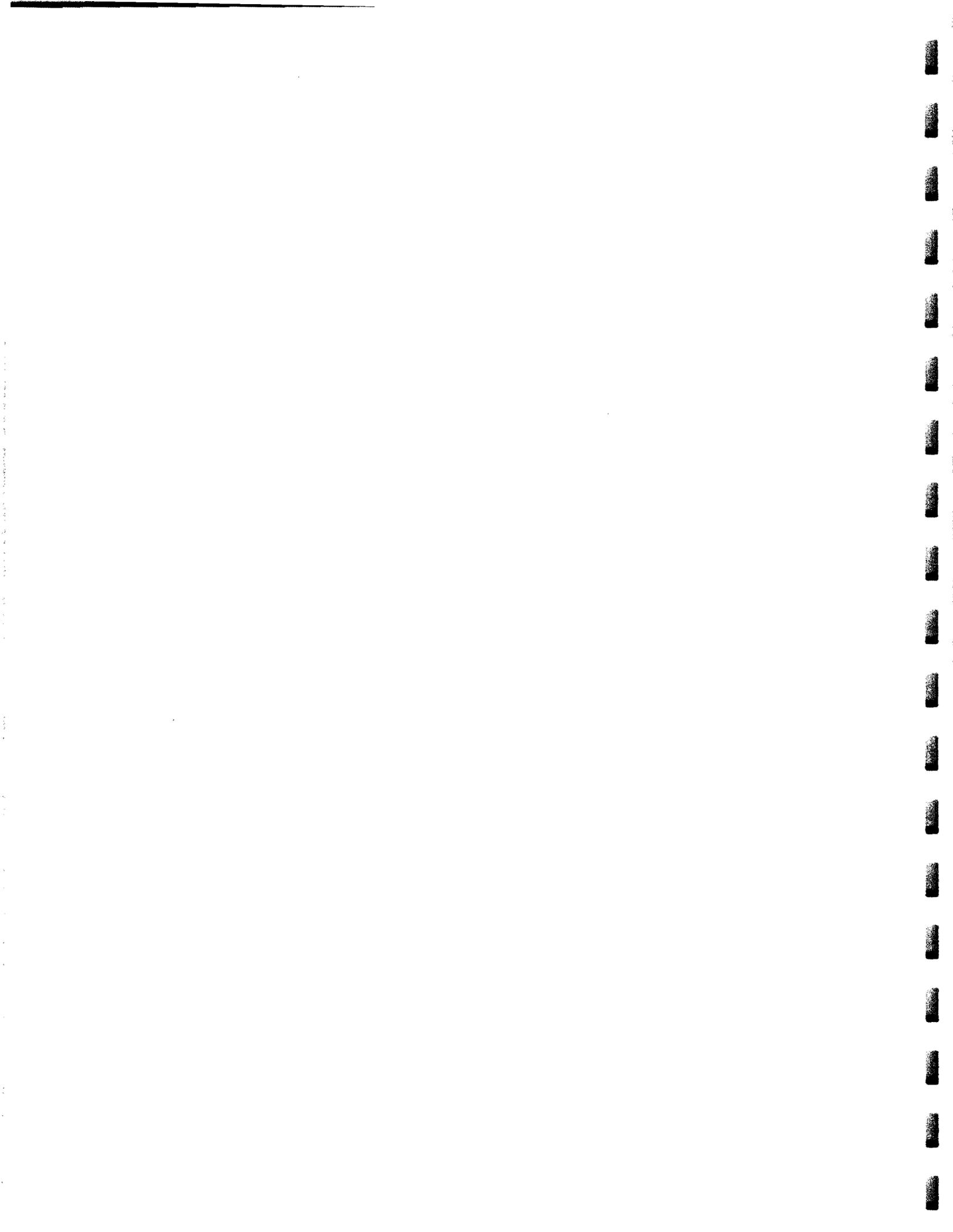
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as 12-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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We noted certain other matters that we reported to management of the City in a separate letter dated June 13, 2013

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

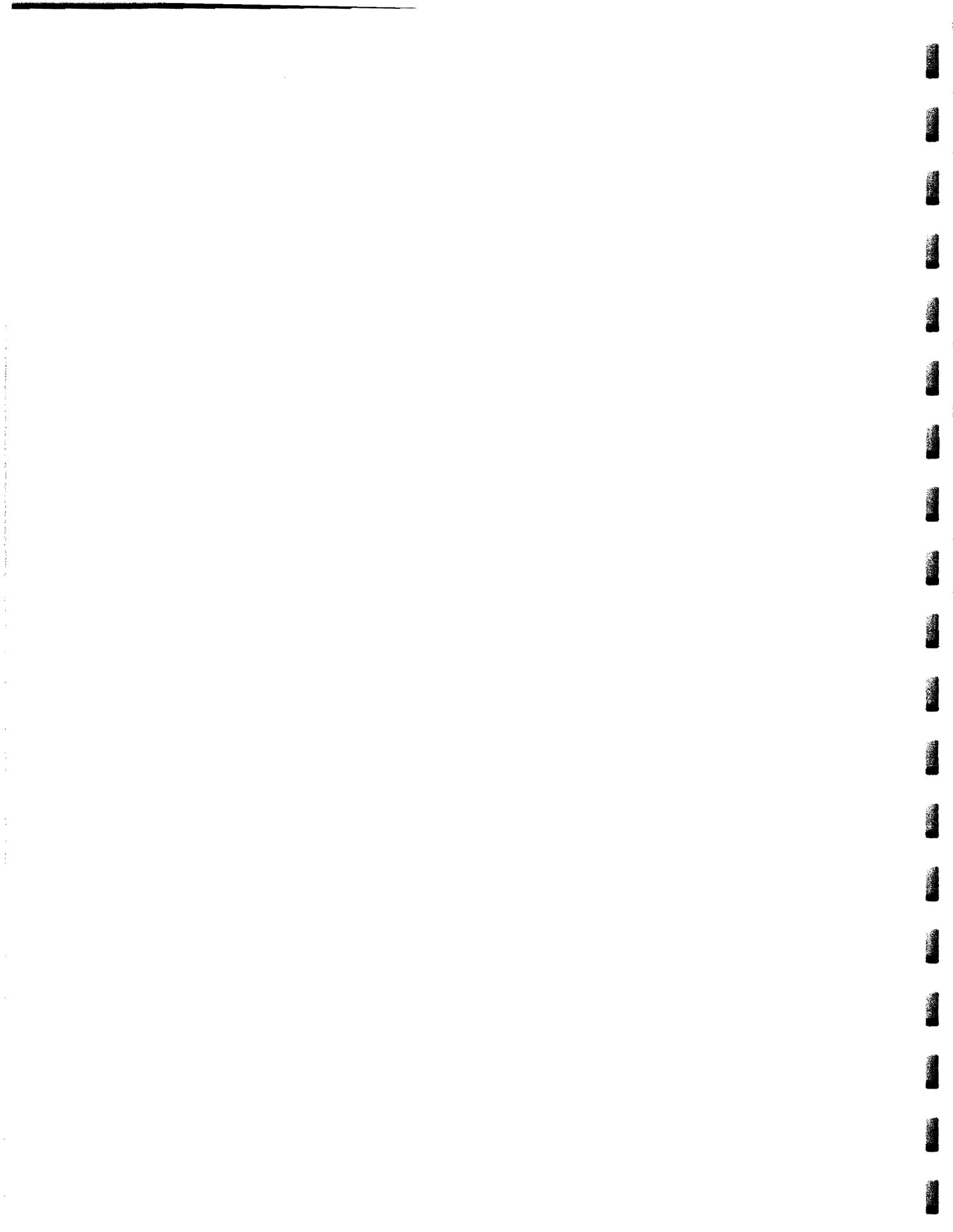
This report is intended solely for the information and use of management, the Board of Aldermen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC

Hernando, Mississippi

June 13, 2013





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

Mayor and Board of Alderman
City of Hernando, Mississippi

Compliance

We have audited the compliance of the City of Hernando, Mississippi ("the City"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2012. The City's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

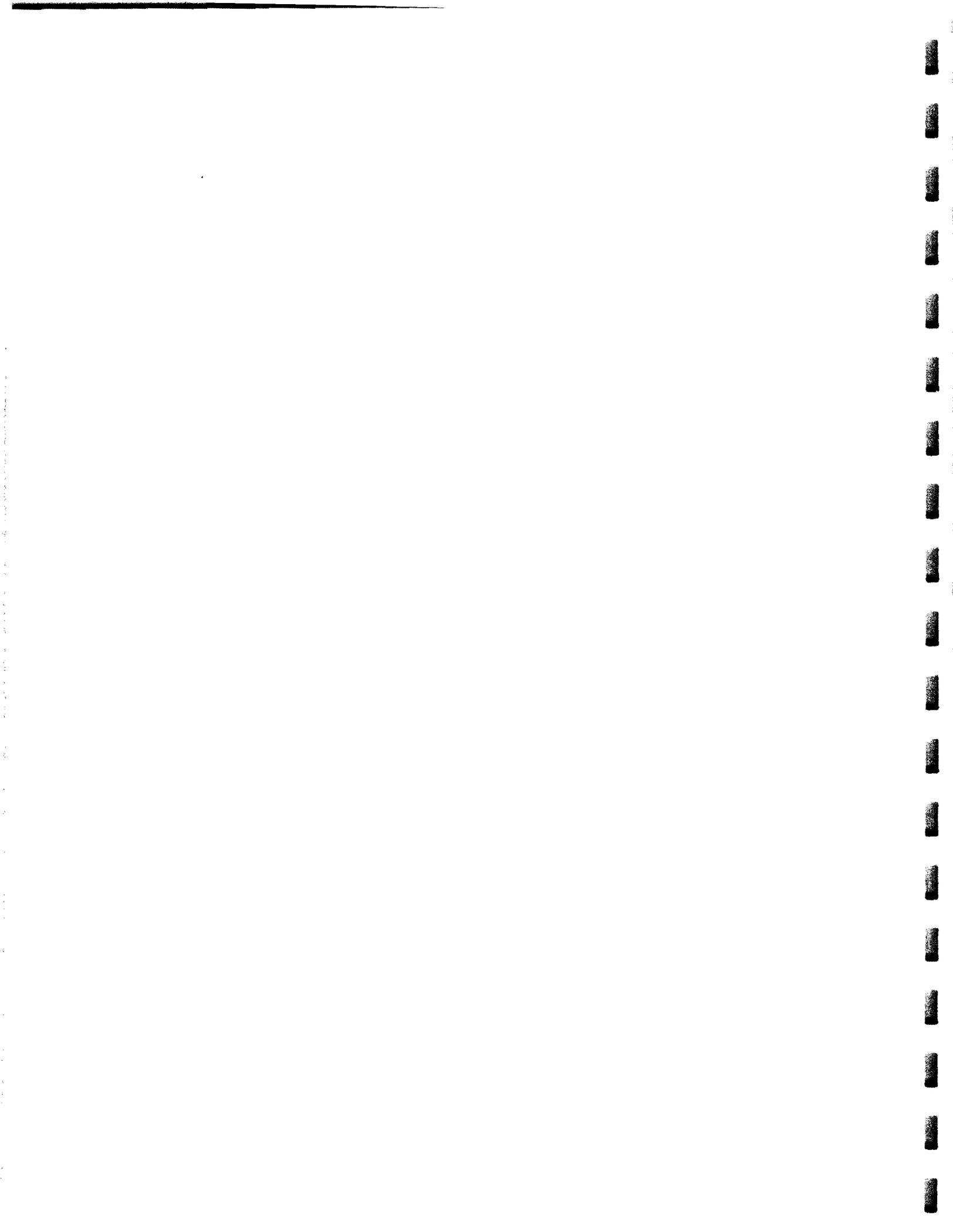
In our opinion, the City, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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A deficiency in a city's 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

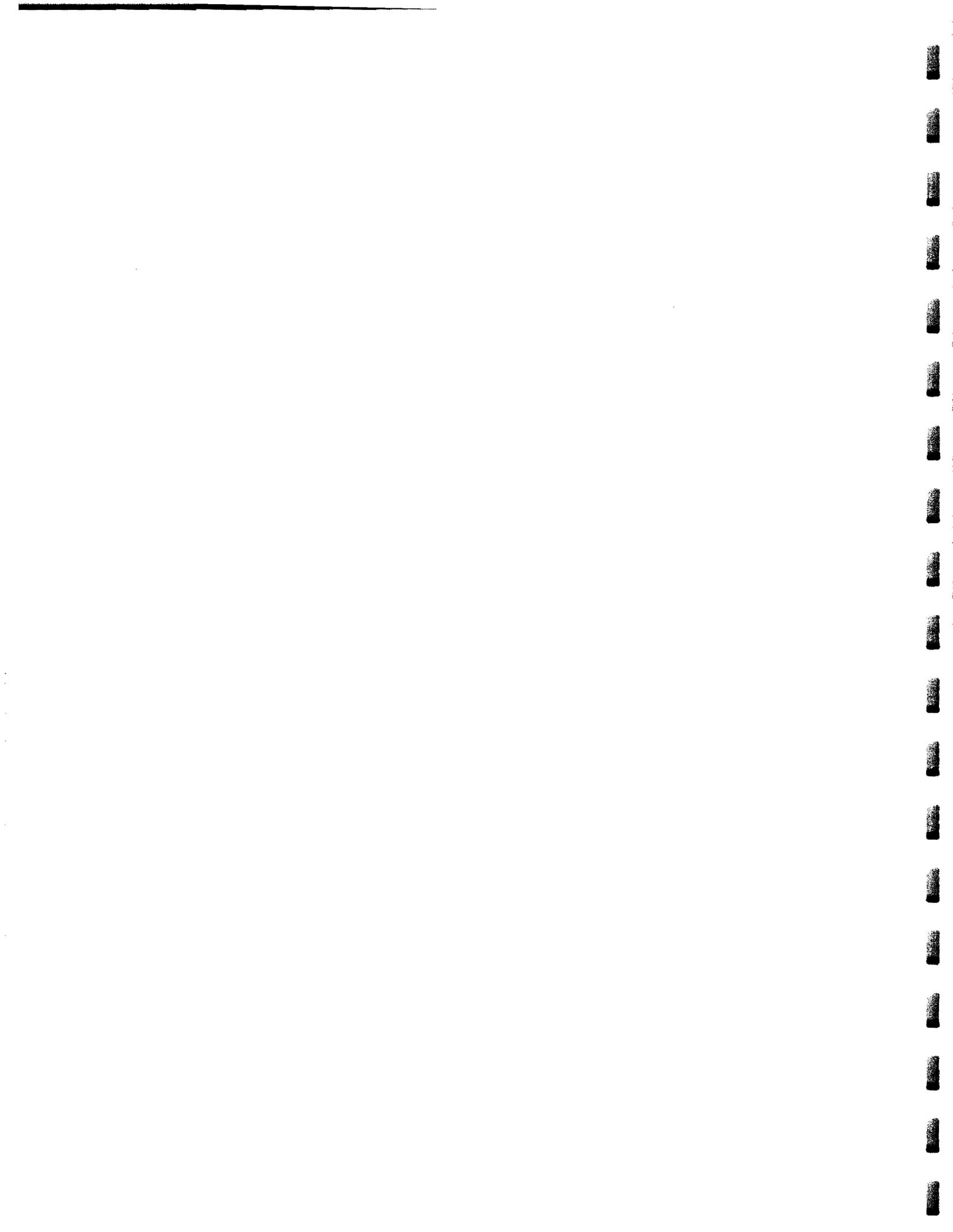
This report is intended solely for the information and use of management, the Board of Alderman, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

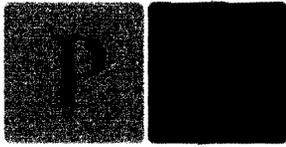
Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Hernando, Mississippi

June 13, 2013





WILLIAMS, PITTS & BEARD, PLLC
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 WITH STATE LAWS AND REGULATIONS**

Mayor and Board of Aldermen
 City of Hernando, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi ("the City") as of and for the year ended September 30, 2012, and have issued our report thereon dated June 13, 2013. 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 *Government Auditing Standards*.

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 an 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 the following material instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

1. Finding- Section 21-35-17, Miss. Code Ann. (1972) requires that the governing authorities shall not approve any claim and the city clerk shall not issue any warrant for any expenditure in excess of said detailed budget appropriations as finally adopted, or as revised under the provisions of this chapter, except upon an order of a court of competent jurisdiction or for an emergency, as provided in this chapter. See the budgetary comparison schedule on page 36 for expenditures in excess of budgeted appropriations.

Recommendation- The governing authorities and City Clerk should ensure no expenditures exceed the final adopted budget as required in Section 21-35-17, Miss. Code Ann. (1972).

Response- We are changing our process to better keep track of and record revenues and expenses that were not budgeted for.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the finding in this report to ensure that corrective action has been taken.

The City's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for the information of the City's management and the 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.

Williams, Pitts & Beard, PLLC
 Williams, Pitts & Beard, PLLC
 Hernando, Mississippi
 June 13, 2013

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City of Hernando, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2012

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|----------------------|
| 1. | Type of auditor's report issued on the financial statements | <u>Unqualified</u> |
| 2. | Material noncompliance relating to the financial statements | <u>No</u> |
| 3. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | <u>Yes</u> |
| | b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u>None Reported</u> |

Federal Awards:

- | | | |
|-----|---|----------------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | <u>No</u> |
| | b. Significant deficiency identified that is not considered to be a material weakness? | <u>None Reported</u> |
| 5. | Type of auditors' report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | <u>No</u> |
| 7. | Federal programs identified as major: | |
| | a. Capitalization Grants for Drinking Water State Revolving Funds, CFDA# 66.468 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | <u>\$300,000</u> |
| 9. | Auditee qualified as a low-risk auditee? | <u>No</u> |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133? | <u>No</u> |



City of Hernando, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2012

Section 2: Financial Statements Findings

Material Weakness

12-1 Criteria: Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles ("GAAP"). Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition: The City required material audit adjustments in order to present the financial statements in accordance with GAAP.

Effect: The following audit adjustments were required in order to present the City's financial statements in accordance with GAAP:

- Prepaid expenses
- Grant receivables
- Fund balance
- Utility and ambulance receivables
- Accounts payable
- Notes payable

Recommendation: Management should ensure that the financial statements are being prepared in accordance with GAAP.

Response: We are making changes in our process to prevent needing these adjustments at the end of the year.

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