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CITY OF HERNANDO, MISSISSIPPI

Audited Financial Statements
For the Fiscal Year Ended September 30, 2018

Fortenberry & Ballard, PC
Certified Public Accountants

City of Hernando, Mississippi
September 30, 2018
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

Mayor and Board of Aldermen/Alderwomen
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, 2018, and the related notes to the financial statements, which collectively comprise the City of Hernando, Mississippi'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.

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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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 schedule and corresponding notes, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of the City's Contributions on pages 8-17 and 52-56, respectively, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hernando, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of

Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Surety Bonds for City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Hernando, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hernando, Mississippi's internal control over financial reporting and compliance.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
July 17, 2020

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

As management of the City of Hernando (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

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 to provide the reader a clear understanding of the financial activities that occurred during the fiscal year.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$1,262,521 (total net position).
- The government's total net position increased by \$2,792,777.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of (\$3,661,577) an increase of \$1,291,516.
- At the end of the current fiscal year, **unassigned fund balance** for the General Fund was \$1,027,364, or 8.12 percent of total general fund expenditures for the fiscal year.
- The City's total debt increased by \$3,847,034 (24.56%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains required supplementary information, and other information that will enhance the reader's understanding of the financial condition of the City.

Basic Financial Statements

The first two statements (Pages 19 and 20) making up the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Pages 21 and 23) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements.

Required Supplementary Information

After the notes, required supplementary information is provided to show budgetary information required by Governmental Accounting Standards Board for the General Fund. Additionally, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of the City's Contributions are included in this section.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

Other Information

Additionally, a Schedule of Surety Bonds for City Officials can be found in this section of the report.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets, deferred outflows of resources, total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property tax and sales tax finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and sanitation services offered by the City.

The government-wide financial statements are on pages 19 and 20 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Mississippi, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements. All of the funds of City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City adopts an annual budget for its General Fund. The budget is a legally adopted document that incorporates input from the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The City has one type of proprietary fund.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its utility operations. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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 begin on page 29 of this report.

Government-Wide Financial Analysis

The City of Hernando's Net Position

Figure 1

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
ASSETS						
Current and other assets	\$ 10,100,677	10,904,169	2,375,526	1,023,449	12,476,203	11,927,618
Capital assets, net	16,827,881	14,559,536	14,714,256	9,284,755	31,542,137	23,844,291
<i>Total assets</i>	<u>26,928,558</u>	<u>25,463,705</u>	<u>17,089,782</u>	<u>10,308,204</u>	<u>44,018,340</u>	<u>35,771,909</u>
DEFERRED OUTFLOWS OF RESOURCES	2,473,720	2,922,092	433,630	492,600	2,907,350	3,414,692
LIABILITIES						
Current Liabilities	697,435	1,015,308	660,157	580,339	1,357,592	1,595,647
Long term debt outstanding	10,281,993	11,448,226	9,230,791	4,217,524	19,512,784	15,665,750
Net pension liability	14,812,810	13,641,703	2,522,404	2,365,296	17,335,214	16,006,999
<i>Total liabilities</i>	<u>25,792,238</u>	<u>26,105,237</u>	<u>12,413,352</u>	<u>7,163,159</u>	<u>38,205,590</u>	<u>33,268,396</u>
DEFERRED INFLOW OF RESOURCES	7,271,617	7,233,653	185,963	214,808	7,457,579	7,448,461
NET POSITION						
Net investment in capital assets	6,864,178	3,471,967	5,519,398	5,099,170	12,383,576	8,571,137
Restricted	2,210,658	3,314,090	-	-	2,210,658	3,314,090
Unrestricted	(12,736,413)	(11,739,150)	(595,300)	(1,676,333)	(13,331,713)	(13,415,483)
<i>Total net position</i>	<u>(3,661,577)</u>	<u>(4,953,093)</u>	<u>4,924,098</u>	<u>3,422,837</u>	<u>1,262,521</u>	<u>(1,530,256)</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the City of Hernando exceeded liabilities and deferred inflows of resources by \$1,262,521, as of September 30, 2018.

The largest portion of net position, \$12,383,576 is reflected in the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

There is a deficit of \$13,331,713 in unrestricted net position due to recording of unfunded pension liabilities under GASB 68. Please refer to Note 12.

Several aspects of the City's financial operations influenced the total unrestricted governmental net position:

- Increased sales tax revenues of approximately \$178,000.
- Program revenue increase of approximately \$2,195,000 and an increase in general revenues collections of approximately \$2,000,000.
- Expenditure increase overall for operations was approximately \$2,417,000 due primarily to higher pension expense costs.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

City of Hernando's Changes in Net Position

Figure 2

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
REVENUES						
Program Revenues:						
Charges for services	\$ 1,755,258	\$ 1,151,964	\$ 6,564,009	\$ 5,057,246	\$ 8,319,267	\$ 6,209,210
Operating and capital grants	2,638,677	1,046,791		28,445	2,638,677	1,075,236
Total program revenues	4,393,935	2,198,755	6,564,009	5,085,691	10,957,944	7,284,446
General Revenues						
Property taxes	6,020,495	4,659,061		-	6,020,495	4,659,061
Sales tax	3,702,589	3,523,684		-	3,702,589	3,523,684
Other general revenues	983,068	1,559,877	784,184	(253,659)	1,767,252	1,306,218
Total general revenues	10,706,152	9,742,622	784,184	(253,659)	11,490,336	9,488,963
Total Revenues	15,100,087	11,941,377	7,348,193	4,832,032	22,448,280	16,773,409
EXPENSES						
General government	1,435,214	721,338			1,435,214	721,338
Public safety	7,611,396	6,661,635			7,611,396	6,661,635
Public works	809,086	1,516,299			809,086	1,516,299
Health and welfare	405,985	124,513			405,985	124,513
Culture and recreation	931,582	469,656			931,582	469,656
Economic development		255,000			-	255,000
Pension expense	2,343,413	2,168,597	314,380	333,310	2,657,793	2,501,907
Interest on long term debt	271,895	281,410	101,135	87,062	373,030	368,472
Utilities			5,431,417	4,620,016	5,431,417	4,620,016
Total expenses	13,808,571	12,198,448	5,846,932	5,040,388	19,655,503	17,238,836
Change in net position	1,291,516	(257,071)	1,501,261	(208,356)	2,792,777	(465,427)
Net Position-Beginning of Year	(4,953,093)	(4,865,851)	3,422,837	3,373,627	(1,530,256)	(1,492,224)
Prior Period Adjustment		169,829		257,566	-	427,395
Net Position-Beginning of Year-Restated	(4,953,093)	(4,696,022)	3,422,837	3,631,193	(1,530,256)	(1,064,829)
Net Position-End of Year	\$ (3,661,577)	\$ (4,953,093)	\$ 4,924,098	\$ 3,422,837	\$ 1,262,521	\$ (1,530,256)

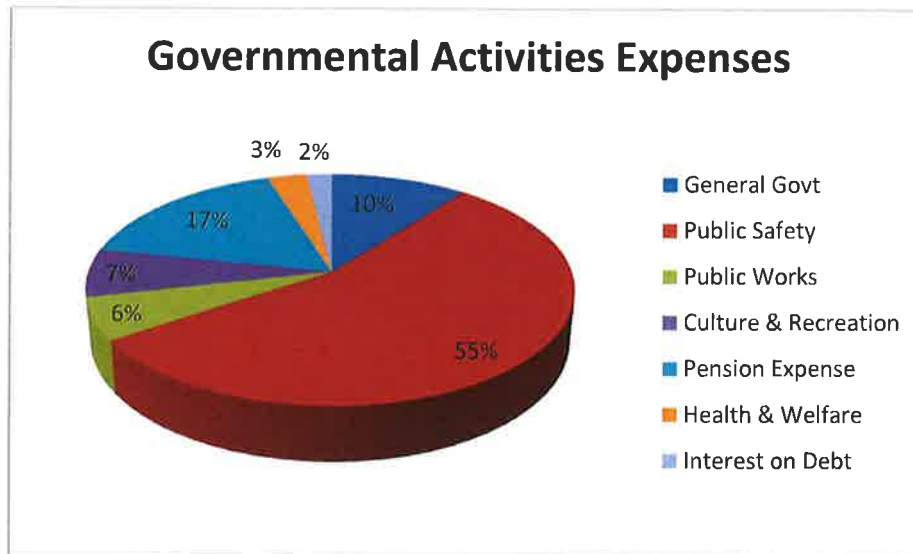
CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

Governmental activities. Governmental activities increased the City's net position by \$1,291,516.

Governmental Activities Expenses are broken out by department as follows

Chart 1



Business-type activities: Business-type activities increased the City's net position by \$1,501,261. Key elements of this net increase are as follows:

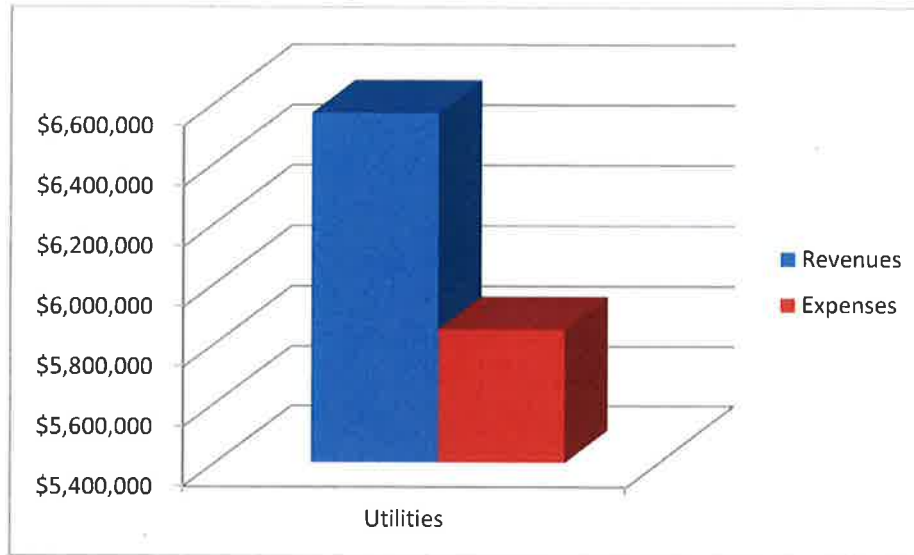
- Charges for services increased by nearly \$1,507,000 in the Utility Fund due to increased collections from customers in the current fiscal year.
- Utility expenses increased approximately \$810,000 in the Utility Fund.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

Business type revenues compared to expenses are as follows:

Chart 2



Financial Analysis of the City of Hernando's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,027,364, while total fund balance reached \$1,047,921. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 8.1 percent of total General Fund expenditures.

At September 30, 2018, the governmental funds of the City reported a combined fund balance of \$3,303,274, an 18.8 percent decrease over last year. Included in this change in fund balance are increases in fund balance in the General Fund, and decreases in fund balances in the Debt Service Fund and the GO Debt Construction Fund.

The General Fund increase was mainly due to increase in property taxes and sales tax collections. The Debt Service Fund decreased due to higher debt service payments being made from the prior period. The GO Debt Construction Fund decreased due to expenditures of the proceeds received from debt issuances made in prior periods.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on three occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

Revenues were more than the budgeted amounts primarily because property tax and sales tax revenues received were greater than originally anticipated. Expenditures increased also in some of the funds primarily due to increased employment costs.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year is (\$595,300). The total growth in net position for the Utility fund was \$1,501,261. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City's capital assets for its governmental and business-type activities as of September 30, 2018, totals \$31,542,137 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, water works system, and vehicles.

Major capital asset transactions during the year include the following additions and disposals:

- Vehicles purchased in current fiscal year: Dodge Ram, by December 19, 2017 for the Public Works Department
- Machinery and equipment purchased in the current fiscal year include the following significant items: Ambulance stretcher, spreader package, lights and equipment for replacement ambulance (insurance paid for). Radar speed sign, tasers and equipment, and K9 kennel for the Police Department. Wood carpet and 2 mowers for Parks.
- Major completed projects include the following: Fire & Economy Development Downtown, Road to Renasant Park, McIngvale/Byhalia signal project, and Green T Sewer.

The City of Hernando's Capital Assets

Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 575,939	\$ 575,939	\$ 719,630	\$ 719,630	\$ 1,295,569	\$ 1,295,569
Construction in progress	2,868,960	324,866	162,452	66,049	3,031,412	390,915
Buildings and improvements	6,288,177	6,288,177	48,970	48,970	6,337,147	6,337,147
Equipment	2,294,268	2,168,000	1,030,369	1,015,249	3,324,637	3,183,249
Vehicles	2,102,512	2,050,900	521,421	499,897	2,623,933	2,550,797
Improvements other than bldg	1,135,631	1,135,631	-	-	1,135,631	1,135,631
Infrastructure	11,659,969	11,154,309	-	-	11,659,969	11,154,309
Waterworks system	-	-	21,769,313	15,703,264	21,769,313	15,703,264
Accumulated depreciation	(10,097,575)	(9,138,286)	(9,537,899)	(8,768,304)	(19,635,474)	(17,906,590)
	<u>\$ 16,827,881</u>	<u>\$ 14,559,536</u>	<u>\$ 14,714,256</u>	<u>\$ 9,284,755</u>	<u>\$ 31,542,137</u>	<u>\$ 23,844,291</u>

Additional information on the City's capital assets can be found in Note 5 of the Basic Financial Statements.

Long-term Debt. As of September 30, 2018, the City had total debt outstanding of \$19,512,784. Included here is bonded debt totaling \$9,320,000 backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds), notes payable, and leases payable.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis For the Year Ended September 30, 2018

City of Hernando's Outstanding Debt General Obligation and Revenue Bonds

Figure 4

	<u>2018</u>	<u>2017</u>
Governmental activities		
General obligation bonds	\$ 8,840,668	\$ 9,633,868
Limited obligations bonds	225,000	240,000
Loans / Notes payable	247,182	354,561
Leases payable	633,611	924,347
Compensated absences	318,290	276,200
Bond premiums	17,242	19,250
Governmental activities	<u>\$ 10,281,993</u>	<u>\$ 11,448,226</u>
Business -type activities		
General obligation bonds	\$ 479,332	\$ 576,132
Notes payable	8,572,062	3,406,196
Leases payable	143,464	203,257
Compensated absences	35,933	31,939
Business-type activities	<u>\$ 9,230,791</u>	<u>\$ 4,217,524</u>
Total Long-Term Debt	<u>\$ 19,512,784</u>	<u>\$ 15,665,750</u>

The City's total debt increased by \$3,847,034 (24.6%) throughout the fiscal year. There was no new bond issuance in the current fiscal year. No new limited obligation bond issuance during the current year. New debt was also issued through a loan in the amount of \$5,500,000.

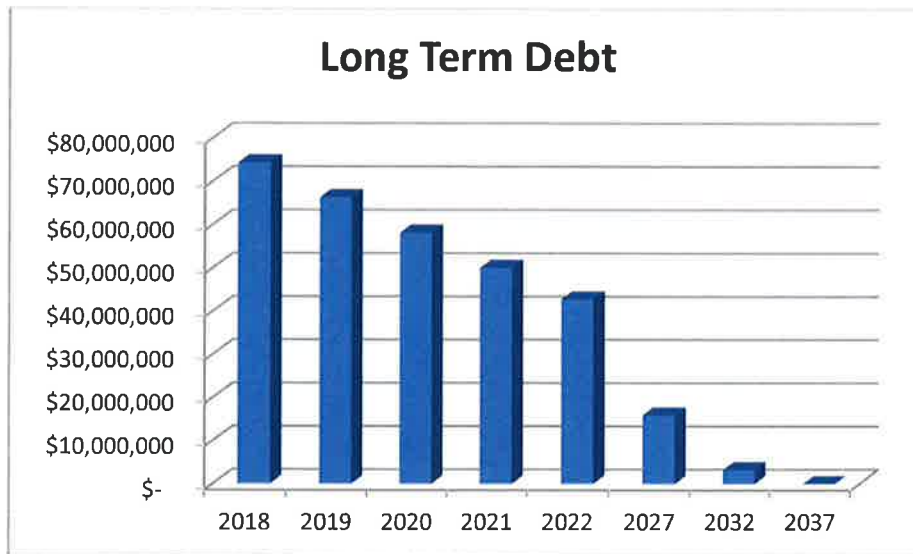
Mississippi general statutes limit the amount of general obligation debt that a unit of government can issue to 15 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for additional debt for the City is \$12,427,915.

City of Hernando, Mississippi

Management's Discussion and Analysis For the Year Ended September 30, 2017

See the Chart 3 for the pay down of the current debt.

Chart 3



Additional information regarding the City's long-term debt can be found in Note 9 on page 44 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- Low unemployment. The City's unemployment rate of 3.6%, as of September 30, 2018, is well below the National and State averages of 4.2% and 4.7%.
- In 2018, Hernando's population was calculated, according to the United States Census most recent numbers, to be 16,317. Since 2000, the population in the county seat of DeSoto County has increased by over 9,000, nearly 150%.
- On December 19, 2017, the City of Hernando purchased the North Mississippi Utility Company materially expanding their customer base to be provided utility services by the City such as water and sewer services.
- The City of Hernando has received numerous accolades recently. Those honors include: "Playful City USA", "Healthiest Hometown", CNN/ Money Magazine's *100 Best Places to Live*, was featured in CNN's *Great American Small Town Series!* and "2014-2020 Tree City USA". The City emphasizes and encourages its residents to take up a healthy lifestyle and received MS Healthiest City 2010 and MS Healthy City 2018, Blue Cross Blue Shield of MS Foundation. Certification such as "Let's Move" and "Excel By 5" Community emphasize this action. In 2015, the City of Hernando was ranked second in *Family Circle* magazine for the "Best Town for Families".

Budget Highlights for the Fiscal Year Ending September 30, 2019

Governmental Activities: Property taxes (benefiting from the economic growth) are expected to increase as the assessment increased in the current year. Ad valorem taxes were increased for the first time in several years in order

CITY OF HERNANDO, MISSISSIPPI
Management's Discussion and Analysis
For the year Ended September 30, 2014

to augment public safety and public works functions provided by the City. The City of Hernando is generally conservative when budgeting revenues due to unknown economic factors.

The City will receive capital funding in fiscal year 2019 for the widening and improvement of McIngvale Road, a major road running through a heavily residential part of the City and also a burgeoning business corridor. Budgeted expenditures in the General Fund are expected to be relatively similar to the current year. The City doesn't anticipate any significant increases in expenditures through the general fund.

Business-type Activities: Utility rate increases enacted in fiscal year 2018 along with the acquisition of the North Mississippi Utility Company, Inc., the City will be providing utility services to more customers. Operational expense increases will coincide with those actions but revenues generated should sufficiently cover those increases.

Sales taxes have provided a relatively stable source of revenue for the City, but the Coronavirus pandemic and its sudden hit to the economy may impact this source of revenue. With consumer spending severely limited by social distancing and orders for people to stay at home, sale tax revenue is likely to plummet. Although it is difficult to gauge the eventual fiscal impact of the pandemic, the latest Moody's predictions are that sales tax collections most of will remain depressed throughout most of 2020.

Requests for Information

This report is designed to provide an overview of the City of Hernando's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Katie Harbin, City Clerk at 662-429-9092.

FINANCIAL STATEMENTS

CITY OF HERNANDO, MISSISSIPPI

Statement of Net Position

September 30, 2018

Exhibit 1

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash	\$ 3,350,798	\$ 1,304,062	\$ 4,654,860
Property tax receivable	6,142,707		6,142,707
Accounts receivable (net of allowance for uncollectibles of \$1,592,981)	113,878	910,497	1,024,375
Intergovernmental receivables	627,193		627,193
Internal balance	(156,412)	156,412	-
Prepaid items	22,513	4,555	27,068
Capital assets:			
Land and construction in progress	3,444,899	882,082	4,326,981
Other capital assets, net of depreciation	13,382,982	13,832,174	27,215,156
Total Assets	<u>26,928,558</u>	<u>17,089,782</u>	<u>44,018,340</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	2,398,071	433,630	2,831,701
Deferred amounts on refunding	75,649		75,649
Total Deferred Outflows of Resources	<u>2,473,720</u>	<u>433,630</u>	<u>2,907,350</u>
LIABILITIES			
Accounts payable	355,881	108,309	464,190
Intergovernmental payables	14,825		14,825
Accrued interest payable	42,739	103,125	145,864
Accrued liabilities	283,990	58,895	342,885
Customer deposits		389,828	389,828
Long-term liabilities			
Due within one year:			
Capital debt	1,121,221	690,518	1,811,739
Due in more than one year:			
Capital debt	8,842,482	8,504,340	17,346,822
Non-capital debt	318,290	35,933	354,223
Net pension liability	14,812,810	2,522,404	17,335,214
Total Liabilities	<u>25,792,238</u>	<u>12,413,352</u>	<u>38,205,590</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenues - property taxes	6,142,707		6,142,707
Deferred inflows related to pension	1,128,910	185,962	1,314,872
Total Deferred Inflows of Resources	<u>7,271,617</u>	<u>185,962</u>	<u>7,457,579</u>
NET POSITION			
Net investment in capital assets	6,864,178	5,519,398	12,383,576
Restricted for:			
Capital projects	2,125,251		2,125,251
Debt service	4,445		4,445
Public safety	17,858		17,858
Health and welfare	47,247		47,247
Culture and recreation	5,517		5,517
Economic development and assistance	10,340		10,340
Unrestricted	(12,736,413)	(595,300)	(13,331,713)
Total Net Position	<u>\$ (3,661,577)</u>	<u>\$ 4,924,098</u>	<u>\$ 1,262,521</u>

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2018

Exhibit 2

Program Revenues				Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Governmental activities:						
General government	\$ 1,435,214	\$ 208,035	\$ -	\$ -	\$ (1,227,179)	\$ (1,227,179)
Public safety	7,611,396	897,898	219,918		(6,493,580)	(6,493,580)
Public works	809,086	223,221		2,112,143	1,526,278	1,526,278
Health and welfare	405,985	23,447	25,000		(357,538)	(357,538)
Culture and recreation	931,582	385,123	281,616		(264,843)	(264,843)
Economic development and assistance		17,534			17,534	17,534
Pension expense	2,343,413				(2,343,413)	(2,343,413)
Interest on long-term debt	271,895				(271,895)	(271,895)
Total Governmental Activities	<u>13,808,571</u>	<u>1,755,258</u>	<u>526,534</u>	<u>2,112,143</u>	<u>(9,414,636)</u>	<u>(9,414,636)</u>
Business-type activities:						
Utility	5,431,417	6,564,009			1,132,592	1,132,592
Interest on long-term debt	101,135				(101,135)	(101,135)
Pension expense	314,380				(314,380)	(314,380)
Total Business-type Activities	<u>5,846,932</u>	<u>6,564,009</u>	<u>-</u>	<u>-</u>	<u>717,077</u>	<u>717,077</u>
Total Primary Government	<u>\$ 19,655,503</u>	<u>\$ 8,319,267</u>	<u>\$ 526,534</u>	<u>\$ 2,112,143</u>	<u>\$ (9,414,636)</u>	<u>\$ (8,697,559)</u>
General revenues:						
Property taxes					6,020,495	6,020,495
Grants and contributions not restricted to specific programs					485,439	485,439
Sales taxes					3,702,589	3,702,589
Franchise taxes					481,185	481,185
Tourism taxes					32,406	32,406
Unrestricted interest income					8,423	39,185
Miscellaneous					165,012	729,037
Transfers					(211,736)	-
Total General Revenues and transfers					<u>10,706,152</u>	<u>11,490,336</u>
Change in Net Position					<u>1,291,516</u>	<u>2,792,777</u>
Net Position - Beginning					<u>(4,953,093)</u>	<u>(1,530,256)</u>
Net Position - Ending					<u>\$ (3,661,577)</u>	<u>\$ 1,262,521</u>

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

CITY OF HERNANDO, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2018

Exhibit 3

	Major Funds				
	General Fund	Debt Service Fund	GO Debt Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 960,559	\$ 47,184	\$ 2,156,718	\$ 186,337	\$ 3,350,798
Property tax receivable	4,994,266	710,097		438,344	6,142,707
Intergovernmental receivables	624,467			2,726	627,193
Accounts receivable, net allowance for uncollectible accounts of \$1,592,981	113,878				113,878
Due from other funds	19,008				19,008
Prepaid items	20,557			1,956	22,513
Total Assets	<u>6,732,735</u>	<u>757,281</u>	<u>2,156,718</u>	<u>629,363</u>	<u>10,276,097</u>
LIABILITIES					
Accounts payable	269,257		31,467	55,157	355,881
Accrued expenses	264,879			19,111	283,990
Due to other funds	156,412			19,008	175,420
Intergovernmental payables				14,825	14,825
Total Liabilities	<u>690,548</u>	<u>-</u>	<u>31,467</u>	<u>108,101</u>	<u>830,116</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	4,994,266	710,097		438,344	6,142,707
Total Deferred Inflows of Resources					
FUND BALANCES					
Nonspendable					
Prepaid items	20,557			1,956	22,513
Restricted					
Capital projects			2,125,251		2,125,251
Debt service		47,184			47,184
Public safety				17,858	17,858
Health and welfare				47,247	47,247
Culture and recreation				5,517	5,517
Economic development and assistance				10,340	10,340
Unassigned	1,027,364				1,027,364
Total Fund Balances	<u>1,047,921</u>	<u>47,184</u>	<u>2,125,251</u>	<u>82,918</u>	<u>3,303,274</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 6,732,735</u>	<u>\$ 757,281</u>	<u>\$ 2,156,718</u>	<u>\$ 629,363</u>	<u>\$ 10,276,097</u>

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

CITY OF HERNANDO, MISSISSIPPI**Exhibit 3-1**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2018

Total fund balances for governmental funds	\$	3,303,274
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$10,097,575.		16,827,881
Other long-term assets are not available to pay current period expenditures and therefore are not reported in the funds:		
Long-term debt payable	(9,963,703)	
Compensated absences payable	<u>(318,290)</u>	
		(10,281,993)
Deferred amount on refunding of debt issuances		75,649
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.		2,398,071
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(42,739)
Deferred inflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.		(1,128,910)
Net pension liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(14,812,810)</u>
Net position of governmental activities	\$	<u><u>(3,661,577)</u></u>

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

CITY OF HERNANDO, MISSISSIPPI

Exhibit 4

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2018

	Major Funds			Other	
	General	Debt	GO Debt	Governmental	Total
	Fund	Service	Construction	Funds	
		Fund	Fund		
REVENUES					
Property taxes	\$ 4,854,408	\$ 741,795	\$	\$ 424,292	\$ 6,020,495
Sales taxes	3,702,589				3,702,589
Franchise taxes	481,185				481,185
Tourism tax				32,406	32,406
Intergovernmental revenues	2,706,292		392,476	25,348	3,124,116
Fines and forfeitures	532,777			41,874	574,651
Charges for services	761,508			419,099	1,180,607
Interest income	11,119	1,550	17,089	1,004	30,762
Miscellaneous revenues	144,163		9,162	16,084	169,409
Total Revenues	<u>13,194,041</u>	<u>743,345</u>	<u>418,727</u>	<u>960,107</u>	<u>15,316,220</u>
EXPENDITURES					
Current:					
General government	1,492,669				1,492,669
Public safety	8,059,138			51,737	8,110,875
Public works	2,418,139		812,074	136,426	3,366,639
Health and welfare	362,381			55,658	418,039
Culture and recreation				983,463	983,463
Debt service:					
Principal	290,736	907,412		8,167	1,206,315
Interest	26,822	266,290		54	293,166
Total Expenditures	<u>12,649,885</u>	<u>1,173,702</u>	<u>812,074</u>	<u>1,235,505</u>	<u>15,871,166</u>
Excess (Deficiency) of Revenues over (under)					
Expenditures	<u>544,156</u>	<u>(430,357)</u>	<u>(393,347)</u>	<u>(275,398)</u>	<u>(554,946)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		288,264		180,428	468,692
Transfers out	(180,428)		(500,000)		(680,428)
Net Other Financing Sources (Uses)	<u>(180,428)</u>	<u>288,264</u>	<u>(500,000)</u>	<u>180,428</u>	<u>(211,736)</u>
Net Change in Fund Balances	<u>363,728</u>	<u>(142,093)</u>	<u>(893,347)</u>	<u>(94,970)</u>	<u>(766,682)</u>
Fund Balances - Beginning	684,193	189,277	3,018,598	177,888	4,069,956
Fund Balances - Ending	<u>\$ 1,047,921</u>	<u>\$ 47,184</u>	<u>\$ 2,125,251</u>	<u>\$ 82,918</u>	<u>\$ 3,303,274</u>

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

CITY OF HERNANDO, MISSISSIPPI**Exhibit 4-1****Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2018**

Net change in fund balances - total governmental funds \$ (766,682)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$3,263,322 exceeded depreciation expense of \$990,580. 2,272,742

In the statement of activities, only the gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increases financial resources. Thus, the change in net position differs from the change in fund balance by the amount of the sales proceeds of \$4,397 in the current period. (4,397)

Debt proceeds provide current financial resources to Governmental Funds, but issuing long-term 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 repayment of \$1,206,315 exceeded proceeds of \$0. 1,206,315

Some items reported in the statement of activities related to the implementation of GASB 68 are not reported as revenues/expenditures in the Governmental Funds. These activities include:
Recording pension expense for the current period (2,343,413)
Recording of contributions made during the current period 947,770

Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:
Increase / (decrease) in deferred refunding of issuances (8,808)
Increase / (decrease) in bond premium amortization 2,008
(Increase) / decrease in compensated absences (42,090)
(Increase) / decrease in accrued interest payable 28,071

Change in net position of governmental activities \$ 1,291,516

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Net Position - Proprietary Fund
September 30, 2018

Exhibit 5

	Utility Fund
ASSETS	
Current assets:	
Cash	\$ 1,304,062
Accounts receivable (net allowance for doubtful accounts of \$285,206)	910,497
Due from other funds	156,412
Prepaid items	4,555
Total Current Assets	<u>2,375,526</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	882,082
Other capital assets, net	13,832,174
Total Noncurrent Assets	<u>14,714,256</u>
Total Assets	<u>17,089,782</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	<u>433,630</u>
Total Deferred Outflows of Resources	<u>433,630</u>
LIABILITIES	
Current liabilities:	
Accounts payable	108,309
Accrued expenses	58,895
Accrued interest payable	103,125
Customer deposits	389,828
Capital debt	690,518
Total Current Liabilities	<u>1,350,675</u>
Noncurrent liabilities:	
Capital debt	8,504,340
Non-capital debt	35,933
Net pension liability	2,522,404
Total Noncurrent Liabilities	<u>11,062,677</u>
Total Liabilities	<u>12,413,352</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>185,962</u>
Total Deferred Inflows of Resources	<u>185,962</u>
NET POSITION	
Net investment in capital assets	5,519,398
Unrestricted	(595,300)
Total Net Position	<u>\$ 4,924,098</u>

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

CITY OF HERNANDO, MISSISSIPPI**Exhibit 6**

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
For the Year Ended September 30, 2018

	Utility Fund
OPERATING REVENUES	
Charges for services	\$ 6,564,009
Total Operating Revenues	<u>6,564,009</u>
OPERATING EXPENSES	
Contractual services and supplies	3,554,531
Personnel services	1,107,291
Pension expense	314,380
Depreciation expense	769,595
Total Operating Expenses	<u>5,745,797</u>
Operating Income (Loss)	<u>818,212</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	8,423
Interest expense	(101,135)
Miscellaneous revenue	564,025
Total Nonoperating Revenues	<u>471,313</u>
Net Income (Loss) Before Transfers	<u>1,289,525</u>
Transfers in	500,000
Transfers out	(288,264)
Total Transfers	<u>211,736</u>
Changes in Net Position	<u>1,501,261</u>
Net Position - Beginning	3,422,837
Net Position - Ending	<u><u>\$ 4,924,098</u></u>

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2018

Exhibit 7

	Utility Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 6,495,602
Payments to suppliers for goods and services	(3,495,738)
Payments to employees for services	(1,228,839)
Net Cash Provided by (Used for) Operating Activities	<u>1,771,025</u>
Cash Flows From Noncapital Financing Activities	
Cash received from other funds:	
Operating transfers in	500,000
Cash sent to other funds:	
Operating transfers out	(288,264)
Miscellaneous revenues	237,399
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>449,135</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds of long-term debt	5,500,000
Acquisition and construction of capital assets	(6,199,096)
Principal paid on long-term debt	(490,727)
Interest paid on long-term debt	(101,135)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,290,958)</u>
Cash Flows From Investing Activities	
Interest income	8,423
Net Cash Provided by (Used for) Investment Activities	<u>8,423</u>
Net Change in Cash and Cash Equivalents	937,625
Cash and Cash Equivalents - Beginning	<u>366,437</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,304,062</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided by (Used for) Operating Activities	
Operating income (loss)	\$ <u>818,212</u>
Adjustments to reconcile operating income (loss) to	
net cash provided by (used for) operating activities:	
Depreciation expense	769,595
Change in assets and liabilities:	
Increase (decrease) in accounts receivable	267,531
Increase (decrease) in prepaid expenses	(501)
(Increase) decrease in accounts payable	46,868
(Increase) decrease in accrued expenses	(4,727)
(Increase) decrease in accrued interest payable	(103,125)
(Increase) decrease in customer deposits	(18,834)
(Increase) decrease in compensated absences liability	(3,994)
Total adjustments	<u>952,813</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,771,025</u>

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

City of Hernando, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2018

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Hernando, Mississippi (the City) is a political subdivision of the State of Mississippi 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.

Accounting principles generally accepted in the United States of America require City of Hernando to present these financial statements on the primary government. 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 outside organizations that should be included as component units of the City's reporting entity.

B. Basis of Presentation.

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information concerning the City as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Position presents the financial condition of the governmental activities and business-type activities of the City at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund balances, revenues and expenditures/expenses. Funds are organized into governmental and proprietary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

C. Measurement Focus and Basis of Accounting.

The Government-wide and Proprietary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The City reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service Fund - This fund is used to account for resources accumulated and used for the payment of long-term debt principal, interest and related costs of borrowing used for major projects.

General Obligation Debt Construction Fund - This fund is used to account for general obligation debt issued to purchase or construct capital assets.

The City reports the following major Enterprise Fund:

Utility Fund - This fund is used to account for the provision of water, sewer and sanitation services to City residents.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

D. 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 at 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 expenditures 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.

E. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

F. Deposits and Investments.

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any City, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the City did not invest in any governmental securities during the fiscal year.

G. Receivables.

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

H. 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 payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

I. 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.

J. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the (applicable) governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the City's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings / Improvements	25,000 - 50,000	20-40 years
Improvements other than buildings	25,000	20 years
Vehicles and equipment	5,000	3-10 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

K. 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.

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Deferred amount on refunding – For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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. See Note 12 for additional details.

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. See Note 12 for additional details.

L. 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.

M. 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

N. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable 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 or enabling legislation.

Unrestricted net position - 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.

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the City:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

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.

O. 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 and are due in the month that coincides with the month of 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 original purchase occurs.

P. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

Q. 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 Funds 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.

(2) Deposits.

The carrying amount of the City's total deposits with financial institutions at September 30, 2018, was \$4,654,860, and the bank balance was \$4,736,524. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. 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). Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

(3) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2018:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 19,008
Utility Fund	General Fund	156,412
Total		\$ <u>175,420</u>

Interfund balances consist of payments for monthly claims and are expected to be paid back within the year. These Due From/Due to items are routine and consistent with the activities of the fund making the transfer.

B. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Debt Service Fund	Utility Fund	\$ 288,264
Other Governmental Funds	General Fund	180,428
Utility Fund	GO Debt Construction	500,000
Total		\$ <u>968,692</u>

Multiple transfers throughout the year to make debt service payments on bonded debt shared with the Utility Fund. Multiple transfers throughout between the General Fund typically supplements multiple funds and down payment made on North MS Sewer System.

CITY OF HERNANDO, MISSISSIPPI

**Notes to Financial Statements
For the Year Ended September 30, 2018**

(4) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2018, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Sales tax	\$ 290,483
DUI grant	46,176
Brownsfield grant	94,392
Tourism tax	<u>16,138</u>
Total Governmental Activities	<u><u>\$ 447,189</u></u>

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2018

(5) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2018:

Governmental Activities:

	Beginning Balance	Acquisitions	Dispositions	Completed Construction	Ending Balance
Capital assets not being depreciated:					
Land	\$ 575,939				\$ 575,939
Construction in progress	324,866	2,636,715		(92,621)	2,868,960
Total capital assets not being depreciated	900,805	2,636,715	-	(92,621)	3,444,899
Capital assets being depreciated:					
Buildings and improvements	6,288,177				6,288,177
Equipment	2,168,000	126,268			2,294,268
Vehicles	2,050,900	87,300	35,688		2,102,512
Improvements other than buildings	1,135,631				1,135,631
Infrastructure	11,154,309	413,039		92,621	11,659,969
Total capital assets being depreciated	22,797,017	626,607	35,688	92,621	23,480,557
Less accumulated depreciated for:					
Buildings and improvements	2,111,702	122,229			2,233,931
Equipment	1,638,881	132,292			1,771,173
Vehicles	1,378,803	232,727	31,291		1,580,239
Improvements other than buildings	210,425	43,622			254,047
Infrastructure	3,798,475	459,710			4,258,185
Total accumulated depreciation	9,138,286	990,580	31,291	-	10,097,575
Total capital assets being depreciated, net	13,658,731	(363,973)	4,397	92,621	13,382,982
Governmental activities capital assets, net	\$ 14,559,536	\$ 2,272,742	\$ 4,397	\$ -	\$ 16,827,881

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Business-type Activities:

	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Completed Construction</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 719,630			\$ 719,630
Construction in progress	66,049	162,452	(66,049)	162,452
Total capital assets not being depreciated	785,679	162,452	(66,049)	882,082
Capital assets being depreciated:				
Buildings and improvements	48,970			48,970
Waterworks system	15,703,264	6,000,000	66,049	21,769,313
Equipment	1,015,249	15,120		1,030,369
Vehicles	499,897	21,524		521,421
Total capital assets being depreciated	17,267,380	6,036,644	66,049	23,370,073
Less accumulated depreciated for:				
Buildings and improvements	979	979		1,958
Waterworks system	7,606,993	674,323		8,281,316
Equipment	818,729	35,617		854,346
Vehicles	341,603	58,676		400,279
Total accumulated depreciation	8,768,304	769,595	-	9,537,899
Total capital assets being depreciated, net	8,499,076	5,267,049	66,049	13,832,174
Business-type activities capital assets, net	<u>\$ 9,284,755</u>	<u>\$ 5,429,501</u>	<u>\$ -</u>	<u>\$ 14,714,256</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental activities:	
General government	\$ 61,240
Public safety	399,257
Public works	457,140
Culture and recreation	72,943
Total governmental activities depreciation expense	<u>\$ 990,580</u>
Business-type activities:	
Solid waste	<u>\$ 769,595</u>

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Commitments with respect to unfinished capital projects at September 30, 2018, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Highway 51 Signal Project	\$ 120,000	12/2018
Brownsfield Project	80,000	12/2019
MPO Commerce West and Byhalia	655,000	6/2019
McIngvale I-69 Realignment	400,000	12/2019
MPO McIngvale Overlay	1,200,000	3/2020
MPO Hernando Square Tap	125,000	6/2020
I-269 Sewer Main Extension	25,000	12/2018

(6) **Claims and Judgments.**

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.

(7) **Operating Leases.**

The City has several leases in place at year end for space at the Gale Center. Monthly rental income on this space is currently \$3,800.

(8) **Defined Benefit Pension Plan.**

General Information about the Pension Plan

Plan Description. City of Hernando, Mississippi 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) 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,

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

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.

Contributions. At September 30, 2018, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2018 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, 2018, 2017 and 2016 were \$1,074,916, \$958,587 and \$887,769, respectively, equal to the required contributions for each year.

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

At September 30, 2018, the City reported a liability of \$17,335,214 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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. The City's proportionate share used to calculate the September 30, 2018 net pension liability was .104222 percent, which was based on a measurement date of June 30, 2018. This was an increase of .007930 percent from its proportionate share used to calculate the September 30, 2017 net pension liability, which was based on a measurement date of June 30, 2017.

For the year ended September 30, 2018, the City recognized pension expense of \$2,657,793. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,816	67,516
Net difference between projected and actual earnings on pension plan investments		311,831
Changes of assumptions	9,450	7,935
Changes in the proportion and differences between the County's contributions and proportionate share of contributions	2,502,783	927,590
County contributions subsequent to the measurement date	253,652	
Total	\$ 2,831,701	1,314,872

\$253,652 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Year ending September 30	Amount
2019	\$ 985,962
2020	435,957
2021	(80,784)
2022	(77,958)
Total	\$ 1,263,177

Actuarial Assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases	3.25 – 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with male rates set forward one year.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	27.00 %	4.60 %
International Equity	18.00	4.50
Emerging Markets Equity	4.00	4.75
Global	12.00	4.75
Fixed Income	18.00	0.75
Real Estate	10.00	3.50
Private Equity	8.00	5.10
Emerging Debt	2.00	2.25
Cash	1.00	-
Total	100.00 %	

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

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 City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City'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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	\$ 22,825,504	17,335,214	12,772,060

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, 2018

(9) Long-term Debt.

Debt outstanding as of September 30, 2018, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Series 2012 Refunding Bonds	\$ 1,760,668	2.00-2.50%	10/2023
Series 2015 General Obligation Bonds	4,185,000	2.50%	12/2035
Series 2016 Refunding Bonds	<u>2,895,000</u>	1.00-2.50%	05/2027
Total General Obligation Bonds	<u>\$ 8,840,668</u>		
B. Limited Obligation Bonds:			
Series 2016 Tax Increment Financing (Hampton Inn)	<u>\$ 225,000</u>	4.50%	01/2028
C. Capital Leases:			
Fire Truck 2013	\$ 428,086	3.15%	07/2028
Police Cars 2014	33,401	1.82%	12/2018
Police Cars 2017	<u>172,124</u>	1.79%	02/2020
Total Capital Leases	<u>\$ 633,611</u>		
D. Other Loans:			
Capital Equipment and Small Projects	<u>\$ 247,182</u>	1.75%	02/2021

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Business-type Activities:			
A. General Obligation Bonds:			
2012 General Obligation Refunding	\$ 479,332	2.00-2.50%	10/2023
B. Capital Leases:			
Knuckleboom Loader 2015	\$ 46,808	2.13%	06/2020
Knuckleboom Loader 2017	96,656	2.33%	04/2022
Total Capital Leases	\$ 143,464		
C. Other Loans:			
CAP Loan - Sewer 2002	\$ 56,961	3.00%	10/2021
CAP Loan - Sewer 2005	86,387	2.00%	02/2025
CAP Loan - Sewer II 2005	86,330	3.00%	11/2025
DEQ Loan - Water Pollution Control 2003	128,034	1.75%	01/2023
City of Southaven - Hurricane Creek	587,923	1.95%	12/2022
State of MS - DWSLRF	690,356	1.95%	10/2032
DEQ Loan - Water Pollution Control 2013	1,436,071	1.75%	01/2034
North Mississippi Utility Company Purchase	5,500,000	2.50%	01/2034
Total Other Loans	\$ 8,572,062		

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Governmental Activities:

Year Ending September 30	General Obligation Bonds		Limited Obligation Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 806,000	212,498	20,000	10,125
2020	832,700	167,783	20,000	9,225
2021	851,600	181,225	20,000	8,325
2022	839,300	163,510	20,000	7,425
2023	847,600	144,410	20,000	6,525
2024 - 2028	2,463,468	471,291	125,000	16,875
2029 - 2033	1,300,000	196,250	-	-
2034 - 2037	900,000	49,250	-	-
Total	\$ 8,840,668	1,586,217	225,000	58,500

Year Ending September 30	Capital Leases		Other Loans	
	Principal	Interest	Principal	Interest
2019	\$ 192,205	15,142	101,009	3,518
2020	90,044	11,972	102,791	1,736
2021	40,210	10,498	43,382	190
2022	41,495	9,213	-	-
2023	42,821	7,887	-	-
2024 - 2028	226,836	17,418	-	-
Total	\$ 633,611	72,130	247,182	5,444

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Business-type Activities:

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2019	\$ 99,000	10,936	539,872	146,731
2020	102,300	8,955	656,187	178,694
2021	103,400	6,909	670,912	163,967
2022	95,700	4,583	670,539	149,085
2023	78,932	2,310	506,680	134,353
2024 -2028	-	-	2,568,905	495,319
2029 - 2033	-	-	2,777,546	186,206
2034 - 2037	-	-	181,421	892
Total	\$ 479,332	33,693	8,572,062	1,455,247

Year Ending September 30	Capital Leases	
	Principal	Interest
2019	\$ 52,702	2,712
2020	47,058	1,538
2021	27,415	727
2022	16,289	127
Total	\$ 143,464	5,104

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2018, the amount of outstanding debt was equal to 6.4% of the latest property assessments.

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2018:

	Balance Oct. 1, 2017	Additions	Reductions	Balance Sept. 30, 2018	Amount due within one year
Governmental Activities:					
Compensated absences	\$ 276,200	42,090		318,290	-
General obligation bonds	9,633,868		793,200	8,840,668	806,000
Add:					
Premiums	19,250		2,008	17,242	2,007
Limited obligation bonds	240,000		15,000	225,000	20,000
Capital leases	924,347		290,736	633,611	192,205
Other loans	354,561		107,379	247,182	101,009
Total	\$ 11,448,226	42,090	1,208,323	10,281,993	1,121,221

	Balance Oct. 1, 2017	Additions	Reductions	Balance Sept. 30, 2018	Amount due within one year
Business-type Activities:					
Compensated absences	\$ 31,939	3,994	-	35,933	-
General obligation bonds	576,132	-	96,800	479,332	99,000
Capital leases	203,257	-	59,793	143,464	52,702
Other loans	3,406,196	5,500,000	334,134	8,572,062	538,816
Total	\$ 4,217,524	5,503,994	490,727	9,230,791	690,518

Compensated absences will be paid from the fund from which the employees' salaries were paid, which are the General Fund, the Parks and Recreation Fund and the Utility Fund.

(10) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2018:

Fund	Deficit Amount
First Time Homebuyers	\$ 19,012

(11) 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.

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

Litigation - The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

(12) Effect of Deferred Amounts on Net Position

The governmental activities' unrestricted net position amount of (\$12,736,413) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflows of resources related to pension in the amount of \$214,809 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. The \$2,183,262 balance of the deferred outflow of resources related to pensions at September 30, 2018, will be recognized in pension expense over the next 3 years. The \$1,128,910 balance of the deferred inflows of resources related to pension at September 30, 2018, will be recognized as a revenue and will increase the unrestricted net position over the next four years.

The business-type activities' unrestricted net position amount of (\$595,300) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflows of resources related to pension in the amount of \$38,843 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. The \$394,787 balance of the deferred outflow of resources related to pensions at September 30, 2018, will be recognized in pension expense over the next 3 years. The \$185,962 balance of the deferred inflows of resources related to pension at September 30, 2018, will be recognized as revenue and will increase the unrestricted net position over the next four years.

(13) Tax Abatements.

For the year beginning October 1, 2016, the Governmental Accounting Standards Board (GASB) implemented Statement 77, Tax Abatement Disclosures. This statement requires governmental entities to disclose the reduction in tax revenues resulting from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The City of Hernando Board of Aldermen negotiates property tax abatements on an individual basis. All abatements are for ten years and are for economic development purposes. The City had four (4) tax abatement agreements with three (3) entities as of September 30, 2018.

The City had two types of abatements, none of which provide for the abatement of school or state tax levies. These taxes are not included in the amounts listed since DeSoto County, Mississippi collects the ad valorem taxes and forwards the City of Hernando their levied portion of those collections:

Sections 27-31-101 and 27-31-105, Miss. Code (Ann.) 1972

All allowable property tax levies

All allowable property tax levies except for countywide road fund tax levy

All 3 companies have tax abatements listed under this statute.

These economic development projects, collectively, had \$12,288 in taxes abated in fiscal year 2018 accounting for 51% of taxes abated of potential collections without abatements present.

(14) 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

CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2018

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 City of Hernando evaluated the activity of the City through the date the financial statements were available to be issued, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2018, the City issued the following debt obligation(s):

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
11/06/2018	2.78%	\$ 1,080,000	tax anticipation loan	ad valorem taxes
12/17/2018	4.39%	598,000	capital lease	ad valorem taxes
01/01/2019	2.50%	5,500,000	other loans	user fee charges
05/30/2019	2.37%	470,305	capital lease	ad valorem taxes
07/30/2019	3.25%	524,387	other loans	ad valorem taxes
08/30/2019	2.37%	500,250	other loans	fire insurance rebate
12/11/2019	2.59%	681,509	other loans	ad valorem taxes

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HERNANDO, MISSISSIPPI
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2018
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,814,597	5,215,813	4,857,087	(358,726)
Franchise taxes	415,000	449,583	465,783	16,200
Intergovernmental revenues	6,958,349	7,538,211	6,176,976	(1,361,235)
Charges for services	1,261,120	1,366,213	1,279,130	(87,083)
Interest income	2,500	2,708	11,119	8,411
Miscellaneous revenues	101,600	110,067	5,835	(104,232)
Total Revenues	<u>13,553,166</u>	<u>14,682,595</u>	<u>12,795,930</u>	<u>(1,886,665)</u>
EXPENDITURES				
Current:				
General government	2,056,422	2,227,791	1,454,514	773,277
Public safety	8,177,891	8,877,443	7,917,961	959,482
Public works	3,775,432	4,090,052	2,601,725	1,488,327
Health and welfare	120,229	171,463	171,463	0
Debt service:				
Principal	1,732,845	1,877,249	1,390,357	486,892
Interest	30,483	33,023	27,202	5,821
Total Expenditures	<u>15,893,302</u>	<u>17,277,021</u>	<u>13,563,222</u>	<u>3,713,799</u>
Excess of Revenues over (under) Expenditures	<u>(2,340,136)</u>	<u>(2,594,426)</u>	<u>(767,292)</u>	<u>1,827,134</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	275,000	297,917	-	(297,917)
Long-term non-capital debt issued	1,400,000	1,516,667	1,100,000	(416,667)
Transfers in	855,475	926,765	-	(926,765)
Transfers out	(190,339)	(206,201)	(190,339)	15,862
Total Other Financing Sources and Uses	<u>2,340,136</u>	<u>2,535,148</u>	<u>909,661</u>	<u>(1,625,487)</u>
Net Change in Fund Balance			142,369	201,647
Fund Balances - Beginning - Cash Basis				<u>167,567</u>
Fund Balances - Ending - Cash Basis				369,214
Adjustments to conform with GAAP:				
Revenues			408,022	
Expenditures			<u>(186,663)</u>	
Net Change in Fund Balance - GAAP Basis			<u>\$ 363,728</u>	

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Hernando, Mississippi**Schedule of the City's Proportionate Share of the Net Pension Liability****PERS****Last 10 Fiscal Years***

	2018	2017	2016	2015
City's proportionate share of the net pension liability	\$ 17,335,214	16,006,999	15,428,554	13,247,529
City's proportion of the net pension liability	0.104222%	0.096292%	0.086374%	0.085740%
City's covered payroll	6,655,600	6,177,206	3,265,302	3,305,010
City's proportionate share of the net pension liability as a percentage of its covered payroll	260.46%	259.13%	472.50%	400.83%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	61.49%	57.47%	61.70%

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

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 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 68 was implemented in FYE 15, 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 the City's Contributions
PERS
Last 10 Fiscal Years

	2018	2017	2016	2015
Contractually required contribution	\$ 253,652	226,992	241,315	223,925
Contributions in relation to the contractually required contribution	253,652	226,992	241,315	223,925
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	1,610,489	1,441,219	1,532,159	1,421,746
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	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 68 was implemented in FYE 15, 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, 2018

Budgetary Comparison Schedule

(1) Basis of Presentation

All funds of the City of Hernando, Mississippi, governmental and business-type, are budgeted. For comparison purposes, the final, amended budget is utilized, and it is presented on a modified cash basis of accounting as required by the State of Mississippi, which is not consistent with generally accepted accounting principles. Although all capital projects have a proposed budget approved for the project length, they have budgets approved on an annual basis. All budgetary appropriations lapse at year-end.

(2) Budget amendments and revisions

The budget is adopted and may be amended by the Board of Aldermen/Alderwomen. A budgetary comparison is presented for the general fund and each special revenue major fund and is presented on a modified cash basis of accounting.

(3) 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).

Pension Schedules

A. Changes of assumptions.

2015

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

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

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

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

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

City of Hernando, Mississippi

Notes to the Required Supplementary Information For the Year Ended September 30, 2018

2016

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

2017

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

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

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

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

(2) Change in Benefit Provisions

2016:

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

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

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

SUPPLEMENTARY INFORMATION

City of Hernando, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed-through Mississippi Department of Transportation:			
<i>Highway Planning and Construction</i>	20.205	SRSP-0109-00(004)LPA105682-401000	24,875
<i>Highway Planning and Construction</i>	20.205	SRSP-0109-00(004)LPA107216-711000	34,369
<i>Highway Planning and Construction</i>	20.205	SRSP-0109-00(004)LPA107218-711000	35,707
<i>Highway Planning and Construction</i>	20.205	STP-7889-00(001)LPA107080-701000	1,658,294
<i>Highway Planning and Construction</i>	20.205	NHPP-0029-02(022)LPA107114/201000	166,705
<i>Highway Planning and Construction</i>	20.205	STP-7885-00(001)LPA107537-701000	<u>318,494</u>
Total passed-through Mississippi Department of Transportation			<u>2,238,444</u>
Passed-through Mississippi Department of Public Safety:			
<i>National Priority Safety Programs</i>	20.616	MSX-2017-MD34-41	<u>44,777</u>
Total passed-through Mississippi Department of Public Safety			<u>44,777</u>
Total U.S. Department of Transportation			<u>2,283,221</u>
Total Expenditures of Federal Awards			<u>\$ 2,283,221</u>

NOTES TO SCHEDULE:

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The City did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER INFORMATION

CITY OF HERNANDO, MISSISSIPPI
Schedule of Surety Bonds for City Officials
For the Year Ended September 30, 2018
UNAUDITED

Name	Position	Insurance Company	Bond
Newton Furguson	Mayor	Travelers Casualty and Surety Co.	\$ 100,000.00
Winfred Harris	Alderman	Travelers Casualty and Surety Co.	\$ 100,000.00
Sonny Bryant	Alderman	Brierfield Insurance Co.	\$ 100,000.00
Gary N. Higdon	Alderman	Brierfield Insurance Co.	\$ 100,000.00
Jeff Hobbs	Alderman	Brierfield Insurance Co.	\$ 100,000.00
Sherry Brooks	Alderman	Travelers Casualty and Surety Co.	\$ 100,000.00
Andrew Miller	Alderman	Brierfield Insurance Co.	\$ 100,000.00
Michael McLendon	Alderman	Brierfield Insurance Co.	\$ 100,000.00
Katie Harbin	City Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Octavia Glasper	Bookkeeper	Travelers Casualty and Surety Co.	\$ 50,000.00
Cassandra E. Perry	Court Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Jennifer Borden	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Dawn Winkler	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Robin Nichols	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Kristin Duggan	Planning Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Julie Harris	Deputy Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Gia Matheny	Deputy Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Eva Ward	Deputy Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Janet Hawks	Utility Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
C. Scott Worsham	Police Chief	Travelers Casualty and Surety Co.	\$ 50,000.00
Shane Ellis	Asst. Police Chief	Travelers Casualty and Surety Co.	\$ 50,000.00
Tarra Davis	Police Officer	Travelers Casualty and Surety Co.	\$ 50,000.00
Dewayne Williams	Park Director	Travelers Casualty and Surety Co.	\$ 50,000.00
Miranda Williams	Parks Director	Travelers Casualty and Surety Co.	\$ 50,000.00
Annette Statler	Planning Clerk	Travelers Casualty and Surety Co.	\$ 50,000.00
Kieth Briley	Director of Planning	Travelers Casualty and Surety Co.	\$ 50,000.00
Brittany McGown	Animal Control Officer	Travelers Casualty and Surety Co.	\$ 50,000.00
Michael Carson	Athletic Coordinator	Travelers Casualty and Surety Co.	\$ 50,000.00
Gia Matheny	Director of Comm Dev.	Travelers Casualty and Surety Co.	\$ 50,000.00
Statcey Barnette	Receptionist	Travelers Casualty and Surety Co.	\$ 50,000.00
Susan Huff	Animal Shelter Manager	Travelers Casualty and Surety Co.	\$ 50,000.00
Joe Engel	Building Inspector	Travelers Casualty and Surety Co.	\$ 50,000.00

SPECIAL REPORTS

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen/Alderwomen
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, 2018, and the related notes to the financial statements, which collectively comprise City of Hernando's basic financial statements, and have issued our report thereon dated July 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
July 17, 2020

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen/Alderwomen
City of Hernando, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the City of Hernando's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended September 30, 2018. City of Hernando's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City of Hernando's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on the Major Federal Program

In our opinion, the City of Hernando, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
July 17, 2020

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen/Alderwomen
City of Hernando, Mississippi

We have audited the financial statements of the governmental activities, 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, 2018, which collectively comprise the City of Hernando's basic financial statements and have issued our report thereon dated July 17, 2020. 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.

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 all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
July 17, 2020

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Hernando, Mississippi

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2018

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Unmodified.
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No.
7. Identification of major program:

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000.
9. Auditee qualified as low-risk auditee? No.
10. Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.511(b). No.

Section II: Financial Statements Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section III: Federal Awards Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.