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Hernando, MS 38632
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September 29, 2016

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, 2015. 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

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WILLIAMS · PITTS · BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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**Board of Aldermen 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, 2015, 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 and another deficiency that we consider to be a 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 following deficiencies in internal control to be material weaknesses:

2015-001. 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: In the process of assisting with the preparation of the financial statements and related notes, the external auditors discovered and proposed material adjustments that were recorded by management.

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.

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2015-002. Criteria: Part of effective internal controls over financial reporting is the ability to reconcile bank accounts to their corresponding accounts in the general ledger and ensure that it is performed in a timely manner.

Condition: The City was not fully reconciling their bank statements to the general ledger by leaving items as reconciling items rather than recording them in the general ledger. The City also had material outstanding deposits on the reconciliations that were greater than one month outstanding.

Effect: Material transactions may not be recorded and the cash balance could be misstated. Based on the adjusting entries that were made for cash reconciliations, expenses were understated by \$76,240 and revenues were overstated by \$26,843.

Cause: Staff did not have the proper training to reconcile the bank statements appropriately. The process was not being monitored by management to ensure it was being performed appropriately.

Recommendation: All bank statements should be reconciled to the general ledger each month. Management should review the monthly reconciliations for errors, omissions, unusual reconciling items and for the timeliness of the procedures. The reviewer should sign and date the reconciliation to note the date of the review.

Response: The City will implement control procedures to make sure statements are reviewed consistently and with more scrutiny.

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:

2015-003. 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: Material transactions may not be recorded appropriately that could cause material misstatements in revenue and expenses.

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 the 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.

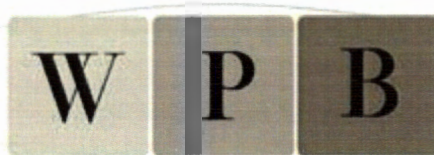
Williams, Pitts & Beard, PLLC

Williams, Pitts, and Beard, PLLC
Hernando, Mississippi
August 25, 2016

**City of Hernando, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2015**

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WILLIAM PITT BEARD, LLC
CERTIFIED PUBLIC ACCOUNTANTS

City of Hernando, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2015, and the respective changes in financial

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

Emphasis of Matter

As described in Note A to the financial statements, in 2015 the city adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of City's proportionate share of net pension liability, and schedule of City's contributions on pages i-viii, 30-34 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 August 25, 2016, 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
August 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2015
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, 2015. 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, 2015
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 13-27 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 liabilities of the City of Hernando, Mississippi exceeded its assets at September 30, 2015 by \$4,774,048. 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 \$57,020 is restricted for specific purposes. Unrestricted net position decreased by \$9,783,512, and restricted net position increased in the amount of \$29,876 and net investment in capital assets decreased by \$272,483. The primary reason for the decrease in unrestricted net position was due to the City implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the current year. GASB Statement No. 68 requires all government entities to record a net pension liability for its portion of the overall net pension liability on a multi-employer cost sharing plan. The implementation required the City to record a prior period adjustment that decreased net position by \$8,932,918. See note H for further details.

As of the close of the current fiscal year the City of Hernando's governmental funds reported combined ending fund balances of \$643,646 and combined total assets of \$5,990,746.

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2015
Unaudited

CONDENSED COMPARATIVE FINANCIAL STATEMENTS

The combined net position decreased from \$10,514,263 in 2014 to (\$760,373) in 2015, which is a decrease of \$11,274,636.

NET POSITION						
	2014 Governmental Activities (All other funds)	2015 Governmental Activities (All other funds)	2014 Business Type Activities (Utility Fund)	2015 Business Type Activities (Utility Fund)	2014 Total	2015 Total
<u>ASSETS</u>						
Current and Other Assets	\$ 4,887,396	\$ 5,528,656	\$1,489,285	\$ 1,489,285	\$ 6,126,859	\$ 7,017,941
Capital Assets, Net	12,389,985	11,955,800	8,934,170	8,934,170	21,621,214	20,889,970
TOTAL ASSETS	17,277,381	17,484,456	10,470,692	10,423,455	27,748,073	27,907,911
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Deferred Outflows – Pensions		1,995,279		346,872		2,342,151
TOTAL DEFERRED OUTFLOWS OF RESOURCES		1,995,279		346,872		2,342,151
<u>LIABILITIES</u>						
Current and Other Liabilities	592,931	533,226	486,578	684,764	1,079,509	1,217,990
Long Term Liabilities:						
Due Within One Year	706,668	728,079	294,489	325,636	1,001,157	1,053,715
Due in More than One Year	7,459,830	18,016,669	3,882,467	5,644,673	11,342,297	23,661,342
TOTAL LIABILITIES	8,759,429	19,277,974	4,663,534	6,655,073	13,422,963	25,933,047
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Property tax for future reporting period		4,391,509				4,391,509
Deferred inflows - pensions		584,300		101,579		685,879
TOTAL DEFERRED INFLOWS OF RESOURCES		4,975,809		101,579		5,077,388
<u>NET POSITION</u>						
Invest in Capital Assets Net of Debt						
Restricted:	4,418,233	4,690,716	5,071,540	4,945,866	9,489,773	9,636,582
Capital Projects						
Special Revenue	-	-	-	-	-	-
Debt Services	-	-	-	-	-	-
Economic development and assistance	11,871	40,850	-	-	11,871	40,850
Unrestricted	15,273	16,170			15,273	16,170
TOTAL NET POSITION	261,728	(9,521,784)	735,618	(932,191)	997,346	(10,453,975)
	\$4,707,105	\$ (4,774,048)	\$5,807,158	\$ 4,013,675	\$10,514,263	\$(760,373)

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2015
Unaudited

Net Position of the City's governmental activities has decreased by 202% (\$4,707,105 in 2014 compared to (\$4,774,048) in 2015). 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 \$261,728 at September 30, 2014 to (\$9,521,784) at the end of this year which is a decrease of 3738%.

Net Position of the City's business type activities (utility fund) decreased by 30.88% (\$4,013,675 compared to \$5,807,158). Unrestricted net position changed from \$735,618 at September 30, 2014 to (\$932,191) at the end of this year, which is an decrease of 226.72%.

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 GOVERNMENT-WIDE ACTIVITIES

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.

	2015 Governmental Activities	2014 Governmental Activities	2015 Business- Type Activities	2014 Business- Type Activities	2015 Total	2014 Total
Revenues						
Taxes - Property	\$4,240,067	\$ 4,113,587	\$ -	\$ -	\$ 4,240,067	\$ 4,113,587
Sales and Use	3,105,985	2,958,636	-	-	3,105,985	2,958,636
Other Taxes	486,967	455,091	-	-	486,967	455,091
Forfeitures	-	-	-	-	-	-
Grants and contributions not restricted to specific programs	231,078	240,364	-	-	231,078	240,364
Operating Grants & Contributions	355,164	216,837	-	-	355,164	216,837
Capital Grants & Contributions	73,416	2,628	-	339,126	73,416	341,754
Charges for services	1,150,478	1,010,484	4,524,257	4,242,295	5,674,735	5,252,779
Interest	3,371	3,843	1,795	1,385	5,166	5,228
Interfund transfers	157,076	-	(157,076)	-	-	-
Miscellaneous	151,711	200,769	59,318	120,547	211,029	321,316
Sale of assets	27,673	42,817	20,989	697	48,662	43,514
Special Item - CIP	-	-	-	(1,550,078)	-	(1,550,078)
Total revenues	9,982,986	9,245,056	4,449,283	3,153,972	14,432,269	12,399,028
Total expenses	(10,531,221)	(10,186,698)	(4,567,359)	(4,309,681)	(15,098,580)	(14,496,379)
Change in net position	(548,235)	(941,642)	(118,076)	(1,155,709)	(666,311)	(2,097,351)
Net position-beginning as previously reported	4,707,105	5,794,764	5,807,158	6,962,867	10,514,263	12,757,631
Prior Period Adjustment	(8,932,918)	(146,017)	(1,675,407)	-	(10,608,325)	(146,017)
Net position-beginning, as restated	(4,225,813)	5,648,747	4,131,751	-	(94,062)	12,611,614
Net position-end of year	\$(4,774,048)	\$4,707,105	\$4,013,675	\$ 5,807,158	\$(760,373)	\$ 10,514,263

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2015
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, 2015, the City amended its budget three times. The total dollar amount of the budget for all funds was increased in the amount of \$1,186,441, which was in the General Fund, Culture and Recreation Fund, Cemetery Maintenance, Cemetery Perpetual and Utility Fund. The amendment was necessary in the General Fund for revenues due to grant money received, 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, repairing equipment and vehicles, communications, printing and binding, grants, and an outside consultant for Planning. 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 repairing equipment, and 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 \$393,101 for the General Fund and at the end of the year (GAAP basis) was \$557,481 which was a increase of \$164,380. 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.

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	2015	2014	Difference
Land	\$ 575,939	\$ 575,939	\$ 0
Buildings and improvements	5,628,297	5,628,297	0
Equipment	1,618,976	2,045,837	(426,861)
Vehicles	1,583,289	1,583,288	0
Infrastructure	8,999,319	8,832,713	166,606
Construction in progress	64,125	53,105	11,020
Improvements other than buildings	678,900	463,980	214,920
Accumulated depreciation	(7,193,045)	(6,793,174)	(399,871)
	<u>\$11,955,800</u>	<u>\$ 12,389,985</u>	<u>\$ (434,186)</u>

City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2015
Unaudited

Changes in General Fixed Assets can be found on page 20 and 21. In the category of Governmental Activities capital assets, net, decreased from \$12,389,986 at September 30, 2014 to \$11,955,800 at September 30, 2015. This is a decrease of \$434,186 after depreciation. In the category of Business-type Activities capital assets, net, decreased from \$9,231,229 at September 30, 2014 to \$8,934,170 at September 30, 2015. This is a decrease of \$297,059 after depreciation.

General Long-Term Debt is located on pages 22 and 23. As of September 30, 2015, the City had \$7,035,000 in outstanding General Obligation Bonds, which is \$625,000 less than last year, and \$3,082,997 in notes payable, which is \$194,055 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 2015, the City assessed value of property increased 4.36% and the sales tax revenue has gone up 5.35% 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 106 sewer customers and 45 water customers. Since fiscal year end September 30, 2000, the City has added 3,094 sewer customers and 1,927 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 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, playgrounds, and a skate park. 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 eighth year as of 2015. Hernando was given the "Healthiest Hometown" Award from Blue Cross Blue Shield and the City has been designated a "Tree City USA" for five years now. Hernando has hosted our Water Tower 10K for the sixth year now, bringing in over 400 runners from the Mid-South and beyond each year. 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

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City of Hernando, Mississippi
Management's Discussion and Analysis
For the Year Ended September 30, 2015
Unaudited

Small Hometown series and the ABC "Everyday Health" program. In 2015 the City of Hernando was ranked second in the Family Circle magazine for the "Best Town for families".

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. In the budget year 2014-2015 the millage for ad-valorem taxes remained at 31.75. 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, and beautification of the City. The Cemetery Maintenance Fund pays for the cemetery maintenance. The Cemetery Perpetual Fund is the percentage set aside to maintain the cemetery over the years.

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, 2015

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash	\$ 1,052,969	\$ 458,004	\$ 1,510,973
Property tax receivable	4,391,509	-	4,391,509
Accounts receivable (net of allowance for uncollectibles of \$1,430,882 and \$271,442)	44,803	652,590	697,393
Intergovernmental receivables	369,641	-	369,641
Internal balances	(372,177)	372,177	-
Prepaid items	41,911	6,514	48,425
Capital assets:			
Land and construction in progress	640,064	734,039	1,374,103
Other capital assets, net	11,315,736	8,200,131	19,515,867
Total Assets	<u>17,484,456</u>	<u>10,423,455</u>	<u>27,907,911</u>
Deferred Outflows of Resources			
Deferred Outflows - Pensions	1,995,279	346,872	2,342,151
Total Deferred Outflows	<u>1,995,279</u>	<u>346,872</u>	<u>2,342,151</u>
Liabilities			
Accounts payable	350,168	253,626	603,794
Accrued expenses	183,058	67,821	250,879
Customer deposits	-	341,817	341,817
Retainage payable	-	21,500	21,500
Long-term liabilities			
Due within one year:			
Capital debt	728,079	325,636	1,053,715
Due in more than one year:			
Capital debt	6,537,005	3,662,668	10,199,673
Non-capital debt	194,598	19,542	214,140
Net pension liability	11,285,066	1,962,463	13,247,529
Total Liabilities	<u>19,277,974</u>	<u>6,655,073</u>	<u>25,933,047</u>
Deferred Inflows of Resources			
Property tax for future reporting period	4,391,509	-	4,391,509
Deferred inflows - pensions	584,300	101,579	685,879
Total deferred inflows of resources	<u>4,975,809</u>	<u>101,579</u>	<u>5,077,388</u>
Net Position			
Net investment in capital assets	4,690,716	4,945,866	9,636,582
Restricted for:			
Debt service	40,850	-	40,850
Economic development and assistance	16,170	-	16,170
Unrestricted	(9,521,784)	(932,191)	(10,453,975)
Total Net Position	<u>\$ (4,774,048)</u>	<u>\$ 4,013,675</u>	<u>\$ (760,373)</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, 2015

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	\$ 1,268,511	\$ 276,273	\$ 234,505	\$ -	\$ (757,733)	\$ -	\$ (757,733)
Public safety	6,251,294	421,926	120,659	-	(5,708,709)	-	(5,708,709)
Public works	708,448	-	-	-	(708,448)	-	(708,448)
Health and welfare	142,486	148,577	-	-	6,091	-	6,091
Culture and recreation	808,647	303,702	-	73,416	(431,529)	-	(431,529)
Interest on long-term debt	221,606	-	-	-	(221,606)	-	(221,606)
Pension expense	1,130,229	-	-	-	(1,130,229)	-	(1,130,229)
Total Governmental Activities	10,531,221	1,150,478	355,164	73,416	(8,952,163)	-	(8,952,163)
Business-type activities							
Utility	4,289,010	4,524,257	-	-	-	235,247	235,247
Interest on long-term debt	81,863	-	-	-	-	(81,863)	(81,863)
Pension expense	196,486	-	-	-	-	(196,486)	(196,486)
Total Business-type Activities	4,567,359	4,524,257	-	-	-	(43,102)	(43,102)
Total Government	\$ 15,098,580	\$ 5,674,735	\$ 355,164	\$ 73,416	\$ (8,952,163)	\$ (43,102)	\$ (8,995,265)
General revenues							
Property taxes					4,240,067	-	4,240,067
Grants and contributions not restricted to specific programs					231,078	-	231,078
Sales taxes					3,105,985	-	3,105,985
Franchise taxes					486,967	-	486,967
Unrestricted interest income					3,371	1,795	5,166
Unrestricted investment income					27,673	20,989	48,662
Miscellaneous					151,711	59,318	211,029
Transfers					157,076	(157,076)	-
Total General Revenues					8,403,928	(74,974)	8,328,954
Changes in Net Position					(548,235)	(118,076)	(666,311)
Net Position - Beginning, as previously reported					4,707,105	5,807,158	10,514,263
Prior period adjustment					(8,932,918)	(1,675,407)	(10,608,325)
Net Position - Beginning, as restated					(4,225,813)	4,131,751	(94,062)
Net Position - Ending					\$ (4,774,048)	\$ 4,013,675	\$ (760,373)

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

City of Hernando, Mississippi
Balance Sheet - Governmental Funds
September 30, 2015

	Major Funds		Other	Total
	General	Debt	Governmental	Governmental
	Fund	Service Fund	Funds	Funds
Assets				
Cash	\$ 839,117	\$ 102,378	\$ 111,474	\$ 1,052,969
Property tax receivable	3,290,645	741,244	359,620	4,391,509
Intergovernmental receivables	357,703	-	11,938	369,641
Accounts receivable (net of allowance for uncollectibles of \$1,430,882)	27,402	-	1,000	28,402
Due from other funds	38,847	52,563	14,904	106,314
Prepaid items	39,882	-	2,029	41,911
Total Assets	\$ 4,593,596	\$ 896,185	\$ 500,965	\$ 5,990,746
Liabilities				
Accounts payable	\$ 224,688	\$ -	\$ 125,480	\$ 350,168
Accrued expenses	119,216	-	7,716	126,932
Due to other funds	401,566	57,966	18,959	478,491
Total Liabilities	745,470	57,966	152,155	955,591
Deferred Inflows of resources				
Unavailable revenue - property taxes	3,290,645	741,244	359,620	4,391,509
Total deferred inflows of resources	3,290,645	741,244	359,620	4,391,509
Fund Balances				
Nonspendable:				
Prepaid items	39,882	-	2,029	41,911
Restricted for:				
Debt service	-	96,975	-	96,975
Economic development and assistance	-	-	16,170	16,170
Committed to:				
Capital projects	488,907	-	-	488,907
Assigned to:				
General government	5,560	-	-	5,560
Culture and recreation	-	-	20,986	20,986
Unassigned	23,132	-	(49,995)	(26,863)
Total Fund Balances	557,481	96,975	(10,810)	643,646
Total Liabilities and Fund Balances	\$ 4,593,596	\$ 896,185	\$ 500,965	\$ 5,990,746

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, 2015

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 643,646
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 \$7,193,045.	11,955,800
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.	1,995,279
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	16,401
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.	(584,300)
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	(7,265,084)
Net pension liability	(11,285,066)
Compensated absences	(194,598)
Accrued interest	(56,126)
	<u>(18,800,874)</u>
Total Net Position - Governmental Activities	\$ <u>(4,774,048)</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, 2015

	<u>Major Funds</u>		<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Debt</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Service Fund</u>	<u>Funds</u>	<u>Funds</u>
Revenues				
Property taxes	\$ 3,517,942	355,601	366,525	\$ 4,240,068
Sales taxes	3,105,985	-	-	3,105,985
Franchise taxes	466,243	-	20,724	486,967
Intergovernmental revenues	586,242	-	73,416	659,658
Charges for services	863,044	-	303,702	1,166,746
Interest income	2,721	436	213	3,370
Miscellaneous revenues	110,147	-	41,564	151,711
Total Revenues	<u>8,652,324</u>	<u>356,037</u>	<u>806,144</u>	<u>9,814,505</u>
Expenditures				
General government	1,636,025	-	137,666	1,773,691
Public safety	5,866,058	-	17,114	5,883,172
Public works	373,811	-	-	373,811
Health and welfare	90,151	3,771	48,560	142,482
Culture and recreation	-	-	761,253	761,253
Debt service:				
Principal	1,158,376	534,800	13,492	1,706,668
Interest	29,134	208,694	787	238,615
Total Expenditures	<u>9,153,555</u>	<u>747,265</u>	<u>978,872</u>	<u>10,879,692</u>
Excess (Deficiency) of Revenues				
over (Under) Expenditures	<u>(501,231)</u>	<u>(391,228)</u>	<u>(172,728)</u>	<u>(1,065,187)</u>
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,732	-	24,941	27,673
Transfer in	-	403,197	91,000	494,197
Transfers out	(337,121)	-	-	(337,121)
Loan proceeds	1,000,000	-	-	1,000,000
Total Other Financing Sources and Uses	<u>665,611</u>	<u>403,197</u>	<u>115,941</u>	<u>1,184,749</u>
Net Changes in Fund Balances	<u>164,380</u>	<u>11,969</u>	<u>(56,787)</u>	<u>119,562</u>
Fund Balances - Beginning	<u>393,101</u>	<u>85,006</u>	<u>45,977</u>	<u>524,084</u>
Fund Balances - Ending	<u>\$ 557,481</u>	<u>\$ 96,975</u>	<u>\$ (10,810)</u>	<u>\$ 643,646</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, 2015

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 119,562
Amounts reported for governmental activities in the Statement of Activities are different because:	
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 depreciation of \$834,871 exceeded capital outlay of \$400,686 in the current period.	(434,185)
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 \$1,706,668 exceeded debt proceeds of \$1,000,000.	706,668
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:	
Receivables received after 60 days	(16,267)
Accrued interest on debt	17,009
Pension Expense	(941,169)
Compensated absences	147
Change in Net Position - Governmental Activities	<u>\$ (548,235)</u>

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

City of Hernando, Mississippi
Statement of Net Position – Proprietary Fund
September 30, 2015

	<u>Utility Fund</u>
Assets	
Current Assets	
Cash	\$ 458,004
Accounts receivable (net of allowance for uncollectibles of \$271,442)	652,590
Due from other funds	456,136
Prepaid items	<u>6,514</u>
Total Current Assets	<u>1,573,244</u>
Noncurrent Assets	
Capital assets:	
Land and construction in progress	734,039
Other capital assets, net	<u>8,200,131</u>
Total Noncurrent Assets	<u>8,934,170</u>
Total Assets	<u>10,507,414</u>
Deferred Outflows	
Deferred outflows - pensions	<u>346,872</u>
Total Deferred Outflows	<u>346,872</u>
Liabilities	
Current Liabilities	
Accounts payable	253,626
Accrued expenses	67,821
Retainage payable	21,500
Due to other funds	83,959
Customer deposits	341,817
Capital debt	<u>325,636</u>
Total Current Liabilities	<u>1,094,359</u>
Noncurrent Liabilities	
Capital debt	3,662,668
Non-capital debt	19,542
Net pension liability	<u>1,962,463</u>
Total Noncurrent Liabilities	<u>5,644,673</u>
Deferred Inflows of resources	
Deferred inflows - pensions	<u>101,579</u>
Total deferred inflows of resources	<u>101,579</u>
Net Position	
Net investment in capital assets	4,945,866
Unrestricted	<u>(932,191)</u>
Total Net Position	<u>\$ 4,013,675</u>

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, 2015

	655	Utility Fund
Operating Revenues		
Charges for services	\$	4,524,257
Miscellaneous		59,318
Total Operating Revenues		<u>4,583,575</u>
Operating Expenses		
Cost of sales		2,051,734
Personnel services		1,076,814
Pension expense		196,486
Materials and supplies		143,020
Depreciation expense		509,866
Miscellaneous		507,576
Total Operating Expenses		<u>4,485,496</u>
Operating Income		<u>98,079</u>
Nonoperating Revenues (Expenses)		
Interest income		1,795
Gain on sale of capital assets		20,989
Interest expense		(81,863)
Net Nonoperating Revenues (Expenses)		<u>(59,079)</u>
Changes in Net Position Before Transfers		<u>39,000</u>
Transfers In		75,517
Transfers Out		(232,593)
Total Transfers		<u>(157,076)</u>
Changes in Net Position		<u>(118,076)</u>
Net Position - Beginning, as previously reported		5,807,158
Prior Period Adjustment		(1,675,407)
Net Position - Beginning, as restated		<u>4,131,751</u>
Net Position - Ending	\$	<u><u>4,013,675</u></u>

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, 2015

	<u>Utility Fund</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 4,499,254
Payments to suppliers	(2,606,216)
Payments to employees	(1,107,407)
Net Cash Provided (Used) by Operating Activities	<u>785,631</u>
Cash Flows From Noncapital Financing Activities	
Interfund transfers	(307,324)
Net Cash Provided (Used) by Non Capital Financing Activities	<u>(307,324)</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds of long-term debt	129,245
Proceeds from sale of capital assets	20,989
Acquisitions and construction of capital assets	(369,883)
Principal paid on long-term debt	(300,629)
Interest paid on debt	(81,863)
Customer deposits	(22,117)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(624,258)</u>
Cash Flows From Investing Activities	
Interest on investments	1,795
Net Cash Provided (Used) by Investing Activities	<u>1,795</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(144,156)
Cash and Cash Equivalents at Beginning of Year	<u>602,160</u>
Cash and Cash Equivalents at End of Year	<u>\$ 458,004</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 98,079
Adjustments to reconcile operating income to net cash	
provided (used) by operating activities:	
Depreciation expense	509,866
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(84,321)
(Increase) decrease in prepaid expenses	(2,333)
Increase (decrease) in accounts payable	58,544
Increase (decrease) in accrued expenses	203,521
Increase (decrease) in compensated absences liability	2,275
Total Adjustments	<u>687,552</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 785,631</u>

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, 2015

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.

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.

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City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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, 2015

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, 2015

Prepaid Items

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

Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "Due to/from other funds." Interfund receivables and payable between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business type activities are reported in the government-wide financial statements as "Internal balances."

Capital Assets

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows related to pensions – This amount represents the City's proportionate share of the deferred outflows of resources reported by the pension plan in which the City participates.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Deferred inflows related to pensions – This amount represents the City's proportionate share of the deferred inflows of resources reported by the pension plan in which the City participates.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Pensions

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

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.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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."

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 Aldermen, 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 new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for contributions Made Subsequent to the Measurement Date*. The provisions of this standard have been incorporated into the financial statements and notes.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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 68	\$ (8,932,918)

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds

<u>Explanation</u>	<u>Amount</u>
Implementation of GASB 68	\$ (1,553,551)
Utility reimbursement	(121,856)
	<u>\$ (1,675,407)</u>

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, 2015, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2015, the carrying amount of the City's deposits was \$1,510,973 and the bank balances totaled \$1,583,411. Of the bank balances, \$250,000 was insured by federal deposit insurance and \$1,333,411 was covered by pooled and/or pledged collateral with the State Treasurer.

NOTE D - INTERGOVERNMENTAL RECEIVABLES

At September 30, 2015, Intergovernmental receivables consisted of:

	<u>General Fund</u>
Ad valorem tax	\$ 7,838
Franchise and sales tax	361,743
Total	<u>\$ 369,641</u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

NOTE E – CAPITAL ASSETS

No interest was capitalized during the year due to immateriality.

	Balance at 9/30/2014	Additions	Deletions	Balance at 9/30/2015
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 575,939	\$ -	\$ -	\$ 575,939
Construction in progress	53,105	49,773	(38,753)	64,125
Total capital assets, not being depreciated:	<u>629,044</u>	<u>49,773</u>	<u>(38,753)</u>	<u>640,064</u>
Capital assets, being depreciated:				
Buildings and improvements	5,628,297	-	-	5,628,297
Infrastructure	8,832,713	166,606	-	8,999,319
Equipment	2,045,837	8,139	(435,000)	1,618,976
Vehicles	1,583,288	-	-	1,583,289
Improvements other than buildings	463,980	214,921	-	678,900
Total capital assets, being depreciated:	<u>18,554,115</u>	<u>389,666</u>	<u>(435,000)</u>	<u>18,508,781</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,688,514)	(206,514)	-	(1,895,028)
Infrastructure	(2,677,922)	(278,283)	-	(2,956,205)
Equipment	(1,436,596)	(179,131)	435,000	(1,180,727)
Vehicles	(882,477)	(141,666)	-	(1,024,143)
Improvements other than buildings	(107,665)	(29,277)	-	(136,942)
Total Accumulated Depreciation	<u>(6,793,174)</u>	<u>(834,871)</u>	<u>435,000</u>	<u>(7,193,045)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,760,941</u>	<u>(445,205)</u>	<u>-</u>	<u>11,315,736</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,389,985</u>	<u>\$ (395,432)</u>	<u>\$ (38,753)</u>	<u>\$ 11,955,800</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 52,930	\$ 666,700	\$ -	\$ 719,630
Construction in progress	749,576	75,517	(810,684)	14,409
Total Capital Assets, Not Being Depreciated:	<u>802,506</u>	<u>742,217</u>	<u>(810,684)</u>	<u>734,039</u>
Capital assets, being depreciated:				
Infrastructure	14,433,485	70,618	75,517	14,579,620
Equipment	1,131,349	12,432	(65,385)	1,078,396
Vehicles	504,347	129,245	(25,000)	608,592
Total Capital Assets, Being Depreciated:	<u>16,069,181</u>	<u>212,295</u>	<u>(14,868)</u>	<u>16,266,608</u>
Less accumulated depreciation for:				
Infrastructure	(6,266,910)	(477,137)	-	(6,744,047)
Equipment	(994,617)	(14,643)	58,847	(950,413)
Vehicles	(378,931)	(18,086)	25,000	(372,017)
Total Accumulated Depreciation	<u>(7,640,458)</u>	<u>(509,866)</u>	<u>83,847</u>	<u>(8,066,477)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,428,723</u>	<u>(297,571)</u>	<u>68,979</u>	<u>8,200,131</u>
Business-Type Activities Capital Assets, Net	<u>\$ 9,231,229</u>	<u>\$ 444,646</u>	<u>\$ (741,705)</u>	<u>\$ 8,934,170</u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

A summary of depreciation expense by function is as follows:

Governmental Activities:

General government	\$ 84,519
Public safety	367,539
Public works	334,637
Culture and recreation	48,176
Total Governmental Activities Depreciation Expense	\$ 834,871

Business-Type Activities:

Utility	\$ 509,866
Total Business-Type Activities Depreciation Expense	\$ 509,866

Commitments under construction at September 30, 2015 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Commerce Street & Pleasant Hill Road Overlay	\$ 343,212	\$ 322,912	General

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, 2015:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 38,847	\$ 401,566
Debt service fund	52,563	57,966
Other governmental	14,904	18,959
Utility fund	456,136	83,959
Total Funds	\$ 562,450	\$ 562,450

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
General fund	\$ -	\$ 337,121
Debt service fund	403,197	-
Other governmental	91,000	-
Utility fund	75,517	\$ 232,593
Total Funds	\$ 569,714	\$ 569,714

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City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

NOTE G - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2015 was as follows:

	Balance at 9/30/2014	Additions	Deletions	Balance at 9/30/2015	Amounts Due Within One Year
Governmental Activities:					
General obligation bonds payable	\$ 6,806,668	\$ -	\$ 534,800	\$ 6,271,868	\$ 552,600
Notes payable	49,401	1,000,000	1,013,492	35,909	13,744
Leases payable	1,115,683	-	158,376	957,307	161,735
Compensated absences payable	194,746	(148)	-	194,598	-
Governmental Activities Long-Term Liabilities	\$ 8,166,498	\$ 999,852	\$ 1,706,668	\$ 7,459,682	\$ 728,079
Business-Type Activities:					
General obligation bonds payable	\$ 853,332	\$ -	\$ 90,200	\$ 763,132	\$ 92,400
Notes payable	3,227,650	-	180,562	3,047,088	184,184
Leases payable	78,706	129,245	29,867	178,084	49,052
Compensated absences payable	17,267	2,275	-	19,542	-
Business-Type Activities Long-Term Liabilities	\$ 4,176,955	\$ 131,520	\$ 300,629	\$ 4,007,846	\$ 325,636

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding as of September 30, 2015 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount	
				Issued	Outstanding
2007	Various	5/31/2007	5/1/2027	\$ 5,000,000	\$ 3,505,000
2012	Various	11/8/2012	10/1/2023	4,465,000	3,530,000
Total General Obligation Bonds				\$ 9,465,000	\$ 7,035,000

Notes payable as of September 30, 2015 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount	
				Issued	Outstanding
First Security Note - Parks Equipment	1.85%	03/17/13	03/15/18	\$ 68,109	\$ 35,909
Subtotal Governmental Activities				68,109	35,909
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	10/31/02	10/31/21	288,000	106,989
Dept. of Environ. Quality - Water Pollution Control	1.75%	06/01/03	01/01/23	508,741	211,157
Dept. of Econ. and Community Dev. - Sewer Cap Loan	2.00%	02/01/05	02/01/25	237,400	123,313
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	11/01/05	11/01/25	191,116	116,442
State of Mississippi - DWSIRLF	1.95%	11/05/12	10/15/32	1,141,966	814,449
Dept. of Environmental Quality - Water Pollution Control				1,531,562	1,674,738
Subtotal Business-Type Activities				3,898,785	3,047,088
Total Business-Type Activities				\$ 3,966,894	\$ 3,082,997

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

The aggregate maturities of general obligation bonds and notes for the years subsequent to September 30, 2015 are as follows:

Year ending September 30	Governmental Activities Fund		Business-Type Activities Fund	
	Principal	Interest	Principal	Interest
2016	566,344	194,367	276,584	77,251
2017	584,400	178,978	282,480	71,798
2018	601,365	163,078	288,454	66,226
2019	611,000	146,537	294,508	60,530
2020	632,700	129,600	301,743	54,711
2021-2025	2,591,968	373,644	1,166,169	186,618
2026-2030	720,000	43,527	740,095	89,635
2031-2035	-	-	460,187	22,664
Total	\$ 6,307,777	\$ 1,229,731	\$ 3,810,220	\$ 629,433

Future minimum capital lease payments and the net present value of these future minimum lease payments as of September 30, 2015 were as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 161,735	\$ 22,983	\$ 49,052	\$ 3,175
2017	165,171	19,547	50,028	2,199
2018	168,684	16,033	32,195	1,316
2019	71,159	13,051	26,534	739
2020	38,965	11,743	20,275	180
2021-2025	214,319	39,221	-	-
2026-2029	137,274	6,397	-	-
Total	\$ 957,307	\$ 128,975	\$ 178,084	\$ 7,609

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 \$14,047,545 (the smaller of the two computed margins) as of September 30, 2015.

	15% Test	20% Test
Assessed value as of September 30, 2015:		
\$135,462,754 times applicable percentage	\$ 20,319,413	\$ 27,092,551
Less present debt subject to debt limits as of September 30, 2015:		
Total bonds outstanding (excluding proprietary)	(6,271,868)	(6,271,868)
Margin for additional debt	<u>\$ 14,047,545</u>	<u>\$ 20,820,683</u>

In December 2007, the City entered into an agreement with the City of Southaven, Mississippi whereby the City of Southaven will design and construct a sewer system ("the Hurricane Creek Project") by which it will collect and transport wastewater through the City of Hernando to the DeSoto County Regional Utility Authority's sewer system for treatment and disposal. Upon completion, the City of Hernando will operate and

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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, 2015 the project was not complete.

NOTE H – DEFINED BENEFIT PENSION PLAN

General Information about the 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 Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2015, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers 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, 2015, 2014 and 2013 were \$842,484, \$855,203 and \$761,087, respectively, equal to the required contributions for each year.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the City reported a liability of \$13,247,529 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was .0857 percent, which was a decrease of .0025 from its proportion measured as of June 30, 2014.

For the year ended September 30, 2015, the City recognized pension expense of \$1,326,715. At September 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 203,873	\$ -
Net difference between projected and actual earnings on pension plan investments	775,122	-
Changes of assumptions	1,141,230	-
Changes in the City's proportion and differences between the City's contributions and proportionate share of contributions	-	685,879
City contributions subsequent to the measurement date	221,926	-
Total	<u><u>\$ 2,342,151</u></u>	<u><u>\$ 685,879</u></u>

\$221,926 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years ending June 30</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Total</u>
2016	\$ 688,303	\$ (252,161)	\$ 436,142
2017	688,303	(252,161)	436,142
2018	549,837	(181,556)	368,281
2019	193,781	-	193,781
Totals	<u><u>\$ 2,120,224</u></u>	<u><u>\$ (685,878)</u></u>	<u><u>\$ 1,434,346</u></u>

Actuarial Assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases	3.75 – 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

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

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34%	5.20%
International Equity	19%	5.00%
Emerging Markets Equity	8%	5.45%
Fixed Income	20%	0.25%
Real Assets	10%	4.00%
Private Equity	8%	6.15%
Cash	1%	-0.50%
Total	100%	

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

Sensitivity to the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability	\$ 17,461,458	\$ 13,247,529	\$ 9,750,757

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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 and the Parks fund reported deficits in fund balances of \$19,012 and \$19,952 respectively at September 30, 2015.

NOTE K – 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.

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 August 25, 2016, 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 September 15, 2015, the City approved to enter into a tax anticipation note for \$1,400,000 and was paid back by March 15, 2016.

On December 8, 2015, the City approved the sale of General Obligation Bonds, Series 2015 in the principal amount of \$4,500,000. The funds are to be used for the construction of Utility and General Government projects.

On December 15, 2015, the City approved the purchase of radios, radars, and other items for the Police Department with a \$500,000 loan.

On January 19, 2016, the City approved the issuance of the Taxable Tax Increment Limited Obligation Bonds, Series 2016, in the amount of \$255,000. The bond proceeds are to be used to fund the Tax Increment Financing Plan "The Hampton Inn Hotel Project," Hernando, Mississippi 2012 that was approved on October 2, 2012.

On March 15, 2016, the City approved the refunding of the 2007 General Obligation Bonds in the amount of \$3,220,000. The closing date of the refunding was May 3, 2016.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Hernando, Mississippi
Budgetary Comparison Schedule Budget and Actual (Non-GAAP Basis) – General Fund
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
General property taxes	\$ 3,420,033	\$ 3,420,033	\$ 3,517,941	97,908
Franchise taxes	439,000	439,000	466,243	27,243
Intergovernmental	3,566,400	3,566,400	3,337,363	(229,037)
Charges for services	805,000	825,475	856,184	30,709
Miscellaneous	119,300	120,000	137,277	17,277
Total Revenues	8,349,733	8,370,908	8,315,008	(55,900)
Expenditures				
General government	1,302,346	1,371,276	1,348,735	22,541
Public safety	5,909,080	5,967,231	5,869,410	97,821
Public works	362,155	397,758	374,977	22,781
Health and welfare	160,683	181,509	90,059	91,450
Capital outlay	663,750	693,460	277,094	416,366
Debt service	635,719	1,187,512	1,187,510	2
Total Expenditures	9,033,733	9,798,746	9,147,785	650,961
Excess (deficiency) of revenues over (under) expenditures	(684,000)	(1,427,838)	(832,777)	595,061
Other Financing Sources (Uses)				
Grant revenue	182,000	428,524	402,670	(25,854)
Loan proceeds	450,000	1,000,000	1,000,000	-
Interfund transfers	49,000	49,000	(91,000)	(140,000)
Sale of assets	3,000	3,000	2,732	(268)
Total Other Financing Sources (Uses)	684,000	1,480,524	1,314,402	(166,122)
Net Change in Fund Balances	\$ -	\$ 52,686	481,625	\$ 428,939
Fund Balance - Beginning of Year			393,101	
Fund Balance - End of Year			874,726	
Adjustments to Conform with GAAP:				
Revenues			(65,354)	
Expenditures			(251,891)	
Fund Balance - End of Year (GAAP Basis)			\$ 557,481	

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.

City of Hernando, Mississippi
Budgetary Comparison Schedule Budget and Actual (Non-GAAP Basis) – General Fund
For the Year Ended September 30, 2015

(B) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted amounts on a budgetary basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund. The Budgetary Comparison Schedule is a part of required supplementary information. The major differences between budgetary basis and GAAP basis are revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP); expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP)

(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).

City of Hernando, Mississippi
Schedule of City's Proportionate Share of Net Pension Liability
For the Year Ended September 30, 2015

Last 10 Fiscal Years*	<u>2015</u>
City's proportion of the net pension liability	0.0857%
City's proportionate share of the net pension liability	\$ 13,247,529
City's covered-employee payroll	\$ 5,356,568
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	247.31%
Plan Fiduciary net position as a percentage of the total pension liability	61.70%

The notes to the required supplementary information are an integral part of this schedule.

*The amounts presented for each year were determined as of June 30th of the year prior to the fiscal year presented.

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

City of Hernando, Mississippi
Schedule of City's Contributions
For the Year Ended September 30, 2015

Last 10 Fiscal Years*	2015
Contractually required contribution	\$ 846,661
Contributions in relation to the contractually required contribution	\$ 842,484
Contribution deficiency (excess)	\$ 4,177
City's covered-employee payroll	\$ 5,349,104
Contributions as a percentage of covered-employee payroll	15.75%

The notes to the required supplementary information are an integral part of this schedule.

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

City of Hernando, Mississippi
Notes to the Required Supplementary Information
For the Year Ended September 30, 2015

Pension Schedules

- 1) Change of benefit terms – there were no changes of benefit terms in 2015.
- 2) Change of assumptions – the following assumptions changed from 2014 to 2015.
 - a. Inflation rate decreased .5% to 3.00%
 - b. Salary increases decreased by .5% to 3.75% - 19.00%, average, including inflation
 - c. Investment rate of return decreased .25% to 7.75%, net of pension plan investment expense, including inflation

OTHER INFORMATION

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City of Hernando, Mississippi
Schedule of Surety Bonds for City Officials
September 30, 2015

Name	Position	Insurance Company	Bond
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	Bookkeeper	Travelers Casualty and Surety Co.	\$50,000
Cassandra E. Perry	Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Jennifer Borden	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Donna Riles	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Abigail Beecham	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
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
C. Scott Worsham	Police Chief	Travelers Casualty and Surety Co.	\$50,000
Shane Ellis	Asst. Police Chief	Travelers Casualty and Surety Co.	\$50,000
Tarra Davis	Police Officer	Travelers Casualty and Surety Co.	\$50,000
Dewayne Williams	Park Director	Travelers Casualty and Surety Co.	\$50,000
Daniel Carson	Asst. Parks Director	Travelers Casualty and Surety Co.	\$50,000
Trenna Powell	Parks Receptionist	Travelers Casualty and Surety Co.	\$50,000
Annabelle Ibsen	Planning Clerk	Travelers Casualty and Surety Co.	\$50,000
Jared Darby	Director of Planning	Travelers Casualty and Surety Co.	\$50,000
Jacob A. Hisaw	Animal Control Officer	Travelers Casualty and Surety Co.	\$50,000

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SPECIAL REPORTS

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WILLIAMS - PITTS - BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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**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, 2015, 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 August 25, 2016.

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 material weaknesses and a 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses [2015-001] and [2015-002].

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 accompanying schedule of findings and responses to be a significant deficiency [2015-003].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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

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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 August 25, 2016, 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
August 25, 2016

**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, 2015 and have issued our report thereon dated August 25, 2016. 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**- 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.

2. **Finding** – Tax receipts for ad valorem taxes exceeded the 10% increase limitation as prescribed by MS Code 27-39-321.

Recommendation – The City should calculate the projected increase based on millage and assessment values when setting the tax levy for the following budget year to ensure it does not exceed the 10% threshold set forth in MS Code 27-39-321. To remedy this, the City transferred funds, to pay principal and interest, from the general fund to the debt service fund for the amount greater than the 10% increase.

Response – We will perform the recommended projection calculation during the budget process each year to ensure the tax receipts for ad valorem taxes do not exceed the 10% limitation set forth in MS Code 27-39-321.

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.

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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

August 25, 2016

City of Hernando, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2015

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

2015-001. **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: In the process of assisting with the preparation of the financial statements and related notes, the external auditors discovered and proposed material adjustments that were recorded by management.

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.

2015-002. **Criteria:** Part of effective internal controls over financial reporting is the ability to reconcile bank accounts to their corresponding accounts in the general ledger and ensure that it is performed in a timely manner.

City of Hernando, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2015

Condition: The City was not fully reconciling their bank statements to the general ledger by leaving items as reconciling items rather than recording them in the general ledger. The City also had material outstanding deposits on the reconciliations that were greater than one month outstanding.

Effect: Material transactions may not be recorded and the cash balance could be misstated. Based on the adjusting entries that were made for cash reconciliations, expenses were understated by \$76,240 and revenues were overstated by \$26,843 for a net fund balance decrease of \$103,083.

Cause: Staff did not have the proper training to reconcile the bank statements appropriately. The process was not being monitored by management to ensure it was being performed appropriately.

Recommendation: All bank statements should be reconciled to the general ledger each month. Management should review the monthly reconciliations for errors, omissions, unusual reconciling items and for the timeliness of the procedures. The reviewer should sign and date the reconciliation to note the date of the review.

Response: The City will implement control procedures to make sure statements are reviewed consistently and with more scrutiny.

Significant Deficiency

2015-003. 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: Material transactions may not be recorded appropriately that could cause material misstatements in revenue and expenses.

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.