

**City of Hernando, Mississippi  
Audited Financial Statements  
For the Year Ended September 30, 2011**



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**Audited Financial Statements**  
**For the Year Ended September 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

Mayor and Board of Aldermen  
City of Hernando  
Hernando, Mississippi

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 ("the City") as of and for the year ended September 30, 2011, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2012 on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 34 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying supplemental information on surety bond coverage is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Williams, Pitts & Beard, PLLC*

Williams, Pitts & Beard, PLLC  
Hernando, Mississippi  
February 28, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**City of Hernando, Mississippi**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2011**  
**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, 2011. 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 Assets is found on page 13 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 assets. The Statement of Activities is found on page 14.

**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, parkland 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.

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The City maintains several governmental funds. Information is presented separately in the Governmental Funds Balance Sheet (page 15) and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Debt Service Fund which are considered to be major funds. All other Governmental Funds are combined into a single amount listed as Other Governmental Funds. The basic governmental funds financial statements can be found on pages 15-18.

**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 information for the Utility fund since it is considered a major fund of the City. The proprietary fund financial statements can be found on pages 19-21 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 22-32 of this report.

**BRIEF DISCUSSION OF BASIC FINANCIAL STATEMENTS**

Net assets and net assets by category may serve over time as a useful indicator of a government's financial position. The assets of the City of Hernando, Mississippi exceeded its liabilities at September 30, 2011 by \$12,723,179 or 81%. The majority of the City's net assets are invested in capital assets, net of related debt and unrestricted assets 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 \$755,778 is restricted for specific purposes. Unrestricted net assets increased by \$382,745, restricted assets decreased in the amount of \$171,965, and invested in capital assets increased by \$223,515.

As of the close of the current fiscal year the City of Hernando's governmental funds reported combined ending fund balances of \$2,254,286 and a total liabilities and fund balances combined of \$6,573,217.

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**CONDENSED COMPARATIVE FINANCIAL STATEMENTS**

The City's combined net assets in 2011 increased 4% from a year ago. The combined net assets increased from \$12,288,885 in 2010 to \$12,723,179 in 2011, which is an increase of \$434,294.

<b>NET ASSETS</b>						
<b>(IN THOUSANDS)</b>						
	<b>2011</b>	<b>2010</b>	<b>2011 Business</b>	<b>2010 Business</b>		
	<b>Governmental</b>	<b>Governmental</b>	<b>Type</b>	<b>Type</b>	<b>2010</b>	<b>2011</b>
	<b>Activities (All</b>	<b>Activities (All</b>	<b>Activities</b>	<b>Activities</b>	<b>Total</b>	<b>Total</b>
	<b>other funds)</b>	<b>other funds)</b>	<b>(Utility Fund)</b>	<b>(Utility Fund)</b>		
<b><u>ASSETS</u></b>						
Current and Other Assets	\$ 6,757	\$ 6,755	\$ 1,015	\$ 1,082	\$ 7,837	\$ 7,772
Capital Assets, Net	12,223	12,223	8,524	8,860	21,083	20,747
<b>TOTAL ASSETS</b>	<b>18,980</b>	<b>18,978</b>	<b>9,539</b>	<b>9,942</b>	<b>28,920</b>	<b>28,519</b>
<b><u>LIABILITIES</u></b>						
Current and Other Liabilities	4,478	4,629	416	499	5,128	4,894
Long Term Liabilities:						
Due Within One Year	484	474	178	204	678	662
Due in More than One Year	8,348	8,853	1,892	1,973	10,826	10,240
<b>TOTAL LIABILITIES</b>	<b>13,310</b>	<b>13,956</b>	<b>2,486</b>	<b>2,676</b>	<b>16,632</b>	<b>15,796</b>
<b><u>NET ASSETS</u></b>						
Invest in Capital Assets Net of Debt	3,776	3,302	6,513	6,763	10,066	10,289
Restricted:						
Capital Projects	672	574	-	-	573	672
Prepaid Expenses	-	292	-	-	292	-
Special Revenue	28	-	-	-	-	28
Debt Services	56	62	-	-	62	56
Unrestricted	1,138	792	540	503	1,295	1,678
<b>TOTAL NET ASSETS</b>	<b>\$ 5,670</b>	<b>\$ 5,022</b>	<b>\$ 7,053</b>	<b>\$ 7,266</b>	<b>\$ 12,288</b>	<b>\$ 12,723</b>

Net assets of the City's governmental activities increased by 12.9% (\$5,021,966 in 2010, compared to \$5,669,951 in 2011). Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$792,150 at 9-30-10 to \$1,138,374 at the end of this year which is an increase of 43.7%.

Net assets of the City's business type activities (utility fund) decreased by 2.94% (\$7,266,919 compared to \$7,053,228). Unrestricted net assets changed from \$503,465 at 9-30-10 to \$539,986 at the end of this year, which is an increase of 7.25%.

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**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION**

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

**ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS**

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

The Statement of Activities 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.

	2010 Governmental Activities	2011 Governmental Activities	2010 Business- Type Activities	2011 Business- Type Activities	2010 Total	2011 Total
Revenues						
Taxes - Property	\$ 3,846,037	\$ 3,822,052	\$ -	\$ -	\$ 3,846,037	\$ 3,822,052
Sales and Use	2,561,593	2,620,709	-	-	2,561,593	2,620,709
Other Taxes	386,150	375,973	-	-	386,150	375,973
Forfeitures	-	521,300	-	-	-	521,300
Intergovernmental	176,622	218,901	-	-	176,622	218,901
Charges for services	869,563	630,020	3,431,794	3,472,085	4,301,357	4,102,105
Interest	5,459	13,844	1,232	928	6,691	14,772
Grants	565,867	419,451	216,759	35,813	782,626	455,264
Interfund transfers	(363,972)	(52,806)	363,972	52,806	-	-
Miscellaneous	138,625	161,063	6,595	10,712	145,220	171,775
Sale of assets	20,888	23,531	5,916	14,697	26,804	38,228
Total revenues	8,206,832	8,754,038	4,026,268	3,587,041	12,233,100	12,341,079
Total expenses	(8,306,288)	(8,106,053)	(3,927,281)	(3,800,732)	(12,233,569)	(11,906,785)
Change in net assets	(99,456)	647,985	98,987	(213,691)	(469)	434,294
Net assets-beginning of year	5,121,422	5,021,966	7,167,931	7,266,919	12,289,353	12,288,884
Prior Period Adjustment	-	-	-	-	-	-
Net assets-end of year	\$ 5,021,966	\$ 5,669,951	\$ 7,266,918	\$ 7,053,228	\$12,288,884	\$ 12,723,178

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**BUDGETARY ANALYSIS**

The City of Hernando's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The Budgetary Analysis can be found on page 34.

During the fiscal year ending 9-30-11, the City amended its budget once. The total dollar amount of the budget for all funds was increased in the amount of \$700,116, which was in the General Fund, Culture and Recreation Fund, Forfeiture Fund, Special Revenue Hotel/Motel Fund, and Utility Fund. The amendment was necessary in the General Fund for revenues due to the grant money that we did not budget to receive, subdivision bonds recalled, and a Tax Anticipation Loan. Expenses in the General Fund were increased to account for the rising gas prices, the purchase of two vehicles for the Fire department (using Insurance rebate money), for EECBG grant money spent on the A/C unit, and for repaying the Tax Anticipation Loan. An expense was decreased due to the Police Department buying fewer cars than budgeted for. The Culture and Recreation Fund was amended to increase the Capital Improvement expense for Lee Summit Park. In the Forfeiture Fund we increased Surplus that was not budgeted. We also moved budgeted amounts from supply expenses to other services expenses to purchase a drug dog. The Special Revenue Hotel/Motel Fund was amended for increased revenue due to receiving grant money for the Water Tower 10K race, Bike Safety, and also for increased amounts received from the Hotel/Motel tax that were not budgeted. We also had to increase the expense amount for the Water Tower 10K Race. We had to increase revenues and expenses in the Utility Fund for the NRCS and DWSI projects and equipment, and also for the Recycling grant and equipment.

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 \$744,531 for the General Fund and at the end of the year (GAAP basis) was \$1,305,898, which was an increase of \$561,367. 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.

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**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 is shown as follows:

<u>Description</u>	<u>FYE 9-30-10</u>	<u>FYE 9-30-11</u>	<u>Difference</u>
Land	\$ 565,425	\$ 581,339	\$ 15,914
Buildings and improvements	5,627,896	5,627,896	0
Equipment	2,003,721	2,013,721	10,000
Vehicles	920,923	1,014,418	93,495
Infrastructure	7,733,325	8,136,267	402,942
Construction in progress	49,818	50,159	341
Improvements other than buildings	351,630	435,862	84,232
Accumulated depreciation	(5,029,129)	(5,636,280)	(607,151)
	<u>\$ 12,223,609</u>	<u>\$ 12,223,382</u>	<u>\$ (227)</u>

Changes in General Fixed Assets can be found on page 28 and 29. In the category of Governmental Activities capital assets, net, decreased from \$12,223,609 at 9-30-10 to \$12,223,382 at 9-30-11. This is a decrease of \$227 after depreciation. In the category of Business-type Activities capital assets, net, decreased from \$8,860,099 at 9-30-10 to \$8,524,064 at 9-30-11. This is a decrease of \$336,035 after depreciation.

General Long-Term Debt is located on pages 30-32. As of September 30, 2011, the City had \$8,330,000 in outstanding General Obligation Bonds, which is \$410,000 less than last year, and \$2,058,811 in notes payable, which is \$50,786 less than last year. The long-term debt is low interest loans from the State of Mississippi for water and sewer improvements.

**INFRASTRUCTURE ACTIVITY**

Over the past few years, the City has applied for state funding to improve the City water system and sanitary sewer system. The DWSIRLF loan application included major water projects for the city that would be completed in five phases. At this time, Hernando has received three DWSIRLF loans and has been awarded a fourth loan which will construct a new above ground water tank and improve water lines among other things. The water improvements have included a new well, water tank, and larger water mains.

**CURRENTLY KNOWN FACTS**

Hernando has been growing at a very rapid pace; according to the Census in 1990, the population was 3,200, in 2000 the population was 6,812, and currently the population in 2010 is 14,090. In 2011 the City assessed value of property only increased .08% and the sales tax revenue has gone up 2.3% over the last year. Residential and commercial building permits have slowed but the City of Hernando is steadily growing. People are continuing to move to Hernando as shown by the increased number of utility customers. Over the past year the City has added 99 sewer customers, and 55 water customers. Since FYE 9-30-2000 the City has added 2,682 sewer customers, and 1,711 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

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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). Over the past two years the City of Hernando entered into an agreement with the City of Southaven to construct a sewer main on the east side of I-55 from Southaven to Hernando and then connect into the DCRUA main. This main will sewer annexed areas and future developments.

Each year we try to improve our facilities as funds become available either from tax revenues, grants, or donations. This year the City accepted a historic 38.05 acres of land from Renasant Bank to be named Renasant Park. In the coming years we plan to turn this into a recreational complex, with areas for many different activities. We have a community garden at the Gale Center that is open to the public and a farmers market on the square where the public can purchase home grown items. Our park facilities include community center, tennis courts, basketball courts, football fields, and soccer fields, exercise equipment, walking trails, pavilions and playgrounds. We have made an effort to have facilities and programs to accommodate all ages. The City of Hernando has been given the "Playful City USA" designation for the fourth year as of 2011. We are one of 118 cities from across the country and the first city in Mississippi to receive this prestigious award. Hernando was also previously given the "Healthiest Hometown" Award from Blue Cross Blue Shield and the City has been designated a "Tree City USA".

Hernando has been promoting a healthier city by improving and extending the sidewalks, and adding walking and biking trails on the streets. The City of Hernando was awarded the "Healthy Kids, Healthy Community" award of \$5000 from the Community Foundation of Northwest Mississippi for the implementation of a safe bicycling policy.

Hernando has tried to keep the property taxes at a reasonable rate, while continuing to provide the needed services. From 1988 to 1990, the millage for ad-valorem tax was 28.5, and in 1990, the millage was increased to 29.5. In the budget year 2001-2002, the millage for ad-valorem taxes was increased from 29.5 mills to 31.75 and this year the millage has remained the same. The taxes are distributed to the General Fund, Municipal Bond and Interest Fund, Library Fund, and the Park Fund. The General Fund is the main fund of the city, which provides for Administration, Fire, Police, Planning, Ambulance, and Court. The Municipal Bond and Interest Fund is to pay General Obligation Bond payments and fees. Library Fund provides funding for the Hernando Library. The Park Fund is used to pay for improvements in the park, cemetery maintenance, and beautification of the City.

**CONTACT:**

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

**FINANCIAL STATEMENTS**

**City of Hernando, Mississippi**  
**Statement of Net Assets**  
**September 30, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,945,427	\$ 171,229	\$ 2,116,656
Accounts receivable, net of allowance for doubtful accounts of \$930,630	100,961	476,653	577,614
Property tax receivable	3,699,345	-	3,699,345
Intergovernmental receivable	410,250	45,434	455,684
Prepaid expense	317,388	17,422	334,810
Internal balances	20,418	(20,418)	-
Restricted assets:			
Customer deposits	-	324,514	324,514
Capital lease receivable	111,248	-	111,248
Bond issue costs, net	152,152	-	152,152
Capital assets, net of accumulated depreciation	12,223,382	8,524,064	20,747,446
<b>Total Assets</b>	<u>18,980,571</u>	<u>9,538,898</u>	<u>28,519,469</u>
<b>Liabilities</b>			
Accounts payable	417,260	79,587	496,847
Accrued expenses	223,696	11,521	235,217
Customer deposits	-	324,514	324,514
Deferred revenue	3,810,592	-	3,810,592
Escrow deposit	26,664	-	26,664
Long-term liabilities			
Due within one year:			
Capital debt	483,877	177,986	661,863
Due in more than one year:			
Capital debt	7,963,706	1,832,836	9,796,542
Non-capital debt	384,825	59,226	444,051
<b>Total Liabilities</b>	<u>13,310,620</u>	<u>2,485,670</u>	<u>15,796,290</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	3,775,799	6,513,242	10,289,041
Restricted:			
Capital projects	671,616	-	671,616
Debt service	56,565	-	56,565
Special revenue	27,597	-	27,597
Unrestricted	1,138,374	539,986	1,678,360
<b>Total Net Assets</b>	<u>\$ 5,669,951</u>	<u>\$ 7,053,228</u>	<u>\$ 12,723,179</u>

See Accompanying Notes to Financial Statements.

**City of Hernando, Mississippi**  
**Statement of Activities**  
**For the Year Ended September 30, 2011**

	Program Revenues				Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 1,324,217	\$ 151,324	\$ 102,036	\$ 36,102	\$ (1,034,755)	\$ -	\$ (1,034,755)
Public safety	5,219,639	252,790	75,399	-	(4,891,450)	-	(4,891,450)
Public works	630,369	-	-	185,000	(445,369)	-	(445,369)
Culture and recreation	442,529	99,515	5,000	15,914	(322,100)	-	(322,100)
Health and welfare	122,973	126,391	-	-	3,418	-	3,418
Interest on long-term debt	366,326	-	-	-	(366,326)	-	(366,326)
<b>Total Governmental Activities</b>	<u>8,106,053</u>	<u>630,020</u>	<u>182,435</u>	<u>237,016</u>	<u>(7,056,582)</u>	<u>-</u>	<u>(7,056,582)</u>
<b>Business-Type Activities</b>							
Utility	3,749,368	3,472,085	-	35,813	-	(241,470)	(241,470)
Interest on long-term debt	51,364	-	-	-	-	(51,364)	(51,364)
<b>Total Business-Type Activities</b>	<u>3,800,732</u>	<u>3,472,085</u>	<u>-</u>	<u>35,813</u>	<u>-</u>	<u>(292,834)</u>	<u>(292,834)</u>
<b>Total Government</b>	<u>\$ 11,906,785</u>	<u>\$ 4,102,105</u>	<u>\$ 182,435</u>	<u>\$ 272,829</u>	<u>\$ (7,056,582)</u>	<u>\$ (292,834)</u>	<u>\$ (7,349,416)</u>
<b>General Revenues</b>							
Property taxes					3,822,052	-	3,822,052
Intergovernmental					218,901	-	218,901
Sales tax					2,620,709	-	2,620,709
Franchise taxes					375,973	-	375,973
Forfeitures					521,300	-	521,300
Interest					13,844	928	14,772
Miscellaneous					161,063	10,712	171,775
Transfers other funds					(52,806)	52,806	-
Sale of assets					23,531	14,697	38,228
<b>Total General Revenues</b>					<u>7,704,567</u>	<u>79,143</u>	<u>7,783,710</u>
<b>Change in Net Assets</b>					<u>647,985</u>	<u>(213,691)</u>	<u>434,294</u>
<b>Net Assets-Beginning of Year</b>					<u>5,021,966</u>	<u>7,266,919</u>	<u>12,288,885</u>
<b>Net Assets-End of Year</b>					<u>\$ 5,669,951</u>	<u>\$ 7,053,228</u>	<u>\$ 12,723,179</u>

See Accompanying Notes to Financial Statements.

**City of Hernando, Mississippi**  
**Balance Sheet - Governmental Funds**  
**September 30, 2011**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,156,644	\$ 33,208	\$ 755,575	\$ 1,945,427
Property tax receivable	2,599,479	764,406	335,460	3,699,345
Intergovernmental receivable	409,859	-	391	410,250
Other receivables	59,196	-	-	59,196
Prepaid expenses	82,779	228,200	6,409	317,388
Due from other funds	3,011	10,625	16,727	30,363
Capital lease receivable	-	-	111,248	111,248
<b>Total Assets</b>	<b><u>\$ 4,310,968</u></b>	<b><u>\$ 1,036,439</u></b>	<b><u>\$ 1,225,810</u></b>	<b><u>\$ 6,573,217</u></b>
<b>Liabilities</b>				
Accounts payable	\$ 342,189	\$ -	\$ 75,071	\$ 417,260
Accrued expenses	53,457	-	1,013	54,470
Due to other funds	9,945	-	-	9,945
Deferred revenue	2,599,479	764,406	446,707	3,810,592
Escrow deposit	-	-	26,664	26,664
<b>Total Liabilities</b>	<b><u>3,005,070</u></b>	<b><u>764,406</u></b>	<b><u>549,455</u></b>	<b><u>4,318,931</u></b>
<b>Fund Balances</b>				
Nonspendable:				
Prepaid expenses	82,779	228,200	6,409	317,388
Restricted:				
Capital projects	409,602	-	431,240	840,842
Debt service	-	43,833	12,732	56,565
Special revenue	-	-	27,597	27,597
Assigned:				
General fund	5,486	-	-	5,486
Culture and recreation	-	-	168,943	168,943
Forfeiture	-	-	29,456	29,456
Unassigned	808,031	-	(22)	808,009
<b>Total Fund Balances</b>	<b><u>1,305,898</u></b>	<b><u>272,033</u></b>	<b><u>676,355</u></b>	<b><u>2,254,286</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 4,310,968</u></b>	<b><u>\$ 1,036,439</u></b>	<b><u>\$ 1,225,810</u></b>	<b><u>\$ 6,573,217</u></b>

See Accompanying Notes to Financial Statements.

**City of Hernando, Mississippi**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**September 30, 2011**

**Total Fund Balance - Governmental Funds** \$ 2,254,286

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	581,339	
Buildings and improvements	5,627,896	
Equipment	2,013,721	
Vehicles	1,014,418	
Infrastructure	8,136,267	
Construction in progress	50,159	
Improvements other than buildings	435,862	
Accumulated depreciation	<u>(5,636,280)</u>	
		12,223,382

Bonds issued by the City have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the Statement of Net Assets. 152,152

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 41,765

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Notes payable	(95,516)	
General obligation and revenue bonds	(8,330,000)	
Compensated absences	(384,825)	
Accrued interest	(169,226)	
Capital leases payable	<u>(22,067)</u>	
		<u>(9,001,634)</u>

**Net Assets of Governmental Activities** \$ 5,669,951

**City of Hernando, Mississippi**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Governmental Funds**  
**For the Year Ended September 30, 2011**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
General property taxes	\$ 2,759,098	\$ 742,955	\$ 319,999	\$ 3,822,052
Intergovernmental	218,901	-	-	218,901
Sales tax	2,620,709	-	-	2,620,709
Franchise taxes	365,698	-	10,275	375,973
Charges for services	749,923	-	107,724	857,647
Forfeitures	521,300	-	-	521,300
Interest	11,624	232	1,988	13,844
Miscellaneous	95,167	-	65,896	161,063
<b>Total Revenues</b>	<u>7,342,420</u>	<u>743,187</u>	<u>505,882</u>	<u>8,591,489</u>
<b>Expenditures</b>				
General government	1,139,594	-	-	1,139,594
Public safety	5,054,969	-	460	5,055,429
Public works	272,954	-	-	272,954
Culture and recreation	-	-	407,206	407,206
Health and welfare	94,716	4,114	20,453	119,283
Capital outlay	304,429	-	261,024	565,453
Debt service:				-
Principal	603,643	410,000	35,309	1,048,952
Interest	4,516	345,878	4,635	355,029
<b>Total Expenditures</b>	<u>7,474,821</u>	<u>759,992</u>	<u>729,087</u>	<u>8,963,900</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(132,401)</u>	<u>(16,805)</u>	<u>(223,205)</u>	<u>(372,411)</u>
<b>Other Financial Sources</b>				
Grant revenue	117,537	-	101,000	218,537
Sale of assets	1,231	-	22,300	23,531
Interfund transfers	-	-	(52,806)	(52,806)
Loan proceeds	575,000	-	-	575,000
<b>Total Other Financing Sources</b>	<u>693,768</u>	<u>-</u>	<u>70,494</u>	<u>764,262</u>
<b>Net Change in Fund Balances</b>	561,367	(16,805)	(152,711)	391,851
<b>Fund Balance - Beginning of Year</b>	<u>744,531</u>	<u>288,838</u>	<u>829,066</u>	<u>1,862,435</u>
<b>Fund Balance - End of Year</b>	<u>\$ 1,305,898</u>	<u>\$ 272,033</u>	<u>\$ 676,355</u>	<u>\$ 2,254,286</u>

See Accompanying Notes to Financial Statements.

**City of Hernando, Mississippi**  
**Reconciliation of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2011**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 391,851
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 material assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$606,924 exceeded depreciation expense of \$607,151 in the current period.	(227)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments of \$1,048,952 exceed amortization expense of \$11,298 and proceeds of \$575,000.	462,654
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Those amounts by which the (increase) decrease consist of are as follows:	
Compensated absences payable	21,333
Some revenues will not be collected for several months after year-end. They are not considered available resources in the governmental funds.	<u>(227,626)</u>
<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ 647,985</u></u>

**City of Hernando, Mississippi**  
**Statement of Net Assets – Proprietary Fund**  
**September 30, 2011**

	<b>Utility Fund</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 171,229
Accounts receivable , net of allowance for doubtful accounts of \$138,043	476,653
Intergovernmental receivable	45,434
Prepaid expenses	17,422
Due from other funds	1,311
<b>Total Current Assets</b>	<b>712,049</b>
<b>Noncurrent Assets</b>	
Restricted assets:	
Customer deposits	324,514
Capital assets, net of accumulated depreciation	8,524,064
<b>Total Noncurrent Assets</b>	<b>8,848,578</b>
<b>Total Assets</b>	<b>\$ 9,560,627</b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 79,587
Accrued expenses	11,521
Due to other funds	21,729
<b>Total Current Liabilities</b>	<b>112,837</b>
<b>Current Liabilities Payable From Restricted Assets:</b>	
Customer deposits	324,514
Long-term liabilities due within one year:	
Capital debt	177,986
<b>Total Current Liabilities Payable From Restricted Assets</b>	<b>502,500</b>
Long-Term Liabilities Due in More Than One Year:	
Capital debt	1,832,836
Non-capital debt	59,226
<b>Total Long-Term Liabilities</b>	<b>1,892,062</b>
<b>Total Liabilities</b>	<b>2,507,399</b>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	6,513,242
Unrestricted	539,986
<b>Total Net Assets</b>	<b>7,053,228</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 9,560,627</b>

See Accompanying Notes to Financial Statements.

**City of Hernando, Mississippi**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets – Proprietary Fund**  
**For the Year Ended September 30, 2011**

	<b>Utility Fund</b>
<b>Operating Revenues</b>	
Sewer sales	\$ 1,940,560
Water sales	789,456
Sanitation sales	742,069
Miscellaneous	10,712
<b>Total Operating Revenues</b>	<b>3,482,797</b>
<b>Operating Expenses</b>	
Cost of sales	1,350,586
Personnel	1,006,182
Depreciation and amortization	527,880
Material and supplies	148,722
Repairs and maintenance	484,464
Other	231,534
<b>Total Operating Expenses</b>	<b>3,749,368</b>
<b>Operating Income</b>	<b>(266,571)</b>
<b>Non-operating Revenues (Expenses)</b>	
Grant proceeds	35,813
Interest income	928
Interest expense	(51,364)
Interfund transfers	52,806
Sales of asset	14,697
<b>Total Non-operating Revenues (Expenses)</b>	<b>52,880</b>
<b>Change in Net Assets</b>	<b>(213,691)</b>
<b>Net Assets - Beginning of Year</b>	<b>7,266,919</b>
<b>Net Assets - End of Year</b>	<b>\$ 7,053,228</b>

See Accompanying Notes to Financial Statements.

**City of Hernando, Mississippi**  
**Statement of Cash Flows – Proprietary Fund**  
**For the Year Ended September 30, 2011**

	<u>Utility Fund</u>
<b>Cash Flows From Operating Activities</b>	
Cash received from customers	\$ 3,598,977
Cash payments for goods and services	(2,238,624)
Cash payments to employees	<u>(1,026,823)</u>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>333,530</u>
<b>Cash Flows From Non-Capital Financing Activities</b>	
Interfund transfers	113,834
<b>Net Cash Provided By (Used In) Non-Capital Financing Activities</b>	<u>113,834</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Payments for capital acquisitions	(198,961)
Proceeds from sale of assets	21,813
Customer deposits	(31,707)
Grant proceeds	106,631
Proceeds from debt issuance	118,434
Principal payments on debt	(204,258)
Interest payments on debt	<u>(51,364)</u>
<b>Net Cash Provided By (Used In) Capital and Related Financing Activities</b>	<u>(239,412)</u>
<b>Cash Flows From Investing Activities</b>	
Interest on investments	928
<b>Net Cash Provided By (Used In) Investing Activities</b>	<u>928</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	208,880
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>286,863</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 495,743</u>
<b>Reconciliation of Operating Income to Net Cash</b>	
Provided By (Used In) Operating Activities	
Operating Income	\$ (266,571)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation and amortization	527,880
(Increase) decrease in customer receivables	116,180
(Increase) decrease in prepaid items	28,479
Increase (decrease) in accounts payable	(6,243)
Increase (decrease) in accrued expenses	(39,629)
Increase (decrease) in retainage payable	(5,925)
Increase (decrease) in accrued compensated absences	<u>(20,641)</u>
Total adjustments	<u>600,101</u>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>\$ 333,530</u>

See Accompanying Notes to Financial Statements.

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General Statement**

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. The following is a summary of the more significant polices.

**Financial Reporting Entity**

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 Assets 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:

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

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.

*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 Assets. FASB pronouncements issued subsequent to November 30, 1989 that conflict with GASB pronouncements have not been followed, as permitted under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. 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/Basis of Accounting**

Measurement focus refers to what is being measured; 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 non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water, sewer and sanitation services which are accrued. Expenses are recognized at the time the liability is incurred.

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they both become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other governmental fund revenues. 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.

**Cash and Cash Equivalents**

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

**Prepaid Expenses**

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

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

**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.” Noncurrent portions of interfund receivables and payables are reported as “Advances to/from other funds.” Advances between funds, when reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payable between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business type activities are reported in the government-wide financial statements as “Internal balances.”

**Restricted Assets**

Proprietary fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

**Capital Assets and Depreciation**

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

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

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

**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.

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by the Board of Aldermen ordinance or resolution.
- **Assigned** – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Aldermen.
- **Unassigned** – All amounts not included in other spendable classifications.

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

**Net Assets**

Net assets are the difference between assets and liabilities. Net assets "Invested in capital assets, net of related debt" are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as "Restricted" when there are legal limitations imposed on their use by City legislation or external restrictions by other governments, creditors or grantors.

**Property Tax Revenues**

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

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

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

**Changes in Accounting Standards**

For the fiscal year ended September 30, 2011, the city implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance With GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

**NOTE B – CASH AND CASH EQUIVALENTS**

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 Depository Insurance Corporation ("FDIC").

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2011, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2011, the carrying amount of the City's deposits was \$2,441,171 and the bank balances totaled \$2,562,856. Of the bank balances, \$250,000 was insured by federal deposit insurance and \$2,312,856 was covered by pooled and/or pledged collateral with the State Treasurer.

**NOTE C - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables consist of sales tax and franchise tax.

	<u>General Fund</u>
Ad valorem	\$ 111,965
Franchise and sales tax	<u>298,285</u>
<b>Total</b>	<u><u>\$ 410,250</u></u>

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

**NOTE D – CAPITAL ASSETS**

	<u>Balance at 9/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance at 9/30/2011</u>
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 565,425	\$ 15,914	\$ -	\$ -	\$ 581,339
Construction in progress	49,818	341	-	-	50,159
<b>Total capital assets, not being depreciated:</b>	<u>615,243</u>	<u>16,255</u>	<u>-</u>	<u>-</u>	<u>631,498</u>
Capital assets, being depreciated:					
Buildings and improvements	5,627,896	-	-	-	5,627,896
Infrastructure	7,733,325	402,942	-	-	8,136,267
Equipment	2,003,721	10,000	-	-	2,013,721
Vehicles	920,923	93,495	-	-	1,014,418
Improvements other than buildings	351,630	84,232	-	-	435,862
<b>Total capital assets, being depreciated:</b>	<u>16,637,495</u>	<u>590,669</u>	<u>-</u>	<u>-</u>	<u>17,228,164</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,268,540)	(113,914)	-	-	(1,382,454)
Infrastructure	(1,333,164)	(311,929)	-	-	(1,645,093)
Equipment	(1,623,241)	(58,722)	-	-	(1,681,963)
Vehicles	(774,180)	(105,150)	-	-	(879,330)
Improvements other than buildings	(30,004)	(17,436)	-	-	(47,440)
<b>Total Accumulated Depreciation</b>	<u>(5,029,129)</u>	<u>(607,151)</u>	<u>-</u>	<u>-</u>	<u>(5,636,280)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>11,608,366</u>	<u>(16,482)</u>	<u>-</u>	<u>-</u>	<u>11,591,884</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 12,223,609</u>	<u>\$ (227)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,223,382</u>
<b>Business-Type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ 52,930	\$ 52,930
Construction in progress	119,288	138,666	(122,090)	-	135,864
<b>Total Capital Assets, Not Being Depreciated:</b>	<u>119,288</u>	<u>138,666</u>	<u>(122,090)</u>	<u>52,930</u>	<u>188,794</u>
Capital assets, being depreciated:					
Infrastructure	12,845,036	168,218	-	70,000	13,083,254
Equipment	1,273,663	14,167	(11,860)	(52,930)	1,223,040
Vehicles	430,563	-	-	(27,137)	403,426
<b>Total Capital Assets, Being Depreciated:</b>	<u>14,549,262</u>	<u>182,385</u>	<u>(11,860)</u>	<u>(10,067)</u>	<u>14,709,720</u>
Less accumulated depreciation for:					
Infrastructure	(4,492,774)	(431,114)	-	(70,000)	(4,993,888)
Equipment	(968,822)	(79,858)	4,744	-	(1,043,936)
Vehicles	(346,855)	(16,908)	-	27,137	(336,626)
<b>Total Accumulated Depreciation</b>	<u>(5,808,451)</u>	<u>(527,880)</u>	<u>4,744</u>	<u>(42,863)</u>	<u>(6,374,450)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>8,740,811</u>	<u>(345,495)</u>	<u>(7,116)</u>	<u>(52,930)</u>	<u>8,335,270</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 8,860,099</u>	<u>\$ (206,829)</u>	<u>\$ (129,206)</u>	<u>\$ -</u>	<u>\$ 8,524,064</u>

No interest was capitalized during the year due to immateriality.

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

A summary of depreciation expense by function is as follows:

<b>Governmental Activities:</b>	
General government	\$ 27,291
Public safety	181,326
Public works	357,415
Culture and recreation	37,679
Health and wellness	3,440
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 607,151</b>
<b>Business-Type Activities:</b>	
Utility	\$ 527,880
<b>Total Business-Type Activities Depreciation Expense</b>	<b>\$ 527,880</b>

Commitments under construction at September 30, 2011 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
McIngvale and Byhalia Interchange	\$ 288,811	\$ 288,811	Public Works
Water Main and Plant	318,590	273,146	Utility
Water Tank Construction	692,000	692,000	Utility

**NOTE E - 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, 2011:

	<u>Due From</u>	<u>Due To</u>
<b>Major Funds:</b>		
General fund	\$ 3,011	\$ 9,945
Debt service fund	10,625	-
Nonmajor funds	16,727	-
Utility fund	1,311	21,729
<b>Total Funds</b>	<b>\$ 31,674</b>	<b>\$ 31,674</b>
	<u>Transfer In</u>	<u>Transfer Out</u>
<b>Major Funds:</b>		
Nonmajor funds	\$ -	\$ 52,806
Utility fund	52,806	-
<b>Total Funds</b>	<b>\$ 52,806</b>	<b>\$ 52,806</b>

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

**NOTE F - LONG-TERM DEBT**

Long-term debt activity for the year ended September 30, 2011 was as follows:

	<u>Balance at 9/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2011</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds payable	\$ 8,740,000	\$ -	\$ 410,000	\$ 8,330,000	\$ 425,000
Notes payable	130,826	-	35,310	95,516	36,810
Loan payable	-	575,000	575,000	-	-
Leases payable	50,709	-	28,642	22,067	22,067
Compensated absences payable	406,158	-	21,333	384,825	-
<b>Governmental Activities Long-Term Liabilities</b>	<u>\$ 9,327,693</u>	<u>\$ 575,000</u>	<u>\$ 1,070,285</u>	<u>\$ 8,832,408</u>	<u>\$ 483,877</u>
<b>Business-Type Activities:</b>					
Notes payable	\$ 1,978,771	\$ 118,434	\$ 133,910	\$ 1,963,295	\$ 137,093
Leases payable	117,875	-	70,348	47,527	40,893
Compensated absences payable	79,867	-	20,641	59,226	-
<b>Business-Type Activities Long-Term Liabilities</b>	<u>\$ 2,176,513</u>	<u>\$ 118,434</u>	<u>\$ 224,899</u>	<u>\$ 2,070,048</u>	<u>\$ 177,986</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, 2011 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>
2003	Various	4/1/2003	4/1/2023	\$ 2,000,000	\$ 1,405,000
2003	Various	10/1/2003	10/1/2023	3,500,000	2,605,000
2007	Various	5/31/2007	5/1/2027	5,000,000	4,320,000
<b>Total General Obligation Bonds</b>				<u>\$ 10,500,000</u>	<u>\$ 8,330,000</u>

Notes payable as of September 30, 2011 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>
Dept. of Econ. and Community Dev. - Industrial Building	4.00%	6/30/1997	4/1/2014	\$ 450,000	\$ 95,516
<b>Subtotal Governmental Activities</b>				450,000	95,516
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	10/31/2002	10/31/2021	288,000	167,184
State of Mississippi - DWSIRLF	3.00%	2/10/2002	10/10/2021	752,086	440,432
State of Mississippi - DWSIRLF	3.00%	2/10/2003	9/10/2022	391,232	247,479
Dept. of Environ. Quality - Water Pollution Control	1.75%	6/1/2003	1/1/2023	508,741	315,418
Dept. of Econ. and Community Dev. - Sewer Cap Loan	2.00%	2/1/2005	2/1/2025	237,400	169,186
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	11/1/2005	11/1/2025	191,116	152,420
State of Mississippi - DWSIRLF	4.00%	5/1/2006	2/1/2026	233,505	352,742
State of Mississippi - DWSIRLF	4.00%	5/1/2006	2/1/2026	118,434	118,434
<b>Subtotal Business-Type Activities</b>				2,720,514	1,963,295
<b>Total</b>				<u>\$ 3,170,514</u>	<u>\$ 2,058,811</u>

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

The aggregate maturities of general obligation bonds and notes for the years subsequent to September 30, 2011 are as follows:

<b>Year ending September 30</b>	<b>Governmental Activities Fund</b>		<b>Business-Type Activities Fund</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 466,810	\$ 344,462	\$ 137,093	\$ 46,328
2013	493,310	323,254	141,605	47,373
2014	495,396	301,632	149,606	41,224
2015	495,000	280,191	153,534	37,022
2016	515,000	258,842	157,571	33,737
2017-2021	2,955,000	985,138	852,365	101,783
2022-2026	2,285,000	402,830	329,605	19,624
2027-2031	720,000	41,420	34,586	2,456
2032	-	-	7,330	78
<b>Total</b>	<b>\$ 8,425,516</b>	<b>\$ 2,937,769</b>	<b>\$ 1,963,295</b>	<b>\$ 329,625</b>

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2011 were as follows:

<b>Year Ending September 30</b>	<b>General Fund</b>		<b>Enterprise Fund</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 22,067	\$ 283	\$ 40,893	\$ 794
2012	-	-	6,634	36
<b>Total</b>	<b>\$ 22,067</b>	<b>\$ 283</b>	<b>\$ 47,527</b>	<b>\$ 830</b>

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 \$10,074,361 (the smaller of the two computed margins) as of September 30, 2011.

	<b>15% Test</b>	<b>20% Test</b>
Assessed value as of September 30, 2011:		
\$122,695,739 times applicable percentage	\$ 18,404,361	\$ 24,539,148
Less present debt subject to debt limits as of September 30, 2011:		
Total bonds outstanding (excluding proprietary)	<u>(8,330,000)</u>	<u>(8,330,000)</u>
Margin for additional debt	<u>\$ 10,074,361</u>	<u>\$ 16,209,148</u>

In December 2007, the City entered into an agreement with the City of Southaven, Mississippi whereby the City of Southaven will design and construct a sewer system ("the Hurricane Creek Project") by which it will collect and transport wastewater through the City of Hernando to the DeSoto County Regional Utility Authority's sewer system for treatment and disposal. Upon completion, the City of Hernando will operate and maintain the sewer line. Further, the City has agreed to pay the City of Southaven \$1,000,000 over seven years to reimburse the City of Southaven for its portion of the construction costs.

**City of Hernando, Mississippi**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2011**

The City will make the first annual payment to the City of Southaven within sixty days of completion of the project, and then annually on October 1. The project has not substantially begun as of September 30, 2011. Certain costs have been incurred by the City of Hernando, as shown in Note D as construction in progress. These costs are related to the City's independent oversight of the project and are not related to the \$1,000,000 that will be payable to the City of Southaven.

**NOTE G – DEFINED BENEFIT PENSION PLAN**

**Plan Description.** The City contributes to the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444 PERS.

**Funding Policy.** PERS members are required to contribute 9% of their annual covered salary and the City of Hernando is required to contribute at an actuarially determined rate. At September 30, 2011, the current rate is 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Hernando's contributions to PERS for the years ending September 30, 2011, 2010 and 2009 were \$606,362, \$600,890 and \$588,356 respectively, equal to the required contributions for each year.

**NOTE H – DEFICIT FUND BALANCE**

A deficit unassigned fund balance of \$22 exists in the First Time Homebuyers fund.

**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 – 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 K – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 28, 2012, which is the date the financial statements were available to be issued.

In December 2011, the City signed a Series 2011 Tax Anticipation Note in the amount of \$450,000 with an interest rate of 1.07% which was repaid in full in February 2012.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Hernando, Mississippi**  
**Budgetary Comparison Schedule – General Fund**  
**For the Year Ended September 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
General property taxes	\$ 2,843,501	\$ 2,843,501	\$ 2,706,735	\$ (136,766)
Franchise taxes	440,000	440,000	379,144	(60,856)
Intergovernmental	2,777,700	2,813,989	2,896,047	82,058
Licenses and permits	172,300	172,300	151,324	(20,976)
Charges for services	315,800	315,800	294,822	(20,978)
Fines and forfeitures	278,000	799,300	765,881	(33,419)
Interest	3,000	3,000	11,624	8,624
Miscellaneous	90,800	90,800	95,167	4,367
<b>Total Revenues</b>	<u>6,921,101</u>	<u>7,478,690</u>	<u>7,300,744</u>	<u>(177,946)</u>
<b>Expenditures</b>				
General government	1,215,950	1,191,244	1,139,594	51,650
Public safety	5,268,313	5,298,313	5,054,969	243,344
Public works	316,876	316,876	272,954	43,922
Health and welfare	121,165	121,165	94,716	26,449
Capital outlay	144,700	188,689	304,429	(115,740)
Debt service	40,430	615,430	608,159	7,271
<b>Total Expenditures</b>	<u>7,107,434</u>	<u>7,731,717</u>	<u>7,474,821</u>	<u>256,896</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(186,333)</u>	<u>(253,027)</u>	<u>(174,077)</u>	<u>78,950</u>
<b>Other Financing Sources (Uses)</b>				
Grant revenue	68,500	68,500	58,326	(10,174)
Loan proceeds	60,000	635,000	575,000	(60,000)
Interfund transfers	54,833	54,833	-	(54,833)
Sale of assets	3,000	3,000	1,231	(1,769)
<b>Total Other Financing Sources (Uses)</b>	<u>186,333</u>	<u>761,333</u>	<u>634,557</u>	<u>(126,776)</u>
<b>Net Change in Fund Balances</b>	<u>\$ -</u>	<u>\$ 508,306</u>	<u>460,480</u>	<u>\$ (47,826)</u>
<b>Fund Balance - Beginning of Year</b>			<u>744,531</u>	
<b>Fund Balance - End of Year</b>			1,205,011	
<b>Adjustments to Conform with GAAP:</b>				
Revenues			100,887	
Expenditures			-	
<b>Fund Balance - End of Year (GAAP Basis)</b>			<u>\$ 1,305,898</u>	

**Notes to Budgetary Comparison Schedule**

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

The City exceeded the final adopted budget for capital outlay expenditures.

**SUPPLEMENTARY INFORMATION**

**City of Hernando, Mississippi**  
**Surety Bond Coverage**  
**September 30, 2011**

Surety bonds in force at September 30, 2011 were as follows:

<b>Name</b>	<b>Position</b>	<b>Insurance Company</b>	<b>Bond</b>
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
Marcus Manning	Alderman	Brierfield Insurance Co.	\$100,000
Andrew Miller	Alderman	Brierfield Insurance Co.	\$100,000
James P. Tipton, Jr	Alderman	Brierfield Insurance Co.	\$100,000
Katie Subia	City Clerk	Travelers Casualty and Surety Co.	\$50,000
Cassandra E. Perry	Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Alicia Walls	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Kristin Dugan	Planning Clerk	Travelers Casualty and Surety Co.	\$50,000
Gwen P. House	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Dot Hughes	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Robbin Luttrell	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Marty Pickard	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Donna Riales	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Denise Stringfellow	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Debra Tipton	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
James M. Riley	Police Chief	Travelers Casualty and Surety Co.	\$50,000
Robert Rayborn	Police Captain	Travelers Casualty and Surety Co.	\$50,000
Tara Davis	Policeman	Travelers Casualty and Surety Co.	\$50,000
Dewayne Williams	Park Director	Travelers Casualty and Surety Co.	\$50,000
Melissa Zizmann	Asst. Park Director	Travelers Casualty and Surety Co.	\$50,000
Melissa VanBeurden	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000

**SPECIAL REPORTS**



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

Mayor and Board of Aldermen  
City of Hernando  
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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2012. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 11-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 11-2 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated February 28, 2012.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Aldermen, others within the entity, the Mississippi Office of the State Auditor, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Williams, Pitts & Beard, PLLC*

Williams, Pitts and Beard, PLLC  
Hernando, Mississippi  
February 28, 2012



**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, 2011, and have issued our report thereon dated February 28, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

1. Finding- Section 21-35-17, Miss. Code Ann. (1972) requires that the governing authorities shall not approve any claim and the city clerk shall not issue any warrant for any expenditure in excess of said detailed budget appropriations as finally adopted, or as revised under the provisions of this chapter, except upon an order of a court of competent jurisdiction or for an emergency, as provided in this chapter. See the budgetary comparison schedule on page 34 for expenditures in excess of budgeted appropriations.

Recommendation- The governing authorities and City Clerk should ensure no expenditures exceed the final adopted budget as required in Section 21-35-17, Miss. Code Ann. (1972).

Response- We have now corrected our procedures. We had received money that we didn't know we were going to get. We amended the budget to show this, but we did not amend the budget on the expenses side. We did not know how we were going to spend the money received.

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

The City's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

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  
February 28, 2012

**City of Hernando, Mississippi**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2011**

Section 1: Summary of Auditor's Results

**Financial Statements:**

1.	Type of auditor's report issued on the financial statements	Unqualified
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2.	Material noncompliance relating to the financial statements	No
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3.	Internal control over financial reporting:	
	a. Material weakness(es) identified?	Yes
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	b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
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Section 2: Financial Statements Findings

*Material Weakness*

11-1 Criteria: Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles ("GAAP"). Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition: The City required material audit adjustments in order to present the financial statements in accordance with GAAP.

Effect: The following audit adjustments were required in order to present the City's financial statements in accordance with GAAP:

- Prepaid expenses
- Grant receivables
- Fund balance
- Cash
- Utility and ambulance receivables
- Utility deposits
- Notes payable

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

Response: We have gone through our process and made changes and put in new procedures to ensure that these adjustments wouldn't be needed again.

**City of Hernando, Mississippi**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2011**

*Significant Deficiency*

11-2 Criteria: Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition: The City did not record a donation of land totaling \$15,914 to their capital assets sub-ledger and the board minutes on the transaction were insufficient or unclear in documenting the transaction.

Effect: An audit adjustment of \$15,914 was recorded to appropriately report capital assets and contributed capital as of September 30, 2011.

Recommendation: Management should record all donated property in the capital assets sub-ledger and ensure board meeting minutes are detailed enough to describe the event.

Response: In the future, we will make sure that any items documented on the minutes are recorded on our list of capital assets.