

# **City of Hernando, Mississippi**

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## **Financial Statements For the year ended September 30, 2022**

**CITY OF HERNANDO, MISSISSIPPI**  
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**September 30, 2022**

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INDEPENDENT AUDITORS' REPORT

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Audit of the Financial Statements**

#### **Opinion**

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2022, 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.

#### **Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Hernando, Mississippi and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hernando, Mississippi's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Hernando, Mississippi's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hernando, Mississippi's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule and corresponding notes, the Schedule of the City's proportionate share of the net pension liability and the schedule of the City's contributions on pages 9 through 17 and 51 through 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not

provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hernando, Mississippi's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal award is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Information**

Management is responsible for the other information included in the annual report. The other information is comprised of the Schedule of Surety Bonds for Municipal Officials but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2024, on our consideration of the City of Hernando, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Hernando, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hernando, Mississippi's internal control over financial reporting and compliance.

*Jarrell Group, PLLC*

Jarrell Group, PLLC  
Tupelo, Mississippi  
June 4, 2024

## MANAGEMENT'S DISCUSSION AND ANALYSIS



# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

### Required Supplemental Information for the year ended September 30, 2022

This section of the City of Hernando's Financial Report presents our discussion and analysis of the City's financial performance during the fiscal year ending September 30, 2022. Please read it in conjunction with the City of Hernando financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the 2021 by \$15,403,915 (\$8,066,727 in governmental activity net position and \$7,337,188 in business-type activity net position).
- The City's total net position increased by \$222,389, or 1.46% compared to 2021. Net position of the City's governmental activities decreased \$429,823, or 5.06%. Net position of the business-type activities increased \$652,212, or 9.76% from 2021.
- The City's governmental funds reported combined ending fund balances of \$3,586,804, a decrease of \$1,159,764 when compared to 2021. Of the combined ending governmental fund balances, approximately 25.1% or \$899,885 is available for spending at the City's discretion subject to the Board's approved policies (*committed, assigned and unassigned fund balances*).
- The City's total debt is \$16,174,323. Debt in the amount of \$1,934,080 was issued in the current fiscal year; all of which was used for capital acquisition or capital projects. Debt in the amount of \$2,086,345 was repaid during the current fiscal year.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's operations in more detail than the government-wide statements. There are two parts to the fund financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The Governmental Funds statements tell how general government services such as public safety were financed in the short-term as well as what remains for future spending. The City has four Governmental Fund types: the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

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

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

# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

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

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

Figure A-1

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

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

# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

### Government-wide Statements

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

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

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

### Fund Financial Statements

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

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

# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

The City of Hernando has two types of funds:

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

### Government-wide Financial Analysis

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

The City's assets and deferred outflows exceeded liabilities and deferred inflows by \$15,403,915 at the close of the most recent fiscal year. This is a \$222,389 increase over last year's net position of \$15,181,526. Tables A-1 and A-2 provide a summary of the City's net position at September 30, 2022 and 2021.

# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

Table A-1

### City of Hernando's Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current & other assets	\$ 19,267,259	\$ 16,114,331	\$ 3,173,338	\$ 2,796,439	\$ 22,440,597	\$ 18,910,770
Capital assets	31,488,056	29,938,502	16,624,931	15,222,261	48,112,987	45,160,763
Total assets	<u>50,755,315</u>	<u>46,052,833</u>	<u>19,798,269</u>	<u>18,018,700</u>	<u>70,553,584</u>	<u>64,071,533</u>
Total deferred outflows	<u>2,513,628</u>	<u>1,611,234</u>	<u>369,887</u>	<u>253,014</u>	<u>2,883,515</u>	<u>1,864,248</u>
Current liabilities	7,528,558	4,180,489	1,545,626	934,324	9,074,184	5,114,813
Noncurrent liabilities	29,523,737	23,126,545	11,219,504	9,855,108	40,743,241	32,981,653
Total liabilities	<u>37,052,295</u>	<u>27,307,034</u>	<u>12,765,130</u>	<u>10,789,432</u>	<u>49,817,425</u>	<u>38,096,466</u>
Total deferred inflows	<u>8,149,921</u>	<u>11,860,483</u>	<u>65,838</u>	<u>797,306</u>	<u>8,215,759</u>	<u>12,657,789</u>
Net position:						
Net investment in capital assets	23,347,590	21,164,997	8,591,074	7,669,179	31,938,664	28,834,176
Restricted	2,646,561	1,373,936	-	-	2,646,561	1,373,936
Unrestricted (deficit)	<u>(17,927,424)</u>	<u>(14,042,383)</u>	<u>(1,253,886)</u>	<u>(984,203)</u>	<u>(19,181,310)</u>	<u>(15,026,586)</u>
Total net position	<u>\$ 8,066,727</u>	<u>\$ 8,496,550</u>	<u>\$ 7,337,188</u>	<u>\$ 6,684,976</u>	<u>\$ 15,403,915</u>	<u>\$ 15,181,526</u>

The largest portion of net position, \$31,938,664 is reflected in the City's investment in capital assets (such as land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

There is a deficit of \$17,927,424 in unrestricted net position due to recording of unfunded pension liabilities under GASB 68. Please refer to Note 8.

**Changes in net position:** Approximately 30.5% of the City's total revenues come from property taxes, with 49.7% of all revenue coming from some type of tax. (See Table A-2.) This compares to 24.5% and 43.8% for the fiscal year ended September 30, 2021. Another 36.2% comes from fees charged for services, and the balance is from operating and capital grants and contributions and investment earnings.

**CITY OF HERNANDO, MISSISSIPPI**  
**Management's Discussion and Analysis**

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

Table A-2

**Changes in the City of Hernando's Net Position**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,245,107	\$ 2,405,917	\$ 7,77,723	\$ 7,402,014	\$ 10,018,830	\$ 9,807,931
Operating grants, capital grants and contributions	2,685,584	5,685,481	813,384	561,548	3,498,968	6,247,029
General revenues:						
Property taxes	7,641,595	7,155,987	-	-	7,641,595	7,155,987
Sales taxes	5,419,736	4,983,198	-	-	5,419,736	4,983,198
Other general revenue	996,525	969,167	123,680	86,526	1,120,205	1,055,693
<b>Total revenues</b>	<b>18,988,547</b>	<b>21,199,750</b>	<b>8,710,787</b>	<b>8,050,088</b>	<b>27,699,334</b>	<b>29,249,838</b>
<b>Expenses</b>						
General government	1,889,423	2,002,178	-	-	1,889,423	2,002,178
Public safety	11,074,013	9,496,895	-	-	11,074,013	9,496,895
Public works	3,166,479	993,703	-	-	3,166,479	993,703
Health and welfare	455,997	243,462	-	-	455,997	243,462
Culture and recreation	1,240,617	1,121,562	-	-	1,240,617	1,121,562
Economic development	200,066	116,245	-	-	200,066	116,245
Pension expense	1,620,871	(47,481)	26,747	176,307	1,647,618	128,826
Interest on long-term debt	219,100	257,709	185,020	202,053	404,120	459,762
Utility	-	-	7,398,612	6,391,986	7,398,612	6,391,986
<b>Total expenses</b>	<b>19,866,566</b>	<b>14,184,273</b>	<b>7,610,379</b>	<b>6,770,346</b>	<b>27,476,945</b>	<b>20,954,619</b>
Excess of revenue over exp.	(878,019)	7,015,477	1,100,408	1,279,742	222,389	8,295,219
Transfers	448,196	300,765	(448,196)	(300,765)	-	-
<b>Change in net position</b>	<b>(429,823)</b>	<b>7,316,242</b>	<b>652,212</b>	<b>978,977</b>	<b>222,389</b>	<b>8,295,219</b>
Net position - beginning	8,496,550	1,180,308	6,684,976	5,705,999	15,181,526	6,886,307
<b>Net position - ending</b>	<b>\$ 8,066,727</b>	<b>\$ 8,496,550</b>	<b>\$ 7,337,188</b>	<b>\$ 6,684,976</b>	<b>\$ 15,403,915</b>	<b>\$ 15,181,526</b>

# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

### Governmental Activities

Governmental activities decreased the City's net position by \$429,823. Key elements of this decrease are as follows:

The largest funding sources for the City's governmental activities, as a percent of total revenues, are property taxes 40.2%, sales taxes 28.5%, and grants and contributions 14.1%.

The largest expense categories for the City's governmental activities are public safety 55.7% and public works 15.9%.

### Business-type Activities

Business-type activities increased the City's net position by \$652,212.

Charges for services are the major revenue categories for the enterprise funds. Total business-type revenues are comprised of \$7,773,723.

### Financial Analysis of the Government's Funds

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

**Governmental funds**—The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

**General Fund**—The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$899,675, which comprised 96.2% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare both the fund balance, assigned and unassigned, to total fund expenditures. Total fund balance represents 5.3% of total fund expenditures. The fund balance of the City's general fund decreased by \$2,364,257 during the current fiscal year.

**Debt Service Fund**—The debt service fund has a total fund balance of \$621,688, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$300,653.

**Capital Projects Fund**—The capital projects fund accounts for the construction and reconstruction of general public improvements, excluding projects related to business-type activities, which are accounted for elsewhere. At the end of the current fiscal year, the fund balance was \$1,075,931.

# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

**Special Revenue Fund**—The special revenue fund is used to account for the programs and projects primarily funded by grants or taxes from the federal and state governments. At the end of the current fiscal year, the fund balance was \$953,726, which will be used for future expenditures.

**Proprietary Funds**—The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the proprietary funds at the end of the current fiscal year totaled \$7,337,188. Changes in net position for utility operations totaled \$652,212.

### Budgetary Highlights

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

The City's 2021 – 2022 general fund budget increased by \$77,656.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets**—In accordance with GASB 34, the City has recorded depreciation expense associated with all of its capital assets, including infrastructure. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2022, amounted to \$48,112,987, net of accumulated depreciation of \$28,844,944. This investment in capital assets includes land, buildings, improvements other than buildings, machinery & equipment, infrastructure, and construction in progress.

Table A-3

#### City of Hernando's Capital Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Land	\$ 807,213	\$ 807,213	\$ 777,313	\$ 777,313	\$ 1,584,526	\$ 1,584,526
Construction in progress	2,012,210	10,813,146	2,626,170	1,601,396	4,638,380	12,414,542
Building & improvements	6,297,877	6,297,877	705,970	705,970	7,003,847	7,003,847
Equipment	2,665,920	2,535,096	1,354,736	1,182,149	4,020,656	3,717,245
Vehicles	4,524,819	4,329,569	901,763	944,539	5,426,582	5,274,108
Improvements other than buildings	1,548,295	1,548,295	-	-	1,548,295	1,548,295
Infrastructure	29,808,654	17,537,083	-	-	29,808,654	17,537,083
Waterworks system	-	-	22,926,991	21,895,466	22,926,991	21,895,466
Accumulated depreciation	(16,176,932)	(13,929,777)	(12,668,012)	(11,884,572)	(28,844,944)	(25,814,349)
<b>Total</b>	<b>\$ 31,488,056</b>	<b>\$ 29,938,502</b>	<b>\$ 16,624,931</b>	<b>\$ 15,222,261</b>	<b>\$ 48,112,987</b>	<b>\$ 45,160,763</b>

This year, major capital asset projects or additions included:

- \$3,004,226 for AWG projects
- \$1,951,659 for various sewer and drainage projects
- \$339,820 for Mcingvale I69 Realign MPO project
- \$157,500 for a public safety vehicles
- \$126,589 for the Animal Shelter project



# CITY OF HERNANDO, MISSISSIPPI

## Management's Discussion and Analysis

**Long-term Debt**—At year-end, the City had \$16,174,322 in bonds and notes outstanding. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

Table A-4

### City of Hernando's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
General obligation bonds	\$ 5,497,600	\$ 6,336,900	\$ 92,400	\$ 188,100	\$ 5,590,000	\$ 6,525,000
Limited obligation bonds	145,000	165,000	-	-	145,000	165,000
Notes payable	2,488,653	2,260,385	7,941,456	7,364,982	10,430,109	9,625,367
Bond premium	9,213	11,220	-	-	9,213	11,220
<b>Total</b>	<b>\$ 8,140,466</b>	<b>\$ 8,773,505</b>	<b>\$ 8,033,856</b>	<b>\$ 7,553,082</b>	<b>\$ 16,174,322</b>	<b>\$ 16,326,587</b>

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Millage rates remained the same at 40.7654 for the City's 2023 fiscal year budget. This includes 33.1934 mills for the General Fund, 4.70 mills for the Debt Service Fund, .872 mills for the Library Fund, and 2.00 mills for the Culture and Recreation Fund.

### CONTACTING THE CITY OF HERNANDO FINANCIAL MANAGEMENT

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

## BASIC FINANCIAL STATEMENTS

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Net Position**  
**September 30, 2022**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash	\$ 9,882,267	\$ 1,872,195	\$ 11,754,462
Property taxes receivable	7,949,593	-	7,949,593
Accounts receivable (net allowance for doubtful accounts of \$4,226,947 and \$371,959)	402,147	970,056	1,372,203
Intergovernmental receivables	700,072	78,792	778,864
Other receivables	2,265	-	2,265
Due from other funds	290,557	248,583	539,140
Prepaid expenses	40,358	3,712	44,070
Capital assets not being depreciated	2,819,423	3,403,483	6,222,906
Capital assets, net of accumulated depreciation	28,668,633	13,221,448	41,890,081
<b>Total assets</b>	<b>50,755,315</b>	<b>19,798,269</b>	<b>70,553,584</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pensions	2,473,209	369,887	2,843,096
Deferred amounts on refunding	40,419	-	40,419
<b>Total deferred outflows of resources</b>	<b>2,513,628</b>	<b>369,887</b>	<b>2,883,515</b>
<b>Liabilities</b>			
Accounts payable	2,656,735	948,608	3,605,343
Accrued expenses	157,470	89,962	247,432
Accrued interest payable	48,892	-	48,892
Due to other funds	539,140	-	539,140
Unearned revenues	4,027,982	-	4,027,982
Other payables	96,493	-	96,493
Customer and event deposits	1,846	507,056	508,902
Noncurrent liabilities:			
Accrued compensated absences	368,595	42,746	411,341
Pension liability	21,014,676	3,142,901	24,157,577
Long-term debt: due within one year	1,262,054	708,498	1,970,552
Long-term debt: due in more than one year	6,878,412	7,325,359	14,203,771
<b>Total liabilities</b>	<b>37,052,295</b>	<b>12,765,130</b>	<b>49,817,425</b>
<b>Deferred Inflows of Resources</b>			
Deferred revenues - property taxes	7,709,703	-	7,709,703
Deferred inflows related to pensions	440,218	65,838	506,056
<b>Total deferred inflows of resources</b>	<b>8,149,921</b>	<b>65,838</b>	<b>8,215,759</b>
<b>Net Position</b>			
Net Investment in capital assets	23,347,590	8,591,074	31,938,664
Restricted for:			
Public works	1,731,654	-	1,731,654
Debt service	621,688	-	621,688
Public safety	40,596	-	40,596
Health and welfare	69,430	-	69,430
Culture and recreation	95,050	-	95,050
Economic development and assistance	88,143	-	88,143
Unrestricted (deficit)	(17,927,424)	(1,253,886)	(19,181,310)
<b>Total net position</b>	<b>\$ 8,066,727</b>	<b>\$ 7,337,188</b>	<b>\$ 15,403,915</b>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Activities**  
**For the year ended September 30, 2022**

Function / Program Activities	Expenses	Program Revenues				Total	Net (Expense) Revenue and Changes in Net Position		
		Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government				
					Governmental Activities		Business-Type Activities	Total	
<b>Primary Government</b>									
Government Activities:									
General government	\$ 1,889,423	\$ 87,159	\$ 436,234	\$ -	\$ 523,393	\$ (1,366,030)	\$ -	\$ (1,366,030)	
Public safety	11,074,013	1,360,036	385,511	-	1,745,547	(9,328,466)	-	(9,328,466)	
Public works	3,166,479	424,683	-	1,810,042	2,234,725	(931,754)	-	(931,754)	
Health and welfare	455,997	23,580	-	-	23,580	(432,417)	-	(432,417)	
Culture and recreation	1,240,617	349,649	-	-	349,649	(890,968)	-	(890,968)	
Economic development and assistance	200,066	-	53,797	-	53,797	(146,269)	-	(146,269)	
Pension expense	1,620,871	-	-	-	-	(1,620,871)	-	(1,620,871)	
Interest on long-term debt	219,100	-	-	-	-	(219,100)	-	(219,100)	
<b>Total governmental activities</b>	<b>19,866,566</b>	<b>2,245,107</b>	<b>875,542</b>	<b>1,810,042</b>	<b>4,930,691</b>	<b>(14,935,875)</b>	<b>-</b>	<b>(14,935,875)</b>	
Business-Type Activities:									
Utility	7,398,612	7,773,723	-	813,384	8,587,107	-	1,188,495	1,188,495	
Pension expense	26,747	-	-	-	-	-	(26,747)	(26,747)	
Interest on long-term debt	185,020	-	-	-	-	-	(185,020)	(185,020)	
<b>Total business-type activities</b>	<b>7,610,379</b>	<b>7,773,723</b>	<b>-</b>	<b>813,384</b>	<b>8,587,107</b>	<b>-</b>	<b>976,728</b>	<b>976,728</b>	
<b>Total primary government</b>	<b>\$ 27,476,945</b>	<b>\$ 10,018,830</b>	<b>\$ 875,542</b>	<b>\$ 2,623,426</b>	<b>\$ 13,517,798</b>	<b>\$ (14,935,875)</b>	<b>\$ 976,728</b>	<b>\$ (13,959,147)</b>	
<b>General Revenues:</b>									
Property taxes						\$ 7,641,595	\$ -	\$ 7,641,595	
Sales taxes						5,419,736	-	5,419,736	
Franchise taxes						647,548	-	647,548	
Tourism taxes						45,288	-	45,288	
Other taxes						25,917	-	25,917	
Interest income						62,238	24,576	86,814	
Gain (loss) on disposal of assets						-	40,302	40,302	
Miscellaneous						215,534	58,802	274,336	
Transfers						448,196	(448,196)	-	
<b>Total general revenues and transfers</b>						<b>14,506,052</b>	<b>(324,516)</b>	<b>14,181,536</b>	
Change in net position						(429,823)	652,212	222,389	
Net position - beginning						8,496,550	6,684,976	15,181,526	
Net position - ending						<b>\$ 8,066,727</b>	<b>\$ 7,337,188</b>	<b>\$ 15,403,915</b>	

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2022**

	General Fund	American Rescue Plan Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 2,962,741	\$ 4,028,279	\$ 2,891,247	\$ 9,882,267
Property taxes receivable	6,277,512	-	1,432,191	7,709,703
Accounts receivable	150,951	-	-	150,951
Intergovernmental receivables	663,949	-	36,123	700,072
Other receivables	2,265	-	-	2,265
Due from other funds	188,544	-	102,013	290,557
Prepaid expenses	35,784	-	4,574	40,358
<b>Total assets</b>	<b>\$ 10,281,746</b>	<b>\$ 4,028,279</b>	<b>\$ 4,466,148</b>	<b>\$ 18,776,173</b>
<b>Liabilities</b>				
Accounts payable	\$ 2,460,062	\$ 87	\$ 196,586	\$ 2,656,735
Accrued expenses	149,164	-	8,306	157,470
Due to other funds	411,524	-	127,616	539,140
Unearned revenues	-	4,027,982	-	4,027,982
Other payables	48,025	-	48,468	96,493
Event deposits	-	-	1,846	1,846
<b>Total liabilities</b>	<b>3,068,775</b>	<b>4,028,069</b>	<b>382,822</b>	<b>7,479,666</b>
<b>Deferred Inflows of Resources</b>				
Deferred revenue - property taxes	6,277,512	-	1,432,191	7,709,703
<b>Fund Balances</b>				
Nonspendable				
Prepaid expenses	35,784	-	4,574	40,358
Restricted for				
Public works	-	-	1,731,654	1,731,654
Debt service	-	-	621,688	621,688
Public safety	-	-	40,596	40,596
Health and welfare	-	-	69,430	69,430
Culture and recreation	-	-	95,050	95,050
Economic development and assistance	-	-	88,143	88,143
Unassigned (deficit)	899,675	210	-	899,885
<b>Total fund balances</b>	<b>935,459</b>	<b>210</b>	<b>2,651,135</b>	<b>3,586,804</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 10,281,746</b>	<b>\$ 4,028,279</b>	<b>\$ 4,466,148</b>	<b>\$ 18,776,173</b>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Reconciliation of Governmental Funds Balance**  
**Sheet to the Statement of Net Position**  
**For the year ended September 30, 2022**

<b>Total Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>3,586,804</b>
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		31,488,056
Deferred revenues for delinquent property taxes deferred in the governmental funds because they will not be received within sixty days of the consolidated government's year end.		239,890
Deferred revenues for delinquent ambulance fees deferred in the governmental funds because they will not be received within sixty days of the consolidated government's year end.		78,135
Long-term liabilities, including bonds, notes payable, and accrued interest, are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet.		(8,189,358)
Accrued compensated absences are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet.		(368,595)
Net pension liability are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet.		(21,014,676)
Deferred outflows and inflows related to pensions are applicable to future periods and, therefore are not reported in the Governmental Funds Balance Sheet:		
Deferred outflows of resources related to defined benefit pension plan		2,473,209
Deferred inflows of resources related to defined benefit pension plan		(440,218)
Accrual of court fine revenues to qualify as financial resources.		173,061
Deferred amount on refunding of debt issuances.		40,419
Net position of governmental activities	<b>\$</b>	<b>8,066,727</b>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Governmental Funds**  
**For the year ended September 30, 2022**

	General Fund	American Rescue Plan Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 6,115,812	\$ -	\$ 1,371,670	\$ 7,487,482
Sales taxes	5,419,736	-	-	5,419,736
Franchise taxes	647,548	-	-	647,548
Tourism tax	-	-	45,288	45,288
Intergovernmental revenues	925,399	3,632	1,782,470	2,711,501
Charges for services	1,299,249	-	368,149	1,667,398
Fines and forfeitures	493,941	-	31,329	525,270
Interest income	35,054	11,411	15,773	62,238
Miscellaneous revenues	157,800	-	57,734	215,534
Total revenues	<u>15,094,539</u>	<u>15,043</u>	<u>3,672,413</u>	<u>18,781,995</u>
<b>Expenditures</b>				
Current:				
General government	1,870,397	-	-	1,870,397
Public safety	10,280,534	-	15,055	10,295,589
Public works	4,611,676	15,043	916,541	5,543,260
Health and welfare	404,779	-	51,218	455,997
Culture and recreation	-	-	1,194,714	1,194,714
Economic development & assistance	-	-	200,066	200,066
Debt service:				
Principal	453,436	-	897,038	1,350,474
Interest and other fees	36,189	-	162,711	198,900
Total expenditures	<u>17,657,011</u>	<u>15,043</u>	<u>3,437,343</u>	<u>21,109,397</u>
Excess of revenues over (under) expenditures	<u>(2,562,472)</u>	<u>-</u>	<u>235,070</u>	<u>(2,327,402)</u>
<b>Other financing sources (uses)</b>				
Transfers to other funds	(521,227)	-	-	(521,227)
Transfers from other funds	-	-	969,423	969,423
Proceeds from debt issued	719,442	-	-	719,442
Total other financing sources (uses)	<u>198,215</u>	<u>-</u>	<u>969,423</u>	<u>1,167,638</u>
<b>Net change in fund balances</b>	<u>(2,364,257)</u>	<u>-</u>	<u>1,204,493</u>	<u>(1,159,764)</u>
<b>Fund balances - beginning</b>	<u>3,299,716</u>	<u>210</u>	<u>1,446,642</u>	<u>4,746,568</u>
<b>Fund balances - Ending</b>	<u>\$ 935,459</u>	<u>\$ 210</u>	<u>\$ 2,651,135</u>	<u>\$ 3,586,804</u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures and**  
**Changes in Fund Balances to the Statement of Activities**  
**For the year ended September 30, 2022**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (1,159,764)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	3,796,709
Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(2,247,155)
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.	206,552
The amortization of the bond premium is reported as a reduction to expense on the statement of activities.	2,007
The amortization of the deferred refunding of debt issuances is reported as a increase to expense on the statement of activities.	(8,807)
Changes to net pension liability, deferred inflows and deferred outflows are reported in pension expense in the statement of activities but do not provide or require the use of current financial resources; therefore, pension expense related to these changes are not reported as expenditures in the governmental funds.	(1,620,871)
The change in accrued interest payable is reported as an expense on the statement of activities.	(13,400)
Repayment and refunding of long-term debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,350,474
The proceeds of debt are an other financing source on the governmental funds income statement but are not reported on the statement of activities:	
Proceeds from issuance of bonds and notes payable	(719,442)
Increase in accrual of compensated absences.	<u>(16,126)</u>
Change in net position of governmental activities	<u>\$ (429,823)</u>

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



**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Net Position**  
**Proprietary Fund**  
**September 30, 2022**

	Business-Type Activities - Enterprise Funds Utility Fund
<b>Assets</b>	
Current assets:	
Cash	\$ 1,872,195
Accounts receivable (net of allowance for doubtful accounts of \$371,959)	970,056
Intergovernmental receivables	78,792
Due from other funds	248,583
Prepaid expenses	3,712
Total current assets	3,173,338
Noncurrent assets:	
Capital assets not being depreciated	3,403,483
Capital assets, net of accumulated depreciation	13,221,448
Total noncurrent assets	16,624,931
<b>Total assets</b>	19,798,269
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to pensions	369,887
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	948,608
Accrued expenses	89,962
Customer deposits	507,056
General Obligation bonds payable - current	92,400
Notes payable - current	616,098
Total current liabilities	2,254,124
Noncurrent liabilities:	
Accrued compensated absences	42,746
Pension liability	3,142,901
General Obligation bonds payable	0
Notes payable	7,325,359
Total noncurrent liabilities	10,511,006
<b>Total liabilities</b>	12,765,130
<b>Deferred Inflows of Resources</b>	
Deferred inflows related to pensions	65,838
<b>Net Position</b>	
Net investment in capital assets	8,591,074
Unrestricted (deficit)	(1,253,886)
<b>Total net position</b>	\$ 7,337,188

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Fund**  
**For the year ended September 30, 2022**

	Business-Type Activities - Enterprise Funds Utility Fund
<b>Operating revenues</b>	
Charges for services	\$ 7,773,723
Total operating revenues	<u>7,773,723</u>
<b>Operating expenses</b>	
Contractual services and supplies	4,916,855
Personnel services	1,581,238
Pension expense	26,747
Depreciation expense	900,519
Total operating expenses	<u>7,425,359</u>
Operating income (loss)	<u>348,364</u>
<b>Nonoperating revenues (expenses)</b>	
Interest income	24,576
Interest expense	(185,020)
Grant income	813,384
Gain (loss) on disposal of capital assets	40,302
Miscellaneous revenue	58,802
Total nonoperating revenues (expenses)	<u>752,044</u>
Income (loss) before transfers	<u>1,100,408</u>
Transfers out	<u>(448,196)</u>
<b>Changes in net position</b>	<u>652,212</u>
<b>Net position - beginning</b>	<u>6,684,976</u>
<b>Net position - ending</b>	<u><u>\$ 7,337,188</u></u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Cash Flows - Proprietary Funds**  
**For the year ended September 30, 2022**

	Business-Type Activities - Enterprise Funds
	Utility Fund
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 7,751,730
Cash payments to suppliers for goods and services	(4,258,658)
Cash payments to employees for services	(1,623,489)
	1,869,583
<b>Cash flows from noncapital financing activities</b>	
Operating transfers out	(448,196)
Due to (from) municipality	(113,645)
Operating grants received	1,068,369
Miscellaneous revenues	58,802
	565,330
<b>Cash flows from capital and related financing activities</b>	
Proceeds of long-term debt	1,214,638
Acquisition and construction of capital assets	(2,310,052)
Proceeds from sale of capital assets	47,166
Principal paid on long-term debt	(733,864)
Interest paid on long-term debt	(185,020)
	(1,967,132)
<b>Cash Flows from Investing Activities</b>	
Interest income	24,576
	24,576
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>492,357</b>
<b>Cash and cash equivalents - beginning</b>	<b>1,379,838</b>
<b>Cash and cash equivalents - ending</b>	<b>\$ 1,872,195</b>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Cash Flows - Proprietary Funds**  
**For the year ended September 30, 2022**

	Business-Type Activities - Enterprise Funds Utility Fund
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating Income (loss)	\$ <u>348,364</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	900,519
Net pension expense	26,747
Effect of changes in operating assets and liabilities:	
Accounts receivable	(24,915)
Prepaid expenses	(967)
Accounts payable	621,858
Accrued expenses	(13,478)
Customer deposits	2,922
Compensated absences	<u>8,533</u>
Total adjustments	<u>1,521,219</u>
Net cash provided by (used in) operating activities	\$ <u><u>1,869,583</u></u>

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

NOTES TO FINANCIAL STATEMENTS

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hernando, Mississippi (the City) is a political subdivision of the State of Mississippi incorporated in 1866. The City operates under the Board of Aldermen-Mayor form of government and provides the following services: public safety, public works, culture and recreation, public improvements, planning and zoning, and general administrative services.

Accounting principles generally accepted in the United States of America require City of Hernando to present these financial statements on the primary government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. These financial statements present all the accounts of the City. There are no outside organizations that should be included as component units of the City's reporting entity.

**FINANCIAL REPORTING ENTITY - BASIS OF PRESENTATION**

**Government-Wide and Fund Financial Statements**

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

***Government-Wide Financial Statements***

The statement of net position and the statement of activities display information on all non-fiduciary activities of the primary government and its component units. The statements distinguish between those activities of the City that are governmental, which are normally supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

***Fund Financial Statements***

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

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

Fund Types

Governmental Funds

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

*Debt Service Fund* – The Debt Service Fund was established to account for resources accumulated and used for the payment of long-term debt principal, interest and related costs of borrowing used for major projects. This is a non-major governmental fund.

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

*Special Revenue Funds* – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These are non-major governmental funds except for the American Rescue Plan Fund, which is considered major.

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

Fund Types – continued

Proprietary Funds

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

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

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

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

INTERFUND TRANSACTIONS AND BALANCES

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

CASH EQUIVALENTS

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



**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

CASH AND INVESTMENTS

Cash consists of amounts on deposit with financial institutions in demand accounts, savings accounts and certificates of deposit with original maturities of three months or less from the date of acquisition. Cash is valued at cost. Investments consist of US Treasury notes and US government securities funds. The City deposits funds in the financial institutions selected by the City Council in accordance with state statutes. Deposits: custodial credit risk - the collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entities are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the City's deposits with financial institutions was \$11,754,462, and the bank balance was \$12,195,108.

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

ACCOUNTS RECEIVABLE

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

CAPITAL ASSETS AND DEPRECIATION

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

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

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

Deferred Outflows Related to Pension - This amount represents the City's proportionate share of the deferred outflows of resources reported by the pension plan in which the City participates. See Note 8 for additional details.

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

Property Tax for Future Reporting Period / Unavailable Revenue – Property Taxes - Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Deferred Inflows Related to Pension - This amount represents the City's proportionate share of the deferred inflows of resources reported by the pension plan in which the City participates. See Note 8 for additional details.

LONG-TERM DEBT AND BOND DISCOUNTS / PREMIUMS

In the government-wide financial statements and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities and business-type activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

PREPAID ITEMS

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

INVENTORIES

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

NET POSITION

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

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

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

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

Net Position Flow Assumption:

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

FUND BALANCES

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

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

FUND BALANCES – continued

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

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

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

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

Fund Balance Flow Assumption:

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

PENSIONS

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

INTERGOVERNMENTAL REVENUES IN GOVERNMENTAL FUNDS

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

PROPERTY TAX REVENUES

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

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

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

COMPENSATED ABSENCES

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

**NOTE 2 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables at September 30, 2022, consisted of the following:

<u>Description</u>	<u>General Fund</u>	<u>GO Debt Construction Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Utility Fund</u>
Sales tax	\$ 473,461	\$ -	\$ -	\$ -
Franchise tax	151,670	-	-	-
Hotel / motel tax	-	-	3,768	-
Fire protection grant	-	-	-	-
Other grants	38,818	3,081	33,042	78,792
<b>Totals</b>	<u>\$ 663,949</u>	<u>\$ 3,081</u>	<u>\$ 36,123</u>	<u>\$ 78,792</u>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 3 - INTERFUND TRANSFERS AND BALANCES**

The following is a summary of interfund balances at September 30, 2022:

Due From / To Other Funds

<b>Funds:</b>	<u>Due To</u>	<u>Due From</u>
General fund	\$ 188,544	\$ 411,524
Cemetery Maintenance	-	100
Culture and recreation	-	32,241
Forfeiture	11,839	-
Special revenue fund	911	-
Cemetery perpetual fund	100	-
Street Improvements	-	50
Debt service fund	89,163	-
GO debt construction fund	-	95,225
Utility	<u>443,826</u>	<u>195,243</u>
<b>Total funds</b>	<u>\$ 734,383</u>	<u>\$ 734,383</u>

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

Transfers In / Out

<b>Funds:</b>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 521,227
Culture and recreation	521,227	-
Debt service fund	448,196	-
Utility	<u>-</u>	<u>448,196</u>
<b>Total funds</b>	<u>\$ 969,423</u>	<u>\$ 969,423</u>

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

**NOTE 4 - ACCOUNTS RECEIVABLE**

Receivables for accounts of the Utility Fund (an Enterprise Fund) have been reduced by \$371,959 to reflect the provision for uncollectible accounts. The accrual amount of court fine receivables and ambulance fee receivables on the Statement of Net Position – Government – Wide has been reduced by \$2,491,941 and \$1,735,006, respectively, to reflect the provision for uncollectible fines and fees.

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 5 - CAPITAL ASSETS**

The following is a summary of capital asset activity as of September 30, 2022:

	<u>Balance</u> <u>Oct. 1, 2021</u>	<u>Acquisitions</u>	<u>Capitalized</u> <u>Construction,</u> <u>Sales, or</u> <u>Retirements</u>	<u>Balance</u> <u>Sept. 30, 2022</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 807,213	\$ -	\$ -	\$ 807,213
Construction in progress	10,813,146	3,470,635	(12,271,571)	2,012,210
Total capital assets, not being depreciated:	11,620,359	3,470,635	(12,271,571)	2,819,423
Capital assets being depreciated:				
Buildings and improvements	6,297,877	-	-	6,297,877
Equipment	2,535,096	130,824	-	2,665,920
Vehicles	4,329,569	195,250	-	4,524,819
Improvements other than buildings	1,548,295	-	-	1,548,295
Infrastructure	17,537,083	-	12,271,571	29,808,654
Total capital assets, being depreciated	32,247,920	326,074	12,271,571	44,845,565
Less accumulated depreciation for:				
Buildings and improvements	(2,785,089)	(322,919)	-	(3,108,008)
Equipment	(1,999,570)	(139,016)	-	(2,138,586)
Vehicles	(2,641,444)	(540,330)	-	(3,181,774)
Improvements other than buildings	(410,210)	(60,128)	-	(470,338)
Infrastructure	(6,093,464)	(1,184,762)	-	(7,278,226)
Total accumulated depreciation	(13,929,777)	(2,247,155)	-	(16,176,932)
<b>Total governmental activities capital assets, net</b>	<b>\$ 29,938,502</b>	<b>\$ 1,569,554</b>	<b>\$ -</b>	<b>\$ 31,488,056</b>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 5 - CAPITAL ASSETS – continued**

	<b>Balance Oct. 1, 2021</b>	<b>Acquisitions</b>	<b>Capitalized Construction, Sales, or Retirements</b>	<b>Balance Sept. 30, 2022</b>
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 777,313	\$ -	\$ -	\$ 777,313
Construction in progress	1,601,396	2,056,299	(1,031,525)	2,626,170
Total capital assets, not being depreciated:	2,378,709	2,056,299	(1,031,525)	3,403,483
Capital assets being depreciated:				
Buildings and improvements	705,970	-	-	705,970
Waterworks system	21,895,466	-	1,031,525	22,926,991
Equipment	1,182,149	253,753	(81,166)	1,354,736
Vehicles	944,539	-	(42,776)	901,763
Total capital assets, being depreciated	24,728,124	253,753	907,583	25,889,460
Less accumulated depreciation for:				
Buildings and improvements	(40,421)	(14,119)	-	(54,540)
Waterworks system	(10,309,119)	(719,885)	-	(11,029,004)
Equipment	(964,050)	(86,479)	78,581	(971,948)
Vehicles	(570,982)	(80,036)	38,498	(612,520)
Total accumulated depreciation	(11,884,572)	(900,519)	117,079	(12,668,012)
<b>Total business-type activities capital assets, net</b>	<b>\$ 15,222,261</b>	<b>\$ (1,409,533)</b>	<b>\$ (6,863)</b>	<b>\$ 16,624,931</b>

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

**Governmental Activities:**

General government	\$ 29,268
Public safety	1,023,435
Public works	1,115,958
Culture and recreation	78,494

**Total depreciation expense - governmental activities** \$ 2,247,155

**Business-Type Activities:**

Utility	900,519
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**Total depreciation expense - business-type activities** \$ 900,519



**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 6 - LONG-TERM DEBT**

**BONDS PAYABLE**

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

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

**NOTES PAYABLE**

Nineteen different capital improvement and equipment revolving loans make up the September 30, 2022 notes payable balance and are included in both governmental activities and business-type activities. Seventeen of the loans are in repayment status with a total outstanding balance of \$8,496,029.

**DEBT SUMMARY**

Debt outstanding as of September 30, 2022, consisted of the following:

<b>Description and Purpose</b>	<b>Amount Outstanding</b>	<b>Interest Rate</b>	<b>Final Maturity Date</b>
<b>Governmental Activities:</b>			
General Obligation Bonds:			
Series 2012 Refunding Bonds	\$ 327,600	2.00-2.50%	10/23/23
Series 2015 General Obligation Bonds	3,480,000	2.50%	12/01/35
Series 2016 Refunding Bonds	<u>1,690,000</u>	1.00-2.50%	05/01/27
Total General Obligation Bonds	<u>5,497,600</u>		
Limited Obligation Bonds:			
Series 2016 Tax Increment Financing (Hampton Inn)	<u>145,000</u>	4.50%	01/21/28
Notes Payable:			
In Progress - Not in Repayment Status	719,442	2.37%	
Street Overlay 2019	198,500	2.49%	09/05/24
Police Cars 2020	195,565	2.49%	06/25/25
Police Cars 2020	56,277	1.65%	08/25/25
Trustmark - Cemetery	74,132	1.65%	05/18/26
Trustmark - Parks	69,688	3.15%	05/18/26
Fire Truck 2013	265,991	4.39%	07/15/28
Fire Truck 2019	403,785	2.59%	12/17/28
Fire Truck 2020	<u>505,273</u>	2.37%	11/21/29
Total Notes Payable	<u>2,488,653</u>		
<b>Total Governmental Activities</b>	<b><u>\$ 8,131,253</u></b>		

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 6 - LONG-TERM DEBT – continued**  
DEBT SUMMARY – continued

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b>Business-Type Activities:</b>			
General Obligation Bonds:			
Series 2012 Refunding Bonds	\$ 92,400	2.00-2.50%	10/23/23
Notes Payable:			
In Progress - Not in Repayment Status	1,214,638		
State of MS - DWSLRF	513,145	1.95%	10/15/32
DEQ Loan - Water Pollution Control 2013	1,097,732	1.75%	01/01/34
North MS Utility Company Purchase	4,286,441	2.50%	01/01/34
Shop 630 Whitfield	436,924	3.25%	08/05/34
CAP Loan - Sewer 2002	-	3.00%	11/01/21
Knuckleboom Loader 2017	-	2.33%	04/20/22
DEQ Loan - Water Pollution Control 2003	10,198	1.75%	01/01/23
CAP Loan - Sewer II 2005	35,210	2.00%	02/01/25
CAP Loan - Sewer 2005	41,422	3.00%	10/01/25
Trustmark - Knuckleboom Loader	92,093	1.60%	02/15/26
Trustmark - Capital Equipment	<u>213,653</u>	1.57%	06/20/26
Total Notes Payable	<u>7,941,456</u>		
<b>Total Business-Type Activities</b>	<b><u>\$ 8,033,856</u></b>		

CHANGES IN LONG-TERM DEBT

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

	Fund Debt Retired By	Balances Oct. 1,	Additions	Reductions	Balances Sept. 30	Current Portion
<b>Governmental Activities:</b>						
General obligation bonds	Debt service	\$ 6,336,900	\$ -	\$ 839,300	\$ 5,497,600	\$ 847,600
Limited obligations bonds	Debt service	165,000	-	20,000	145,000	20,000
Notes payable	General	2,078,827	719,442	453,436	2,344,833	356,089
Notes payable	Special Rev.	181,558	-	37,738	143,820	38,365
Premium		<u>11,220</u>	<u>-</u>	<u>2,007</u>	<u>9,213</u>	<u>-</u>
<b>Total governmental activities</b>		<b><u>\$ 8,773,505</u></b>	<b><u>\$ 719,442</u></b>	<b><u>\$ 1,352,481</u></b>	<b><u>\$ 8,140,466</u></b>	<b><u>\$ 1,262,054</u></b>
<b>Business-Type Activities:</b>						
General obligation bonds	Utility Fund	\$ 188,100	\$ -	\$ 95,700	\$ 92,400	\$ 92,400
Notes payable	Utility Fund	<u>7,364,982</u>	<u>1,214,638</u>	<u>638,164</u>	<u>7,941,456</u>	<u>616,098</u>
<b>Total business-type activities</b>		<b><u>\$ 7,553,082</u></b>	<b><u>\$ 1,214,638</u></b>	<b><u>\$ 733,864</u></b>	<b><u>\$ 8,033,856</u></b>	<b><u>\$ 708,498</u></b>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 6 - LONG-TERM DEBT – continued**

DEBT SERVICE REQUIREMENTS TO MATURITY

Annual debt service requirements to maturity are as follows:

Year Ending September 30,	<b>Governmental Activities</b>					Interest	Total
	General Obligation Bonds	Limited Obligation Bonds	Notes Payable Special Rev. Fund	Notes Payable General Fund			
2023	\$ 847,600	\$ 20,000	\$ 38,365	\$ 356,089	\$ 184,512	\$ 1,446,566	
2024	525,000	25,000	39,003	357,552	153,060	1,099,615	
2025	545,000	25,000	39,652	249,534	130,182	989,368	
2026	560,000	25,000	26,800	182,793	108,744	903,337	
2027	585,000	25,000	-	189,070	87,892	886,962	
2028-2032	1,255,000	25,000	-	290,353	236,734	1,807,087	
2033-2036	<u>1,180,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,250</u>	<u>1,240,250</u>	
<b>Total</b>	<u>\$ 5,497,600</u>	<u>\$ 145,000</u>	<u>\$ 143,820</u>	<u>\$ 1,625,391</u>	<u>\$ 961,374</u>	<u>\$ 8,373,185</u>	

Year Ending September 30,	<b>Business-Type Activities</b>			
	General Obligation Bonds	Notes Payable	Interest	Total
2023	\$ 92,400	\$ 616,098	\$ 154,779	\$ 863,277
2024	-	619,744	137,568	757,312
2025	-	626,798	124,465	751,263
2026	-	605,838	110,399	716,237
2027	-	550,414	97,001	647,415
2028-2032	-	2,956,590	280,478	3,237,068
2032-2034	<u>-</u>	<u>751,336</u>	<u>18,476</u>	<u>769,812</u>
<b>Total</b>	<u>\$ 92,400</u>	<u>\$ 6,726,818</u>	<u>\$ 923,166</u>	<u>\$ 7,742,384</u>

**NOTE 7 - DEFICIT FUND BALANCE OF INDIVIDUAL FUNDS**

The following funds reported deficits in fund balances at September 30, 2022:

Fund	Deficit Amount
GO Debt Construction Fund	\$ 166,228

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 8 - DEFINED BENEFIT PENSION PLAN**

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

Benefits Provided - For the cost-sharing plan participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less (the actuarial reduction for less than 30 years or below age 65 apply only to those who became members on or after July 1, 2011). Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service.

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

Employee membership data related to the Plan, as of June 30, 2021, was as follows:

Inactive Members or Beneficiaries Currently Receiving Benefits	112,158
Inactive Members Assumed Eligible for a Benefit at Retirement Date	16,887
Inactive Members Assumed Not to Receive Service Retirement Benefits	68,026
Active Members	<u>145,673</u>
Total	<u>342,744</u>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 8 - DEFINED BENEFIT PENSION PLAN – continued**

Contributions - The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. PERS members are required to contribute 9.00% of their annual covered salary and the City of Hernando is required to contribute at an actuarially determined rate. The current rate is 17.40% of annual covered payroll. The contributions are deducted from the employees' wages or salary and remitted by the City to PERS on a monthly basis. By law, employer contributions are required to be paid. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability. The City of Hernando's contributions to PERS for the years ending September 30, 2022, 2021, and 2020 were, \$1,499,463, \$1,285,408, and \$1,287,516, respectively, equal to the required contributions for each year.

For the year ended September 30, 2022, the City of Hernando's total payroll for all employees was \$8,750,357. Total covered payroll was also \$8,617,591. Covered payroll refers to all compensation paid by the City to active employees covered by the Plan.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - At September 30, 2022, the City of Hernando reported a liability of \$24,157,577 for its proportionate share of the net pension liability.

The net pension liability was measured as of June 30, 2022, and the total pension liability percentage used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Hernando's proportion of the net pension was based on a projection of the City of Hernando's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2022, the City of Hernando's proportion was 0.117363%.

For the year ended September 30, 2022, the City of Hernando recognized pension expense of \$1,647,618. At September 30, 2022, the City of Hernando 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>
Difference Between Expected and Actual Experience	\$ 342,054	\$ -
Net Difference Between Projected and Actual Investment Earnings	1,268,874	-
City Pension Contributions Subsequent to the Measurement Date	396,650	-
Changes of Assumptions	835,518	-
Changes in Proportion and Differences in Actual Earnings on Pension Plan Assets	-	506,056
<b>Total</b>	<b>\$ 2,843,096</b>	<b>\$ 506,056</b>

The \$396,650 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2023.

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 8 - DEFINED BENEFIT PENSION PLAN – continued**

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

Fiscal Year Ending September 30,	Amount
2023	\$ 475,388
2024	348,844
2025	(194,698)
2026	<u>1,310,856</u>
Total	<u>\$ 1,940,390</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments. For males, 95% of male rates up to age 60, 110% for ages 61 to 75 and 101% for ages above 77. For females, 84% of female rates up to age 72 and 100% for ages above 76. Mortality rates will be projected generationally using the MP-2020 projection scale to account for future improvements in life expectancy. The actuarial assumptions used for the purposes of determining the TPL were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2020. The experience report is dated April 20, 2021.

The actuarial assumptions are based on the experience investigation for the four-year period ending June 30, 2020.

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 8 - DEFINED BENEFIT PENSION PLAN – continued**

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.55 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current contribution rate (17.40%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>Discount Rate</u>	<u>City of Hernando's Proportionate Share of Net Pension Liability</u>
1% Decrease	6.55%	\$ 31,528,104
Current Discount Rate	7.55%	24,157,577
1% Increase	8.55%	18,080,951

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 9 - RISK MANAGEMENT**

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

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

**NOTE 10 - CONTINGENT LIABILITIES**

Litigation

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

Federally Assisted Programs – Compliance Audits

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

**NOTE 11 - USE OF ESTIMATES**

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



**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to Financial Statements**  
**September 30, 2022**

**NOTE 12 - CONSTRUCTION COMMITMENTS**

Commitments with respect to unfinished capital projects at September 30, 2022, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Fork Creek Parkway (EWP)	\$ 306,595	Sept-23
AWG Sewer PJCT	81,660	Sept-23
Animal Shelter	74,146	Sept-23
MPO McInvale Overlay	1,127,310	Sept-25
Hernando West Sewer PJCT	119,215	Sept-25
	<u>\$ 1,708,926</u>	

**NOTE 13 - OPERATING LEASES**

The City has several leases in place at year end for space at the Gale Center. Monthly rental income on this space is currently \$2,831.

**NOTE 14 - TAX ABATEMENTS**

The City enters into property tax abatement agreements with local businesses for economic development purposes. The abatements may be granted to any business located within or promising to locate within the city limits. The abatements are negotiated on an individual basis. Each abatement is for a range of 3-9 years. The City had four tax abatement agreements with one entity as of September 30, 2022.

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

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

All four tax abatement agreements are listed under the above listed statutes.

Category	Amount of taxes abated during the fiscal year
New and expanded industrial enterprises	\$103,781

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

**NOTE 15 - SUBSEQUENT EVENTS**

Date of Management Evaluation

Management has evaluated subsequent events through June 4, 2024, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HERNANDO, MISSISSIPPI**  
**General Fund Statement of Revenues, Expenditures and Changes**  
**In Fund Balances - Budget (Non-GAAP basis) and Actual**  
**For the year ended September 30, 2022**

	Budget		Actual	Variance with Final Budget (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 5,293,295	\$ 5,198,295	\$ 5,487,653	\$ 289,358
Sales taxes	4,500,000	4,850,000	5,374,917	524,917
Franchise taxes	395,000	490,000	619,193	129,193
Intergovernmental revenues	1,209,636	857,636	906,847	49,211
Charges for services	1,365,000	1,363,700	1,299,249	(64,451)
Fines and forfeitures	659,000	659,000	493,941	(165,059)
Interest income	19,000	19,000	35,054	16,054
Miscellaneous revenues	157,000	157,000	157,800	800
Total revenues	<u>13,597,931</u>	<u>13,594,631</u>	<u>14,374,654</u>	<u>780,023</u>
<b>Expenditures</b>				
Current:				
General government	1,971,179	1,964,603	1,870,397	94,206
Public safety	10,941,893	11,608,138	10,280,534	1,327,604
Public works	5,041,976	4,620,663	4,611,676	8,987
Health and welfare	845,995	685,295	404,779	280,516
Debt Service				
Principal	470,266	470,266	453,436	16,830
Interest	40,000	40,000	36,189	3,811
Total expenditures	<u>19,311,309</u>	<u>19,388,965</u>	<u>17,657,011</u>	<u>1,731,954</u>
Excess of revenues over (under) expenditures	<u>(5,713,378)</u>	<u>(5,794,334)</u>	<u>(3,282,357)</u>	<u>2,511,977</u>
<b>Other financing sources (uses)</b>				
Proceeds from Debt Issued	1,310,000	1,310,000	719,442	(590,558)
Transfers to Other Funds	(521,300)	(521,300)	(521,227)	73
Total other financing sources (uses)	<u>788,700</u>	<u>788,700</u>	<u>198,215</u>	<u>(590,485)</u>
<b>Excess (deficiency) of revenues and other sources over financing and other uses</b>	<u>(4,924,678)</u>	<u>(5,005,634)</u>	<u>(3,084,142)</u>	<u>1,921,492</u>
<b>Fund balance (non-GAAP budgetary basis) - beginning of year</b>	<u>3,299,716</u>	<u>3,299,716</u>	<u>3,299,716</u>	<u>-</u>
<b>Fund balance (non-GAAP budgetary basis) - end of year</b>	<u>\$ (1,624,962)</u>	<u>\$ (1,705,918)</u>	215,574	<u>\$ 1,921,492</u>
Adjustments to Generally Accepted Accounting Principles:				
Revenue Accruals			<u>719,885</u>	
<b>Fund balance (GAAP basis) - end of year</b>			<u>\$ 935,459</u>	

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Schedule of the City's Proportionate**  
**Share of the Net Pension Liability**  
**For the Eight Years Ended September 30, 2022\***

	<u>2022</u>		<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>	
City's proportion of net pension liability (%)	0.117363	%	0.110067	%	0.111837	%	0.109546	%	0.104222	%	0.096292	%	0.086400	%	0.085700	%
City's proportionate share of net pension liability	\$ 24,157,577		\$ 16,268,384		\$ 21,650,343		\$ 19,271,302		\$ 17,335,214		\$ 16,006,999		\$ 15,428,554		\$ 13,247,529	
City's covered payroll	\$ 8,617,591		\$ 7,387,399		\$ 7,399,517		\$ 7,253,809		\$ 6,824,863		\$ 6,086,267		\$ 5,636,629		\$ 5,349,104	
City's proportionate share of net pension liability as a percentage of its covered payroll	280.33	%	220.22	%	292.59	%	265.67	%	254.00	%	263.00	%	273.72	%	247.66	%
Plan fiduciary net position as a percentage of total pension liability	59.93	%	70.44	%	58.97	%	61.59	%	62.54	%	61.49	%	57.47	%	61.70	%

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

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

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Schedule of the City's Contributions**  
**For the Eight Years Ended September 30, 2022**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,499,463	\$ 1,285,408	\$ 1,287,516	\$ 1,169,314	\$ 1,074,916	\$ 958,587	\$ 887,769	\$ 842,484
Contributions in relation to statutorily required contributions	\$ 1,499,463	\$ 1,285,408	\$ 1,287,516	\$ 1,169,314	\$ 1,074,916	\$ 958,587	\$ 885,004	\$ 846,661
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,765	\$ (4,177)
City's covered payroll	\$ 8,617,591	\$ 7,387,399	\$ 7,399,517	\$ 7,253,809	\$ 6,824,863	\$ 6,086,267	\$ 5,636,629	\$ 5,349,104
Contributions as a percentage of covered payroll	17.40 %	17.40 %	17.40 %	16.12 %	15.75 %	15.75 %	15.75 %	15.75 %

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Required Supplementary Information**  
**For the year ended September 30, 2022**

**Budgetary Information**

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

**Budgetary Basis of Presentation**

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

**Pension Schedules - Changes of Assumptions**

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

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

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

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

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

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

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

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

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

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

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Required Supplementary Information**  
**For the year ended September 30, 2022**

**Pension Schedules - Changes of Assumptions (continued)**

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

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

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

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

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

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

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

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

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

The percentage of active member disabilities assumed to be in the line of duty was increased from 7% to 9%.

2017 The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

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

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

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

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Required Supplementary Information**  
**For the year ended September 30, 2022**

**Pension Schedules - Changes of Assumptions (continued)**

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

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

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

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

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

**Changes of Benefit Provisions**

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



SUPPLEMENTARY INFORMATION

**CITY OF HERNANDO, MISSISSIPPI**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended September 30, 2022**

Federal Grantor/ Pass Through Grantor/ Program Title	Grantor Agency ID Number	Federal Assistance Listing Number	Federal Expenditures
<b>PRIMARY GOVERNMENT:</b>			
<b>U.S. Department of Agriculture</b>			
Farmers Market Promotion Program	AM 180100XXXXG074	10.168	\$ 53,797
Emergency Watershed Protection Program*	NR204423XXXXC038	10.923	730,505
Emergency Watershed Protection Program*	NR224423XXXXC045	10.923	<u>25,145</u>
<b>Total U.S. Department of Agriculture</b>			<b>\$ <u>809,447</u></b>
<b>U.S. Department of Transportation</b>			
Passed through State Office of:			
Mississippi Department of Transportation			
Highway Planning and Construction Grant	STP-7885-00(001)LPA107537-701000	20.205	\$ <u>4,681</u>
Total passed through the Mississippi Department of Transportation			<u>4,681</u>
Mississippi Department of Public Safety			
Alcohol Open Container Requirements	154AL-2021-ST-28-61	20.607	<u>115,909</u>
Total passed through the Mississippi Department of Public Safety			<u>115,909</u>
<b>Total U. S. Department of Transportation</b>			<b>\$ <u>120,590</u></b>
<b>U. S. Department of the Treasury</b>			
Passed through State Office of:			
Mississippi Department of Environmental Quality:			
Municipality Water Infrastructure Grant	103-1-DW-5.15 & 159-2-DW-5.15	21.027	\$ <u>3,632</u>
<b>Total U. S. Department of the Treasury</b>			<b>\$ <u>3,632</u></b>
<b>U. S. Environmental Protection Agency</b>			
Brownfield Assessment Grants	4B-02D30722	66.818	\$ <u>7,886</u>
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ <u>7,886</u></b>
<b>Delta Regional Authority</b>			
AWG Fire Protection	FGID # 54316	90.200	\$ <u>57,734</u>
<b>Total Delta Regional Authority</b>			<b>\$ <u>57,734</u></b>
<b>TOTAL FEDERAL EXPENDITURES</b>			<b>\$ <u>999,289</u></b>

**CITY OF HERNANDO, MISSISSIPPI**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended September 30, 2022**

<b>Federal Grantor/ Pass Through Grantor/ Program Title</b>	<b>Grantor Agency ID Number</b>	<b>Federal Assistance Listing Number</b>	<b>Federal Expenditures</b>
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**SIGNIFICANT ACCOUNTING POLICIES:**

The accompanying Schedule of expenditures of federal awards includes the federal award activity of the City of Hernando, Mississippi under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

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

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

\* - Major Program

OTHER INFORMATION

**CITY OF HERNANDO, MISSISSIPPI**  
**Schedule of Surety Bonds for Municipal Officials**  
**September 30, 2022**  
**Unaudited**

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

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi as of and for the year ended September 30, 2022, 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 4, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

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

## **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Jarrell Group, PLLC*

Jarrell Group, PLLC  
Tupelo, Mississippi  
June 4, 2024



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

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

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the City of Hernando, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Hernando, Mississippi's major federal programs for the year ended September 30, 2022. The City of Hernando, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Hernando, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Hernando, Mississippi and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Hernando, Mississippi's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Hernando, Mississippi's federal programs.

## ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Hernando, Mississippi's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Hernando, Mississippi's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Hernando, Mississippi's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Hernando, Mississippi's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Hernando, Mississippi's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

*Jarrell Group, PLLC*

Jarrell Group, PLLC  
Tupelo, Mississippi  
June 4, 2024

**CITY OF HERNANDO, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2022**

**SECTION 1 – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

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

**Federal Awards**

Internal Control over major programs:  
Material weakness identified?        Yes   X   No  
Significant deficiency identified  
not considered to be a material weakness?        Yes   X   None reported

Type of auditors’ report issued on compliance  
for major programs: Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with  
2 CFR 200.516(a)?        Yes   X   No

Identification of major program:

CFDA Number(s)    Name of Federal Program or Cluster

      10.923          U.S. Department of Agriculture – Emergency Watershed Protection Program

Dollar threshold used to distinguish  
between Type A and Type B programs:       \$ 750,000      

Auditee qualified as low-risk auditee?        Yes   X   No

**SECTION 2 – FINANCIAL STATEMENT FINDINGS:**

None

**SECTION 3 – FEDERAL AWARD FINDINGS:**

None

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

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

We have audited the financial statements of the City of Hernando, Mississippi, as of and for the year ended September 30, 2022, and have issued our report thereon dated June 4, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*.

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

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

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

*Jarrell Group, PLLC*

Jarrell Group, PLLC  
Tupelo, Mississippi  
June 4, 2024