

OFFICE OF THE STATE AUDITOR REPORT NOTE:

Section 7-7-211, Mississippi Code Annotated (1972) gives the Office of the State Auditor the authority to audit, with the exception of municipalities, any governmental entity in the state. In the case of municipalities, *Section 21-35-31, Mississippi Code Annotated (1972)* requires municipalities to obtain an annual audit performed by a private CPA firm and submit that audit report to the Office of the State Auditor. The Office of the State Auditor files these audit reports for review in case questions arise related to the municipality.

As a result, the following document was not prepared by the Office of the State Auditor. Instead, it was prepared by a private CPA firm and submitted to the Office of the State Auditor. The document was placed on this web page as it was submitted and no review of the report was performed by the Office of the State Auditor prior to finalization of the report. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

City of Hernando, Mississippi

Financial Statements For the year ended September 30, 2021

CITY OF HERNANDO, MISSISSIPPI
Table of Contents
September 30, 2021

INDEPENDENT AUDITORS' REPORT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	9
BASIC FINANCIAL STATEMENTS - OVERVIEW:	
Government-Wide Financial Statements:	
Statement of Net Position	19
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet - Governmental Funds	21
Reconciliation of Governmental Funds Balance Sheet to the Government - Wide Statement of Net Position	22
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	23
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government - Wide Statement of Activities and Changes in Net Position	24
Proprietary Fund:	
Statement of Net Position	25
Statement of Revenues, Expenses and Changes in Net Position.....	26
Statement of Cash Flows.....	27
Notes to Financial Statements	30
REQUIRED SUPPLEMENTARY INFORMATION:	
General Fund Statement of Revenues, Expenditures and Changes In Fund Balances - Budget (non-GAAP basis) and Actual	51
Schedule of the City's Proportionate Share of the Net Pension Liability	52
Schedule of the City's Contributions	53
Notes to the Required Supplementary Information	54

CITY OF HERNANDO, MISSISSIPPI
Table of Contents
September 30, 2021

SUPPLEMENTARY INFORMATION:

Schedule of Expenditures of Federal Awards	58
--	----

OTHER INFORMATION:

Schedule of Surety Bonds for City Officials.....	61
--	----

REPORTS ON COMPLIANCE AND INTERNAL CONTROL:

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	65
Schedule of Findings and Questioned Costs	67
Independent Auditors' Report on Compliance With State Laws and Regulations	68

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Honorable 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, 2021, and the related notes to the financial statements, which collectively comprise the City of Hernando'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.

Auditors' 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 opinion.

Opinion

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, 2021, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity 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 9 through 17 and 51 through 55, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal award 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 June 20, 2023, 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.

Jarrell Group, PLLC

Jarrell Group, PLLC
Tupelo, Mississippi
June 20, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

Required Supplemental Information for the year ended September 30, 2021

This section of the City of Hernando's Financial Report presents our discussion and analysis of the City's financial performance during the fiscal year ending September 30, 2021. Please read it in conjunction with the City of Hernando financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the 2021 by \$15,181,526 (\$8,496,550 in governmental activity net position and \$6,684,976 in business-type activity net position).
- The City's total net position increased by \$8,295,219, or 120.5% compared to 2020. Net position of the City's governmental activities increased \$7,316,242, or 619.9%. Net position of the business-type activities increased \$978,977, or 17.2% from 2020.
- The City's governmental funds reported combined ending fund balances of \$4,746,568, a increase of \$2,478,219 when compared to 2020. Of the combined ending governmental fund balances, approximately 70.3% or \$3,336,313 is available for spending at the City's discretion subject to the Board's approved policies (*committed, assigned and unassigned fund balances*).
- The City's total debt is \$16,326,587. Debt in the amount of \$592,038 was issued in the current fiscal year; all of which was used for capital acquisition or capital projects. Debt in the amount of \$2,467,610 was repaid during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's operations in 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 Governmental Funds statements tell how general government services such as public safety were financed in the short-term as well as what remains for future spending. The City has four Governmental Fund types: the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

Proprietary fund statements offer short- and long-term financial information about the activities the government operates in a similar manner as businesses and includes the utility operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and are presented in single columns in the basic financial statements.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

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.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of the City of Hernando's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City Government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as police, fire, public works, parks and recreation, debt service, and capital projects	Activities the City operates similar to private businesses: utility operations such as water and sewer
Required financial statements	Statement of Net Position; Statement of Activities	Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position Statement of Net Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, liabilities, and deferred inflows / outflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets, liabilities, and deferred inflows / outflows—is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, the reader should consider additional non-financial factors such as changes in the City's property tax base, as well as economic activities and trends at local and regional levels.
- *Governmental activities* – Most of the City's basic services are included here, such as the police, fire, public works, and parks and recreation departments, and general administration. Property taxes, sales and use taxes, and state and federal grants finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain utility services it provides.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. The "fund" level is where the basic unit of financial organization and operation within the City of Hernando exists. Funds are accounting tools that are used to keep track of specific sources of funding and spending for particular purposes. They are the basic budgetary and accounting entities.

- Some funds are required by State law and by bond covenants.
- The Board of Aldermen / Alderwomen establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

The City of Hernando has two types of funds:

- **Governmental funds**—most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them. The measurement focus of governmental funds is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income determination. These funds are maintained on a modified accrual basis of accounting (explained further in the notes to the financial statements under "Summary of Significant Accounting Policies"). The basic financial statements for governmental funds are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance. The City utilizes four types of governmental funds: the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.
- **Proprietary funds**—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The City has only one type of proprietary fund—enterprise funds. The City's enterprise funds are the same as its business-type activities yet provide more detail and additional information, such as cash flows. The measurement focus of proprietary funds is upon determination of net income, financial position and change in financial position. These funds are maintained on the accrual basis of accounting. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows are all required statements.

Government-wide Financial Analysis

As year-to-year financial information is accumulated on a consistent basis, changes in the net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's assets and deferred outflows exceeded liabilities and deferred inflows by \$15,181,526 at the close of the most recent fiscal year. This is a \$8,295,219 increase over last year's net position of \$6,886,307. Tables A-1 and A-2 provide a summary of the City's net position at September 30, 2021 and 2020.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

Table A-1

City of Hernando's Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Current & other assets	\$ 16,114,331	\$ 11,517,401	\$ 2,796,439	\$ 3,735,452	\$ 18,910,770	\$ 15,252,853
Capital assets	29,938,502	26,305,607	15,222,261	13,914,833	45,160,763	40,220,440
Total assets	46,052,833	37,823,008	18,018,700	17,650,285	64,071,533	55,473,293
Total deferred outflows	1,611,234	1,613,189	253,014	235,467	1,864,248	1,848,656
Current liabilities	4,180,489	2,234,781	934,324	1,095,069	5,114,813	3,329,850
Noncurrent liabilities	23,126,545	29,171,145	9,855,108	11,060,439	32,981,653	40,231,584
Total liabilities	27,307,034	31,405,926	10,789,432	12,155,508	38,096,466	43,561,434
Total deferred inflows	11,860,483	6,849,963	797,306	24,245	12,657,789	6,874,208
Net position:						
Net investment in capital assets	21,164,997	16,284,517	7,669,179	5,733,764	28,834,176	22,018,281
Restricted	1,373,936	1,173,893	-	-	1,373,936	1,173,893
Unrestricted (deficit)	(14,042,383)	(16,278,102)	(984,203)	(27,765)	(15,026,586)	(16,305,867)
Total net position	\$ 8,496,550	\$ 1,180,308	\$ 6,684,976	\$ 5,705,999	\$ 15,181,526	\$ 6,886,307

The largest portion of net position, \$28,834,176 is reflected in the City's investment in capital assets (such as 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 \$15,026,586 in unrestricted net position due to recording of unfunded pension liabilities under GASB 68. Please refer to Note 8.

Changes in net position: Approximately 24.5% of the City's total revenues come from property taxes, with 43.8% of all revenue coming from some type of tax. (See Table A-2.) This compares to 25.5% and 43.9% for the fiscal year ended September 30, 2020. Another 35.2% comes from fees charged for services, and the balance is from operating and capital grants and contributions and investment earnings.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

Table A-2 and the narrative that follows consider the operations of governmental and business-type activities separately.

Table A-2

Changes in the City of Hernando's Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues						
Program revenues:						
Charges for services	\$ 2,405,917	\$ 1,788,476	\$ 7,402,014	\$ 7,220,534	\$ 9,807,931	\$ 9,009,010
Operating grants, capital grants and contributions	5,685,481	4,632,258	561,548	-	6,247,029	4,632,258
General revenues:						
Property taxes	7,155,987	6,523,660	-	-	7,155,987	6,523,660
Sales taxes	4,983,198	4,252,502	-	-	4,983,198	4,252,502
Other general revenue	969,167	1,079,804	86,526	85,171	1,055,693	1,164,975
Total revenues	21,199,750	18,276,700	8,050,088	7,305,705	29,249,838	25,582,405
Expenses						
General government	2,002,178	1,876,719	-	-	2,002,178	1,876,719
Public safety	9,496,895	9,723,659	-	-	9,496,895	9,723,659
Public works	993,703	971,838	-	-	993,703	971,838
Health and welfare	243,462	193,858	-	-	243,462	193,858
Culture and recreation	1,121,562	1,030,021	-	-	1,121,562	1,030,021
Economic development	116,245	123,763	-	-	116,245	123,763
Pension expense	(47,481)	2,387,119	176,307	140,242	128,826	2,527,361
Interest on long-term debt	257,709	278,520	202,053	208,489	459,762	487,009
Utility	-	-	6,391,986	5,892,520	6,391,986	5,892,520
Total expenses	14,184,273	16,585,497	6,770,346	6,241,251	20,954,619	22,826,748
Excess of revenue over exp.	7,015,477	1,691,203	1,279,742	1,064,454	8,295,219	2,755,657
Transfers	300,765	575,769	(300,765)	(575,769)	-	-
Change in net position	7,316,242	2,266,972	978,977	488,685	8,295,219	2,755,657
Net position - beginning, as previously stated	1,180,308	(1,329,071)	5,705,999	5,217,314	6,886,307	3,888,243
Prior period adjustment	-	242,407	-	-	-	242,407
Net position - beginning, as restated	1,180,308	(1,086,664)	5,705,999	5,217,314	6,886,307	4,130,650
Net position - ending	\$ 8,496,550	\$ 1,180,308	\$ 6,684,976	\$ 5,705,999	\$ 15,181,526	\$ 6,886,307

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

Governmental Activities

Governmental activities increased the City's net position by \$7,316,242. Key elements of this decrease are as follows:

The largest funding sources for the City's governmental activities, as a percent of total revenues, are property taxes 33.7%, grants and contributions 26.8%, and sales taxes 23.5%.

The largest expense categories for the City's governmental activities are public safety 66.9% and general government 14.1%.

Business-type Activities

Business-type activities increased the City's net position by \$978,977.

Charges for services are the major revenue categories for the enterprise funds. Total business-type revenues are comprised of \$7,402,014.

Financial Analysis of the Government'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 spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

General Fund—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 \$3,266,887, which comprised 99.0% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare both the fund balance, assigned and unassigned, to total fund expenditures. Total fund balance represents 26.4% of total fund expenditures. The fund balance of the City's general fund increased by \$2,150,611 during the current fiscal year.

Debt Service Fund—The debt service fund has a total fund balance of \$321,035, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$107,408.

Capital Projects Fund—The capital projects fund accounts for the construction and reconstruction of general public improvements, excluding projects related to business-type activities, which are accounted for elsewhere. At the end of the current fiscal year, the fund balance was \$907,194.

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

Special Revenue Fund—The special revenue fund is used to account for the programs and projects primarily funded by grants or taxes from the federal and state governments. At the end of the current fiscal year, the fund balance was \$218,623, which will be used for future expenditures.

Proprietary Funds—The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the proprietary funds at the end of the current fiscal year totaled \$6,684,976. Changes in net position for utility operations totaled \$978,977.

Budgetary Highlights

The City's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations for the proprietary fund as well as the governmental funds.

The City's 2020 – 2021 general fund budget increased by \$228,141 and an overall operating budget decreased by \$144,266.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets—In accordance with GASB 34, the City has recorded depreciation expense associated with all of its capital assets, including infrastructure. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounted to \$45,160,763, net of accumulated depreciation of \$25,814,349. This investment in capital assets includes land, buildings, improvements other than buildings, machinery & equipment, infrastructure, and construction in progress.

Table A-3

City of Hernando's Capital Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Land	\$ 807,213	\$ 807,213	\$ 777,313	\$ 777,313	\$ 1,584,526	\$ 1,584,526
Construction in progress	10,813,146	7,142,441	1,601,396	23,288	12,414,542	7,165,729
Building & improvements	6,297,877	6,288,177	705,970	701,570	7,003,847	6,989,747
Equipment	2,535,096	2,332,608	1,182,149	1,104,799	3,717,245	3,437,407
Vehicles	4,329,569	4,175,648	944,539	616,823	5,274,108	4,792,471
Improvements other than buildings	1,548,295	1,319,418	-	-	1,548,295	1,319,418
Infrastructure	17,537,083	16,433,020	-	-	17,537,083	16,433,020
Waterworks system	-	-	21,895,466	21,769,313	21,895,466	21,769,313
Accumulated depreciation	(13,929,777)	(12,192,918)	(11,884,572)	(11,078,273)	(25,814,349)	(23,271,191)
Total	\$ 29,938,502	\$ 26,305,607	\$ 15,222,261	\$ 13,914,833	\$ 45,160,763	\$ 40,220,440

This year, major capital asset projects or additions included:

- \$4,343,718 for McIngvale Road realignment
- \$133,372 for a 2021 Knuckleboom
- \$262,615 for Linear Park project

CITY OF HERNANDO, MISSISSIPPI

Management's Discussion and Analysis

Long-term Debt—At year-end, the City had \$18,202,159 in bonds and notes outstanding. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

Table A-4

City of Hernando's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
General obligation bonds	\$ 6,336,900	\$ 7,188,500	\$ 188,100	\$ 291,500	\$ 6,525,000	\$ 7,480,000
Limited obligation bonds	165,000	185,000	-	-	165,000	185,000
Notes payable	2,260,385	2,634,362	7,364,982	7,889,569	9,625,367	10,523,931
Bond premium	11,220	13,228	-	-	11,220	13,228
Total	<u>\$ 8,773,505</u>	<u>\$ 10,021,090</u>	<u>\$ 7,553,082</u>	<u>\$ 8,181,069</u>	<u>\$ 16,326,587</u>	<u>\$ 18,202,159</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Millage rates remained the same at 40.7654 for the City's 2022 fiscal year budget. This includes 33.1934 mills for the General Fund, 4.70 mills for the Debt Service Fund, .872 mills for the Library Fund, and 2.00 mills for the Culture and Recreation Fund.

CONTACTING THE CITY OF HERNANDO FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF HERNANDO, MISSISSIPPI

Statement of Net Position

September 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 7,051,853	\$ 1,379,838	\$ 8,431,691
Property taxes receivable	7,024,009	-	7,024,009
Accounts receivable (net allowance for doubtful accounts of \$4,170,914 and \$371,959)	347,075	945,141	1,292,216
Intergovernmental receivables	1,277,582	333,777	1,611,359
Other receivables	2,265	-	2,265
Due from other funds	375,228	134,938	510,166
Prepaid expenses	36,319	2,745	39,064
Capital assets not being depreciated	11,620,359	2,378,709	13,999,068
Capital assets, net of accumulated depreciation	18,318,143	12,843,552	31,161,695
Total assets	46,052,833	18,018,700	64,071,533
Deferred Outflows of Resources			
Deferred outflows related to pensions	1,562,008	253,014	1,815,022
Deferred amounts on refunding	49,226	-	49,226
Total deferred outflows of resources	1,611,234	253,014	1,864,248
Liabilities			
Accounts payable	1,053,877	326,750	1,380,627
Accrued expenses	405,185	103,440	508,625
Accrued interest payable	35,492	-	35,492
Due to other funds	510,166	-	510,166
Unearned revenues	2,015,807	-	2,015,807
Other payables	158,822	-	158,822
Customer and event deposits	1,140	504,134	505,274
Noncurrent liabilities:			
Accrued compensated absences	352,469	34,213	386,682
Pension liability	14,000,571	2,267,813	16,268,384
Long-term debt: due within one year	1,352,254	734,777	2,087,031
Long-term debt: due in more than one year	7,421,251	6,818,305	14,239,556
Total liabilities	27,307,034	10,789,432	38,096,466
Deferred Inflows of Resources			
Deferred revenues - property taxes	6,938,232	-	6,938,232
Deferred inflows related to pensions	4,922,251	797,306	5,719,557
Total deferred inflows of resources	11,860,483	797,306	12,657,789
Net Position			
Net Investment in capital assets	21,164,997	7,669,179	28,834,176
Restricted for:			
Public works	907,194	-	907,194
Debt service	321,035	-	321,035
Public safety	23,631	-	23,631
Health and welfare	122,076	-	122,076
Unrestricted (deficit)	(14,042,383)	(984,203)	(15,026,586)
Total net position	\$ 8,496,550	\$ 6,684,976	\$ 15,181,526

The 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, 2021

						Net (Expense) Revenue and Changes in Net Position		
						Primary Government		
		Program Revenues						
		Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities	Business-Type Activities	Total
Function / Program Activities	Expenses							
Primary Government								
Government Activities:								
General government	\$ 2,002,178	\$ 18,636	\$ 407,910	\$ -	\$ 426,546	\$ (1,575,632)	\$ -	\$ (1,575,632)
Public safety	9,496,895	1,299,950	491,302	-	1,791,252	(7,705,643)	-	(7,705,643)
Public works	993,703	787,047	-	4,591,194	5,378,241	4,384,538	-	4,384,538
Health and welfare	243,462	50,950	-	-	50,950	(192,512)	-	(192,512)
Culture and recreation	1,121,562	249,334	6,000	-	255,334	(866,228)	-	(866,228)
Economic development and assistance	116,245	-	189,075	-	189,075	72,830	-	72,830
Pension expense	(47,481)	-	-	-	-	47,481	-	47,481
Interest on long-term debt	257,709	-	-	-	-	(257,709)	-	(257,709)
Total governmental activities	14,184,273	2,405,917	1,094,287	4,591,194	8,091,398	(6,092,875)	-	(6,092,875)
Business-Type Activities:								
Utility	6,391,986	7,402,014	561,548	-	7,963,562	-	1,571,576	1,571,576
Pension expense	176,307	-	-	-	-	-	(176,307)	(176,307)
Interest on long-term debt	202,053	-	-	-	-	-	(202,053)	(202,053)
Total business-type activities	6,770,346	7,402,014	561,548	-	7,963,562	-	1,193,216	1,193,216
Total primary government	\$ 20,954,619	\$ 9,807,931	\$ 1,655,835	\$ 4,591,194	\$ 16,054,960	\$ (6,092,875)	\$ 1,193,216	\$ (4,899,659)
General Revenues:								
Property taxes						\$ 7,155,987	\$ -	\$ 7,155,987
Sales taxes						4,983,198	-	4,983,198
Franchise taxes						605,293	-	605,293
Tourism taxes						39,646	-	39,646
Other taxes						31,850	-	31,850
Interest income						60,343	30,082	90,425
Gain (loss) on disposal of assets						(2,797)	1,288	(1,509)
Miscellaneous						234,832	55,156	289,988
Transfers						300,765	(300,765)	-
Total general revenues and transfers						13,409,117	(214,239)	13,194,878
Change in net position						7,316,242	978,977	8,295,219
Net position - beginning						1,180,308	5,705,999	6,886,307
Net position - ending						\$ 8,496,550	\$ 6,684,976	\$ 15,181,526

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

CITY OF HERNANDO, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2021

	General Fund	American Rescue Plan Fund	GO Debt Construction Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 3,310,080	\$ 2,016,017	\$ 610,309	\$ 1,115,447	\$ 7,051,853
Property taxes receivable	5,649,353	-	-	1,288,879	6,938,232
Accounts receivable	148,318	-	-	-	148,318
Intergovernmental receivables	572,224	-	629,493	75,865	1,277,582
Other receivables	2,265	-	-	-	2,265
Due from other funds	255,877	-	-	119,351	375,228
Prepaid expenses	32,829	-	-	3,490	36,319
Total assets	\$ 9,970,946	\$ 2,016,017	\$ 1,239,802	\$ 2,603,032	\$ 15,829,797
Liabilities					
Accounts payable	\$ 169,667	\$ -	\$ 852,499	\$ 31,711	\$ 1,053,877
Accrued expenses	382,275	-	-	22,910	405,185
Due to other funds	386,937	-	95,225	28,004	510,166
Unearned revenues	-	2,015,807	-	-	2,015,807
Other payables	82,998	-	-	75,824	158,822
Event deposits	-	-	-	1,140	1,140
Total liabilities	1,021,877	2,015,807	947,724	159,589	4,144,997
Deferred Inflows of Resources					
Deferred revenue - property taxes	5,649,353	-	-	1,288,879	6,938,232
Fund Balances					
Nonspendable					
Prepaid expenses	32,829	-	-	3,490	36,319
Restricted for					
Public works	-	-	292,078	615,116	907,194
Debt service	-	-	-	321,035	321,035
Public safety	-	-	-	23,631	23,631
Health and welfare	-	-	-	122,076	122,076
Unassigned (deficit)	3,266,887	210	-	69,216	3,336,313
Total fund balances	3,299,716	210	292,078	1,154,564	4,746,568
Total liabilities, deferred inflows, and fund balances	\$ 9,970,946	\$ 2,016,017	\$ 1,239,802	\$ 2,603,032	\$ 15,829,797

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

CITY OF HERNANDO, MISSISSIPPI
Reconciliation of Governmental Funds Balance
Sheet to the Statement of Net Position
For the year ended September 30, 2021

Total Fund Balances - Total Governmental Funds	\$ 4,746,568
Amounts reported for Governmental Activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	29,938,502
Deferred revenues for delinquent property taxes deferred in the governmental funds because they will not be received within sixty days of the consolidated government's year end.	85,777
Deferred revenues for delinquent ambulance fees deferred in the governmental funds because they will not be received within sixty days of the consolidated government's year end.	29,811
Long-term liabilities, including bonds, notes payable, and accrued interest, are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet.	(8,808,997)
Accrued compensated absences are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet.	(352,469)
Net pension liability are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet.	(14,000,571)
Deferred outflows and inflows related to pensions are applicable to future periods and, therefore are not reported in the Governmental Funds Balance Sheet:	
Deferred outflows of resources related to defined benefit pension plan	1,562,008
Deferred inflows of resources related to defined benefit pension plan	(4,922,251)
Accrual of court fine revenues to qualify as financial resources.	168,946
Deferred amount on refunding of debt issuances.	<u>49,226</u>
Net position of governmental activities	<u><u>\$ 8,496,550</u></u>

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Governmental Funds
For the year ended September 30, 2021

	General Fund	American Rescue Plan Fund	GO Debt Construction Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 5,876,230	\$ -	\$ -	\$ 1,384,842	\$ 7,261,072
Sales taxes	4,983,198	-	-	-	4,983,198
Franchise taxes	605,293	-	-	-	605,293
Tourism tax	-	-	-	39,646	39,646
Intergovernmental revenues	1,097,131	-	3,951,883	668,317	5,717,331
Charges for services	1,435,375	-	-	297,234	1,732,609
Fines and forfeitures	616,504	-	-	29,212	645,716
Interest income	39,606	210	13,243	7,284	60,343
Miscellaneous revenues	172,518	-	-	62,314	234,832
Total revenues	14,825,855	210	3,965,126	2,488,849	21,280,040
Expenditures					
Current:					
General government	2,217,802	-	-	-	2,217,802
Public safety	8,632,258	-	-	30,684	8,662,942
Public works	904,565	-	4,414,111	-	5,318,676
Health and welfare	166,067	-	-	77,344	243,411
Culture and recreation	-	-	-	1,044,924	1,044,924
Economic development & assistance	-	-	-	116,245	116,245
Debt service:					
Principal	512,172	-	-	927,405	1,439,577
Interest and other fees	72,820	-	-	180,189	253,009
Total expenditures	12,505,684	-	4,414,111	2,376,791	19,296,586
Excess of revenues over (under) expenditures	2,320,171	210	(448,985)	112,058	1,983,454
Other financing sources (uses)					
Transfers to other funds	(169,560)	-	-	-	(169,560)
Transfers from other funds	-	-	-	470,325	470,325
Proceeds from debt issued	-	-	-	194,000	194,000
Total other financing sources (uses)	(169,560)	-	-	664,325	494,765
Net change in fund balances	2,150,611	210	(448,985)	776,383	2,478,219
Fund balances - beginning	1,149,105	-	741,063	378,181	2,268,349
Fund balances - Ending	\$ 3,299,716	\$ 210	\$ 292,078	\$ 1,154,564	\$ 4,746,568

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

CITY OF HERNANDO, MISSISSIPPI
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the year ended September 30, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ 2,478,219
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 as depreciation expense. This is the amount of capital assets recorded in the current period.	5,409,828
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(1,774,136)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.	(77,493)
The amortization of the bond premium is reported as a reduction to expense on the statement of activities.	2,008
The amortization of the deferred refunding of debt issuances is reported as a increase to expense on the statement of activities.	(8,808)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the remaining basis of the capital assets sold.	(2,797)
Changes to net pension liability, deferred inflows and deferred outflows are reported in pension expense in the statement of activities but do not provide or require the use of current financial resources; therefore, pension expense related to these changes are not reported as expenditures in the governmental funds.	47,481
The change in accrued interest payable is reported as an expense on the statement of activities.	2,100
Repayment and refunding of long-term debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,439,577
The proceeds of debt are an other financing source on the governmental funds income statement but are not reported on the statement of activities:	
Proceeds from issuance of bonds and notes payable	(194,000)
Increase in accrual of compensated absences.	<u>(5,737)</u>
Change in net position of governmental activities	<u><u>\$ 7,316,242</u></u>

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, 2021

	Business-Type Activities - Enterprise Funds Utility Fund
Assets	
Current assets:	
Cash	\$ 1,379,838
Accounts receivable (net of allowance for doubtful accounts of \$371,959)	945,141
Intergovernmental receivables	333,777
Due from other funds	134,938
Prepaid expenses	2,745
Total current assets	<u>2,796,439</u>
Noncurrent assets:	
Capital assets not being depreciated	2,378,709
Capital assets, net of accumulated depreciation	<u>12,843,552</u>
Total noncurrent assets	<u>15,222,261</u>
Total assets	<u><u>18,018,700</u></u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	<u>253,014</u>
Liabilities	
Current liabilities:	
Accounts payable	326,750
Accrued expenses	103,440
Customer deposits	504,134
General Obligation bonds payable - current	95,700
Notes payable - current	<u>639,077</u>
Total current liabilities	<u>1,669,101</u>
Noncurrent liabilities:	
Accrued compensated absences	34,213
Pension liability	2,267,813
General Obligation bonds payable	92,400
Notes payable	<u>6,725,905</u>
Total noncurrent liabilities	<u>9,120,331</u>
Total liabilities	<u><u>10,789,432</u></u>
Deferred Inflows of Resources	
Deferred inflows related to pensions	<u>797,306</u>
Net Position	
Net investment in capital assets	7,669,179
Unrestricted (deficit)	<u>(984,203)</u>
Total net position	<u><u>\$ 6,684,976</u></u>

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended September 30, 2021

	Business-Type Activities - Enterprise Funds Utility Fund
Operating revenues	
Charges for services	\$ 7,402,014
Total operating revenues	<u>7,402,014</u>
Operating expenses	
Contractual services and supplies	4,054,586
Personnel services	1,516,798
Pension expense	176,307
Depreciation expense	<u>820,602</u>
Total operating expenses	<u>6,568,293</u>
Operating income (loss)	<u>833,721</u>
Nonoperating revenues (expenses)	
Interest income	30,082
Interest expense	(202,053)
Grant income	561,548
Gain (loss) on disposal of capital assets	1,288
Miscellaneous revenue	<u>55,156</u>
Total nonoperating revenues (expenses)	<u>446,021</u>
Income (loss) before transfers	<u>1,279,742</u>
Transfers out	<u>(300,765)</u>
Changes in net position	<u>978,977</u>
Net position - beginning	<u>5,705,999</u>
Net position - ending	<u><u>\$ 6,684,976</u></u>

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Cash Flows - Proprietary Funds
For the year ended September 30, 2021

	Business-Type Activities - Enterprise Funds Utility Fund
Cash flows from operating activities	
Cash received from customers	\$ 7,454,595
Cash payments to suppliers for goods and services	(4,278,908)
Cash payments to employees for services	(1,499,516)
Net cash provided by (used in) operating activities	<u>1,676,171</u>
Cash flows from noncapital financing activities	
Operating transfers out	(300,765)
Due to (from) municipality	97,417
Operating grants received	227,771
Miscellaneous revenues	55,156
Net cash provided by (used In) noncapital financing activities	<u>79,579</u>
Cash flows from capital and related financing activities	
Proceeds of long-term debt	398,038
Acquisition and construction of capital assets	(2,126,742)
Principal paid on long-term debt	(1,026,025)
Interest paid on long-term debt	(202,053)
Net Cash Provided by (Used In) Capital and Related Financing Activities	<u>(2,956,782)</u>
Cash Flows from Investing Activities	
Interest income	<u>30,082</u>
Net cash provided by (used in) investing activities	<u>30,082</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,170,950)</u>
Cash and cash equivalents - beginning	<u>2,550,788</u>
Cash and cash equivalents - ending	<u>\$ 1,379,838</u>

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Cash Flows - Proprietary Funds
For the year ended September 30, 2021

	Business-Type Activities - Enterprise Funds Utility Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating Income (loss)	\$ <u>833,721</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	820,602
Net pension expense	176,307
Effect of changes in operating assets and liabilities:	
Accounts receivable	3,695
Prepaid expenses	728
Accounts payable	(206,221)
Accrued expenses	(3,410)
Customer deposits	48,886
Compensated absences	<u>1,863</u>
Total adjustments	<u>842,450</u>
Net cash provided by (used in) operating activities	\$ <u><u>1,676,171</u></u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

FINANCIAL REPORTING ENTITY - BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

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 the statement of activities display information on all non-fiduciary activities of the primary government and its component units. The statements distinguish between those activities of the City that are governmental, which are normally supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent 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 and business-type activities for the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are 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

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental and enterprise fund financial statements are on major funds. Each major fund is presented in a separate column. Non-major funds, where applicable, are aggregated and presented in a single column.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the City. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Significant revenues considered to be susceptible to accrual in addition to general property taxes include sales tax and various categorical grants. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Types

Governmental Funds

General Fund – The General Fund is used to account for all financial resources of the primary government except those required to be accounted for in another fund. The majority of current operations are financed by this fund. Transfers to other funds and agencies are made from this fund. Monies from other funds may be received unless prohibited by the purpose and object of such funds. This is a major fund.

Debt Service Fund – The Debt Service Fund was established 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. This is a non-major governmental fund.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources such as proceeds from the sale of bonds, bond anticipation notes, capital notes, transfers from governmental funds, and federal and state grants, all provided for the specific purpose of constructing, reconstructing or acquiring permanent or semi-permanent capital improvements. Capital improvements intended for Proprietary Fund use are not included in the Capital Projects Funds. These are non-major governmental funds except for the General Obligation Debt Construction Fund, which is considered major fund.

Special Revenue Funds – Special Revenue 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. These are non-major governmental funds except for the American Rescue Plan Fund, which is considered major.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Types – continued

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the proprietary funds are as follows: sale of water, sewer, and refuse collection charges. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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.

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."

CASH EQUIVALENTS

For purposes of the statement of cash flows, the Enterprise Fund consider all highly liquid investments (including restricted assets) with an original maturity of three months or less when acquired to be cash equivalents.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

CASH AND INVESTMENTS

Cash consists of amounts on deposit with financial institutions in demand accounts, savings accounts and certificates of deposit with original maturities of three months or less from the date of acquisition. Cash is valued at cost. Investments consist of US Treasury notes and US government securities funds. The City deposits funds in the financial institutions selected by the City Council in accordance with state statutes. Deposits: custodial credit risk - the collateral for public entities' deposits in financial institutions is now 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 entities are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the City's deposits with financial institutions was \$8,432,691, and the bank balance was \$8,828,684.

Investments: *interest rate risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy is to hold all investments to maturity, thereby reducing any interest rate risk. *Credit risk* - State statutes, city bond ordinances and city resolutions authorize the City's investments. The City is authorized, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the State of Mississippi, or of any county, municipality or school district of this state, when such county, municipal or school district bonds have been properly approved; or in interest-bearing time certificates of deposit with any financial institution approved for the deposit of funds. For reporting purposes, certificates of deposit are classified as investments. Investments are valued at cost or amortized cost except for investments in the Deferred Compensation Fund that are reported at market value.

ACCOUNTS RECEIVABLE

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

CAPITAL ASSETS AND DEPRECIATION

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

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

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

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

Deferred Amount on Refunding - For current 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 Pension - 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 8 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 Pension - 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 8 for additional details.

LONG-TERM DEBT AND BOND DISCOUNTS / PREMIUMS

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 governmental activities and business-type activities 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
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

INVENTORIES

Inventories for governmental fund types are valued at actual cost under the first-in, first-out method. The City uses the consumption method for inventories; thus, inventories are recorded as expenditures or expenses when they are used.

NET POSITION

On the government-wide and proprietary fund statement of net position, the City reports net position in the following three categories:

Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition or construction of those assets.

Restricted Net Position – consists of assets, less any related liabilities, restricted externally by creditors, grantors, contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – consists of net position that is not classified as net investment in capital assets or restricted net position.

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 BALANCES

On the fund financial statements, the governmental funds balance sheet reports assets in excess of liabilities as fund balances. The fund balances are segregated into the following classifications indicating the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent:

Nonspendable – the fund balance is reported as nonspendable when the resources are either not in spendable form or are legally or contractually required to be maintained intact.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

FUND BALANCES – continued

Restricted – the fund balance is reported as restricted when constraints placed on the resources are (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – the fund balance is reported as committed for amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the board. Committed amounts cannot be uncommitted except by removing the constraints through the same formal action.

Assigned – the fund balance is reported as assigned for resources that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Intent can be expressed by the board of aldermen or an official to which the board has delegated the authority to assign amounts to be used for specific purposes.

Unassigned – the unassigned fund balance is the residual classification for the general fund. This classification represents general fund balance that is not otherwise reported as restricted or assigned to specific purposes. This classification is also used to report any negative fund balance in other governmental funds.

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.

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.

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.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

NOTE 2 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at September 30, 2021, consisted of the following:

Description	General Fund	GO Debt Construction Fund	Non-Major Governmental Funds	Utility Fund
Sales tax	\$ 428,642	\$ -	\$ -	\$ -
Franchise tax	123,316	-	-	-
Hotel / motel tax	-	-	4,783	-
Highway planning & construction grant	-	629,493	-	-
Fire protection grant	-	-	-	259,552
Other grants	20,266	-	71,082	74,225
Totals	\$ 572,224	\$ 629,493	\$ 75,865	\$ 333,777

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 3 - INTERFUND TRANSFERS AND BALANCES

The following is a summary of interfund balances at September 30, 2021:

Due From / To Other Funds

Funds:	Due To	Due From
General fund	\$ 386,937	\$ 255,877
Cemetery Maintenance	100	-
Culture and recreation	25,651	-
Forfeiture	-	12,000
Special revenue fund	2,203	-
Cemetery perpetual fund	-	100
Street Improvements	50	-
Debt service fund	-	107,251
GO debt construction fund	95,225	-
Utility	325,828	460,766
Total funds	\$ 835,994	\$ 835,994

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.

Transfers In / Out

Funds:	Transfers In	Transfers Out
General fund	\$ -	\$ 169,560
Culture and recreation	169,560	-
Debt service fund	300,765	-
Utility	-	300,765
Total funds	\$ 470,325	\$ 470,325

The principal purpose of interfund transfers was to provide funds for capital projects or to provide funds to pay for debt service. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables for accounts of the Utility Fund (an Enterprise Fund) have been reduced by \$371,959 to reflect the provision for uncollectible accounts. The accrual amount of court fine receivables and ambulance fee receivables on the Statement of Net Position – Government – Wide has been reduced by \$2,432,681 and \$1,738,233, respectively, to reflect the provision for uncollectible fines and fees.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 5 - CAPITAL ASSETS

The following is a summary of capital asset activity as of September 30, 2021:

	<u>Balance Oct. 1, 2020</u>	<u>Acquisitions</u>	<u>Capitalized Construction, Sales, or Retirements</u>	<u>Balance Sept. 30, 2021</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 807,213	\$ -	\$ -	\$ 807,213
Construction in progress	<u>7,142,441</u>	<u>4,847,032</u>	<u>(1,176,327)</u>	<u>10,813,146</u>
Total capital assets, not being depreciated:	7,949,654	4,847,032	(1,176,327)	11,620,359
Capital assets being depreciated:				
Buildings and improvements	6,288,177	9,700	-	6,297,877
Equipment	2,332,608	227,179	(24,691)	2,535,096
Vehicles	4,175,648	169,304	(15,383)	4,329,569
Improvements other than buildings	1,319,418	-	228,877	1,548,295
Infrastructure	<u>16,433,020</u>	<u>156,613</u>	<u>947,450</u>	<u>17,537,083</u>
Total capital assets, being depreciated	30,548,871	562,796	1,136,253	32,247,920
Less accumulated depreciation for:				
Buildings and improvements	(2,458,388)	(326,701)	-	(2,785,089)
Equipment	(1,899,512)	(123,490)	23,432	(1,999,570)
Vehicles	(2,085,371)	(569,918)	13,845	(2,641,444)
Improvements other than buildings	(350,082)	(60,128)	-	(410,210)
Infrastructure	<u>(5,399,565)</u>	<u>(693,899)</u>	<u>-</u>	<u>(6,093,464)</u>
Total accumulated depreciation	<u>(12,192,918)</u>	<u>(1,774,136)</u>	<u>37,277</u>	<u>(13,929,777)</u>
Total governmental activities capital assets, net	<u>\$ 26,305,607</u>	<u>\$ 3,635,692</u>	<u>\$ (2,797)</u>	<u>\$ 29,938,502</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 5 - CAPITAL ASSETS – continued

	<u>Balance Oct. 1, 2020</u>	<u>Acquisitions</u>	<u>Capitalized Construction, Sales, or Retirements</u>	<u>Balance Sept. 30, 2021</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 777,313	\$ -	\$ -	\$ 777,313
Construction in progress	<u>23,288</u>	<u>1,578,108</u>	<u>-</u>	<u>1,601,396</u>
Total capital assets, not being depreciated:	800,601	1,578,108	-	2,378,709
Capital assets being depreciated:				
Buildings and improvements	701,570	4,400	-	705,970
Waterworks system	21,769,313	126,153	-	21,895,466
Equipment	1,104,799	117,748	(40,398)	1,182,149
Vehicles	<u>616,823</u>	<u>300,333</u>	<u>27,383</u>	<u>944,539</u>
Total capital assets, being depreciated	24,192,505	548,634	(13,015)	24,728,124
Less accumulated depreciation for:				
Buildings and improvements	(26,302)	(14,119)	-	(40,421)
Waterworks system	(9,629,820)	(679,299)	-	(10,309,119)
Equipment	(936,355)	(66,643)	38,948	(964,050)
Vehicles	<u>(485,796)</u>	<u>(60,541)</u>	<u>(24,645)</u>	<u>(570,982)</u>
Total accumulated depreciation	<u>(11,078,273)</u>	<u>(820,602)</u>	<u>14,303</u>	<u>(11,884,572)</u>
Total business-type activities capital assets, net	\$ <u>13,914,833</u>	\$ <u>(1,306,140)</u>	\$ <u>1,288</u>	\$ <u>15,222,261</u>

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental Activities:

General government	\$ 28,692
Public safety	1,047,891
Public works	621,116
Culture and recreation	<u>76,437</u>

Total depreciation expense - governmental activities **\$ 1,774,136**

Business-Type Activities:

Utility	<u>820,602</u>
---------	----------------

Total depreciation expense - business-type activities **\$ 820,602**

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 6 - LONG-TERM DEBT

BONDS PAYABLE

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Limited Obligation Tax Increment Bonds are secured by an irrevocable pledge of the ad valorem taxes to be levied annually upon incremental increase in assessed value of all taxable real property.

NOTES PAYABLE

Twenty different capital improvement and equipment revolving loans make up the September 30, 2021 notes payable balance and are included in both governmental activities and business-type activities. All of the loans are in repayment status with a total outstanding balance of \$9,625,367.

DEBT SUMMARY

Debt outstanding as of September 30, 2021, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
General Obligation Bonds:			
Series 2012 Refunding Bonds	\$ 666,900	2.00-2.50%	10/23/23
Series 2015 General Obligation Bonds	3,665,000	2.50%	12/01/35
Series 2016 Refunding Bonds	<u>2,005,000</u>	1.00-2.50%	05/01/27
Total General Obligation Bonds	<u>6,336,900</u>		
Limited Obligation Bonds:			
Series 2016 Tax Increment Financing (Hampton Inn)	<u>165,000</u>	4.50%	01/21/28
Notes Payable:			
Police Cars 2019	107,134	2.37%	06/05/22
Street Overlay 2019	298,778	2.37%	09/05/24
Police Cars 2020	263,430	2.49%	06/25/25
Police Cars 2020	74,652	2.49%	08/25/25
Trustmark - Cemetery	93,586	1.65%	05/18/26
Trustmark - Parks	87,972	1.65%	05/18/26
Fire Truck 2013	307,486	3.15%	07/15/28
Fire Truck 2019	458,734	4.39%	12/17/28
Fire Truck 2020	<u>568,613</u>	2.59%	11/21/29
Total Notes Payable	<u>2,260,385</u>		
Total Governmental Activities	<u>\$ 8,762,285</u>		

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 6 - LONG-TERM DEBT – continued

DEBT SUMMARY – continued

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Business-Type Activities:			
General Obligation Bonds:			
Series 2012 Refunding Bonds	\$ 188,100	2.00-2.50%	10/23/23
Notes Payable:			
State of MS - DWSLRF	558,751	1.95%	10/15/32
DEQ Loan - Water Pollution Control 2013	1,184,548	1.75%	01/01/34
North MS Utility Company Purchase	4,613,591	2.50%	01/01/34
Shop 630 Whitfield	466,388	3.25%	08/05/34
CAP Loan - Sewer 2002	4,632	3.00%	11/01/21
Knuckleboom Loader 2017	13,976	2.33%	04/20/22
DEQ Loan - Water Pollution Control 2003	40,434	1.75%	01/01/23
CAP Loan - Sewer II 2005	48,608	2.00%	02/01/25
CAP Loan - Sewer 2005	53,056	3.00%	10/01/25
Trustmark - Knuckleboom Loader	115,960	1.60%	02/15/26
Trustmark - Capital Equipment	<u>265,038</u>	1.57%	06/20/26
Total Notes Payable	<u>7,364,982</u>		
Total Business-Type Activities	<u>\$ 7,553,082</u>		

CHANGES IN LONG-TERM DEBT

During the fiscal year, the following changes occurred in long-term debt:

	Fund Debt Retired By	Balances Oct. 1,	Additions	Reductions	Balances Sept. 30	Current Portion
Governmental Activities:						
General obligation bonds	Debt service	\$ 7,188,500	\$ -	\$ 851,600	\$ 6,336,900	\$ 839,300
Limited obligations bonds	Debt service	185,000	-	20,000	165,000	20,000
Notes payable	Debt service	43,363	-	43,363	-	-
Notes payable	General	2,590,999	-	512,172	2,078,827	453,208
Notes payable	Special Rev.	-	194,000	12,442	181,558	37,738
Premium		<u>13,228</u>	<u>-</u>	<u>2,008</u>	<u>11,220</u>	<u>2,008</u>
Total governmental activities		<u>\$ 10,021,090</u>	<u>\$ 194,000</u>	<u>\$ 1,441,585</u>	<u>\$ 8,773,505</u>	<u>\$ 1,352,254</u>
Business-Type Activities:						
General obligation bonds	Utility Fund	\$ 291,500	\$ -	\$ 103,400	\$ 188,100	\$ 95,700
Notes payable	Utility Fund	<u>7,889,569</u>	<u>398,038</u>	<u>922,625</u>	<u>7,364,982</u>	<u>639,077</u>
Total business-type activities		<u>\$ 8,181,069</u>	<u>\$ 398,038</u>	<u>\$ 1,026,025</u>	<u>\$ 7,553,082</u>	<u>\$ 734,777</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 6 - LONG-TERM DEBT – continued

DEBT SERVICE REQUIREMENTS TO MATURITY

Annual debt service requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities				Interest	Total
	General Obligation Bonds	Limited Obligation Bonds	Notes Payable Special Rev. Fund	Notes Payable General Fund		
2022	\$ 839,300	\$ 20,000	\$ 37,738	\$ 453,208	\$ 216,354	\$ 1,566,600
2023	847,600	20,000	38,365	356,089	184,512	1,446,566
2024	525,000	25,000	39,003	357,790	153,060	1,099,853
2025	545,000	25,000	39,652	249,534	130,182	989,368
2026	560,000	25,000	26,800	182,793	108,744	903,337
2027-2031	1,570,000	50,000	-	479,413	291,750	2,391,163
2032-2037	<u>1,450,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,126</u>	<u>1,543,126</u>
Total	<u>\$ 6,336,900</u>	<u>\$ 165,000</u>	<u>\$ 181,558</u>	<u>\$ 2,078,827</u>	<u>\$ 1,177,728</u>	<u>\$ 9,940,013</u>

Year Ending September 30,	Business-Type Activities			
	General Obligation Bonds	Notes Payable	Interest	Total
2022	\$ 95,700	\$ 639,077	\$ 185,683	\$ 920,460
2023	92,400	616,098	154,779	863,277
2024	-	619,744	137,568	757,312
2025	-	626,611	124,465	751,076
2026	-	605,112	110,399	715,511
2027-2031	-	2,887,291	349,779	3,237,070
2032-2034	<u>-</u>	<u>1,371,049</u>	<u>46,176</u>	<u>1,417,225</u>
Total	<u>\$ 188,100</u>	<u>\$ 7,364,982</u>	<u>\$ 1,108,849</u>	<u>\$ 8,661,931</u>

NOTE 7 - DEFICIT FUND BALANCE OF INDIVIDUAL FUNDS

The following funds reported deficits in fund balances at September 30, 2021:

<u>Fund</u>	<u>Deficit Amount</u>
Culture and recreation fund	\$ 61,903

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Plan Description - Employees of the City of Hernando are provided a defined benefit pension plan through the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing agent multiple-employer pension plan. The Public Employees' Retirement System of Mississippi (PERS) was created with the purpose to provide pension benefits for all state and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate in the System, and elected members of the State Legislature and the President of the Senate. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits Provided - For the cost-sharing plan 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% 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% 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 (the actuarial reduction for less than 30 years or below age 65 apply only to those who became members on or after July 1, 2011). Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service.

A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. 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.

Employee membership data related to the Plan, as of June 30, 2020, was as follows:

Inactive Members or Beneficiaries Currently Receiving Benefits	109,881
Inactive Members Assumed Eligible for a Benefit at Retirement Date	16,436
Inactive Members Assumed Not to Receive Service Retirement Benefits	62,211
Active Members	149,855
Total	<u>338,383</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 8 - DEFINED BENEFIT PENSION PLAN – continued

Contributions - The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. PERS members are required to contribute 9.00% of their annual covered salary and the City of Hernando is required to contribute at an actuarially determined rate. The current rate is 17.40% of annual covered payroll. The contributions are deducted from the employees' wages or salary and remitted by the City to PERS on a monthly basis. By law, employer contributions are required to be paid. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability. The City of Hernando's contributions to PERS for the years ending September 30, 2021, 2020, and 2019 were, \$1,285,408, \$1,287,516, and \$1,169,314, respectively, equal to the required contributions for each year.

For the year ended September 30, 2021, the City of Hernando's total payroll for all employees was \$7,582,749. Total covered payroll was also \$7,387,399. Covered payroll refers to all compensation paid by the City to active employees covered by the Plan.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - At September 30, 2021, the City of Hernando reported a liability of \$16,268,384 for its proportionate share of the net pension liability.

The net pension liability was measured as of June 30, 2021, and the total pension liability percentage used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Hernando's proportion of the net pension was based on a projection of the City of Hernando's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the City of Hernando's proportion was 0.110067%.

For the year ended September 30, 2021, the City of Hernando recognized pension expense of \$128,826. At September 30, 2021, the City of Hernando 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
Difference Between Expected and Actual Experience	\$ 260,131	\$ -
Net Difference Between Projected and Actual Investment Earnings	-	4,899,343
City Pension Contributions Subsequent to the Measurement Date	303,047	-
Changes of Assumptions	1,251,844	-
Changes in Proportion and Differences in Actual Earnings on Pension Plan Assets	-	820,214
Total	\$ <u>1,815,022</u>	\$ <u>5,719,557</u>

The \$303,047 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2022.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 8 - DEFINED BENEFIT PENSION PLAN – continued

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Amount
2022	\$ (898,851)
2023	(867,374)
2024	(981,379)
2025	(1,459,978)
Total	\$ <u>(4,207,582)</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	2.65 - 17.90%, average, including inflation
Investment rate of return	7.55%, net of pension plan investment expense, including inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 95% of male rates up to age 60, 110% for ages 61 to 75 and 101% for ages above 77. For females, 84% of female rates up to age 72 and 100% for ages above 76. Mortality rates for disability retirees were based on the PubG.H-2010 Disabled Table adjusted 134% for males and 121% for females. Mortality rates for Contingent Annuitants were based on the PubS.H-2010(B) Contingent Annuitant Table, adjusted 97% for males and 110% for females. Mortality rates will be projected generationally using the MP-2020 projection scale to account for future improvements in life expectancy.

The actuarial assumptions used for the purposes of determining the TPL were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2020. The experience report is dated April 20, 2021.

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.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 8 - DEFINED BENEFIT PENSION PLAN – continued

The most recent target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	27.00 %	4.60 %
International Equity	22.00	4.50
Global Equity	12.00	4.80
Fixed Income	20.00	(0.25)
Real Estate	10.00	3.75
Private Equity	8.00	6.00
Cash	1.00	(1.00)
Total	100.00 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.55 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 contribution rate (17.40%). 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 of the City of Hernando's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City of Hernando's proportionate share of the net pension liability using the discount rate of 7.55 percent, as well as what the City of Hernando's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.55 percent) or 1-percentage-point higher (8.55 percent) than the current rate:

	Discount Rate	City of Hernando's Proportionate Share of Net Pension Liability
1% Decrease	6.55%	\$ 23,039,845
Current Discount Rate	7.55%	16,268,384
1% Increase	8.55%	10,688,161

Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position is available in the separately issued Public Employees' Retirement System of Mississippi (PERS) financial report.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 9 - RISK MANAGEMENT

The City of Hernando is exposed to various risks of losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs of the City except for certain employment practices liabilities, certain environmental liabilities, workers' compensation liabilities funded through a public entity risk pool, and catastrophic natural disasters that may exceed insurance coverages for which the City retains the risk of loss.

Risk of loss related to workers compensation for injuries to City employees is covered through the Mississippi Municipal Workers Compensation Group, a public entity risk pool. The pool was formed on March 28, 1989, by the Mississippi Nonprofit Corporation Act, pursuant to Section 71-3-75, Mississippi Code Annotated (1972), to provide public entities within the State of Mississippi workers compensation and employers liability coverage. The City pays premiums to the pool for its workers' compensation insurance coverage based on total payroll. The participation agreement provides that the pool will be self-sustaining through member premiums. The risk of loss is remote for claims exceeding the pool's retention liability. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 10 - CONTINGENT LIABILITIES

Litigation

The City is a defendant in various litigations arising out of normal business activities. Although the City carries commercial insurance to protect itself against damage claims, it is possible that the ultimate resolution of cases may exceed the City's insured limits. Management, with the advice of legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial statements.

Federally Assisted Programs – Compliance Audits

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 11 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in computing the provision for uncollectible court fines and ambulance fees and then the net pension liability as mentioned in Note 4 and Note 8, respectively. It is as least reasonably possible that the significant estimate used will change within the next year.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
September 30, 2021

NOTE 12 - CONSTRUCTION COMMITMENTS

Commitments with respect to unfinished capital projects at September 30, 2021, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
McIngvale I69 Realignment	\$ 5,706,875	Sep-22
AWG Sewer PJCT	925,704	Sep-22
NRCS Drainage Project (2020 EWP)	126,419	Sep-22
	<u>\$ 6,758,998</u>	

NOTE 13 - 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.

NOTE 14 - TAX ABATEMENTS

The City enters into property tax abatement agreements with local businesses for economic development purposes. The abatements may be granted to any business located within or promising to locate within the city limits. The abatements are negotiated on an individual basis. Each abatement is for 10 years. The City had five tax abatement agreements with three entities as of September 30, 2021.

The City had two types of abatements, none of which provides for the abatement of school or state tax levies:

- Section 27-31-101 – New enterprise exemptions
- Section 27-31-105 – Expanded enterprise exemptions

All three entities had tax abatements listed under the above listed statutes.

Category	Amount of taxes abated during the fiscal year
New and expanded industrial enterprises	\$21,179

The companies were not required to comply with any special provisions in order to receive the abatements and the City made no commitments as part of the agreements other than to reduce taxes. Abatements may be voided pursuant to state law in the event of a cessation of company operations.

NOTE 15 - SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through June 20, 2023, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HERNANDO, MISSISSIPPI
General Fund Statement of Revenues, Expenditures and Changes
In Fund Balances - Budget (Non-GAAP basis) and Actual
For the year ended September 30, 2021

	Budget			Variance with Final Budget (Unfavorable)
	Original	Final	Actual	
Revenues				
Property taxes	\$ 5,066,387	\$ 5,697,387	\$ 5,584,463	\$ (112,924)
Sales taxes	4,500,000	3,700,000	4,978,377	1,278,377
Franchise taxes	395,000	440,000	501,288	61,288
Intergovernmental revenues	1,228,760	602,760	1,263,447	660,687
Charges for services	1,343,000	903,000	1,435,375	532,375
Fines and forfeitures	537,000	537,000	616,504	79,504
Interest income	-	-	39,606	39,606
Miscellaneous revenues	664,500	195,500	172,518	(22,982)
Total revenues	13,734,647	12,075,647	14,591,578	2,515,931
Expenditures				
Current:				
General government	2,346,140	2,258,319	2,217,802	40,517
Public safety	8,785,912	9,142,184	8,632,258	509,926
Public works	1,296,237	1,296,237	904,565	391,672
Health and welfare	472,556	473,056	166,067	306,989
Debt Service				
Principal	492,432	512,172	512,172	-
Interest	133,370	72,820	72,820	-
Total expenditures	13,526,647	13,754,788	12,505,684	1,249,104
Excess of revenues over (under) expenditures	208,000	(1,679,141)	2,085,894	3,765,035
Other financing sources (uses)				
Proceeds from Debt Issued	-	459,000	-	(459,000)
Transfers to Other Funds	(169,560)	(248,586)	(169,560)	79,026
Total other financing sources (uses)	(169,560)	210,414	(169,560)	(379,974)
Excess (deficiency) of revenues and other sources over financing and other uses	38,440	(1,468,727)	1,916,334	3,385,061
Fund balance (non-GAAP budgetary basis) - beginning of year	1,149,105	1,149,105	1,149,105	-
Fund balance (non-GAAP budgetary basis) - end of year	\$ 1,187,545	\$ (319,622)	3,065,439	\$ 3,385,061
Adjustments to Generally Accepted Accounting Principles:				
Revenue Accruals			147,035	
Fund balance (GAAP basis) - end of year			\$ 3,212,474	

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
For the Seven Years Ended September 30, 2021*

	<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>	
City's proportion of net pension liability (%)	0.110067	%	0.111837	%	0.109546	%	0.104222	%	0.096292	%	0.086400	%	0.085700	%
City's proportionate share of net pension liability	\$ 16,268,384		\$ 21,650,343		\$ 19,271,302		\$ 17,335,214		\$ 16,006,999		\$ 15,428,554		\$ 13,247,529	
City's covered payroll	\$ 7,387,399		\$ 7,399,517		\$ 7,253,809		\$ 6,824,863		\$ 6,086,267		\$ 5,636,629		\$ 5,349,104	
City's proportionate share of net pension liability as a percentage of its covered payroll	220.22	%	292.59	%	265.67	%	254.00	%	263.00	%	273.72	%	247.66	%
Plan fiduciary net position as a percentage of total pension liability	70.44	%	58.97	%	61.59	%	62.54	%	61.49	%	57.47	%	61.70	%

-52-

Schedule is intended to show information for 10 years. Additional years will be available as they become available.

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

* The amounts presented have a measurement date of June 30.

CITY OF HERNANDO, MISSISSIPPI
Schedule of the City's Contributions
For the Seven Years Ended September 30, 2021

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 1,285,408	\$ 1,287,516	\$ 1,169,314	\$ 1,074,916	\$ 958,587	\$ 887,769	\$ 842,484
Contributions in relation to statutorily required contributions	\$ 1,285,408	\$ 1,287,516	\$ 1,169,314	\$ 1,074,916	\$ 958,587	\$ 885,004	\$ 846,661
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,765	\$ (4,177)
City's covered payroll	\$ 7,387,399	\$ 7,399,517	\$ 7,253,809	\$ 6,824,863	\$ 6,086,267	\$ 5,636,629	\$ 5,349,104
Contributions as a percentage of covered payroll	17.40 %	17.40 %	16.12 %	15.75 %	15.75 %	15.75 %	15.75 %

Contribution percentage rate went from 15.75% to 17.40% as of July 1, 2019.
The accompanying notes to the Required Supplementary Information are an integral part of this schedule.
Schedule is intended to show information for 10 years. Additional years will be available as they become available.

CITY OF HERNANDO, MISSISSIPPI
Notes to the Required Supplementary Information
For the year ended September 30, 2021

Budgetary Information

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.

Budgetary Basis of Presentation

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.

Pension Schedules - Changes of Assumptions

2021 The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

- For males, 134% of male rates at all ages.
- For females, 121% of female rates at all ages.
- Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubG.H-2010 Disabled Table for disabled retirees with the following adjustments:

- For males, 134% of male rates at all ages.
- For females, 121% of female rates at all ages.
- Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

The expectation of contingent annuitant mortality was based on the PubS.H-2010(B) Contingent Annuitant Table with the following adjustments:

- For males, 97% of male rates at all ages.
- For females, 110% of female rates at all ages.
- Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 2.75% to 2.40%.

The wage inflation assumption was reduced from 3.00% to 2.65%.

The investment rate of return assumption was changed from 7.75% to 7.55%.

The assumed load for administrative expenses was increased from 0.25% to 0.28% of payroll.

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

CITY OF HERNANDO, MISSISSIPPI
Notes to the Required Supplementary Information
For the year ended September 30, 2021

Pension Schedules - Changes of Assumptions (continued)

The percentage of active member disabilities assumed to be in the line of duty was increased from 9% to 12%.

The percentage of active member deaths assumed to be in the line of duty was decrease from 6% to 4%.

2019 The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

- For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.
- For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119.
- Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:

- For males, 137% of male rates at all ages.
- For females, 115% of female rates at all ages.
- Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 3.00% to 2.75%.

The wage inflation assumption was reduced from 3.25% to 3.00%.

Withdrawal rates, pre-retirement mortality 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 7% to 9%.

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%.

2016 The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

CITY OF HERNANDO, MISSISSIPPI
Notes to the Required Supplementary Information
For the year ended September 30, 2021

Pension Schedules - Changes of Assumptions (continued)

- 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.

Changes of 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.

SUPPLEMENTARY INFORMATION

CITY OF HERNANDO, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the year ended September 30, 2021

Federal Grantor/ Pass Through Grantor/ Program Title	Grantor Agency ID Number	Federal Assistance Listing Number	Federal Expenditures
PRIMARY GOVERNMENT:			
U.S. Department of Agriculture			
Farmers Market Promotion Program	AM 180100XXXXG074	10.168	\$ 91,641
Rural Business Development Grant	FAIN #28-017-646000440	10.351	97,434
Emergency Watershed Protection Program	NR204423XXXXC038	10.923	74,225
Total U.S. Department of Agriculture			\$ 263,300
U.S. Department of Transportation			
Passed through State Office of:			
Mississippi Department of Transportation			
Highway Planning and Construction Grant*	SRSP-0109-00(004)LPA107218-711000	20.205	\$ 28,982
Highway Planning and Construction Grant*	STP-7885-00(001)LPA107537-701000	20.205	2,922,901
Highway Planning and Construction Grant*	STP-0109-00(006)LPA106355-701000	20.205	166,069
Total passed through the Mississippi Department of Transportation			3,117,952
Mississippi Department of Public Safety			
Alcohol Open Container Requirements	154AL-2021-ST-28-61	20.607	100,981
Total passed through the Mississippi Department of Public Safety			100,981
Total U. S. Department of Transportation			\$ 3,218,933
Delta Regional Authority			
AWG Fire Protection	FGID # 54316	90.200	\$ 487,323
Total Delta Regional Authority			\$ 487,323
TOTAL FEDERAL EXPENDITURES			\$ 3,969,556

CITY OF HERNANDO, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the year ended September 30, 2021

Federal Grantor/ Pass Through Grantor/ Program Title	Grantor Agency ID Number	Federal Assistance Listing Number	Federal Expenditures
--	--------------------------------	--	-------------------------

SIGNIFICANT ACCOUNTING POLICIES:

The accompanying Schedule of expenditures of federal awards includes the federal award activity of the City of Hernando, Mississippi under programs of the federal government for the year ended September 30, 2021. 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

* - Major Program

OTHER INFORMATION

CITY OF HERNANDO, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2021
Unaudited

NAME	POSITION	BOND	INSURANCE COMPANY
Chip Johnson	Mayor	\$ 100,000	Travelers Casualty & Surety Co. of America
Natalie Lynch	Alderdwoman Ward 1	100,000	Travelers Casualty & Surety Co. of America
Andrew Miller	Alderman Ward 2	100,000	Travelers Casualty & Surety Co. of America
Bruce Robinson	Alderman Ward 3	100,000	Travelers Casualty & Surety Co. of America
Chad Wicker	Alderman Ward 4	100,000	Travelers Casualty & Surety Co. of America
Beth Rone Ross	Alderdwoman Ward 5	100,000	Travelers Casualty & Surety Co. of America
Ben Piper	Alderman Ward 6	100,000	Travelers Casualty & Surety Co. of America
Winfred "Doc" Harris	At Large	100,000	Travelers Casualty & Surety Co. of America
Pamela Pyle	City Clerk	50,000	Travelers Casualty & Surety Co. of America
Aimee Holder	Bookkeeper	50,000	Travelers Casualty & Surety Co. of America
Cassundra E Perry	Court Clerk	50,000	Travelers Casualty & Surety Co. of America
Jennifer Borden	Deputy Court Clerk	50,000	Travelers Casualty & Surety Co. of America
Shermonica Wilson	Deputy Court Clerk	50,000	Travelers Casualty & Surety Co. of America
Susan Waldrop	Deputy Court Clerk	50,000	Travelers Casualty & Surety Co. of America
Beth Garcia	Front Desk Clerk	50,000	Travelers Casualty & Surety Co. of America
Jan Hawks	Lead Utility Clerk	50,000	Travelers Casualty & Surety Co. of America
Kaycee McMullen	Utility Clerk	50,000	Travelers Casualty & Surety Co. of America
Annette Stotler	Utility Clerk	50,000	Travelers Casualty & Surety Co. of America
Eva Ward	Accounts Payable	50,000	Travelers Casualty & Surety Co. of America
Stacey Barnette	Receptionist	50,000	Travelers Casualty & Surety Co. of America
Ashley Keating	Animal Control Officer	50,000	Travelers Casualty & Surety Co. of America
Kristin Duggan	Planning Clerk	50,000	Travelers Casualty & Surety Co. of America
Charlie Williams	Parks Director	50,000	Travelers Casualty & Surety Co. of America
Michael Carson	Sports Director	50,000	Travelers Casualty & Surety Co. of America
Gia Matheny	Director of Comm. Dev.	50,000	Travelers Casualty & Surety Co. of America
Susan Huff	Animal Shelter Mgr.	50,000	Travelers Casualty & Surety Co. of America
Jessica Green	Executive Assistant	50,000	Travelers Casualty & Surety Co. of America
C. Scott Worsham	Chief of Police	50,000	Travelers Casualty & Surety Co. of America
Shane Ellis	Asst Police Chief	50,000	Travelers Casualty & Surety Co. of America

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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

Honorable 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, 2021, and the related notes to the financial statements, which collectively comprise the City of Hernando, Mississippi's basic financial statements, and have issued our report thereon dated June 20, 2023.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

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. However, this report is a matter of public record and its distribution is not limited.

Jarrell Group, PLLC

Jarrell Group, PLLC
Tupelo, Mississippi
June 20, 2023

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

Honorable 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, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Hernando, Mississippi's major federal programs for the year ended September 30, 2021. The City of Hernando, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hernando, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hernando, Mississippi'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 each major federal program. However, our audit does not provide a legal determination of the City of Hernando, Mississippi's compliance.

Opinion on Each 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 each of its major federal programs for the year ended September 30, 2021.

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 of Hernando, Mississippi'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 of Hernando, Mississippi'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 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.

Jarrell Group, PLLC

Jarrell Group, PLLC
Tupelo, Mississippi
June 20, 2023

CITY OF HERNANDO, MISSISSIPPI
Schedule of Findings and Questioned Costs
September 30, 2021

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
 Material weakness identified? Yes X No
 Significant deficiency identified
 not considered to be a material weakness? Yes X None reported
Noncompliance material to financial statements
 noted? Yes X No

Federal Awards

Internal Control over major programs:
 Material weakness identified? Yes X No
 Significant deficiency identified
 not considered to be a material weakness? Yes X None reported
Type of auditors' report issued on compliance
 for major programs: Unmodified
Any audit findings disclosed that are required
 to be reported in accordance with
 2 CFR 200.516(a)? Yes X No

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>20.205</u>	<u>U.S. Department of Transportation – Highway Planning and Construction Grant</u>

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 750,000
Auditee qualified as low-risk auditee? Yes X No

SECTION 2 – FINANCIAL STATEMENT FINDINGS:

None

SECTION 3 – FEDERAL AWARD FINDINGS:

None

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

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

We have audited the financial statements of the City of Hernando, Mississippi, as of and for the year ended September 30, 2021, and have issued our report thereon dated June 20, 2023. 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 the *Government Auditing Standards*.

As required by the State legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations.

This report is intended for the information and use of management, federal awarding agencies, the Office of the State Auditor, and pass-through entities 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.

Jarrell Group, PLLC

Jarrell Group, PLLC
Tupelo, Mississippi
June 20, 2023