

**City of Hernando, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2016**



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Audited Financial Statements
For the Year Ended September 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi, as of September 30, 2016, and the respective changes in financial

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of City's proportionate share of net pension liability, and schedule of City's contributions on pages i-viii, 30-34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2017, on our consideration of the City of Hernando, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hernando, Mississippi's internal control over financial reporting and compliance.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 16, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hernando, Mississippi
Management’s Discussion and Analysis
For the Year Ended September 30, 2016
Unaudited

This Discussion and Analysis of the City of Hernando’s financial performance provides an overall review of the City’s financial activities for the year ended September 30, 2016. The intent of this discussion and analysis is to look at the City’s financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City’s financial performance.

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

The statements presented in this audit consist of two types:

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

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

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

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

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

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

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

Notes to the Financial Statements- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-28 of this report.

BRIEF DISCUSSION OF BASIC FINANCIAL STATEMENTS

Net position and net position by category may serve over time as a useful indicator of a government's financial position. The liabilities of the City of Hernando, Mississippi exceeded its assets at September 30, 2016 by \$4,865,851. The Majority of the City's net position is net investment in capital assets and unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. The remaining \$4,214,793 is restricted for specific purposes. Unrestricted net position decreased by \$1,390,638, and restricted net position increased in the amount of \$4,157,773 and net investment in capital assets decreased by \$2,858,938. The primary reason for the decrease in unrestricted net position was due to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires all government entities to record a net pension liability for its portion of the overall net pension liability on a multi-employer cost sharing plan.

As of the close of the current fiscal year the City of Hernando's governmental funds reported combined ending fund balances of \$4,823,213 and combined total assets of \$10,541,400.

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CONDENSED COMPARATIVE FINANCIAL STATEMENTS

The combined net position decreased from (\$760,373) in 2015 to (\$1,492,224) in 2016, which is a decrease of \$731,851.

NET POSITION						
	2016	2015	2016	2015	2016 Total	2015 Total
	Governmental Activities (All other funds)	Governmental Activities (All other funds)	Business Type Activities (Utility Fund)	Business Type Activities (Utility Fund)		
ASSETS						
Current and Other Assets	\$ 10,563,700	\$ 5,528,656	\$885,903	\$ 1,489,285	\$ 11,449,603	\$ 7,017,941
Capital Assets, Net	13,404,857	11,955,800	9,526,443	8,934,170	22,931,300	20,889,970
TOTAL ASSETS	23,968,557	17,484,456	10,412,346	10,423,455	34,380,903	27,907,911
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows – Pensions	2,776,671	1,995,279	467,249	346,872	3,243,920	2,342,151
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,776,671	1,995,279	467,249	346,872	3,243,920	2,342,151
LIABILITIES						
Current and Other Liabilities	1,287,377	533,226	534,091	684,764	1,821,468	1,217,990
Long Term Liabilities:						
Due Within One Year	1,037,108	728,079	469,848	325,636	1,506,956	1,053,715
Due in More than One Year	23,989,875	18,016,669	6,372,830	5,644,673	30,362,705	23,661,342
TOTAL LIABILITIES	26,314,360	19,277,974	7,376,769	6,655,073	33,691,129	25,933,047
DEFERRED INFLOWS OF RESOURCES						
Property tax for future reporting period	4,554,980	4,391,509	-	-	4,554,980	4,391,509
Deferred inflows - pensions	741,739	584,300	129,199	101,579	870,938	685,879
TOTAL DEFERRED INFLOWS OF RESOURCES	5,296,719	4,975,809	129,199	101,579	5,425,918	5,077,388
NET POSITION						
Invest in Capital Assets Net of Debt						
Restricted:	1,831,778	4,690,716	4,998,493	4,945,866	6,830,271	9,636,582
Capital Projects	3,912,446	-	-	-	3,921,446	-
Special Revenue	-	-	-	-	-	-
Debt Services	-	-	-	-	-	-
Economic development and assistance	277,057	40,850	-	-	277,057	40,850
Unrestricted	25,290	16,170	-	-	25,290	16,170
TOTAL NET POSITION	(10,912,422)	(9,521,784)	(1,624,866)	(932,191)	(12,537,288)	(10,453,975)
	\$(4,865,851)	\$ (4,774,048)	\$3,373,627	\$ 4,013,675	\$(1,492,224)	\$(760,373)

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Net Position of the City's governmental activities has decreased by 2% (\$4,865,851) in 2016 compared to (\$4,774,048) in 2015). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$(9,521,784) at September 30, 2015 to (\$10,912,422) at the end of this year which is a decrease of 14.60%.

Net Position of the City's business type activities (utility fund) decreased by 15.94% (\$3,373,627 compared to \$4,013,675). Unrestricted net position changed from \$(932,191) at September 30, 2015 to \$(1,624,866) at the end of this year, which is a decrease of 74.31%.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

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

ANALYSIS OF BALANCES AND TRANSACTIONS OF GOVERNMENT-WIDE ACTIVITIES

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

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

	2015 Governmental Activities	2016 Governmental Activities	2015 Business- Type Activities	2016 Business- Type Activities	2015 Total	2016 Total
Revenues						
Taxes - Property	\$4,240,067	\$ 4,754,319	\$ -	\$ -	\$ 4,240,067	\$ 4,754,319
Sales and Use	3,105,985	3,249,359	-	-	3,105,985	3,249,359
Other Taxes	486,967	454,676	-	-	486,967	454,676
Grants and contributions not restricted to specific programs	231,078	295,892	-	-	231,078	295,892
Operating Grants & Contributions	355,164	332,948	-	-	355,164	332,948
Capital Grants & Contributions	73,416	456,403	-	-	73,416	456,403
Charges for services	1,150,478	1,533,803	4,524,257	4,497,268	5,674,735	6,031,071
Interest	3,371	13,233	1,795	1,028	5,166	14,261
Interfund transfers	157,076	287,728	(157,076)	(287,728)	-	-
Miscellaneous	151,711	324,049	59,318	39,631	211,029	363,680
Sale of assets	27,673	15,925	20,989	(14,704)	48,662	1,221
Total revenues	9,982,986	9,395,181	4,449,283	4,235,495	14,432,269	15,953,830
Total expenses	(10,531,221)	(11,810,138)	(4,567,359)	(4,875,543)	(15,098,580)	(16,685,681)
Change in net position	(548,235)	(91,803)	(118,076)	(640,048)	(666,311)	(731,851)
Net position-beginning as previously reported	4,707,105	(4,774,048)	5,807,158	4,013,675	10,514,263	(760,373)
Prior Period Adjustment	(8,932,918)	-	(1,675,407)	-	(10,608,325)	-
Net position-beginning, as restated	(4,225,813)	-	4,131,751	-	(94,062)	-
Net position-end of year	\$(4,774,048)	\$(4,865,851)	\$4,013,675	\$ 3,373,627	\$(760,373)	\$(1,492,224)

City of Hernando, Mississippi
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The City of Hernando's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The Budgetary Analysis can be found on page 30.

During the fiscal year ending September 30, 2016, the City amended its budget three times. The total dollar amount of the budget for all funds was increased in the amount of \$6,055,571.58, which was in the General Fund, Culture and Recreation Fund, Utility Fund, and GO Debt Construction fund. The amendment was necessary in the General Fund for revenues due to grant money received, transfer from surplus, and receiving more revenues. Expenses in the General Fund were increased and some decreased to account for professional services, grant expenses, protective clothing, prisoner housing, repairing equipment and vehicles, communications. The Culture and Recreation Fund was amended to increase and decrease some revenues and expenses to cover for program revenues and expenses not budgeted for. In the Utility Fund, revenue and expenses were increased to cover for repairing equipment, and sewer and drainage repairs. In the Debt Service fund we increased expenses for the \$500,000 loan principal and interest payment. In the GO Debt Construction fund we increased revenue and expense for the Hampton Inn TIF and the \$4.5M Bond issue we received and the projects it will cover.

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

The fund balance at the beginning of the year was \$557,481 for the General Fund and at the end of the year (GAAP basis) was \$367,229 which was a decrease of \$190,252. The most significant revenues in the General Fund are derived from ad-valorem taxes, sales taxes, franchise taxes, building permit fees, police fines, and ambulance fees.

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

CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

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

Description	2015	2016	Difference
Land	\$ 575,939	\$ 575,939	\$ -
Buildings and improvements	5,628,297	5,899,001	270,704
Equipment	1,618,976	2,053,312	434,336
Vehicles	1,583,288	1,714,479	131,191
Infrastructure	8,999,319	10,340,141	1,340,822
Construction in progress	64,125	173,853	109,728
Improvements other than buildings	678,901	749,161	70,260
Accumulated depreciation	(7,193,045)	(8,101,029)	(907,984)
	\$11,955,800	\$ 13,404,857	\$ 1,449,057

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Changes in General Fixed Assets can be found on page 20 and 21. In the category of Governmental Activities capital assets, net, increased from \$11,955,800 at September 30, 2015 to \$13,404,857 at September 30, 2016. This is an increase of \$1,449,057 after depreciation. In the category of Business-type Activities capital assets, net, increased from \$8,934,170 at September 30, 2015 to \$9,526,443 at September 30, 2016. This is an increase of \$592,273 after depreciation.

General Long-Term Debt is located on pages 22 - 24. As of September 30, 2016, the City had \$11,065,000 in outstanding General Obligation Bonds, which is \$4,030,000 more than last year, and \$4,186,225 in notes payable, which is \$1,103,228 more than last year. The long-term debt is low interest loans from the State of Mississippi for water and sewer improvements and GO bonds.

INFRASTRUCTURE ACTIVITY

Over the past few years, the City has applied for state funding to improve the City water system and sanitary sewer system. The DWSIRLF loan application included major water projects for the City that would be completed in five phases. At this time, Hernando has received four DWSIRLF loans. The water improvements have included a new well, water tank, and larger water mains.

CURRENTLY KNOWN FACTS

Hernando has been growing at a very rapid pace; according to the Census in 1990, the population was 3,200, in 2000 the population was 6,812, and according to the last US Census done in 2010, the population is 14,090. In 2016, the City assessed value of property increased 3.87% and the sales tax revenue has gone up 4.61% over the last year. Residential and commercial building permits are seeing a rise again. People are continuing to move to Hernando as shown by the increased number of utility customers. Over the past year the City has added 68 sewer customers and 47 water customers. Since fiscal year end September 30, 2000, the City has added 3,162 sewer customers and 1,974 water customers. We have two rural water systems that also provide water inside the corporate limits of Hernando which is the reason there are more sewer customers than water. Over the last few years, the Mississippi Department of Environmental quality has mandated that Hernando and the other cities in DeSoto County improve the level of sewage treatment. This mandate is in place to protect our environment and our groundwater. In order to satisfy this mandate more cost effectively, the cities joined with the county to create the DeSoto County Regional Utility Authority (DCRUA).

Each year we try to improve our facilities as funds become available either from tax revenues, grants, or donations. We have a farmers market that was named the top 100 favorite markets in the nation and best market in the State. Our park facilities include community center, tennis courts, basketball courts, football field, soccer fields, exercise equipment, soft surface track, walking trails, pavilions, playgrounds, and a skate park. We have made an effort to provide facilities and programs to accommodate all ages. The City of Hernando has been given the "Playful City USA" designation for the eleventh year as of 2017. Hernando was given the "Healthiest Hometown" Award from Blue Cross Blue Shield and the City has been designated a "Tree City USA" for six years now. Hernando has hosted our Water Tower 10K for the eighth year now, bringing in over 400 runners from the Mid-South and beyond each year. Hernando has been promoting a healthier city by improving and extending the sidewalks and adding walking and biking trails on

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the streets. We are a "Let's Move" and only certified "Excel By 5" Community in Desoto County. The City of Hernando has been featured on CNN Small Hometown series and the ABC "Everyday Health" program. In 2015 the City of Hernando was ranked second in the Family Circle magazine for the "Best Town for families".

Hernando has kept the property taxes at a reasonable rate, while continuing to provide the needed services. In 2011 CNN named us in Money Magazine as one of the top 100 places to live. From 1988 to 1990, the millage for ad-valorem tax was 28.5, and in 1990, the millage was increased to 29.5. In the budget year 2001-2002, the millage for ad-valorem taxes was increased from 29.5 mills to 31.75. The millage remained at 31.75 until the 2015-2016 budget year when it was increased to 34.925. The taxes are distributed to the General Fund, Municipal Bond and Interest Fund, Library Fund, and the Park Fund. The General Fund is the main fund of the city, which provides for Administration, Fire, Police, Planning, Ambulance, and Court. The Municipal Bond and Interest Fund is to pay General Obligation Bond payments and fees. Library Fund provides funding for the Hernando Library. The Park Fund is used to pay for improvements in the park, and beautification of the City. The Cemetery Maintenance Fund pays for the cemetery maintenance. The Cemetery Perpetual Fund is the percentage set aside to maintain the cemetery over the years.

CONTACT:

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

FINANCIAL STATEMENTS

City of Hernando, Mississippi
Statement of Net Position
September 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash	\$ 5,270,939	\$ 387,452	\$ 5,658,391
Property tax receivable	4,554,980	-	4,554,980
Accounts receivable (net of allowance for uncollectibles of \$1,505,018 and \$306,666)	149,886	607,069	756,955
Intergovernmental receivables	445,467	-	445,467
Internal balances	113,876	(113,876)	-
Prepaid items	28,552	5,258	33,810
Capital assets:			
Land and construction in progress	749,792	734,039	1,483,831
Other capital assets, net	12,655,065	8,792,404	21,447,469
Total Assets	23,968,557	10,412,346	34,380,903
Deferred Outflows of Resources			
Deferred outflows related to pensions	2,679,787	467,249	3,147,036
Deferred amount on refunding	96,884	-	96,884
Total Deferred Outflows	2,776,671	467,249	3,243,920
Liabilities			
Accounts payable	845,056	42,154	887,210
Intergovernmental payable	1,157	-	1,157
Accrued interest payable	151,245	21,363	172,608
Accrued expenses	289,919	74,568	364,487
Customer deposits	-	396,006	396,006
Long-term liabilities			
Due within one year:			
Capital debt	1,037,108	469,848	1,506,956
Due in more than one year:			
Capital debt	10,632,855	4,058,102	14,690,957
Non-capital debt	216,701	26,493	243,194
Net pension liability	13,140,319	2,288,235	15,428,554
Total Liabilities	26,314,360	7,376,769	33,691,129
Deferred Inflows of Resources			
Property tax for future reporting period	4,554,980	-	4,554,980
Deferred inflows related to pensions	741,739	129,199	870,938
Total deferred inflows of resources	5,296,719	129,199	5,425,918
Net Position			
Net investment in capital assets	1,831,778	4,998,493	6,830,271
Restricted for:			
Capital projects	3,912,446	-	3,912,446
Debt service	277,057	-	277,057
Economic development and assistance	25,290	-	25,290
Unrestricted	(10,912,422)	(1,624,866)	(12,537,288)
Total Net Position	\$ (4,865,851)	\$ 3,373,627	\$ (1,492,224)

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

City of Hernando, Mississippi
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,331,648	\$ 216,036	\$ 199,234	\$ -	\$ (916,378)	\$ -	\$ (916,378)
Public safety	6,813,783	573,474	133,714	-	(6,106,595)	-	(6,106,595)
Public works	694,638	-	-	399,032	(295,606)	-	(295,606)
Health and welfare	116,139	432,698	-	-	316,559	-	316,559
Culture and recreation	781,227	311,595	-	57,371	(412,261)	-	(412,261)
Interest on long-term debt	539,134	-	-	-	(539,134)	-	(539,134)
Pension expense	1,533,569	-	-	-	(1,533,569)	-	(1,533,569)
Total Governmental Activities	<u>11,810,138</u>	<u>1,533,803</u>	<u>332,948</u>	<u>456,403</u>	<u>(9,486,984)</u>	<u>-</u>	<u>(9,486,984)</u>
Business-type activities							
Utility	4,492,530	4,497,268	-	-	-	4,738	4,738
Interest on long-term debt	113,966	-	-	-	-	(113,966)	(113,966)
Pension expense	269,047	-	-	-	-	(269,047)	(269,047)
Total Business-type Activities	<u>4,875,543</u>	<u>4,497,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(378,275)</u>	<u>(378,275)</u>
Total Government	<u>\$ 16,685,681</u>	<u>\$ 6,031,071</u>	<u>\$ 332,948</u>	<u>\$ 456,403</u>	<u>\$ (9,486,984)</u>	<u>\$ (378,275)</u>	<u>\$ (9,865,259)</u>
General revenues							
					4,754,319	-	4,754,319
					295,892	-	295,892
					3,249,359	-	3,249,359
					454,676	-	454,676
					13,233	1,028	14,261
					15,925	(14,704)	1,221
					324,049	39,631	363,680
					287,728	(287,728)	-
					<u>9,395,181</u>	<u>(261,773)</u>	<u>9,133,408</u>
					(91,803)	(640,048)	(731,851)
Net Position - Beginning					<u>(4,774,048)</u>	<u>4,013,675</u>	<u>(760,373)</u>
Net Position - Ending					<u>\$ (4,865,851)</u>	<u>\$ 3,373,627</u>	<u>\$ (1,492,224)</u>

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

City of Hernando, Mississippi
Balance Sheet - Governmental Funds
September 30, 2016

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>GO Debt Construction Fund</u>		
Assets					
Cash	\$ 745,253	\$ 311,502	\$ 4,039,968	\$ 174,216	\$ 5,270,939
Property tax receivable	3,571,487	612,645	-	370,848	4,554,980
Intergovernmental receivables	441,258	-	-	4,209	445,467
Accounts receivable (net of allowance for uncollectibles of \$1,505,018)	99,511	-	-	1,000	100,511
Due from other funds	15,401	116,800	8,750	-	140,951
Prepaid items	27,667	-	-	885	28,552
Total Assets	<u>\$ 4,900,577</u>	<u>\$ 1,040,947</u>	<u>\$ 4,048,718</u>	<u>\$ 551,158</u>	<u>\$ 10,541,400</u>
Liabilities					
Accounts payable	\$ 694,577	\$ -	\$ 123,029	\$ 27,450	\$ 845,056
Accrued expenses	267,284	-	8,750	13,885	289,919
Due to other funds	-	-	4,493	22,582	27,075
Intergovernmental Payable	-	-	-	1,157	1,157
Total Liabilities	<u>961,861</u>	<u>-</u>	<u>136,272</u>	<u>65,074</u>	<u>1,163,207</u>
Deferred Inflows of resources					
Unavailable revenue - property taxes	3,571,487	612,645	-	370,848	4,554,980
Total deferred inflows of resources	<u>3,571,487</u>	<u>612,645</u>	<u>-</u>	<u>370,848</u>	<u>4,554,980</u>
Fund Balances					
Nonspendable:					
Prepaid items	27,667	-	-	885	28,552
Restricted for:					
Capital projects	-	-	3,912,446	-	3,912,446
Debt service	-	428,302	-	-	428,302
Economic development and assistance	-	-	-	25,290	25,290
Assigned to:					
General government	6,059	-	-	-	6,059
Culture and recreation	-	-	-	5,739	5,739
Unassigned	333,503	-	-	83,322	416,825
Total Fund Balances	<u>367,229</u>	<u>428,302</u>	<u>3,912,446</u>	<u>115,236</u>	<u>4,823,213</u>
Total Liabilities and Fund Balances	<u>\$ 4,900,577</u>	<u>\$ 1,040,947</u>	<u>\$ 4,048,718</u>	<u>\$ 551,158</u>	<u>\$ 10,541,400</u>

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

City of Hernando, Mississippi
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
September 30, 2016

	Amount
Total Fund Balance - Governmental Funds	\$ 4,823,213
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of: <div style="margin-left: 40px;">\$ 8,101,029</div>	13,404,857
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.	2,679,787
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	49,375
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.	(741,739)
Deferred amount on refunding.	96,884
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Long-term debt	(11,669,963)
Net pension liability	(13,140,319)
Compensated absences	(216,701)
Accrued interest	(151,245)
	(25,178,228)
Total Net Position - Governmental Activities	\$ (4,865,851)

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

City of Hernando, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2016

	<u>Major Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>GO Debt Construction Fund</u>		
Revenues					
Property taxes	\$ 3,659,017	\$ 742,627	\$ -	\$ 352,676	\$ 4,754,320
Sales taxes	3,249,359	-	-	-	3,249,359
Franchise taxes	415,810	-	-	38,866	454,676
Intergovernmental revenues	1,027,872	-	-	57,371	1,085,243
Fines and forfeits	426,931	-	-	9,472	436,403
Charges for services	752,831	-	-	311,595	1,064,426
Interest income	3,487	1,061	8,361	324	13,233
Miscellaneous revenues	287,870	-	-	36,179	324,049
Total Revenues	<u>9,823,177</u>	<u>743,688</u>	<u>8,361</u>	<u>806,483</u>	<u>11,381,709</u>
Expenditures					
General government	2,964,606	-	26,469	9,544	3,000,619
Public safety	6,364,499	-	466,451	1,779	6,832,729
Public works	306,396	-	101,247	-	407,643
Health and welfare	66,523	-	-	49,915	116,438
Culture and recreation	-	-	278,943	736,533	1,015,476
Debt service:					
Principal	1,161,825	3,758,520	255,000	13,744	5,189,089
Interest	25,662	296,921	120,896	535	444,014
Total Expenditures	<u>10,889,511</u>	<u>4,055,441</u>	<u>1,249,006</u>	<u>812,050</u>	<u>17,006,008</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>(1,066,334)</u>	<u>(3,311,753)</u>	<u>(1,240,645)</u>	<u>(5,567)</u>	<u>(5,624,299)</u>
Other Financing Sources (Uses)					
Long-term capital debt issued	1,000,000	3,220,000	5,255,000	-	9,475,000
Proceeds from sale of capital assets	6,082	-	-	12,973	19,055
Premiums on bonds issued	-	22,083	-	-	22,083
Transfer in	-	400,997	-	130,000	530,997
Transfers out	(130,000)	-	(113,269)	-	(243,269)
Total Other Financing Sources and Uses	<u>876,082</u>	<u>3,643,080</u>	<u>5,141,731</u>	<u>142,973</u>	<u>9,803,866</u>
Net Changes in Fund Balances	(190,252)	331,327	3,901,086	137,406	4,179,567
Fund Balances - Beginning	<u>557,481</u>	<u>96,975</u>	<u>11,360</u>	<u>(22,170)</u>	<u>643,646</u>
Fund Balances - Ending	<u>\$ 367,229</u>	<u>\$ 428,302</u>	<u>\$ 3,912,446</u>	<u>\$ 115,236</u>	<u>\$ 4,823,213</u>

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

City of Hernando, Mississippi
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

	Amount
Net Changes in Fund Balances - Governmental Funds	\$ 4,179,567
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$2,389,345 exceeded depreciation of \$937,158 in the current period.	1,452,187
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net (gain/ loss) of \$2,952 and the proceeds from the sale of \$6,082 in the current period.	(3,130)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt proceeds and premiums of \$9,497,083 exceeded debt payments and deferred amount on refunding of \$5,189,089.	(4,307,994)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
Ambulance Receivables received after 60 days	32,973
Accrued interest on debt	(95,119)
Pension Expense	(1,328,184)
Compensated absences	(22,103)
Change in Net Position - Governmental Activities	\$ (91,803)

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

City of Hernando, Mississippi
Statement of Net Position – Proprietary Fund
September 30, 2016

	Utility Fund
Assets	
Current Assets	
Cash	\$ 387,452
Accounts receivable (net of allowance for uncollectibles of \$306,666)	607,069
Due from other funds	110,248
Prepaid items	5,258
Total Current Assets	1,110,027
Noncurrent Assets	
Capital assets:	
Land and construction in progress	734,039
Other capital assets, net	8,792,404
Total Noncurrent Assets	9,526,443
Total Assets	10,636,470
Deferred Outflows	
Deferred outflows - pensions	467,249
Total Deferred Outflows	467,249
Liabilities	
Current Liabilities	
Accounts payable	42,154
Accrued expenses	74,568
Accrued interest	21,363
Due to other funds	224,124
Customer deposits	396,006
Capital debt	469,848
Total Current Liabilities	1,228,063
Noncurrent Liabilities	
Capital debt	4,058,102
Non-capital debt	26,493
Net pension liability	2,288,235
Total Noncurrent Liabilities	6,372,830
Deferred Inflows of resources	
Deferred inflows - pensions	129,199
Total deferred inflows of resources	129,199
Net Position	
Net investment in capital assets	4,998,493
Unrestricted	(1,624,866)
Total Net Position	\$ 3,373,627

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

City of Hernando, Mississippi
Statement of Revenues, Expenses and
Changes in Net Position – Proprietary Fund
For the Year Ended September 30, 2016

	Utility Fund
Operating Revenues	
Charges for services	\$ 4,497,268
Miscellaneous	39,631
Total Operating Revenues	4,536,899
Operating Expenses	
Cost of sales	2,113,229
Personnel services	1,048,442
Pension expense	269,047
Materials and supplies	176,226
Depreciation expense	506,292
Miscellaneous	648,341
Total Operating Expenses	4,761,577
Operating Income	(224,678)
Nonoperating Revenues (Expenses)	
Interest income	1,028
Loss on disposal of capital assets	(14,704)
Interest expense	(113,966)
Net Nonoperating Revenues (Expenses)	(127,642)
Changes in Net Position Before Transfers	(352,320)
Transfers In	113,269
Transfers Out	(400,997)
Total Transfers	(287,728)
Changes in Net Position	(640,048)
Net Position - Beginning	4,013,675
Net Position - Ending	\$ 3,373,627

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

City of Hernando, Mississippi
Statement of Cash Flows – Proprietary Fund
For the Year Ended September 30, 2016

	Utility Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 4,596,978
Payments to suppliers	(3,157,879)
Payments to employees	(1,077,523)
Other operating cash receipts	39,631
Net Cash Provided (Used) by Operating Activities	401,207
Cash Flows From Noncapital Financing Activities	
Interfund transfers	198,325
Net Cash Provided (Used) by Non Capital Financing Activities	198,325
Cash Flows From Capital and Related Financing Activities	
Proceeds of long-term debt	1,000,000
Acquisitions and construction of capital assets	(1,113,269)
Principal paid on long-term debt	(460,354)
Interest paid on debt	(97,489)
Net Cash Provided (Used) by Capital and Related Financing Activities	(671,112)
Cash Flows From Investing Activities	
Interest on investments	1,028
Net Cash Provided (Used) by Investing Activities	1,028
Net Increase (Decrease) in Cash and Cash Equivalents	(70,552)
Cash and Cash Equivalents at Beginning of Year	458,004
Cash and Cash Equivalents at End of Year	\$ 387,452
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (224,678)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	506,292
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	45,521
(Increase) decrease in prepaid expenses	1,256
Increase (decrease) in accounts payable	(211,472)
Increase (decrease) in accrued expenses	223,148
Increase (decrease) in customer deposits	54,189
Increase (decrease) in compensated absences liability	6,951
Total Adjustments	625,885
Net Cash Provided (Used) by Operating Activities	\$ 401,207

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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. These financial statements present all the accounts of the City. There are no component units as defined by GASB Statement 14, *The Financial Reporting Entity*.

Basis of Presentation

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

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

Fund Financial Statements

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

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

General Fund:

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

Debt Service Fund:

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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

General Obligation Debt Construction Fund:

This fund is used to account for general obligation debt issued to purchase or construct capital assets.

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

Special Revenue Fund:

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

Capital Project Fund:

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

Proprietary Funds

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Utility Fund:

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus and Basis of Accounting

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they both become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year-end. Expenditures are recognized when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

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

Budgets and Budgetary Accounting

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

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

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

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

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

Deposits and Investments

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

Receivables

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

Prepaid Items

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

Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "Due to/from other funds." Interfund receivables and payable between funds within governmental activities

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business type activities are reported in the government-wide financial statements as “Internal balances.”

Capital Assets

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

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

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
• Land	\$ -	N/A
• Buildings/improvements	25,000 – 50,000	20 to 40 years
• Infrastructure	-	20 to 50 years
• Equipment	5,000	3 to 10 years

Deferred Outflows/Inflows of Resources

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

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

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

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.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

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

Pensions

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

Long-term Liabilities

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

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

Compensated Absences

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

Fund Balances

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

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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

- **Assigned** – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Aldermen.

- **Unassigned** – All amounts not included in other spendable classifications.

Fund Balance Flow Assumption

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

Net Position

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

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 ten unassigned amounts.

Property Tax Revenues

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

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

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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

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.

NOTE B - DEPOSITS

The collateral for public entities’ deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity’s funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (“FDIC”).

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. Deposits above FDIC coverage are collateralized by the pledging financial institution’s trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2016, the City’s bank balance was not exposed to custodial credit risk.

As of September 30, 2016, the carrying amount of the City’s deposits was \$5,658,391 and the bank balances totaled \$5,896,399. Of the bank balances, \$250,000 was insured by federal deposit insurance and \$5,646,399 was covered by pooled and/or pledged collateral with the State Treasurer.

NOTE C - INTERGOVERNMENTAL RECEIVABLES

At September 30, 2016, Intergovernmental receivables consisted of:

	<u>General Fund</u>
Ad valorem tax	\$ 47,044
Franchise and sales tax	398,423
Total	<u>\$ 445,467</u>

NOTE D – 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 \$3,800.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

NOTE E – CAPITAL ASSETS

No interest was capitalized during the year due to immateriality.

	<u>Balance at 9/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2016</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 575,939	\$ -	\$ -	\$ 575,939
Construction in progress	64,125	780,598	(670,870)	173,853
Total capital assets, not being depreciated:	<u>640,064</u>	<u>780,598</u>	<u>(670,870)</u>	<u>749,792</u>
Capital assets, being depreciated:				
Buildings and improvements	5,628,297	270,704	-	5,899,001
Infrastructure	8,999,319	1,340,822	-	10,340,141
Equipment	1,618,976	434,336	-	2,053,312
Vehicles	1,583,288	163,495	(32,304)	1,714,479
Improvements other than buildings	678,901	70,260	-	749,161
Total capital assets, being depreciated:	<u>18,508,781</u>	<u>2,279,617</u>	<u>(32,304)</u>	<u>20,756,094</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,895,028)	(104,445)	-	(1,999,473)
Infrastructure	(2,956,205)	(404,852)	-	(3,361,057)
Equipment	(1,180,727)	(225,180)	-	(1,405,907)
Vehicles	(1,024,143)	(172,820)	29,174	(1,167,789)
Improvements other than buildings	(136,942)	(29,861)	-	(166,803)
Total Accumulated Depreciation	<u>(7,193,045)</u>	<u>(937,158)</u>	<u>29,174</u>	<u>(8,101,029)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,315,736</u>	<u>1,342,459</u>	<u>(3,130)</u>	<u>12,655,065</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,955,800</u>	<u>\$ 2,123,057</u>	<u>\$ (674,000)</u>	<u>\$ 13,404,857</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 719,630	\$ -	\$ -	\$ 719,630
Construction in progress	14,409	-	-	14,409
Total Capital Assets, Not Being Depreciated:	<u>734,039</u>	<u>-</u>	<u>-</u>	<u>734,039</u>
Capital assets, being depreciated:				
Infrastructure	14,579,620	1,113,269	-	15,692,889
Equipment	1,078,396	-	(79,402)	998,994
Vehicles	608,592	-	(147,041)	461,551
Total Capital Assets, Being Depreciated:	<u>16,266,608</u>	<u>1,113,269</u>	<u>(226,443)</u>	<u>17,153,434</u>
Less accumulated depreciation for:				
Infrastructure	(6,744,047)	(431,265)	-	(7,175,312)
Equipment	(950,413)	(21,161)	79,402	(892,172)
Vehicles	(372,017)	(53,866)	132,337	(293,546)
Total Accumulated Depreciation	<u>(8,066,477)</u>	<u>(506,292)</u>	<u>211,739</u>	<u>(8,361,030)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,200,131</u>	<u>606,977</u>	<u>(14,704)</u>	<u>8,792,404</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,934,170</u>	<u>\$ 606,977</u>	<u>\$ (14,704)</u>	<u>\$ 9,526,443</u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

A summary of depreciation expense by function is as follows:

Governmental Activities:	
General government	\$ 48,919
Public safety	445,359
Public works	388,242
Culture and recreation	<u>54,638</u>
Total Governmental Activities Depreciation Expense	<u><u>\$ 937,158</u></u>
Business-Type Activities:	
Utility	<u>\$ 506,292</u>
Total Business-Type Activities Depreciation Expense	<u><u>\$ 506,292</u></u>

Commitments under construction at September 30, 2016 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
E Cornell Malone	\$ 357,200	\$ 114,000	General
Wagoner Engineering	<u>126,123</u>	<u>54,604</u>	General
	<u><u>\$ 483,323</u></u>	<u><u>\$ 168,604</u></u>	

NOTE F - INTERFUND TRANSACTIONS

Interfund transactions are for the payment of monthly claims, and to provide funds for debt service and capital outlay. All transfers were routine and consistent with the activities of the fund, and all interfund balances are expected to be repaid within a year. The following is a summary of interfund transactions and balances as of September 30, 2016:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 15,401	\$ -
Debt service fund	116,800	-
Other governmental	-	22,582
GO Debt Obligation	8,750	4,493
Utility fund	<u>110,248</u>	<u>224,124</u>
Total Funds	<u><u>\$ 251,199</u></u>	<u><u>\$ 251,199</u></u>

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
General fund	\$ -	\$ 130,000
Debt service fund	400,997	-
GO Debt Obligation	-	113,269
Other governmental	130,000	-
Utility fund	<u>113,269</u>	<u>400,997</u>
Total Funds	<u><u>\$ 644,266</u></u>	<u><u>\$ 644,266</u></u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

NOTE G - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2016 was as follows:

	<u>Balance at 9/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2016</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General obligation bonds payable	\$ 6,271,868	\$ 7,975,000	\$ 3,852,600	\$ 10,394,268	\$ 760,400
Less:					
Deferred amount on refunding	-	(96,884)	-	(96,884)	-
Add:					
Premiums	-	22,083	-	22,083	-
Notes payable	35,909	1,500,000	1,077,871	458,038	111,537
Leases payable	957,308	-	161,734	795,574	165,171
Compensated absences payable	194,746	21,955	-	216,701	-
Governmental Activities Long-Term Liabilities	<u>\$ 7,459,831</u>	<u>\$ 9,422,154</u>	<u>\$ 5,092,205</u>	<u>\$ 11,789,780</u>	<u>\$ 1,037,108</u>
Business-Type Activities:					
General obligation bonds payable	\$ 763,132	\$ -	92,400	\$ 670,732	\$ 94,600
Notes payable	3,047,088	1,000,000	318,901	3,728,187	325,220
Leases payable	178,084	-	49,053	129,031	50,028
Compensated absences payable	19,542	-	(6,951)	26,493	-
Business-Type Activities Long-Term Liabilities	<u>\$ 4,007,846</u>	<u>\$ 1,000,000</u>	<u>\$ 453,403</u>	<u>\$ 4,554,443</u>	<u>\$ 469,848</u>

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding as of September 30, 2016 are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount</u>	
				<u>Issued</u>	<u>Outstanding</u>
2007	Various	5/31/2007	5/1/2027	\$ 5,000,000	\$ 235,000
2012	Various	11/8/2012	10/1/2023	4,465,000	3,110,000
2015	Various	12/1/2015	12/1/1935	4,500,000	4,500,000
2016 (Hampton)	4.50%	1/21/2016	1/21/2028	255,000	-
2016	Various	5/3/2016	5/1/2027	3,220,000	3,220,000
Total General Obligation Bonds				<u>\$ 17,440,000</u>	<u>\$ 11,065,000</u>

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount</u>	
				<u>Issued</u>	<u>Outstanding</u>
First Security Note - Parks Equipment	1.85%	03/17/13	03/15/18	\$ 68,109	\$ 22,167
First TN \$500,000 Loan	1.75%	01/29/16	02/01/21	500,000	435,871
Guaranty Bank - Tax Anticipation Loan	1.15%	09/29/15	03/15/16	1,000,000	-
Subtotal Governmental Activities				<u>1,568,109</u>	<u>458,038</u>
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	10/31/02	10/31/21	288,000	90,834
Dept. of Environ. Quality - Water Pollution Control	1.75%	06/01/03	01/01/23	508,741	183,932
Dept. of Econ. and Community Dev. - Sewer Cap Loan	2.00%	02/01/05	02/01/25	237,400	111,263
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	11/01/05	11/01/25	191,116	106,430
State of Mississippi - DWSIRLF	1.95%	11/05/12	10/15/32	1,141,966	773,874
Dept. of Environmental Quality - Water Pollution Control	1.75%	9/27/2013	1/1/2034	1,531,562	1,596,569
City of Southaven Hurricane Creek	1.95%	12/27/2007	12/30/2022	1,000,000	865,285
Subtotal Business-Type Activities				<u>4,898,785</u>	<u>3,728,187</u>
Total Business-Type Activities				<u>\$ 6,466,894</u>	<u>\$ 4,186,225</u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

Advance refunding - On May 3, 2016 the City issued \$3,220,000 in general obligation refunding bonds with a yield of 2.0215%-to advance refund \$3,045,000 of the following outstanding bond issue:

<u>Issue</u>	<u>Interest Rate</u>	<u>Outstanding Amount Refunded</u>
General Obligation Bonds, Series 2007	various	\$ 3,045,000

The 2007 Bonds had an outstanding balance of \$3,280,000 at the time of refunding, but only \$3,045,000 of the bonds was refunded, leaving a remaining principal balance of \$235,000, of which all is to be redeemed on May 1, 2017.

The net proceeds of \$3,141,884 (after payment of \$97,700 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds due after May 1, 2017. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Position.

The City advance refunded the above bonds to reduce its total debt service payments over the next 10 years by almost \$161,007 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$147,164.

The aggregate maturities of general obligation bonds and notes for the years subsequent to September 30, 2016 are as follows:

<u>Year ending September 30</u>	<u>Governmental Activities Fund</u>		<u>Business-Type Activities Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 871,937	\$ 290,714	\$ 419,822	\$ 84,342
2018	900,625	221,871	428,475	75,997
2019	907,009	206,251	437,259	67,477
2020	935,491	187,399	447,277	58,779
2021-2025	3,657,244	656,700	1,465,823	172,524
2026-2030	1,870,000	314,450	740,094	76,078
2031-2035	1,400,000	128,750	460,169	12,867
2036-3040	310,000	3,875	-	-
Total	\$ 10,852,306	\$ 2,010,010	\$ 4,398,919	\$ 548,064

Future minimum capital lease payments and the net present value of these future minimum lease payments as of September 30, 2016 were as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 165,171	\$ 19,547	\$ 50,028	\$ 2,199
2018	168,684	16,033	32,195	1,316
2019	71,159	13,051	26,534	739
2020	38,965	11,743	20,274	180
2021-2025	214,319	39,222	-	-
2026-2029	137,276	6,397	-	-
Total	\$ 795,574	\$ 105,993	\$ 129,031	\$ 4,434

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

Legal debt margin. The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$9,374,214 (the smaller of the two computed margins) as of September 30, 2016.

	15% Test	20% Test
Assessed value as of September 30, 2016:		
\$135,462,754 times applicable percentage	\$ 20,364,413	\$ 27,152,551
Less present debt subject to debt limits as of September 30, 2016:		
Total bonds outstanding (excluding proprietary)	(10,990,199)	(15,198,507)
Margin for additional debt	\$ 9,374,214	\$ 11,954,044

NOTE H – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

Contributions. At September 30, 2016, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2016 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2016, 2015, and 2014 were \$887,769, \$842,484, and \$855,203, respectively, equal to the required contributions for each year.

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

At September 30, 2016, the City reported a liability of \$15,428,554 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The City's proportionate share used to calculate the September 30, 2016 net pension liability was .086374 percent, which was based on a measurement date of June 30, 2016. This was a decrease of .000634 from its proportionate share used to calculate the September 30, 2015 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended September 30, 2016, the City recognized pension expense of \$1,802,616. At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 383,439	\$ -
Net difference between projected and actual earnings on pension plan investments	1,800,520	-
Changes of assumptions	721,660	40,999
Changes in the City's proportion and differences between the City's contributions and proportionate share of contributions	-	829,939
City contributions subsequent to the measurement date	241,417	-
Total	<u>\$ 3,147,036</u>	<u>\$ 870,938</u>

\$241,417 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years ending June 30</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Total</u>
2017	\$ 1,095,727	\$ (428,460)	\$ 667,267
2018	957,261	(357,855)	599,406
2019	547,838	(84,623)	463,215
2020	304,794	-	304,794
Totals	<u>\$ 2,905,620</u>	<u>\$ (870,938)</u>	<u>\$ 2,034,682</u>

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

Actuarial Assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

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

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

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

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability	\$ 19,782,864	\$ 15,428,554	\$ 11,815,886

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

NOTE I – RISK MANAGEMENT

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

NOTE J – DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

The First time Home Buyer fund reported a deficit fund balance of \$19,012 at September 30, 2016.

NOTE K – CONTINGENCIES

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

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

NOTE L – SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City has evaluated activity of the City through June 16, 2017, which is the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

On March 21, 2017 the City entered into a lease purchase agreement with Hancock Bank for equipment with a total cost of \$132,699. The agreement calls for monthly payments of \$2,345 for 60 months which is a rate of 2.33%.

City of Hernando, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2016

On October 26, 2016 the City entered into a lease purchase agreement with Hancock Bank for police cars for a total of \$359,406. This amount is to be financed over 36 months with \$10,261 due monthly at a rate of 1.79%.

On October 28, 2016 the City interested into an agreement with Trustmark National Bank to borrow up to \$1,400,00 in the form of a tax anticipation loan with a rate of 1.36%. Only \$1,000,000 was borrowed and this was fully repaid by March 15, 2017.

On March 7, 2017 the City entered into an agreement with North Mississippi Utility Company, Inc. to purchase the water system business for \$6,000,000. The City agreed to make a down payment of \$500,000 with the balance financed by the seller for 16 years at 2.5%. The first payment shall be due one year from the date of closing and which payment shall be for interest only.

REQUIRED SUPPLEMENTARY INFORMATION

City of Hernando, Mississippi
Budgetary Comparison Schedule Budget and Actual (Non-GAAP Basis) – General Fund
For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
General property taxes	\$ 3,552,886	\$ 3,643,011	\$ 3,659,016	\$ 16,005
Franchise taxes	466,000	466,000	415,810	(50,190)
Intergovernmental	5,285,400	5,285,400	3,545,251	(1,740,149)
Charges for services	926,000	997,853	1,107,653	109,800
Miscellaneous	123,500	125,500	87,208	(38,292)
Total Revenues	<u>10,353,786</u>	<u>10,517,764</u>	<u>8,814,938</u>	<u>(1,702,826)</u>
Expenditures				
General government	1,401,785	1,456,526	1,417,845	38,681
Public safety	6,164,082	6,461,355	6,414,545	46,810
Public works	341,144	339,144	307,203	31,941
Health and welfare	258,275	140,039	67,461	72,578
Capital outlay	2,402,900	2,935,430	1,352,667	1,582,763
Debt service	1,589,723	1,589,723	1,187,487	402,236
Total Expenditures	<u>12,157,909</u>	<u>12,922,217</u>	<u>10,747,208</u>	<u>2,175,009</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,804,123)</u>	<u>(2,404,453)</u>	<u>(1,932,270)</u>	<u>472,183</u>
Other Financing Sources (Uses)				
Grant revenue	124,123	574,453	666,274	91,821
Loan proceeds	1,660,000	1,660,000	1,000,000	(660,000)
Interfund transfers	20,000	170,000	(130,000)	(300,000)
Sale of assets	-	-	6,082	6,082
Total Other Financing Sources (Uses)	<u>1,804,123</u>	<u>2,404,453</u>	<u>1,542,356</u>	<u>(862,097)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>(389,914)</u>	<u>\$ (389,914)</u>
Fund Balance - Beginning of Year			<u>557,481</u>	
Fund Balance - End of Year			167,567	
Adjustments to Conform with GAAP:				
Revenues			341,965	
Expenditures			<u>(142,303)</u>	
Fund Balance - End of Year (GAAP Basis)			<u>\$ 367,229</u>	

Notes to the Required Supplementary Information

(A) Budgetary Information.

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

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

City of Hernando, Mississippi
Budgetary Comparison Schedule Budget and Actual (Non-GAAP Basis) – General Fund
For the Year Ended September 30, 2016

(B) Basis of Presentation.

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

(C) Budget/GAAP Reconciliation.

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

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

City of Hernando, Mississippi
Schedule of City's Proportionate Share of Net Pension Liability
For the Year Ended September 30, 2016

Last 10 Fiscal Years*	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.0864%	0.0857%
City's proportionate share of the net pension liability	\$ 15,428,554	\$ 13,247,529
City's covered-employee payroll	\$ 5,525,573	\$ 5,356,568
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	279.22%	247.31%
Plan Fiduciary net position as a percentage of the total pension liability	57.47%	61.70%

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

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

City of Hernando, Mississippi
Schedule of City's Contributions
For the Year Ended September 30, 2016

Last 10 Fiscal Years*	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 887,769	\$ 842,484
Contributions in relation to the contractually required contribution	<u>885,004</u>	<u>846,661</u>
Contribution deficiency (excess)	<u>\$ 2,765</u>	<u>\$ (4,177)</u>
City's covered-employee payroll	\$ 5,636,630	\$ 5,349,104
Contributions as a percentage of covered-employee payroll	15.70%	15.83%

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

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

City of Hernando, Mississippi
Notes to the Required Supplementary Information
For the Year Ended September 30, 2016

Pension Schedules

- 1) Change of benefit terms – there were no changes of benefit terms in 2016.
- 2) Change of assumptions – there were no changes of benefit terms in 2016.

OTHER INFORMATION

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City of Hernando, Mississippi
Schedule of Surety Bonds for City Officials
September 30, 2016

Surety bonds in force at September 30, 2016 were as follows:

Name	Position	Insurance Company	Bond
Willis W. Johnson	Mayor	Travelers Casualty and Surety Co.	\$100,000
Sonny Bryant	Alderman	Brierfield Insurance Co.	\$100,000
Gary N. Higdon	Alderman	Brierfield Insurance Co.	\$100,000
Jeff Hobbs	Alderman	Brierfield Insurance Co.	\$100,000
Sam Lauderdale	Alderman	Brierfield Insurance Co.	\$100,000
Cathy Brooks	Alderman	Brierfield Insurance Co.	\$100,000
Andrew Miller	Alderman	Brierfield Insurance Co.	\$100,000
Michael McLendon	Alderman	Brierfield Insurance Co.	\$100,000
Katie Harbin	City Clerk	Travelers Casualty and Surety Co.	\$50,000
Carla Leigh Scallorn	Bookkeeper	Travelers Casualty and Surety Co.	\$50,000
Cassandra E. Perry	Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Jennifer Borden	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Donna Riles	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Abigail Beecham	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Kristin Duggan	Planning Clerk	Travelers Casualty and Surety Co.	\$50,000
Julie Harris	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Gia Matheny	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Casey Nicole Kee	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Eva Ward	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Janet Hawks	Utility Clerk	Travelers Casualty and Surety Co.	\$50,000
Susan Renee Holloway	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
C. Scott Worsham	Police Chief	Travelers Casualty and Surety Co.	\$50,000
Shane Ellis	Asst. Police Chief	Travelers Casualty and Surety Co.	\$50,000
Tarra Davis	Police Officer	Travelers Casualty and Surety Co.	\$50,000
Dewayne Williams	Park Director	Travelers Casualty and Surety Co.	\$50,000
Trenna Powell	Parks Receptionist	Travelers Casualty and Surety Co.	\$50,000
Annabelle Ibsen	Planning Clerk	Travelers Casualty and Surety Co.	\$50,000
Jared Darby	Director of Planning	Travelers Casualty and Surety Co.	\$50,000
Jacob A. Hisaw	Animal Control Officer	Travelers Casualty and Surety Co.	\$50,000

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SPECIAL REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi, as of and for the year ended September 30, 2016, 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 16, 2017.

Internal Control Over Financial Reporting

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

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weaknesses. [2016-001].

Compliance and Other Matters

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

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

We also noted certain matters which we have reported to the management of the City in the Independent Auditors' Report on Compliance with State Laws and Regulations dated June 16, 2017, included with this document.

City of Hernando, Mississippi's Response to Findings

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

Purpose of this Report

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

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC

Hernando, Mississippi

June 16, 2017



DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen
City of Hernando, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi ("the City") as of and for the year ended September 30, 2015 and have issued our report thereon dated June 16, 2017. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the general purpose financial statements disclosed the following material instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

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

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

Response- We have changed our process to make sure the unclaimed checks over 5 years old are transferred to the State Treasurer's Office every year.

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

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
June 16, 2017

City of Hernando, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2016

Section 1: Summary of Auditor's Results

Financial Statements:

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

Section 2: Financial Statements Findings

Material Weakness

2016-001. Criteria: Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles ("GAAP"). Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

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

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

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

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

Response: We are continuing to work toward the City being able to prepare external financial statements.