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The City of Hernando
475 West Commerce Street
Hernando, MS 38632
662-429-9092/662-429-9099
www.cityofhernando.org

August 10, 2015

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

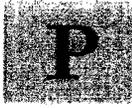
Re: Annual Municipal Audit

Accompanying this letter is a copy of the annual audit of the City of Hernando, Mississippi, for the fiscal year ended September 30, 2014. In connections with this audit, 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,

Katie Harbin
City Clerk

4/13/15 2:13



CERTIFIED PUBLIC ACCOUNTANTS

Board of Alderman and Management
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 the City of Hernando, Mississippi as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Hernando, Mississippi's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hernando, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hernando, Mississippi's internal control.

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

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 following deficiency in internal control to be a material weakness:

14-1 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 relies on external auditors for assistance with the preparation of external financial statements and related note disclosures in conformity with GAAP. Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered part of the City's internal control structure. The City does not have documented procedures in place that prevent or detect material misstatements in the external financial statements. However, the City's management reviewed and approved all adjustments.

Effect: Due to this oversight, the external auditors discovered and proposed material adjusting journal entries to the financial statements. Also, the lack of effective internal control over financial statements could result in misstatements of accounts on the City's financial statements.

Cause: The City has not designated internal control procedures or provided staffing to prepare external financial statements and, consequently, relies on its external auditors for this function.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

14-2 Criteria: Due to and due from accounts should be in balance.

Condition: Due to and due from accounts were not reconciled monthly or annually.

Effect: Expenses were understated by \$54,952.

Cause: Controls over balancing due to and due from accounts are not in place.

Recommendation: Control procedures should be implemented to verify that due to and due from accounts are in balance on a monthly basis before the budget to actual report is provided to the board of aldermen.

Response: The City will implement control procedures relating to the balancing of the due to and due from accounts.

This communication is intended solely for the information and use of management, Board of Aldermen, and others within City of Hernando, Mississippi, 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 responses to the material weaknesses 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
July 10, 2015



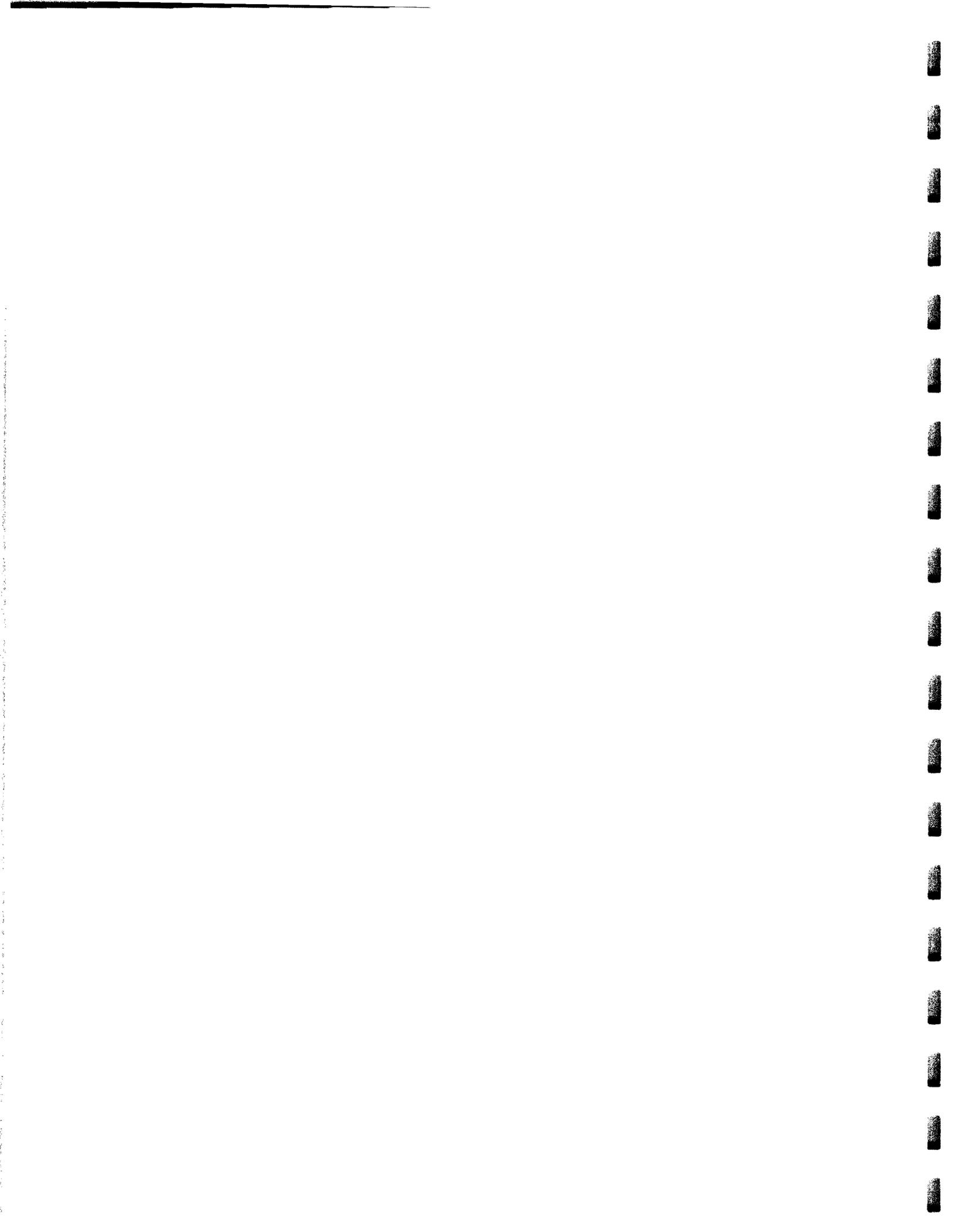
**City of Hernando, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2014**

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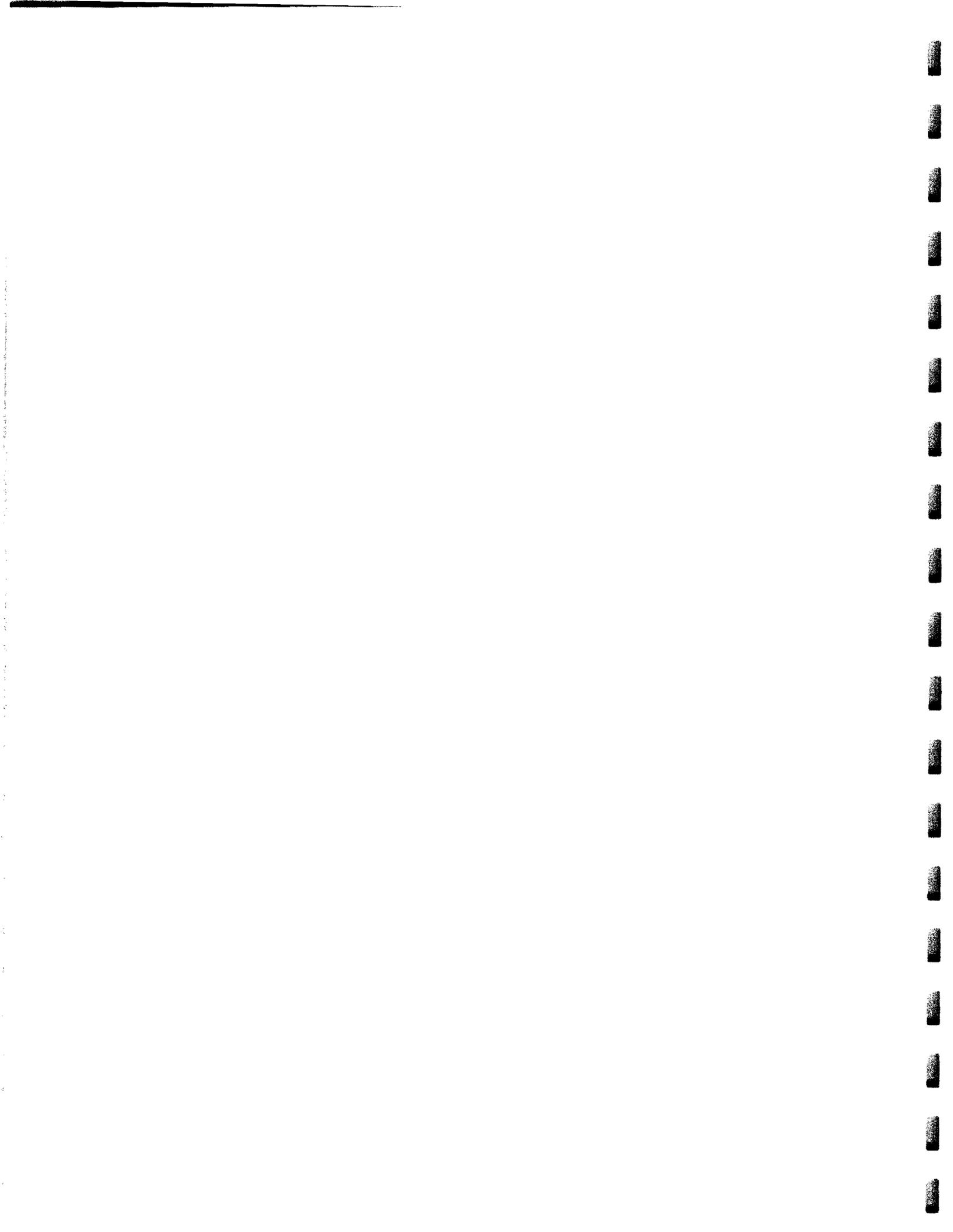
CERTIFIED PUBLIC ACCOUNTANTS



City of Hernando, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Board of Aldermen
City of Hernando, Mississippi

Report on the Financial Statements

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 as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi, as of September 30, 2014, and the respective changes in financial



position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-viii and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hernando, Mississippi's basic financial statements. The schedule of surety bonds for city officials is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule for surety bonds for city officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2015, on our consideration of the City of Hernando, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hernando, Mississippi's internal control over financial reporting and compliance.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
July 10, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2014
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, 2014. 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 Position 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 position. 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, park, land 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, 2014
Unaudited

The City maintains several governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Debt Service 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 revenue information for the Water, Sewer, and Sanitation funds. The 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 13-25 of this report.

BRIEF DISCUSSION OF BASIC FINANCIAL STATEMENTS

Net position and net position 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, 2014 by \$4,707,105. The Majority of the City's net position is net investment in capital assets and unrestricted net position 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 \$27,144 is restricted for specific purposes. Unrestricted net position increased by \$8,010, and restricted net position decreased in the amount of \$865,246 and net investment in capital assets decreased by \$1,386,132.

As of the close of the current fiscal year the City of Hernando's governmental funds reported combined ending fund balances of \$524,084 and a total liabilities and fund balances combined of \$5,278,539.

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2014
Unaudited

CONDENSED COMPARATIVE FINANCIAL STATEMENTS

The City's combined net position in 2014 decreased 17% from a year ago. The combined net position decreased from \$12,757,631 in 2013 to \$10,514,263 in 2014, which is a decrease of \$2,243,368.

| NET POSITION | | | | | | |
|--------------------------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|---------------------|
| | 2014 | 2013 | 2014 | 2013 | | |
| | Governmental | Governmental | Business | Business | 2014 Total | 2013 Total |
| | Activities (All | Activities (All | Type | Type | | |
| | other funds) | other funds) | Activities | Activities | | |
| | | | (Utility Fund) | (Utility Fund) | | |
| ASSETS | | | | | | |
| Current and Other Assets | \$4,887,396 | \$ 5,783,776 | \$1,239,463 | \$ 1,561,714 | \$ 6,126,859 | \$ 7,345,490 |
| Capital Assets, Net | 12,389,985 | 12,447,425 | 9,231,229 | 10,571,508 | 21,621,214 | 23,018,933 |
| TOTAL ASSETS | 17,277,381 | 18,231,201 | 10,470,692 | 12,133,222 | 27,748,073 | 30,364,423 |
| LIABILITIES | | | | | | |
| Current and Other Liabilities | 592,931 | 4,273,912 | 486,578 | 996,392 | 1,079,509 | 5,270,304 |
| Long Term Liabilities: | | | | | | |
| Due Within One Year | 706,668 | 255,515 | 294,489 | 124,185 | 1,001,157 | 379,700 |
| Due in More than One Year | 7,459,830 | 7,907,010 | 3,882,467 | 4,049,778 | 11,342,297 | 11,956,788 |
| TOTAL LIABILITIES | 8,759,429 | 12,436,437 | 4,663,534 | 5,170,355 | 13,422,963 | 17,606,792 |
| NET POSITION | | | | | | |
| Invest in Capital Assets Net of Debt | 4,418,233 | 4,456,930 | 5,071,540 | 6,418,975 | 9,489,773 | 10,875,905 |
| Restricted: | | | | | | |
| Capital Projects | - | 847,755 | - | - | - | 847,755 |
| Special Revenue | - | 35,199 | - | - | - | 35,199 |
| Debt Services | 11,871 | 9,436 | - | - | 11,871 | 9,436 |
| Economic development and assistance | 15,273 | | | | 15,273 | |
| Unrestricted | 261,728 | 445,444 | 735,618 | 543,892 | 997,346 | 989,336 |
| TOTAL NET POSITION | \$4,707,105 | \$ 5,794,764 | \$5,807,158 | \$ 6,962,867 | \$10,514,263 | \$12,757,631 |

Net Position of the City's governmental activities has decreased by 18% (\$5,794,764 in 2013 compared to \$4,707,105 in 2014). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$445,444 at September 30, 2013 to \$261,761 at the end of this year which is a decrease of 41%.

Net Position of the City's business type activities (utility fund) decreased by 16% (\$5,807,158 compared to \$6,962,867). Unrestricted net position changed from \$543,892 at September 30, 2013 to \$735,618 at the end of this year, which is an increase of 35%.

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2014
Unaudited

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

The City's revenues have increased in sales tax, franchise fees 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 Position 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.

| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
|---|---------------------|---------------------|--------------------|---------------------|---------------------|----------------------|
| | Governmental | Governmental | Business- | Business- | 2013 | 2014 |
| | Activities | Activities | Type | Type | Total | Total |
| | Activities | Activities | Activities | Activities | Total | Total |
| Revenues | | | | | | |
| Taxes - Property | \$4,071,342 | \$ 4,113,587 | \$ - | \$ - | \$ 4,071,342 | \$ 4,113,587 |
| Sales and Use | 2,835,915 | 2,958,636 | - | - | 2,835,915 | 2,958,636 |
| Other Taxes | 372,841 | 455,091 | - | - | 372,841 | 455,091 |
| Forfeitures | 126,317 | - | - | - | 126,317 | - |
| Grants and contributions not restricted to specific programs | 224,381 | 240,364 | - | - | 224,381 | 240,364 |
| Operating Grants & Contributions | 33,827 | 216,837 | - | - | 33,827 | 216,837 |
| Capital Grants & Contributions | 74,916 | 2,628 | 239,458 | 339,126 | 314,374 | 341,754 |
| Charges for services | 1,094,571 | 1,010,484 | 3,562,976 | 4,242,295 | 4,657,547 | 5,252,779 |
| Interest | 6,294 | 3,843 | 1,398 | 1,385 | 7,692 | 5,228 |
| Interfund transfers | (57,300) | - | 57,300 | - | - | - |
| Miscellaneous | 151,542 | 200,769 | 12,024 | 120,547 | 163,566 | 321,316 |
| Sale of assets | 33,550 | 42,817 | 9,619 | 697 | 43,169 | 43,514 |
| Special Item - CIP | - | - | - | (1,550,078) | - | (1,550,078) |
| Total revenues | 8,968,196 | 9,245,056 | 3,882,775 | 3,153,972 | 12,850,971 | 12,399,028 |
| Total expenses | (9,473,000) | (10,186,698) | (4,229,857) | (4,309,681) | (13,702,857) | (14,496,379) |
| Change in net position | (504,804) | (941,642) | (347,082) | (1,155,709) | (851,886) | (2,097,351) |
| Net position-beginning as previously reported | 6,299,568 | 5,794,764 | 7,309,949 | 6,962,867 | 13,609,517 | 12,757,631 |
| Prior Period Adjustment | - | (146,017) | - | - | - | (146,017) |
| Net position-beginning, as restated | - | 5,648,747 | - | - | - | 12,611,614 |
| Net position-end of year | \$5,794,764 | \$4,707,105 | \$6,962,867 | \$ 5,807,158 | \$12,757,631 | \$ 10,514,263 |

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2014
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 29.

During the fiscal year ending September 30, 2014, the City amended its budget twice. The total dollar amount of the budget for all funds was increased in the amount of \$1,331,095.00, which was in the General Fund, Culture and Recreation Fund, Forfeiture Fund and Utility Fund. The amendment was necessary in the General Fund for revenues due to subdivision bonds recalled, grant received, and a Tax Anticipation Loan, and receiving more revenues. Expenses in the General Fund were increased and some decreased to account for repaying the Tax Anticipation Loan, purchasing Police car equipment, for the Subdivision Bond recalled money being spent to repair subdivisions, grants, outside consultant for Planning and a special election. The Culture and Recreation Fund was amended to increase and decrease some revenues and expenses to cover for program revenues and expenses not budgeted for. In the Utility Fund, revenue and expenses were increased to cover for the lagoon reclamation project, Shannon Lumber project, sewer and drainage repairs.

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 \$1,137,867 for the General Fund and at the end of the year (GAAP basis) was \$393,101 which was a decrease of \$744,766.00. 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, 2014
Unaudited

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 9-30-13 | FYE 9-30-14 | Difference |
|-----------------------------------|---------------------|----------------------|--------------------|
| Land | \$ 581,339 | \$ 575,939 | \$ (5,400) |
| Buildings and improvements | 5,627,896 | 5,628,297 | 401 |
| Equipment | 2,355,647 | 2,045,837 | (309,810) |
| Vehicles | 1,061,605 | 1,583,289 | 521,684 |
| Infrastructure | 8,832,713 | 8,832,713 | 0 |
| Construction in progress | 9,293 | 53,105 | 43,812 |
| Improvements other than buildings | 463,979 | 463,979 | 0 |
| Accumulated depreciation | (6,485,047) | (6,793,174) | (308,127) |
| | <u>\$12,447,425</u> | <u>\$ 12,389,985</u> | <u>\$ (57,440)</u> |

Changes in General Fixed Assets can be found on page 20 and 21. In the category of Governmental Activities capital assets, net, decreased from \$12,447,425 at September 30, 2013 to \$12,389,985 at September 30, 2014. This is a decrease of \$57,440 after depreciation. In the category of Business-type Activities capital assets, net, decreased from \$10,571,508 at September 30, 2013 to \$9,231,229 at September 30, 2014. This is a decrease of \$1,340,279 after depreciation.

General Long-Term Debt is located on pages 22 and 23. As of September 30, 2014, the City had \$7,660,000 in outstanding General Obligation Bonds, which is \$610,000 less than last year, and \$3,277,052 in notes payable, which is \$106,307.00 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.

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 2014, the City assessed value of property increased 4.36% and the sales tax revenue has gone up 2.9% 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 94 sewer customers and 44 water customers. Since FYE 9-30-2000 the City has added 2,988 sewer customers and 1,882 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 quality

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2014
Unaudited

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 farmers market that was named fifth favorite in the nation among large markets and best market in the State. Our park facilities include community center, tennis courts, basketball courts, football field, soccer fields, exercise equipment, walking trails, pavilions and playgrounds. We have made an effort to provide facilities and programs to accommodate all ages. The City of Hernando has been given the "Playful City USA" designation for the seventh year as of 2014. Hernando was given the "Healthiest Hometown" Award from Blue Cross Blue Shield and the City has been designated a "Tree City USA" for four years now. Hernando has been promoting a healthier city by improving and extending the sidewalks and adding walking and biking trails on the streets. We are a "Let's Move" and "Excel By 5" Community. The City of Hernando has been featured on CNN Small Hometown series and the ABC "Everyday Health" program.

Hernando has kept the property taxes at a reasonable rate, while continuing to provide the needed services. In 2011 CNN named us in Money Magazine as one of the top 100 places to live. 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 Position
September 30, 2014

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-------------------|
| Assets | | | |
| Cash | \$ 611,668 | 602,160 | 1,213,828 |
| Property tax receivable | 3,810,847 | - | 3,810,847 |
| Accounts receivable (net of allowance for uncollectibles of \$1,325,444 and \$238,055) | 53,147 | 568,269 | 621,416 |
| Intergovernmental receivables | 401,504 | - | 401,504 |
| Internal balances | (64,853) | 64,853 | - |
| Prepaid items | 75,083 | 4,181 | 79,264 |
| Capital assets: | | | |
| Land and construction in progress | 629,044 | 802,506 | 1,431,550 |
| Other capital assets, net | 11,760,941 | 8,428,723 | 20,189,664 |
| Total Assets | <u>17,277,381</u> | <u>10,470,692</u> | <u>27,748,073</u> |
| Liabilities | | | |
| Accounts payable | 403,959 | 73,225 | 477,184 |
| Accrued expenses | 188,972 | 27,919 | 216,891 |
| Customer deposits | - | 363,934 | 363,934 |
| Retainage payable | - | 21,500 | 21,500 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 706,668 | 294,489 | 1,001,157 |
| Due in more than one year: | | | |
| Capital debt | 7,265,084 | 3,865,200 | 11,130,284 |
| Non-capital debt | 194,746 | 17,267 | 212,013 |
| Total Liabilities | <u>8,759,429</u> | <u>4,663,534</u> | <u>13,422,963</u> |
| Deferred Inflows of resources | | | |
| Property tax for future reporting period | 3,810,847 | - | 3,810,847 |
| Total deferred inflows of resources | <u>3,810,847</u> | <u>-</u> | <u>3,810,847</u> |
| Net Position | | | |
| Net investment in capital assets | 4,418,233 | 5,071,540 | 9,489,773 |
| Restricted for: | | | |
| Debt service | 11,871 | - | 11,871 |
| Economic development and assistance | 15,273 | - | 15,273 |
| Unrestricted | 261,728 | 735,618 | 997,346 |
| Total Net Position | <u>\$ 4,707,105</u> | <u>5,807,158</u> | <u>10,514,263</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, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities | | | | | | | |
| General government | \$ 1,978,290 | 266,677 | 190,477 | - | (1,521,136) | - | (1,521,136) |
| Public safety | 6,234,255 | 246,594 | 26,360 | - | (5,961,301) | - | (5,961,301) |
| Public works | 649,716 | - | - | 2,628 | (647,088) | - | (647,088) |
| Health and welfare | 161,109 | 218,933 | - | - | 57,824 | - | 57,824 |
| Culture and recreation | 879,995 | 278,280 | - | - | (601,715) | - | (601,715) |
| Interest on long-term debt | 283,333 | - | - | - | (283,333) | - | (283,333) |
| Total Governmental Activities | 10,186,698 | 1,010,484 | 216,837 | 2,628 | (8,956,749) | - | (8,956,749) |
| Business-type activities | | | | | | | |
| Utility | 4,245,717 | 4,242,295 | - | 339,126 | - | 335,704 | 335,704 |
| Interest on long-term debt | 63,964 | - | - | - | - | (63,964) | (63,964) |
| Total Business-type Activities | 4,309,681 | 4,242,295 | - | 339,126 | - | 271,740 | 271,740 |
| Total Government | \$ 14,496,379 | 5,252,779 | 216,837 | 341,754 | (8,956,749) | 271,740 | (8,685,009) |
| General revenues | | | | | | | |
| Property taxes | | | | | \$ 4,113,587 | - | 4,113,587 |
| Grants and contributions not restricted to specific programs | | | | | 240,364 | - | 240,364 |
| Sales taxes | | | | | 2,958,636 | - | 2,958,636 |
| Franchise taxes | | | | | 455,091 | - | 455,091 |
| Unrestricted interest income | | | | | 3,843 | 1,385 | 5,228 |
| Unrestricted investment income | | | | | 42,817 | 697 | 43,514 |
| Miscellaneous | | | | | 200,769 | 120,547 | 321,316 |
| Special item | | | | | - | (1,550,078) | (1,550,078) |
| Total General Revenues | | | | | 8,015,107 | (1,427,449) | 6,587,658 |
| Changes in Net Position | | | | | (941,642) | (1,155,709) | (2,097,351) |
| Net Position - Beginning, as previously reported | | | | | 5,794,764 | 6,962,867 | 12,757,631 |
| Prior period adjustment | | | | | (146,017) | - | (146,017) |
| Net Position - Beginning, as restated | | | | | 5,648,747 | 6,962,867 | 12,611,614 |
| Net Position - Ending | | | | | \$ 4,707,105 | 5,807,158 | 10,514,263 |

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

City of Hernando, Mississippi
Balance Sheet - Governmental Funds
September 30, 2014

| | <u>Major Funds</u> | | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|------------------------------|---|---|
| | <u>General Fund</u> | <u>Debt Service Fund</u> | | |
| Assets | | | | |
| Cash | \$ 503,495 | 17,919 | 90,254 | 611,668 |
| Property tax receivable | 2,706,668 | 755,748 | 348,431 | 3,810,847 |
| Intergovernmental receivables | 389,703 | - | 11,801 | 401,504 |
| Accounts receivable (net of allowance for uncollectibles of \$1,325,444) | 19,478 | - | 1,000 | 20,478 |
| Due from other funds | 208,392 | 125,053 | 25,514 | 358,959 |
| Prepaid items | 74,857 | - | 226 | 75,083 |
| Total Assets | <u>\$ 3,902,593</u> | <u>898,720</u> | <u>477,226</u> | <u>5,278,539</u> |
| Liabilities | | | | |
| Accounts payable | \$ 357,121 | - | 46,838 | 403,959 |
| Accrued expenses | 109,511 | - | 6,326 | 115,837 |
| Due to other funds | 336,192 | 57,966 | 29,654 | 423,812 |
| Total Liabilities | <u>\$ 802,824</u> | <u>57,966</u> | <u>82,818</u> | <u>943,608</u> |
| Deferred Inflows of resources | | | | |
| Unavailable revenue - property taxes | 2,706,668 | 755,748 | 348,431 | 3,810,847 |
| Total deferred inflows of resources | <u>\$ 2,706,668</u> | <u>755,748</u> | <u>348,431</u> | <u>3,810,847</u> |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Prepaid items | 74,857 | - | 226 | 75,083 |
| Restricted for: | | | | |
| Debt service | - | 85,006 | - | 85,006 |
| Economic development and assistance | - | - | 15,273 | 15,273 |
| Assigned to: | | | | |
| General government | 507,739 | - | - | 507,739 |
| Culture and recreation | - | - | 13,710 | 13,710 |
| Unassigned | (189,495) | - | 16,768 | (172,727) |
| Total Fund Balances | <u>\$ 393,101</u> | <u>85,006</u> | <u>45,977</u> | <u>524,084</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,902,593</u> | <u>898,720</u> | <u>477,226</u> | <u>5,278,539</u> |

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

City of Hernando, Mississippi
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2014

| | Amount |
|---|----------------------------|
| Total Fund Balance - Governmental Funds | \$ 524,084 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$6,793,174. | 12,389,985 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 32,669 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of: | |
| Long-term debt | (7,971,752) |
| Compensated absences | (194,746) |
| Accrued interest | (73,135) |
| | (8,239,633) |
| Total Net Position - Governmental Activities | <u>\$ 4,707,105</u> |

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

City of Hernando, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2014

| | <u>Major Funds</u> | | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|------------------------------|---|---|
| | <u>General Fund</u> | <u>Debt Service Fund</u> | | |
| Revenues | | | | |
| Property taxes | \$ 2,980,414 | 780,639 | 352,534 | 4,113,587 |
| Sales taxes | 2,958,636 | - | - | 2,958,636 |
| Franchise taxes | 448,414 | - | 6,677 | 455,091 |
| Intergovernmental revenues | 457,201 | - | 2,628 | 459,829 |
| Charges for services | 732,947 | - | 283,707 | 1,016,654 |
| Interest income | 2,861 | 642 | 340 | 3,843 |
| Miscellaneous revenues | 147,560 | - | 53,209 | 200,769 |
| Total Revenues | <u>7,728,033</u> | <u>781,281</u> | <u>699,095</u> | <u>9,208,409</u> |
| Expenditures | | | | |
| General government | 2,558,579 | - | 80,147 | 2,638,726 |
| Public safety | 5,858,085 | - | 995 | 5,859,080 |
| Public works | 352,318 | - | - | 352,318 |
| Health and welfare | 124,111 | 1,881 | 35,109 | 161,101 |
| Culture and recreation | - | - | 817,384 | 817,384 |
| Debt service: | | | | |
| Principal | 574,661 | 521,932 | 12,150 | 1,108,743 |
| Interest | 27,362 | 248,457 | 938 | 276,757 |
| Total Expenditures | <u>9,495,116</u> | <u>772,270</u> | <u>946,723</u> | <u>11,214,109</u> |
| Excess (Deficiency) of Revenues over (Under) Expenditures | <u>(1,767,083)</u> | <u>9,011</u> | <u>(247,628)</u> | <u>(2,005,700)</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of capital assets | 23,317 | - | 24,900 | 48,217 |
| Transfer in | - | - | 91,000 | 91,000 |
| Transfers out | (91,000) | - | - | (91,000) |
| Loan proceeds | 1,090,000 | - | - | 1,090,000 |
| Total Other Financing Sources and Uses | <u>1,022,317</u> | <u>-</u> | <u>115,900</u> | <u>1,138,217</u> |
| Net Changes in Fund Balances | <u>(744,766)</u> | <u>9,011</u> | <u>(131,728)</u> | <u>(867,483)</u> |
| Fund Balances - Beginning | <u>1,137,867</u> | <u>75,995</u> | <u>177,705</u> | <u>1,391,567</u> |
| Fund Balances - Ending | <u>\$ 393,101</u> | <u>85,006</u> | <u>45,977</u> | <u>524,084</u> |

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

City of Hernando, Mississippi
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2014

| | Amount |
|---|---------------------|
| Net Changes in Fund Balances - Governmental Funds | \$ (867,483) |
| <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 assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$774,093 exceeded depreciation of \$775,284 in the current period.</p> | (1,191) |
| <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 position differs from the change in fund balances by the amount of the net loss of \$56,249.</p> | (56,249) |
| <p>Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayments of \$1,108,743 exceeded debt proceeds of \$1,090,000.</p> | 18,743 |
| <p>Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:</p> | |
| Receivables received after 60 days | (6,170) |
| Accrued interest on debt | (6,576) |
| Compensated absences | (22,716) |
| | (35,462) |
| Change in Net Position - Governmental Activities | \$ (941,642) |

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

City of Hernando, Mississippi
Statement of Net Position – Proprietary Fund
September 30, 2014

| | Utility Fund |
|---|-------------------------|
| Assets | |
| Current Assets | |
| Cash | \$ 602,160 |
| Accounts receivable (net of allowance for uncollectibles of \$238,055) | 568,269 |
| Due from other funds | 242,478 |
| Prepaid items | 4,181 |
| Total Current Assets | 1,417,088 |
| Noncurrent Assets | |
| Capital assets: | |
| Land and construction in progress | 802,506 |
| Other capital assets, net | 8,428,723 |
| Total Noncurrent Assets | 9,231,229 |
| Total Assets | 10,648,317 |
| Liabilities | |
| Current Liabilities | |
| Accounts payable | 73,225 |
| Accrued expenses | 27,919 |
| Retainage payable | 21,500 |
| Due to other funds | 177,625 |
| Customer deposits | 363,934 |
| Capital debt | 294,489 |
| Total Current Liabilities | 958,692 |
| Noncurrent Liabilities | |
| Capital debt | 3,865,200 |
| Non-capital debt | 17,267 |
| Total Noncurrent Liabilities | 3,882,467 |
| Net Position | |
| Net investment in capital assets | 5,071,540 |
| Unrestricted | 735,618 |
| Total Net Position | \$ 5,807,158 |

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

City of Hernando, Mississippi
Statement of Revenues, Expenses and
Changes in Net Position – Proprietary Fund
For the Year Ended September 30, 2014

| | Utility Fund |
|---|-------------------------|
| Operating Revenues | |
| Charges for services | \$ 4,242,295 |
| Miscellaneous | 120,547 |
| Total Operating Revenues | 4,362,842 |
| Operating Expenses | |
| Cost of sales | 1,644,251 |
| Personnel services | 1,111,043 |
| Materials and supplies | 176,525 |
| Depreciation expense | 506,160 |
| Miscellaneous | 807,738 |
| Total Operating Expenses | 4,245,717 |
| Operating Income | 117,125 |
| Nonoperating Revenues (Expenses) | |
| Interest income | 1,385 |
| Intergovernmental grants | 339,126 |
| Gain on sale of capital assets | 697 |
| Interest expense | (63,964) |
| Net Nonoperating Revenues (Expenses) | 277,244 |
| Changes in Net Position Before Special Items | 394,369 |
| Special item | (1,550,078) |
| Changes in Net Position | (1,155,709) |
| Net Position - Beginning | 6,962,867 |
| Net Position - Ending | \$ 5,807,158 |

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, 2014

| | Utility Fund |
|--|-------------------------|
| Cash Flows From Operating Activities | |
| Receipts from customers | \$ 4,293,462 |
| Payments to suppliers | (3,083,422) |
| Payments to employees | (1,115,206) |
| Net Cash Provided (Used) by Operating Activities | 94,834 |
| Cash Flows From Noncapital Financing Activities | |
| Interfund transfers | (123,458) |
| Net Cash Provided (Used) by Non Capital Financing Activities | (123,458) |
| Cash Flows From Capital and Related Financing Activities | |
| Proceeds of long-term debt | 580,467 |
| Capital grants received | 792,242 |
| Proceeds from sale of capital assets | 697 |
| Acquisitions and construction of capital assets | (766,646) |
| Principal paid on long-term debt | (573,311) |
| Interest paid on debt | (63,964) |
| Customer deposits | 14,139 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (16,376) |
| Cash Flows From Investing Activities | |
| Interest on investments | 1,385 |
| Net Cash Provided (Used) by Investing Activities | 1,385 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (43,615) |
| Cash and Cash Equivalents at Beginning of Year | 645,775 |
| Cash and Cash Equivalents at End of Year | \$ 602,160 |
| Reconciliation of Operating Income (Loss) to Net Cash | |
| Provided (Used) by Operating Activities: | |
| Operating income (loss) | \$ 117,125 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 506,160 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (69,380) |
| (Increase) decrease in prepaid expenses | 18,358 |
| Increase (decrease) in accounts payable | (480,368) |
| Increase (decrease) in accrued expenses | 7,102 |
| Increase (decrease) in compensated absences liability | (4,163) |
| Total Adjustments | (22,291) |
| Net Cash Provided (Used) by Operating Activities | \$ 94,834 |

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, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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. 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 Position 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:

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.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

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.

Although not major funds, the city also reports the following fund types:

Special Revenue Fund:

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

Capital Project Fund:

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

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 Position. 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 and Basis of Accounting

Measurement focus refers to what is being measured and 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 noncurrent) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in net total position. 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, 2014

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 revenues as available if they are collected within 60 days after year-end. 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.

Deposits and Investments

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

Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

Long-term Liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial-statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Position.

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.
- **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.

Fund Balance Flow Assumption

When an expenditure 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 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 Position

Net Position in the government-wide and proprietary fund financial statements is displayed in three components. "Net investment in capital assets" are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. "Restricted net position" consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions enabling legislation. "Unrestricted net position" consists of all other net position not meeting the definition of "restricted" or "net investment in capital assets."

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

Net Position Flow Assumption

When an 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 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.

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.

Changes in Accounting Standards

The City implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities* issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required. The provisions of this standard have been incorporated into the financial statements and notes.

NOTE B –PRIOR PERIOD ADJUSTMENT

A summary of significant fund equity adjustment is as follows:

Statement of Activities.

| <u>Explanation</u> | <u>Amount</u> |
|---|--------------------|
| Implementation of GASB 65 (deferred charges – bond issuance costs) | \$(146,017) |
| | <u>\$(146,017)</u> |

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

NOTE C - DEPOSITS

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

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, 2014, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2014, the carrying amount of the City's deposits was \$1,213,828 and the bank balances totaled \$1,378,824. Of the bank balances, \$250,000 was insured by federal deposit insurance and \$1,128,824 was covered by pooled and/or pledged collateral with the State Treasurer.

NOTE D - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of sales tax and franchise tax.

| | <u>General Fund</u> |
|-------------------------|--------------------------|
| Ad valorem | \$ 7,761 |
| Franchise and sales tax | <u>346,237</u> |
| Total | <u><u>\$ 353,998</u></u> |

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

NOTE E – CAPITAL ASSETS

| | <u>Balance at 9/30/2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2014</u> |
|---|---------------------------------|------------------|--------------------|---------------------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 581,339 | - | (5,400) | 575,939 |
| Construction in progress | 9,293 | 43,812 | - | 53,105 |
| Total capital assets, not being depreciated: | <u>590,632</u> | <u>43,812</u> | <u>(5,400)</u> | <u>629,044</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 5,627,896 | 401 | - | 5,628,297 |
| Infrastructure | 8,832,713 | - | - | 8,832,713 |
| Equipment | 2,355,647 | 39,580 | (349,390) | 2,045,837 |
| Vehicles | 1,061,605 | 690,300 | (168,616) | 1,583,289 |
| Improvements other than buildings | 463,979 | - | - | 463,979 |
| Total capital assets, being depreciated: | <u>18,341,840</u> | <u>730,281</u> | <u>(518,006)</u> | <u>18,554,115</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,576,352) | (112,162) | - | (1,688,514) |
| Infrastructure | (2,365,492) | (312,430) | - | (2,677,922) |
| Equipment | (1,497,117) | (161,617) | 222,138 | (1,436,596) |
| Vehicles | (956,775) | (170,721) | 245,019 | (882,477) |
| Improvements other than buildings | (89,311) | (18,354) | - | (107,665) |
| Total Accumulated Depreciation | <u>(6,485,047)</u> | <u>(775,284)</u> | <u>467,157</u> | <u>(6,793,174)</u> |
| Total Capital Assets, Being Depreciated, Net | 11,856,793 | (45,003) | (50,849) | 11,760,941 |
| Governmental Activities Capital Assets, Net | <u>\$ 12,447,425</u> | <u>(1,191)</u> | <u>(56,249)</u> | <u>12,389,985</u> |
| Business-Type Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 52,930 | - | - | 52,930 |
| Construction in progress | 2,726,441 | 664,530 | (2,641,395) | 749,576 |
| Total Capital Assets, Not Being Depreciated: | <u>2,779,371</u> | <u>664,530</u> | <u>(2,641,395)</u> | <u>802,506</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 13,344,319 | 1,091,317 | (2,151) | 14,433,485 |
| Equipment | 1,258,596 | - | (127,247) | 1,131,349 |
| Vehicles | 439,329 | - | 65,018 | 504,347 |
| Total Capital Assets, Being Depreciated: | <u>15,042,244</u> | <u>1,091,317</u> | <u>(64,380)</u> | <u>16,069,181</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (5,815,858) | (437,381) | (13,671) | (6,266,910) |
| Equipment | (1,037,502) | (34,645) | 77,530 | (994,617) |
| Vehicles | (396,747) | (34,134) | 51,950 | (378,931) |
| Total Accumulated Depreciation | <u>(7,250,107)</u> | <u>(506,160)</u> | <u>115,809</u> | <u>(7,640,458)</u> |
| Total Capital Assets, Being Depreciated, Net | 7,792,137 | 585,157 | 51,429 | 8,428,723 |
| Business-Type Activities Capital Assets, Net | <u>\$ 10,571,508</u> | <u>1,249,687</u> | <u>(2,589,966)</u> | <u>9,231,229</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, 2014

A summary of depreciation expense by function is as follows:

| | |
|--|--------------------------|
| Governmental Activities: | |
| General government | \$ 62,654 |
| Public safety | 371,673 |
| Public works | 297,398 |
| Culture and recreation | <u>43,559</u> |
| Total Governmental Activities Depreciation Expense | <u>\$ 775,284</u> |
| | |
| Business-Type Activities: | |
| Utility | <u>\$ 506,160</u> |
| Total Business-Type Activities Depreciation Expense | <u>\$ 506,160</u> |

Commitments under construction at September 30, 2014 are summarized as follows:

| <u>Project</u> | <u>Contract Amount</u> | <u>Remaining Balance</u> | <u>Fund</u> |
|----------------|------------------------|--------------------------|-------------|
| Lagoon Project | | | |
| Contract #2 | \$ 1,775,629 | \$ 21,500 | Utility |

NOTE F - 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, 2014:

| | <u>Due From</u> | <u>Due To</u> |
|---------------------|--------------------------|--------------------------|
| Major Funds: | | |
| General fund | \$ 208,392 | \$ 336,192 |
| Debt service fund | 125,053 | 57,966 |
| Other governmental | 25,514 | 29,654 |
| Utility fund | <u>242,478</u> | <u>177,625</u> |
| Total Funds | <u>\$ 601,437</u> | <u>\$ 601,437</u> |
| | | |
| | <u>Transfer In</u> | <u>Transfer Out</u> |
| Major Funds: | | |
| General fund | \$ - | \$ 91,000 |
| Other governmental | <u>91,000</u> | <u>-</u> |
| Total Funds | <u>\$ 91,000</u> | <u>\$ 91,000</u> |

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

NOTE G - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2014 was as follows:

| | <u>Balance at 9/30/2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2014</u> | <u>Amounts Due Within One Year</u> |
|---|---------------------------------|------------------|------------------|---------------------------------|--|
| Governmental Activities: | | | | | |
| General obligation bonds payable | \$ 7,328,668 | - | 522,000 | 6,806,668 | 534,800 |
| Notes payable | 61,551 | 450,000 | 462,150 | 49,401 | 13,492 |
| Leases payable | 600,276 | 640,000 | 124,593 | 1,115,683 | 158,376 |
| Compensated absences payable | 172,030 | 22,716 | - | 194,746 | - |
| Governmental Activities Long-Term Liabilities | <u>\$ 8,162,525</u> | <u>1,112,716</u> | <u>1,108,743</u> | <u>8,166,498</u> | <u>706,668</u> |
| Business-Type Activities: | | | | | |
| General obligation bonds payable | \$ 941,332 | - | 88,000 | 853,332 | 90,200 |
| Notes payable | 3,109,194 | 580,467 | 462,010 | 3,227,651 | 180,563 |
| Leases payable | 102,007 | - | 23,301 | 78,706 | 23,726 |
| Compensated absences payable | 21,430 | - | 4,163 | 17,267 | - |
| Business-Type Activities Long-Term Liabilities | <u>\$ 4,173,963</u> | <u>580,467</u> | <u>577,474</u> | <u>4,176,956</u> | <u>294,489</u> |

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding as of September 30, 2014 are as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount</u> | |
|---------------------------------------|--------------------------|-----------------------|--------------------------|---------------------|---------------------|
| | | | | <u>Issued</u> | <u>Outstanding</u> |
| 2007 | Various | 5/31/2007 | 5/1/2027 | \$ 5,000,000 | \$ 3,720,000 |
| 2012 | Various | 11/8/2012 | 10/1/2023 | 4,465,000 | 3,940,000 |
| Total General Obligation Bonds | | | | <u>\$ 9,465,000</u> | <u>\$ 7,660,000</u> |

Notes payable as of September 30, 2014 are as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount</u> | |
|--|--------------------------|-----------------------|--------------------------|---------------------|---------------------|
| | | | | <u>Issued</u> | <u>Outstanding</u> |
| First Security Note - Parks Equipment | 1.85% | 03/17/13 | 03/15/18 | \$ 68,109 | \$ 49,401 |
| Subtotal Governmental Activities | | | | <u>68,109</u> | <u>49,401</u> |
| Dept. of Econ. and Community Dev. - Sewer Cap Loan | 3.00% | 10/31/02 | 10/31/21 | 288,000 | 122,666 |
| Dept. of Environ. Quality - Water Pollution Control | 1.75% | 06/01/03 | 01/01/23 | 508,741 | 237,910 |
| Dept. of Econ. and Community Dev. - Sewer Cap Loan | 2.00% | 02/01/05 | 02/01/25 | 237,400 | 135,124 |
| Dept. of Econ. and Community Dev. - Sewer Cap Loan | 3.00% | 11/01/05 | 11/01/25 | 191,116 | 126,159 |
| State of Mississippi - DWSIRLF | 1.95% | 11/05/12 | 10/15/32 | 1,141,966 | 854,240 |
| Dept. of Environmental Quality - Water Pollution Control | | | | 1,531,562 | 1,751,552 |
| Subtotal Business-Type Activities | | | | <u>3,898,785</u> | <u>3,227,651</u> |
| Total Business-Type Activities | | | | <u>\$ 3,966,894</u> | <u>\$ 3,277,052</u> |

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

The aggregate maturities of general obligation bonds and notes for the years subsequent to September 30, 2014 are as follows:

| Year ending September 30 | Governmental Activities Fund | | Business-Type Activities Fund | |
|-----------------------------|------------------------------|------------------|-------------------------------|----------------|
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 548,292 | 211,266 | 270,763 | 78,438 |
| 2016 | 567,438 | 194,367 | 276,584 | 73,013 |
| 2017 | 584,400 | 178,978 | 282,480 | 67,469 |
| 2018 | 600,272 | 163,078 | 288,454 | 61,802 |
| 2019 | 611,000 | 146,537 | 294,508 | 56,013 |
| 2020-2024 | 2,889,668 | 461,835 | 1,309,339 | 190,444 |
| 2025-2029 | 1,054,999 | 84,936 | 745,538 | 89,665 |
| 2030-2034 | - | - | 613,317 | 22,664 |
| Total | \$ 6,856,069 | 1,440,997 | 4,080,983 | 639,508 |

Future minimum capital lease payments and the net present value of these future minimum lease payments as of September 30, 2014 were as follows:

| Year Ending September 30 | Governmental Activities | | Business-type Activities | |
|-----------------------------|-------------------------|----------------|--------------------------|--------------|
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 158,376 | 26,342 | 23,726 | 1,228 |
| 2016 | 161,734 | 22,983 | 24,159 | 795 |
| 2017 | 165,171 | 19,547 | 24,600 | 354 |
| 2018 | 168,684 | 16,033 | 6,221 | 19 |
| 2019 | 71,159 | 13,051 | - | - |
| 2020-2024 | 207,770 | 45,858 | - | - |
| 2025-2028 | 182,789 | 11,503 | - | - |
| Total | \$ 1,115,683 | 155,317 | 78,706 | 2,396 |

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 \$12,410,814 (the smaller of the two computed margins) as of September 30, 2014.

| | 15% Test | 20% Test |
|--|----------------------|----------------------|
| Assessed value as of September 30, 2014: | | |
| \$128,116,544 times applicable percentage | \$ 19,217,482 | \$ 25,623,309 |
| Less present debt subject to debt limits as of September 30, 2014: | | |
| Total bonds outstanding (excluding proprietary) | (3,720,000) | (3,720,000) |
| Margin for additional debt | <u>\$ 15,497,482</u> | <u>\$ 21,903,309</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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

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. 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. As of September 30, 2014 the project was not complete.

NOTE H – 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, 2014, 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, 2014 was 15.75% 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, 2014, 2013 and 2012 were \$855,203, \$761,087, and \$661,818 respectively, equal to the required contributions for each year.

NOTE I – 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 J – DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

The First Time Homebuyer fund reported a deficit in fund balance of \$19,000 at September 31, 2014.

NOTE K – SPECIAL ITEMS

An adjustment was made to construction-in-progress of \$1,550,710 to reclassify the costs of reclaiming the lagoon from assets to expenses to better reflect the fair market value.

NOTE L – CONTINGENCIES

Federal Grants – The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City's financial statements.

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.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2014

NOTE M – SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City has evaluated activity of the City through July 10, 2015, which is the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

On May 12, 2015 the City entered into a governmental lease purchase agreement with Hancock Bank for the purchase of a lightning loader in the amount of \$129,245 with monthly lease payments of \$2,273.

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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, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts Budgetary Basis</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|------------------|---|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| General property taxes | \$ 2,706,668 | 2,706,668 | 2,980,414 | 273,746 |
| Franchise taxes | 385,000 | 385,000 | 448,414 | 63,414 |
| Intergovernmental | 4,239,400 | 4,370,332 | 3,181,235 | (1,189,097) |
| Charges for services | 883,300 | 886,540 | 735,363 | (151,177) |
| Miscellaneous | 148,000 | 167,089 | 150,421 | (16,668) |
| Total Revenues | <u>8,362,368</u> | <u>8,515,629</u> | <u>7,495,847</u> | <u>(1,019,782)</u> |
| Expenditures | | | | |
| General government | 1,096,017 | 1,582,104 | 1,381,331 | 200,773 |
| Public safety | 3,044,176 | 5,835,618 | 5,819,472 | 16,146 |
| Public works | 309,263 | 341,413 | 352,686 | (11,273) |
| Health and welfare | - | 123,197 | 123,177 | 20 |
| Capital outlay | 414,000 | 661,027 | 508,767 | 152,260 |
| Debt service | 501,050 | 602,266 | 602,023 | 243 |
| Total Expenditures | <u>5,364,506</u> | <u>9,145,625</u> | <u>8,787,456</u> | <u>358,169</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>2,997,862</u> | <u>(629,996)</u> | <u>(1,291,609)</u> | <u>(661,613)</u> |
| Other Financing Sources (Uses) | | | | |
| Grant revenue | 185,000 | 185,000 | 169,331 | (15,669) |
| Loan proceeds | - | - | 450,000 | 450,000 |
| Interfund transfers | 830,000 | 830,000 | (91,000) | (921,000) |
| Sale of assets | - | - | 23,317 | 23,317 |
| Total Other Financing Sources (Uses) | <u>1,015,000</u> | <u>1,015,000</u> | <u>551,648</u> | <u>(463,352)</u> |
| Net Change in Fund Balances | <u>\$ 4,012,862</u> | <u>385,004</u> | <u>(739,961)</u> | <u>(1,124,965)</u> |
| Fund Balance - Beginning of Year | | | <u>1,137,867</u> | |
| Fund Balance - End of Year | | | 397,906 | |
| Adjustments to Conform with GAAP: | | | | |
| Revenues | | | 793,855 | |
| Expenditures | | | <u>(798,660)</u> | |
| Fund Balance - End of Year (GAAP Basis) | | | <u>393,101</u> | |

City of Hernando, Mississippi
Notes to the Required supplementary Information
For the Year Ended September 30, 2014

Notes to the Required Supplementary Information

(A) Budgetary Information.

Statutory requirements dictate how and when the City's budget is to be prepared. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Aldermen that budgetary estimates will not be met, they may make revisions to the budget.

The City's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

(B) Basis of Presentation.

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual is a part of required supplemental information.

(C) Budget/GAAP Reconciliation.

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

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

(D) Excess of Actual Expenditures over Budget in Individual Funds.

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

The City exceeded the final adopted budget for general government expenditures, public safety, public works, capital outlay, and debt service.

OTHER INFORMATION

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City of Hernando, Mississippi
Schedule of Surety Bonds for City Officials
September 30, 2014

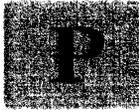
Surety bonds in force at September 30, 2014 were as follows:

| <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 |
| Cathy Brooks | Alderman | Brierfield Insurance Co. | \$100,000 |
| Andrew Miller | Alderman | Brierfield Insurance Co. | \$100,000 |
| Michael McLendon | Alderman | Brierfield Insurance Co. | \$100,000 |
| Katie Harbin | City Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Carla Leigh Scallorn | Deputy Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Cassandra E. Perry | Court Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Rhonda Burns | Deputy Court Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Donna Riles | Deputy Court Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Kristin Duggan | Planning Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Julie Harris | Deputy Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Dot Hughes | Deputy Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Gia Matheny | Deputy Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Casey Nicole Kee | Deputy Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Eva Ward | Deputy Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Janet Hawks | Deputy Clerk | Travelers Casualty and Surety Co. | \$50,000 |
| Susan Renee Holloway | 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 Casulty and Surety Co. | \$50,000 |
| Daniel Carson | Asst. Parks Director | Travelers Casulty and Surety Co. | \$50,000 |
| Amidah Jordan | Parks Receptionist | Travelers Casulty and Surety Co. | \$50,000 |
| David Cox | Program Coordinator | Travelers Casulty and Surety Co. | \$50,000 |
| Jared Darby | Director of Planning | Travelers Casulty and Surety Co. | \$50,000 |
| Jacob A. Hisaw | Animal Control Officer | Travelers Casulty and Surety Co. | \$50,000 |

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SPECIAL REPORTS

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CERTIFIED PUBLIC ACCOUNTANTS

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

To the Mayor and Board of Aldermen
City of Hernando, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Hernando, Mississippi's basic financial statements and have issued our report thereon dated July 10, 2015.

Internal Control Over Financial Reporting

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

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

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 responses to be a material weakness [2014-001].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses to be significant deficiency [2014-002].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hernando, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions



was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters which we have reported to the management of the City in the Independent Auditors' Report on Compliance with State Laws and Regulations dated June 27, 2015, included with this document.

City of Hernando, Mississippi's Response to Findings

City of Hernando, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Hernando, Mississippi's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

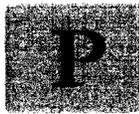
Purpose of this Report

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

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC
Hernando, Mississippi
July 10, 2015





CERTIFIED PUBLIC ACCOUNTANTS

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, 2014 and have issued our report thereon dated July 10, 2015. 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*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not 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 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 competent jurisdiction or for an emergency, as provided in this chapter. See the budgetary comparison schedule on page 27 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).

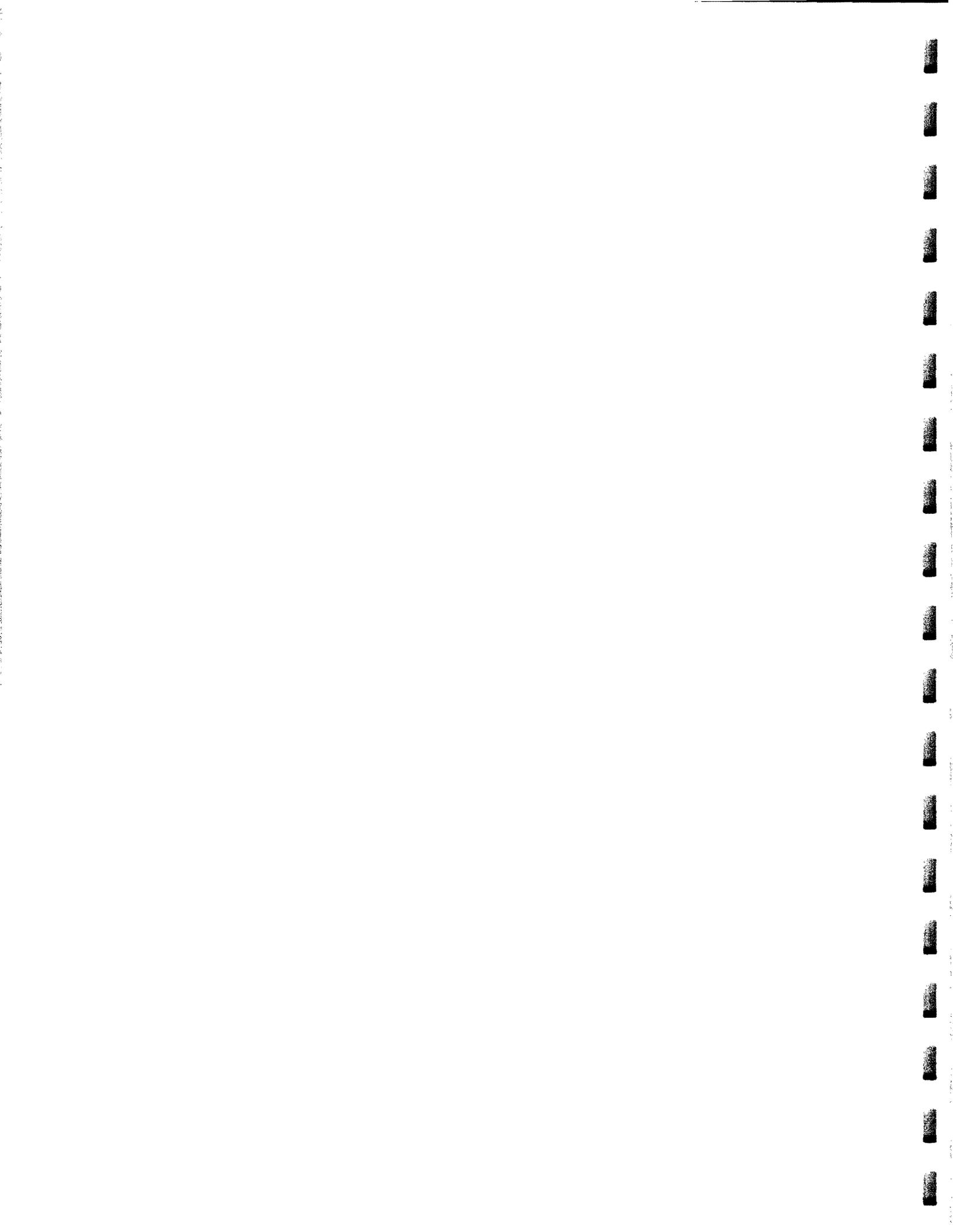
Response- We are working on changing our budget process to keep track of and record revenues and expenses that were not budgeted for.

2. Finding- Unclaimed checks over five years old have not been transferred to the State Treasurer as prescribed by Miss. Code Ann. (1972), Section 89-12-14.

Recommendation- The City should periodically (at least annually) review outstanding checks, and transfer those amounts greater than five years old to the State Treasurer.

Response- We are working on changing our process to make sure this is done in order to comply with Miss. Code Ann. (1972), Section 89-12-14.

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



The City's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them

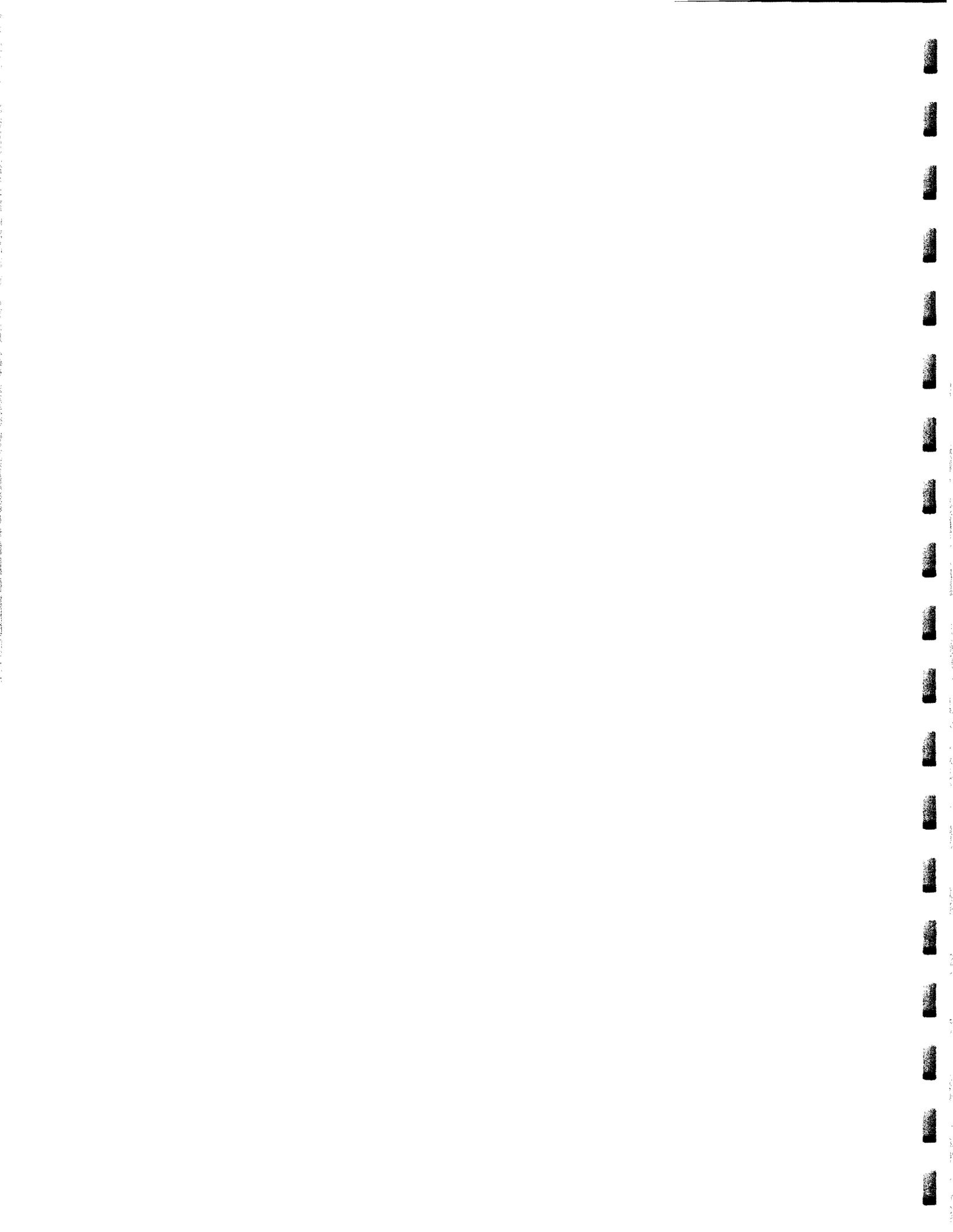
This report is intended for the information of the City's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Hernando, Mississippi

July 10, 2015



**City of Hernando, Mississippi
Schedule of Findings and Responses
September 30, 2014**

Section 1: Summary of Auditor's Results

Financial Statements:

| | | |
|----|--|-------------------|
| 1. | Type of auditor's report issued on the financial statements | <u>Unmodified</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>Yes</u> |

Section 2: Financial Statements Findings

Material Weakness

2014-001. 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 relies on external auditors for assistance with the preparation of external financial statements and related note disclosures in conformity with GAAP. Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered part of the City's internal control structure. The City does not have documented procedures in place that prevent or detect material misstatements in the external financial statements. However, the City's management reviewed and approved all adjustments.

Effect: Due to this oversight, the external auditors discovered and proposed material adjusting journal entries to the financial statements. Also, the lack of effective internal control over financial statements could result in misstatements of accounts on the City's financial statements.

Cause: The City has not designated internal control procedures or provided staffing to prepare external financial statements and, consequently, relies on its external auditors for this function.

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.

**City of Hernando, Mississippi
Schedule of Findings and Responses
September 30, 2014**

Significant Deficiency

2014-002. Criteria: Due to and due from accounts should be in balance.

Condition: Due to and due from accounts were not reconciled monthly or annually.

Effect: Expenses were understated by \$54,952.

Cause: Controls over balancing due to and due from accounts are not in place.

Recommendation: Control procedures should be implemented to verify that due to and due from accounts are in balance on a monthly basis before the budget to actual report is provided to the board of aldermen.

Response: The City will implement control procedures relating to the balancing of the due to and due from accounts.