

**CITY OF HERNANDO, MISSISSIPPI**

Audited Financial Statements  
For the Fiscal Year Ended September 30, 2017

**Fortenberry & Ballard, PC**  
Certified Public Accountants

**City of Hernando, Mississippi**  
September 30, 2017  
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## FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Hernando, Mississippi's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of the City's Contributions on pages 8-17 and 52-56, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, on our consideration of the City of Hernando, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing, and not to provide an opinion on the effectiveness of City of Hernando, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hernando, Mississippi's internal control over financial reporting and compliance.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC  
May 31, 2019

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF HERNANDO, MISSISSIPPI

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

As management of the City of Hernando (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

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

### Financial Highlights

- The liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources at the close of the fiscal year by \$1,530,256 (total net position).
- The government's total net position decreased by \$38,032, which includes a prior period adjustment of \$427,395, due to a decrease in governmental type activities net position.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of (\$4,953,093) a decrease of \$87,242, which includes a prior period adjustment of \$169,829 in comparison with the prior year.
- At the end of the current fiscal year, **unassigned fund balance** for the General Fund was \$652,611, or 6.61 percent of total general fund expenditures for the fiscal year.
- The City's total debt decreased by \$775,357 (4.7%) during the current fiscal year.

### Overview of the Financial Statements

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

### Basic Financial Statements

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

The next statements (Pages 21, 23 and 25) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

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

### Required Supplementary Information

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



# CITY OF HERNANDO, MISSISSIPPI

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

### Other Information

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

### Government-wide Financial Statements

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

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

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

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

### Fund Financial Statements

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

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

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

# CITY OF HERNANDO, MISSISSIPPI

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

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

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 29 of this report.

### Government-Wide Financial Analysis

#### The City of Hernando's Net Position

**Figure 1**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>						
Current and other assets	\$ 10,904,169	10,563,700	1,023,449	885,903	11,927,618	11,449,603
Capital assets, net	14,559,536	13,404,857	9,284,755	9,526,443	23,844,291	22,931,300
<b>Total assets</b>	<b>25,463,705</b>	<b>23,968,557</b>	<b>10,308,204</b>	<b>10,412,346</b>	<b>35,771,909</b>	<b>34,380,903</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	2,922,092	2,776,671	492,600	467,249	3,414,692	3,243,920
<b>LIABILITIES</b>						
Current Liabilities	1,015,308	1,287,377	580,339	534,091	1,595,647	1,821,468
Long term debt outstanding	11,448,226	11,886,664	4,217,524	4,554,443	15,665,750	16,441,107
Net pension liability	13,641,703	13,140,319	2,365,296	2,288,235	16,006,999	15,428,554
<b>Total liabilities</b>	<b>26,105,237</b>	<b>26,314,360</b>	<b>7,163,159</b>	<b>7,376,769</b>	<b>33,268,396</b>	<b>33,691,129</b>
<b>DEFERRED INFLOW OF RESOURCES</b>	7,233,653	5,296,719	214,808	129,199	7,448,461	5,425,918
<b>NET POSITION</b>						
Net investment in capital assets	3,471,967	1,831,778	5,099,170	4,998,493	8,571,137	6,830,271
Restricted	3,314,090	4,214,793	-	-	3,314,090	4,214,793
Unrestricted	(11,739,150)	(10,912,422)	(1,676,333)	(1,624,866)	(13,415,483)	(12,537,288)
<b>Total net position</b>	<b>(4,953,093)</b>	<b>(4,865,851)</b>	<b>3,422,837</b>	<b>3,373,627</b>	<b>(1,530,256)</b>	<b>(1,492,224)</b>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The liabilities and deferred inflows of resources of the City of Hernando exceeded assets and deferred outflows of resources by \$1,530,256, as of September 30, 2017.

The largest portion of net position, \$8,571,137 is reflected in the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

There is a deficit of \$13,415,483 in unrestricted net position due to recording of unfunded pension liabilities under GASB 68. Please refer to Note 13.

# CITY OF HERNANDO, MISSISSIPPI

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

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

- Increased sales tax revenues of approximately \$274,000.
- Program revenue decrease of approximately \$125,000 offset by an increase in other general revenue collections of approximately \$357,000.
- Expenditure increase overall for operations were approximately \$385,000 due primarily to higher pension expense costs.

### City of Hernando's Changes in Net Position

**Figure 2**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 1,151,964	\$ 1,533,803	\$ 5,057,246	\$ 4,497,268	\$ 6,209,210	\$ 6,031,071
Operating and capital grants	1,046,791	789,351	28,445	-	1,075,236	789,351
<b>Total program revenues</b>	<b>2,198,755</b>	<b>2,323,154</b>	<b>5,085,691</b>	<b>4,497,268</b>	<b>7,284,446</b>	<b>6,820,422</b>
<b>General Revenues</b>						
Property taxes	4,659,061	4,754,319	-	-	4,659,061	4,754,319
Sales tax	3,523,684	3,249,359	-	-	3,523,684	3,249,359
Other general revenues	1,559,877	1,391,503	(253,659)	(261,773)	1,306,218	1,129,730
<b>Total general revenues</b>	<b>9,742,622</b>	<b>9,395,181</b>	<b>(253,659)</b>	<b>(261,773)</b>	<b>9,488,963</b>	<b>9,133,408</b>
<b>Total Revenues</b>	<b>11,941,377</b>	<b>11,718,335</b>	<b>4,832,032</b>	<b>4,235,495</b>	<b>16,773,409</b>	<b>15,953,830</b>
<b>EXPENSES</b>						
General government	721,338	1,331,648	-	-	721,338	1,331,648
Public safety	6,661,635	6,813,783	-	-	6,661,635	6,813,783
Public works	1,516,299	694,638	-	-	1,516,299	694,638
Health and welfare	124,513	116,139	-	-	124,513	116,139
Culture and recreation	469,656	781,227	-	-	469,656	781,227
Economic development	255,000	-	-	-	255,000	-
Pension expense	2,168,597	1,533,569	333,310	269,047	2,501,907	1,802,616
Interest on long term debt	281,410	539,134	87,062	113,966	368,472	653,100
Utilities	-	-	4,620,016	4,492,530	4,620,016	4,492,530
<b>Total expenses</b>	<b>12,198,448</b>	<b>11,810,138</b>	<b>5,040,388</b>	<b>4,875,543</b>	<b>17,238,836</b>	<b>16,685,681</b>
<b>Change in net position</b>	<b>(257,071)</b>	<b>(91,803)</b>	<b>(208,356)</b>	<b>(640,048)</b>	<b>(465,427)</b>	<b>(731,851)</b>
<b>Net Position-Beginning of Year</b>	<b>(4,865,851)</b>	<b>(4,774,048)</b>	<b>3,373,627</b>	<b>4,013,675</b>	<b>(1,492,224)</b>	<b>(760,373)</b>
<b>Prior Period Adjustment</b>	<b>169,829</b>	<b>-</b>	<b>257,566</b>	<b>-</b>	<b>427,395</b>	<b>-</b>
<b>Net Position-Beginning of Year-Restated</b>	<b>(4,696,022)</b>	<b>(4,774,048)</b>	<b>3,631,193</b>	<b>4,013,675</b>	<b>(1,064,829)</b>	<b>(760,373)</b>
<b>Net Position-End of Year</b>	<b>\$ (4,953,093)</b>	<b>\$ (4,865,851)</b>	<b>\$ 3,422,837</b>	<b>\$ 3,373,627</b>	<b>\$ (1,530,256)</b>	<b>\$ (1,492,224)</b>

# CITY OF HERNANDO, MISSISSIPPI

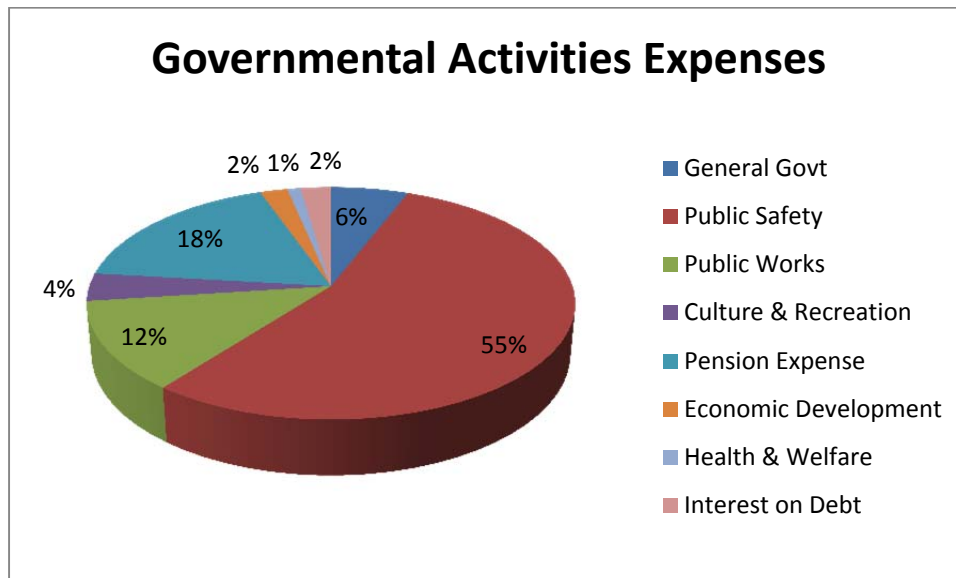
## Management's Discussion and Analysis For the Year Ended September 30, 2017

**Governmental activities.** Governmental activities decreased the City's net position by \$257,071 which was offset by a prior period adjustment of \$169,829. Key elements of this decrease are as follows:

- General government and public safety expenses increased due to the recognition of pension expense related to GASB 68.
- The GASB 68 pension liability outflows / inflows beginning balance was adjusted by the amount listed above.
- All other key activities are listed on the previous page.

Governmental Activities Expenses are broken out by department as follows

Chart 1



**Business-type activities:** Business-type activities decreased the City's net position by \$208,356 which was offset by a prior period adjustment of \$257,566. Key elements of this net increase are as follows:

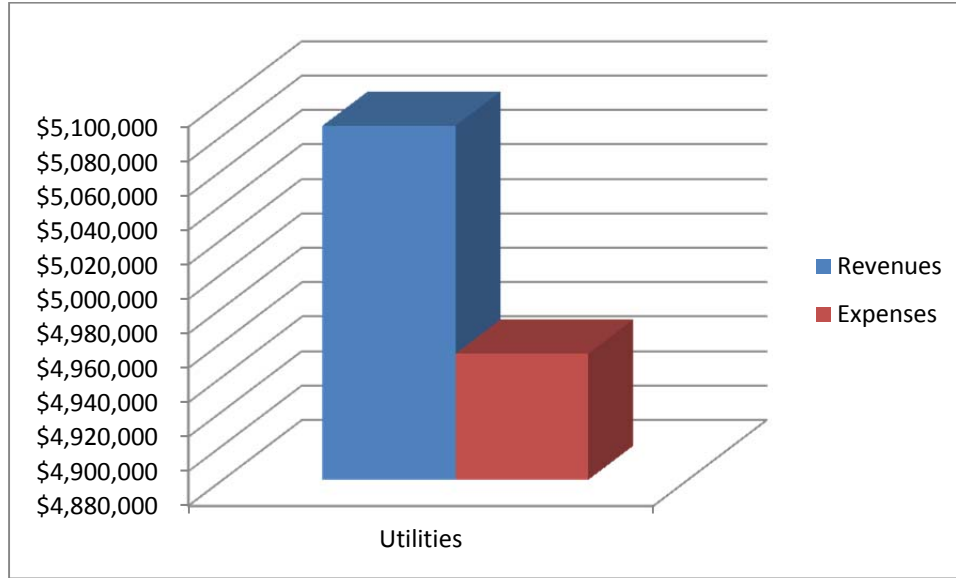
- Charges for services increased by nearly \$600,000 in the Utility Fund due to increased collections from customers in the current fiscal year.
- Utility expenses increased approximately \$165,000 in the Utility Fund.

# CITY OF HERNANDO, MISSISSIPPI

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

Business type revenues compared to expenses are as follows:

Chart 2



Financial Analysis of the City of Hernando's Funds

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

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$652,611, while total fund balance reached \$684,193. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 6.6 percent of total General Fund expenditures.

At September 30, 2017, the governmental funds of the City reported a combined fund balance of \$4,069,956, a 15.6 percent decrease over last year. Included in this change in fund balance are increases in fund balance in the General Fund, and decreases in fund balances in the Debt Service Fund and the GO Debt Construction Fund.

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

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

# CITY OF HERNANDO, MISSISSIPPI

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

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

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year is (\$1,676,333). The total growth in net position for the Utility fund was \$49,210 which includes a prior period adjustment of \$257,566 due to a recalculation of beginning balance of pension deferred outflows and deferred inflows. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

### Capital Asset and Debt Administration

**Capital assets.** The City's capital assets for its governmental and business-type activities as of September 30, 2017, totals \$23,844,291 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, water works system, and vehicles.

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

- Vehicles purchased in current fiscal year: \$359,633 for twelve (12) new police vehicles and \$55,998 for two new vehicles for the Utilities Department.
- Machinery and equipment purchased in the current fiscal year include the following significant items: \$42,081 in new fitness equipment and a \$132,699 Knuckleboom loader for the Utilities Department.
- Major completed projects include the following: 1) The Gale Center roof project (\$389,210), 2) Soccer field lighting projects (\$386,470) and 3) Safe Routes to School project (\$422,588).

### The City of Hernando's Capital Assets

**Figure 3**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 575,939	\$ 575,939	\$ 719,630	\$ 719,630	\$ 1,295,569	\$ 1,295,569
Construction in progress	324,866	173,853	66,049	14,409	390,915	188,262
Buildings and improvements	6,288,177	5,899,001	48,970	-	6,337,147	5,899,001
Equipment	2,168,000	2,053,312	1,015,249	998,994	3,183,249	3,052,306
Vehicles	2,050,900	1,714,479	499,897	461,551	2,550,797	2,176,030
Improvements other than bldgs	1,135,631	749,161	-	-	1,135,631	749,161
Infrastructure	11,154,309	10,340,141	-	-	11,154,309	10,340,141
Waterworks system	-	-	15,703,264	15,692,889	15,703,264	15,692,889
Accumulated depreciation	(9,138,286)	(8,101,029)	(8,768,304)	(8,361,030)	(17,906,590)	(16,462,059)
	<u>\$ 14,559,536</u>	<u>\$ 13,404,857</u>	<u>\$ 9,284,755</u>	<u>\$ 9,526,443</u>	<u>\$ 23,844,291</u>	<u>\$ 22,931,300</u>

# CITY OF HERNANDO, MISSISSIPPI

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

Additional information on the City's capital assets can be found in Note 6 of the Basic Financial Statements.

**Long-term Debt.** As of September 30, 2017, the City had total debt outstanding of \$15,665,750. Included here is bonded debt totaling \$10,210,000 backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds), notes payable, and leases payable.

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

**Figure 4**

	<u>2017</u>	<u>2016</u>
<b>Governmental activities</b>		
General obligation bonds	\$ 9,633,868	\$ 10,394,268
Limited obligations bonds	240,000	-
Loans / Notes payable	354,561	458,038
Leases payable	924,347	795,574
Compensated absences	276,200	216,701
Bond premiums	<u>19,250</u>	<u>22,083</u>
<b>Governmental activities</b>	<b>\$ <u>11,448,226</u></b>	<b>\$ <u>11,886,664</u></b>
 <b>Business -type activities</b>		
General obligation bonds	\$ 576,132	\$ 670,732
Notes payable	3,406,196	3,728,187
Leases payable	203,257	129,031
Compensated absences	<u>31,939</u>	<u>26,493</u>
<b>Business-type activities</b>	<b>\$ <u>4,217,524</u></b>	<b>\$ <u>4,554,443</u></b>
 <b>Total Long-Term Debt</b>	 <b>\$ <u>15,665,750</u></b>	 <b>\$ <u>16,441,107</u></b>

The City's total debt decreased by \$775,357 (4.7%) throughout the fiscal year. There was no new bond issuance in the current fiscal year. A limited obligation bond executed in the prior audit period was posted in the current audit year for \$255,000 less \$15,000 in principal payments made. New debt was also issued through a lease in the amount of \$359,406 for the purchase of police vehicles.

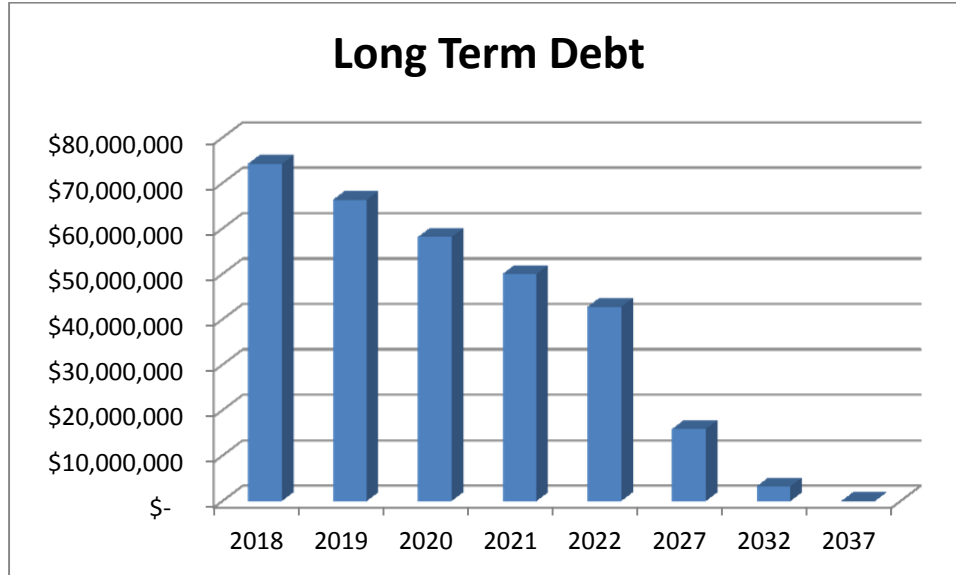
Mississippi general statutes limit the amount of general obligation debt that a unit of government can issue to 15 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for additional debt for the City is \$9,484,702.

# CITY OF HERNANDO, MISSISSIPPI

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

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

Chart 3



Additional information regarding the City's long-term debt can be found in Note 10 on page 44 of this report.

### Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. The City's unemployment rate of 3.5%, as of September 30, 2017, is well below the National and State averages of 4.2% and 4.7%.
- In 2017, Hernando's population was calculated, according to the United States Census most recent numbers, to be 15,986. Since 2000, the population in the county seat of DeSoto County has increased by over 9,000, nearly 150%.
- On December 19, 2017, the City of Hernando purchased the North Mississippi Utility Company materially expanding their customer base to be provided utility services by the City such as water and sewer services.
- The City of Hernando has received numerous accolades recently. Those honors include "Playful City USA", "Healthiest Hometown", and "Tree City USA". The City emphasizes and encourages its residents to take up a healthy lifestyle. Certification such as "Let's Move" and "Excel By 5" Community emphasize this action. In 2015, the City of Hernando was ranked second in *Family Circle* magazine for the "Best Town for Families".

### Budget Highlights for the Fiscal Year Ending September 30, 2018

**Governmental Activities:** Property taxes (benefiting from the economic growth) are expected to increase as the assessment increased in the current year. Ad valorem taxes were increased for the first time in several years in order to augment public safety and public works functions provided by the City. The City of Hernando is generally conservative when budgeting revenues due to unknown economic factors.

The City will receive capital funding in fiscal year 2018 for the widening and improvement of McIngvale Road, a major road running through a heavily residential part of the City and also a burgeoning business corridor.



## City of Hernando, Mississippi

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

Budgeted expenditures in the General Fund are expected to be relatively similar to the current year. The City doesn't anticipate any significant increases in expenditures through the general fund.

**Business-type Activities:** Utility rate increases enacted in fiscal year 2017 along with the acquisition of the North Mississippi Utility Company, Inc., the City will be providing utility services to more customers. Operational expense increases will coincide with those actions but revenues generated should sufficiently cover those increases. The City does not anticipate issuing any more debt in fiscal year 2018.

#### Requests for Information

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

## FINANCIAL STATEMENTS

**CITY OF HERNANDO, MISSISSIPPI**  
Statement of Net Position  
September 30, 2017

**Exhibit 1**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash	\$ 4,460,914	\$ 366,437	\$ 4,827,351
Property tax receivable	5,889,715		5,889,715
Accounts receivable (net of allowance for uncollectibles of \$1,939,982)	101,234	642,966	744,200
Intergovernmental receivables	339,118		339,118
Franchise fees receivable	89,733		89,733
Internal balance	(8,990)	8,990	-
Prepaid items	32,445	5,056	37,501
Capital assets:			
Land and construction in progress	900,805	785,679	1,686,484
Other capital assets, net of depreciation	13,658,731	8,499,076	22,157,807
Total Assets	<u>25,463,705</u>	<u>10,308,204</u>	<u>35,771,909</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension	2,837,635	492,600	3,330,235
Deferred amounts on refunding	84,457		84,457
Total Deferred Outflows of Resources	<u>2,922,092</u>	<u>492,600</u>	<u>3,414,692</u>
<b>LIABILITIES</b>			
Accounts payable	634,064	155,177	789,241
Intergovernmental payables	15,713		15,713
Accrued interest payable	70,810		70,810
Accrued liabilities	294,721	54,168	348,889
Customer deposits		370,994	370,994
Long-term liabilities			
Due within one year:			
Capital debt	1,200,356	487,655	1,688,011
Due in more than one year:			
Capital debt	9,971,670	3,697,930	13,669,600
Non-capital debt	276,200	31,939	308,139
Net pension liability	13,641,703	2,365,296	16,006,999
Total Liabilities	<u>26,105,237</u>	<u>7,163,159</u>	<u>33,268,396</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenues - property taxes	5,889,715		5,889,715
Deferred inflows related to pension	1,343,938	214,808	1,558,746
Total Deferred Inflows of Resources	<u>7,233,653</u>	<u>214,808</u>	<u>7,448,461</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,471,967	5,099,170	8,571,137
Restricted for:			
Capital projects	3,018,598		3,018,598
Debt service	118,467		118,467
Public safety	7,776		7,776
Health and welfare	50,428		50,428
Culture and recreation	102,926		102,926
Economic development and assistance	15,895		15,895
Unrestricted	(11,739,150)	(1,676,333)	(13,415,483)
Total Net Position	<u>\$ (4,953,093)</u>	<u>\$ 3,422,837</u>	<u>\$ (1,530,256)</u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
 Statement of Activities  
 For the Year Ended September 30, 2017

**Exhibit 2**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
<b>Governmental activities:</b>						
General government	\$ 721,338	\$ 290,378	\$ 428,237	\$ (2,723)	\$ -	\$ (2,723)
Public safety	6,661,635	18,460	175,475	(6,467,700)		(6,467,700)
Public works	1,516,299		425,739	(1,090,560)		(1,090,560)
Health and welfare	124,513	428,780	17,340	321,607		321,607
Culture and recreation	469,656	414,346		(55,310)		(55,310)
Economic development and assistance	255,000			(255,000)		(255,000)
Pension expense	2,168,597			(2,168,597)		(2,168,597)
Interest on long-term debt	281,410			(281,410)		(281,410)
Total Governmental Activities	<u>12,198,448</u>	<u>1,151,964</u>	<u>1,046,791</u>	<u>(9,999,693)</u>		<u>(9,999,693)</u>
<b>Business-type activities:</b>						
Utility	4,620,016	5,057,246	28,445		465,675	465,675
Interest on long-term debt	87,062				(87,062)	(87,062)
Pension expense	333,310				(333,310)	(333,310)
Total Business-type Activities	<u>5,040,388</u>	<u>5,057,246</u>	<u>28,445</u>	<u>-</u>	<u>45,303</u>	<u>45,303</u>
Total Primary Government	<u>\$ 17,238,836</u>	<u>\$ 6,209,210</u>	<u>\$ 1,075,236</u>	<u>\$ (9,999,693)</u>	<u>\$ 45,303</u>	<u>\$ (9,954,390)</u>
<b>General revenues:</b>						
Property taxes				4,659,061		4,659,061
Grants and contributions not restricted to specific programs				550,721		550,721
Sales taxes				3,523,684		3,523,684
Franchise taxes				438,208		438,208
Tourism taxes				34,191		34,191
Unrestricted interest income				13,628	866	14,494
Miscellaneous				245,240	23,364	268,604
Transfers				277,889	(277,889)	-
Total General Revenues and transfers				<u>9,742,622</u>	<u>(253,659)</u>	<u>9,488,963</u>
Change in Net Position				<u>(257,071)</u>	<u>(208,356)</u>	<u>(465,427)</u>
Net Position - Beginning, as previously reported				(4,865,851)	3,373,627	(1,492,224)
Prior period adjustments				169,829	257,566	427,395
Net Position - Beginning, as restated				<u>(4,696,022)</u>	<u>3,631,193</u>	<u>(1,064,829)</u>
Net Position - Ending				<u>\$ (4,953,093)</u>	<u>\$ 3,422,837</u>	<u>\$ (1,530,256)</u>

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

**CITY OF HERNANDO, MISSISSIPPI**

Balance Sheet - Governmental Funds  
September 30, 2017

**Exhibit 3**

	Major Funds				Total Governmental Funds
	General Fund	Debt Service Fund	GO Debt Construction Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash	\$ 1,017,539	\$ 105,060	\$ 3,091,579	\$ 246,736	\$ 4,460,914
Property tax receivable	4,733,093	738,570		418,052	5,889,715
Intergovernmental receivables	335,905			3,213	339,118
Franchise fees receivable	89,733				89,733
Accounts receivable, net allowance for uncollectible accounts of \$1,592,981	100,234			1,000	101,234
Due from other funds		84,217	8,750		92,967
Prepaid items	31,582			863	32,445
Total Assets	<u>\$ 6,308,086</u>	<u>\$ 927,847</u>	<u>\$ 3,100,329</u>	<u>\$ 669,864</u>	<u>\$ 11,006,126</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 539,361	\$	\$ 68,488	\$ 26,215	\$ 634,064
Accrued expenses	272,198		8,750	13,773	294,721
Due to other funds	79,241		4,493	18,223	101,957
Intergovernmental payables				15,713	15,713
Total Liabilities	<u>890,800</u>	<u>-</u>	<u>81,731</u>	<u>73,924</u>	<u>1,046,455</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	4,733,093	738,570		418,052	5,889,715
Total Deferred Inflows of Resources	<u>4,733,093</u>	<u>738,570</u>	<u>-</u>	<u>418,052</u>	<u>5,889,715</u>
<b>FUND BALANCES</b>					
Nonspendable					
Prepaid items	31,582			863	32,445
Restricted					
Capital projects			3,018,598		3,018,598
Debt service		189,277			189,277
Public safety				7,776	7,776
Health and welfare				50,428	50,428
Culture and recreation				102,926	102,926
Economic development and assistance				15,895	15,895
Unassigned	652,611				652,611
Total Fund Balances	<u>684,193</u>	<u>189,277</u>	<u>3,018,598</u>	<u>177,888</u>	<u>4,069,956</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 6,308,086</u>	<u>\$ 927,847</u>	<u>\$ 3,100,329</u>	<u>\$ 669,864</u>	<u>\$ 11,006,126</u>

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

**CITY OF HERNANDO, MISSISSIPPI**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
September 30, 2017

**Exhibit 3-1**

Total fund balances for governmental funds	\$	4,069,956
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$9,138,286.		14,559,536
Other long-term assets are not available to pay current period expenditures and therefore are not reported in the funds:		
Long-term debt payable	(11,172,026)	
Compensated absences payable	<u>(276,200)</u>	
		(11,448,226)
Deferred amount on refunding of debt issuances		84,457
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.		2,837,635
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(70,810)
Deferred inflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.		(1,343,938)
Net pension liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(13,641,703)</u>
Net position of governmental activities	\$	<u><u>(4,953,093)</u></u>

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

**CITY OF HERNANDO, MISSISSIPPI**

**Exhibit 4**

Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended September 30, 2017

	Major Funds				Total
	General Fund	Debt Service Fund	GO Debt Construction Fund	Other Governmental Funds	
<b>REVENUES</b>					
Property taxes	\$ 3,727,784	\$ 664,010	\$	\$ 267,267	\$ 4,659,061
Sales taxes	3,523,684				3,523,684
Franchise taxes	438,208				438,208
Tourism tax				34,191	34,191
Intergovernmental revenues	1,046,791				1,046,791
Fines and forfeitures	543,958			6,763	550,721
Charges for services	711,919			440,045	1,151,964
Interest income	4,102	660	8,580	286	13,628
Miscellaneous revenues	230,527		852	13,812	245,191
<b>Total Revenues</b>	<b>10,226,973</b>	<b>664,670</b>	<b>9,432</b>	<b>762,364</b>	<b>11,663,439</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,053,791				1,053,791
Public safety	7,268,642			8,314	7,276,956
Public works	1,177,737		892,905		2,070,642
Health and welfare	112,786			11,727	124,513
Culture and recreation				846,547	846,547
Debt service:					
Principal	230,633	864,877		14,000	1,109,510
Interest	24,891	327,082		278	352,251
<b>Total Expenditures</b>	<b>9,868,480</b>	<b>1,191,959</b>	<b>892,905</b>	<b>880,866</b>	<b>12,834,210</b>
Excess (Deficiency) of Revenues over (under) Expenditures	358,493	(527,289)	(883,473)	(118,502)	(1,170,771)
<b>OTHER FINANCING SOURCES (USES)</b>					
Long-term capital debt issued	359,406		255,000		614,406
Proceeds from sale of capital assets	1,644			726	2,370
Payment to TIF developer (direct)			(255,000)		(255,000)
Transfers in		288,264		180,428	468,692
Transfers out	(180,428)		(10,375)		(190,803)
<b>Net Other Financing Sources (Uses)</b>	<b>180,622</b>	<b>288,264</b>	<b>(10,375)</b>	<b>181,154</b>	<b>639,665</b>
<b>Net Change in Fund Balances</b>	<b>539,115</b>	<b>(239,025)</b>	<b>(893,848)</b>	<b>62,652</b>	<b>(531,106)</b>
Fund Balances - Beginning, as previously reported	367,229	428,302	3,912,446	115,236	4,823,213
Prior period adjustment	(222,151)				(222,151)
Fund Balances - Beginning, as restated	145,078	428,302	3,912,446	115,236	4,601,062
Fund Balances - Ending	\$ 684,193	\$ 189,277	\$ 3,018,598	\$ 177,888	\$ 4,069,956

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

**CITY OF HERNANDO, MISSISSIPPI**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2017

**Exhibit 4-1**

Net change in fund balances - total governmental funds \$ (531,106)

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$2,215,148 exceeded depreciation expense of \$1,058,148.

1,157,000

In the statement of activities, only the gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increases financial resources. Thus, the change in net position differs from the change in fund balance by the amount of the gain on the sale of the assets of \$49 and sales proceeds of \$2,370 in the current period.

(2,321)

Debt proceeds provide current financial resources to Governmental Funds, but issuing long-term debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayment of \$1,109,510 exceeded proceeds of \$614,406.

495,104

Some items reported in the statement of activities related to the implementation of GASB 68 are not reported as revenues/expenditures in the Governmental Funds. These activities include:

Recording pension expense for the current period

(2,168,597)

Recording of contributions made during the current period

830,882

Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Increase / (decrease) in deferred refunding of issuances

(12,427)

Increase / (decrease) in bond premium amortization

2,833

(Increase) / decrease in ambulance receivables

(49,375)

(Increase) / decrease in compensated absences

(59,499)

(Increase) / decrease in accrued interest payable

80,435

Change in net position of governmental activities

\$ (257,071)

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



**CITY OF HERNANDO, MISSISSIPPI**  
Statement of Net Position - Proprietary Fund  
September 30, 2017

**Exhibit 5**

	<u>Utility Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 366,437
Accounts receivable (net allowance for doubtful accounts of \$347,001)	642,966
Due from other funds	8,990
Prepaid items	<u>5,056</u>
Total Current Assets	<u>1,023,449</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	785,679
Other capital assets, net	<u>8,499,076</u>
Total Noncurrent Assets	<u>9,284,755</u>
Total Assets	<u>10,308,204</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pension	<u>492,600</u>
Total Deferred Outflows of Resources	<u>492,600</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	155,177
Accrued expenses	54,168
Customer deposits	370,994
Capital debt	<u>487,655</u>
Total Current Liabilities	<u>1,067,994</u>
Noncurrent liabilities:	
Capital debt	3,697,930
Non-capital debt	31,939
Net pension liability	<u>2,365,296</u>
Total Noncurrent Liabilities	<u>6,095,165</u>
Total Liabilities	<u>7,163,159</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>214,808</u>
Total Deferred Inflows of Resources	<u>214,808</u>
<b>NET POSITION</b>	
Net investment in capital assets	5,099,170
Unrestricted	<u>(1,676,333)</u>
Total Net Position	<u>\$ 3,422,837</u>

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

**CITY OF HERNANDO, MISSISSIPPI****Exhibit 6**Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund  
For the Year Ended September 30, 2017

	Utility Fund
<b>OPERATING REVENUES</b>	
Charges for services	\$ 5,057,246
Intergovernmental revenue	28,445
Total Operating Revenues	<u>5,085,691</u>
<b>OPERATING EXPENSES</b>	
Contractual services	2,687,452
Personnel services	1,204,540
Pension expense	333,310
Materials and supplies	185,729
Depreciation expense	542,295
Total Operating Expenses	<u>4,953,326</u>
Operating Income (Loss)	<u>132,365</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest income	866
Proceeds from sales of capital assets	14,567
Interest expense	(87,062)
Miscellaneous revenue	8,797
Total Nonoperating Revenues	<u>(62,832)</u>
Net Income (Loss) Before Transfers	<u>69,533</u>
Transfers in	10,375
Transfers out	(288,264)
Total Transfers	<u>(277,889)</u>
Changes in Net Position	<u>(208,356)</u>
Net Position - Beginning, as previously reported	3,373,627
Prior period adjustment	257,566
Net Position - Beginning, as restated	<u>3,631,193</u>
Net Position - Ending	<u>\$ 3,422,837</u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2017

**Exhibit 7**

	<u>Utility Fund</u>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 5,049,896
Payments to suppliers for goods and services	(3,197,511)
Payments to employees for services	(1,222,169)
Other operating cash receipts	<u>28,445</u>
Net Cash Provided by (Used for) Operating Activities	<u>658,661</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Cash sent to other funds:	
Operating transfers out	(332,316)
Miscellaneous revenues	<u>396,665</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>64,349</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Proceeds of long-term debt	132,699
Income from sales of capital assets	21,671
Acquisition and construction of capital assets	(337,135)
Principal paid on long-term debt	(475,064)
Interest paid on long-term debt	<u>(87,062)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(744,891)</u>
<b>Cash Flows From Investing Activities</b>	
Interest income	<u>866</u>
Net Cash Provided by (Used for) Investment Activities	<u>866</u>
Net Change in Cash and Cash Equivalents	(21,015)
Cash and Cash Equivalents - Beginning	<u>387,452</u>
Cash and Cash Equivalents - Ending	<u>\$ 366,437</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided by (Used for) Operating Activities	
Operating income (loss)	<u>\$ 132,365</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	542,295
Change in assets and liabilities:	
Increase (decrease) in accounts receivable	35,897
Increase (decrease) in prepaid expenses	(202)
(Increase) decrease in accounts payable	(113,023)
(Increase) decrease in accrued expenses	20,400
(Increase) decrease in accrued interest payable	21,363
(Increase) decrease in customer deposits	25,012
(Increase) decrease in compensated absences liability	<u>(5,446)</u>
Total adjustments	<u>526,296</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 658,661</u>

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

**City of Hernando, Mississippi**

Notes to the Financial Statements  
For the Year Ended September 30, 2017

## CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements  
For the Year Ended September 30, 2017

### (1) Summary of Significant Accounting Policies.

#### A. Financial Reporting Entity.

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

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

#### B. Basis of Presentation.

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

##### Government-wide Financial Statements:

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

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

##### Fund Financial Statements:

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

## CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements  
For the Year Ended September 30, 2017

### C. Measurement Focus and Basis of Accounting.

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

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

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

The City reports the following major Governmental Funds:

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

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

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

The City reports the following major Enterprise Fund:

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

Additionally, the City reports the following fund types:

#### GOVERNMENTAL FUND TYPES

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

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

## CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements  
For the Year Ended September 30, 2017

### PROPRIETARY FUND TYPE

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

#### D. Budgets and Budgetary Accounting.

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

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

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

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

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

#### E. Account Classifications.

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

#### F. Deposits and Investments.

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

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

#### G. Receivables.

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

#### H. Interfund Transactions and Balances.

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

## CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements  
For the Year Ended September 30, 2017

### I. Prepaid Items.

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

### J. Capital Assets.

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

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

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

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

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

### K. Deferred Outflows/Inflows of Resources:

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



## CITY OF HERNANDO, MISSISSIPPI

### Notes to Financial Statements For the Year Ended September 30, 2017

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

Deferred outflows related to pensions – This amount represents the City's proportionate share of the deferred outflows of resources reported by the pension plan in which the City participates. See Note 13 for additional details.

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

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Deferred inflows related to pensions – This amount represents the City's proportionate share of the deferred inflows of resources reported by the pension plan in which the City participates. See Note 13 for additional details.

#### L. Pensions.

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

#### M. Long-term Liabilities.

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

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

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

## CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements  
For the Year Ended September 30, 2017

### N. Equity Classifications.

Government-wide Financial Statements:

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

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

Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

Net Position Flow Assumption:

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

Fund Financial Statements:

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

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

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

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

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

## CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements  
For the Year Ended September 30, 2017

### Fund Balance Flow Assumption:

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

### O. Property Tax Revenues:

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

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

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

### P. Intergovernmental Revenues in Governmental Funds.

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

### Q. Compensated Absences.

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

### R. Changes in Accounting Standards.

The City implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 77, *Tax Abatement Disclosures* and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*. The provisions of these standards have been incorporated into the financial statements and notes.

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

(2) Prior Period Adjustments.

A summary of the significant net position/fund balance adjustment(s) is as follows:

Exhibit 2 – Statement of Activities – Governmental Activities.

<u>Explanation</u>	<u>Amount</u>
Correction to 10/1/2016 deferred outflows for pensions	\$ 52,780
Correction to 10/1/2016 deferred inflows for pensions	339,200
Net effect of prior year errors in recording revenues / expenditures	<u>(222,151)</u>
 Total prior period adjustment(s)	 \$ <u><u>169,829</u></u>

Exhibit 2 – Statement of Activities – Business-type Activities.

<u>Explanation</u>	<u>Amount</u>
Correction to 10/1/2016 deferred outflows for pensions	\$ 9,203
Correction to 10/1/2016 deferred inflows for pensions	59,083
Net effect of prior year errors in recording revenues / expenditures	<u>189,280</u>
 Total prior period adjustment(s)	 \$ <u><u>257,566</u></u>

Exhibit 4 – Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

<u>Explanation</u>	<u>Amount</u>
Net effect of prior year errors in recording revenues / expenditures	\$ <u><u>(222,151)</u></u>

Exhibit 6 – Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.

<u>Explanation</u>	<u>Amount</u>
Correction to 10/1/2016 deferred outflows for pensions	\$ 9,203
Correction to 10/1/2016 deferred inflows for pensions	59,083
Net effect of prior year errors in recording revenues / expenditures	<u>189,280</u>
 Total prior period adjustment(s)	 \$ <u><u>257,566</u></u>

(3) Deposits.

The carrying amount of the City's total deposits with financial institutions at September 30, 2017, was \$4,827,351, and the bank balance was \$5,013,938. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

Deposit Insurance Corporation (FDIC).

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

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2017:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service Fund	General Fund	\$ 61,501
Debt Service Fund	GO Debt Construction Fund	4,493
Debt Service Fund	Other Governmental Funds	18,223
GO Debt Construction Fund	General Fund	8,750
Utility Fund	General Fund	<u>8,990</u>
Total		<u>\$ 101,957</u>

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

B. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Debt Service Fund	Utility Fund	\$ 288,264
Other Governmental Funds	General Fund	180,428
Utility Fund	GO Debt Construction	<u>10,375</u>
Total		<u>\$ 479,067</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.

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2017, consisted of the following:

<u>Description</u>	<u>Amount</u>
<b>Governmental Activities:</b>	
Sales tax	\$ 281,438
DUI grant	25,979
Brownsfield grant	27,504
Hotel / motel tax	3,213
Highway 51 traffic signal project	<u>984</u>
Total Governmental Activities	<u>\$ 339,118</u>

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2017:

**Governmental Activities:**

	<b>Beginning Balance</b>	<b>Acquisitions</b>	<b>Dispositions</b>	<b>Completed Construction</b>	<b>Ending Balance</b>
Capital assets not being depreciated:					
Land	\$ 575,939		-		\$ 575,939
Construction in progress	173,853	1,410,000		(1,258,987)	324,866
Total capital assets not being depreciated	<u>749,792</u>	<u>1,410,000</u>	<u>-</u>	<u>(1,258,987)</u>	<u>900,805</u>
Capital assets being depreciated:					
Buildings and improvements	5,899,001			389,176	6,288,177
Equipment	2,053,312	114,688			2,168,000
Vehicles	1,714,479	359,633	23,212		2,050,900
Improvements other than buildings	749,161			386,470	1,135,631
Infrastructure	10,340,141	330,827		483,341	11,154,309
Total capital assets being depreciated	<u>20,756,094</u>	<u>805,148</u>	<u>23,212</u>	<u>1,258,987</u>	<u>22,797,017</u>
Less accumulated depreciated for:					
Buildings and improvements	1,999,473	112,229			2,111,702
Equipment	1,405,907	232,974			1,638,881
Vehicles	1,167,789	231,905	20,891		1,378,803
Improvements other than buildings	166,803	43,622			210,425
Infrastructure	3,361,057	437,418			3,798,475
Total accumulated depreciation	<u>8,101,029</u>	<u>1,058,148</u>	<u>20,891</u>	<u>-</u>	<u>9,138,286</u>
Total capital assets being depreciated, net	<u>12,655,065</u>	<u>(253,000)</u>	<u>2,321</u>	<u>1,258,987</u>	<u>13,658,731</u>
Governmental activities capital assets, net	<u>\$ 13,404,857</u>	<u>\$ 1,157,000</u>	<u>\$ 2,321</u>	<u>\$ -</u>	<u>\$ 14,559,536</u>

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

**Business-type Activities:**

	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 719,630			\$ 719,630
Construction in progress	14,409	51,640		66,049
	<u>734,039</u>	<u>51,640</u>	<u>-</u>	<u>785,679</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings and improvements	-	48,970		48,970
Waterworks system	15,692,889	10,375		15,703,264
Equipment	998,994	141,707	125,452	1,015,249
Vehicles	461,551	55,998	17,652	499,897
	<u>17,153,434</u>	<u>257,050</u>	<u>143,104</u>	<u>17,267,380</u>
Total capital assets being depreciated				
Less accumulated depreciated for:				
Buildings and improvements	-	979		979
Waterworks system	7,175,312	431,681		7,606,993
Equipment	892,172	46,670	120,113	818,729
Vehicles	293,546	63,944	15,887	341,603
	<u>8,361,030</u>	<u>543,274</u>	<u>136,000</u>	<u>8,768,304</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>8,792,404</u>	<u>(286,224)</u>	<u>7,104</u>	<u>8,499,076</u>
Business-type activities capital assets, net	<u>\$ 9,526,443</u>	<u>\$ (234,584)</u>	<u>\$ 7,104</u>	<u>\$ 9,284,755</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
<b>Governmental activities:</b>	
General government	\$ 62,284
Public safety	500,983
Public works	420,808
Culture and recreation	<u>74,073</u>
Total governmental activities depreciation expense	\$ <u>1,058,148</u>
<b>Business-type activities:</b>	
Solid waste	\$ <u>543,274</u>



**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

Commitments with respect to unfinished capital projects at September 30, 2017, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Highway 51 Signal Project	\$ 1,837,000	04/2019
Fire and Economic Development Downtown	153,000	09/2018
Road to Renasant Park	73,000	07/2018

(7) Claims and Judgments.

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

(8) Operating Leases.

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

(9) Defined Benefit Pension Plan.

*General Information about the Pension Plan*

Plan Description. City of Hernando, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

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

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

Contributions. At September 30, 2017, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2017 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2017, 2016 and 2015 were \$958,587, \$887,769 and \$842,484, respectively, equal to the required contributions for each year.

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

At September 30, 2017, the City reported a liability of \$16,006,999 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The City's proportionate share used to calculate the September 30, 2017 net pension liability was .096292 percent, which was based on a measurement date of June 30, 2017. This was an increase/decrease of .009918 percent from its proportionate share used to calculate the September 30, 2016 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended September 30, 2017, the City recognized pension expense of \$2,501,907. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 458,490	116,798
Net difference between projected and actual earnings on pension plan investments		1,236,788
Changes of assumptions	16,348	40,998
Changes in the proportion and differences between the County's contributions and proportionate share of contributions	2,628,405	164,162
County contributions subsequent to the measurement date	<u>226,992</u>	
Total	<u>\$ 3,330,235</u>	<u>1,558,746</u>

\$226,992 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2018	\$ 956,684
2019	723,507
2020	173,502
2021	<u>(309,196)</u>
Total	<u>\$ 1,544,497</u>

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

Actuarial Assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

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

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

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

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

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

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

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements

For the Year Ended September 30, 2017

using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
City's proportionate share of the net pension liability	\$ 20,994,247	16,006,999	11,866,498

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

(10) Long-term Debt.

Debt outstanding as of September 30, 2017, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
<b>Governmental Activities:</b>			
A. General Obligation Bonds:			
Series 2012 Refunding Bonds	\$ 2,103,868	2.00-2.50%	10/2023
Series 2015 General Obligation Bonds	4,345,000	2.50%	12/2035
Series 2016 Refunding Bonds	<u>3,185,000</u>	1.00-2.50%	05/2027
Total General Obligation Bonds	\$ <u>9,633,868</u>		
B. Limited Obligation Bonds:			
Series 2016 Tax Increment Financing (Hampton Inn)	\$ <u>240,000</u>	4.50%	01/2028
C. Capital Leases:			
Fire Truck 2013	\$ 467,826	3.15%	07/2028
Police Cars 2014	165,497	1.82%	12/2018
Police Cars 2017	<u>291,024</u>	1.79%	02/2020
Total Capital Leases	\$ <u>924,347</u>		
D. Other Loans:			
Park Grounds Equipment	\$ 8,167	1.85%	03/2018
Capital Equipment and Small Projects	<u>346,394</u>	1.75%	02/2021
Total Other Loans	\$ <u>354,561</u>		

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b>Business-type Activities:</b>			
A. General Obligation Bonds:			
2012 General Obligation Refunding	\$ <u>576,132</u>	2.00-2.50%	10/2023
B. Capital Leases:			
Knuckleboom Loader 2012	\$ 8,253	1.81%	12/2017
Knuckleboom Loader 2015	72,783	2.13%	06/2020
Knuckleboom Loader 2017	<u>122,221</u>	2.33%	04/2022
Total Capital Leases	\$ <u>203,257</u>		
C. Other Loans:			
CAP Loan - Sewer 2002	\$ 75,557	3.00%	10/2021
CAP Loan - Sewer 2005	99,985	2.00%	02/2025
CAP Loan - Sewer II 2005	96,961	3.00%	11/2025
DEQ Loan - Water Pollution Control 2003	156,227	1.75%	01/2023
City of Southaven - Hurricane Creek	727,943	1.95%	12/2022
State of MS - DWSLRF	732,502	1.95%	10/2032
DEQ Loan - Water Pollution Control 2013	<u>1,517,021</u>	1.75%	01/2034
Total Other Loans	\$ <u>3,406,196</u>		

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

**Governmental Activities:**

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 793,200	216,560	15,000	10,800
2019	806,000	202,733	20,000	10,125
2020	832,700	185,663	20,000	9,225
2021	851,600	168,072	20,000	8,325
2022	839,300	149,161	20,000	7,425
2023 - 2027	3,076,068	497,916	120,000	22,275
2028 - 2032	1,255,000	228,188	25,000	1,125
2033 - 2037	1,180,000	60,250	-	-
Total	\$ <u>9,633,868</u>	<u>1,708,543</u>	<u>240,000</u>	<u>69,300</u>

<u>Year Ending September 30</u>	<u>Capital Leases</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 290,502	21,576	107,425	5,314
2019	192,205	15,142	101,009	3,518
2020	90,044	11,972	102,791	1,736
2021	40,210	10,498	43,336	190
2022	41,495	9,213	-	-
2023 - 2027	228,238	25,305		
2028	41,653	604		
Total	\$ <u>924,347</u>	<u>94,310</u>	<u>354,561</u>	<u>10,758</u>

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

**Business-type Activities:**

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 96,800	12,871	331,675	63,126
2019	99,000	10,936	338,259	56,542
2020	102,300	8,955	344,977	49,824
2021	103,400	6,909	351,831	42,966
2022	95,700	4,583	343,249	36,154
2023 - 2027	78,932	2,310	784,815	118,066
2028 - 2032	-	-	766,005	48,721
2033 - 2037	-	-	145,385	1,759
<b>Total</b>	<b>\$ 576,132</b>	<b>46,564</b>	<b>3,406,196</b>	<b>417,158</b>

<u>Year Ending September 30</u>	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 59,793	3,892
2019	52,702	2,712
2020	47,058	1,538
2021	27,415	727
2022	16,289	127
<b>Total</b>	<b>\$ 203,257</b>	<b>8,996</b>

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2017, the amount of outstanding debt was equal to 7.8% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2017:

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

	Balance Oct. 1, 2016	Additions	Reductions	Adjustments	Balance Sept. 30, 2017	Amount due within one year
<b>Governmental Activities:</b>						
Compensated absences	\$ 216,701	59,499	-	-	276,200	-
General obligation bonds	10,394,268	-	760,400	-	9,633,868	793,200
Add:						
Premiums	22,083	-	2,833	-	19,250	
Limited obligation bonds	-	255,000	15,000	-	240,000	15,000
Capital leases	795,574	359,406	230,633	-	924,347	290,502
Other loans	458,038	-	103,477	-	354,561	107,425
<b>Total</b>	\$ <u>11,886,664</u>	<u>673,905</u>	<u>1,112,343</u>	<u>-</u>	<u>11,448,226</u>	<u>1,206,127</u>

	Balance Oct. 1, 2016	Additions	Reductions	Adjustments	Balance Sept. 30, 2017	Amount due within one year
<b>Business-type Activities:</b>						
Compensated absences	\$ 26,493	5,446	-	-	31,939	-
General obligation bonds	670,732	-	94,600	-	576,132	96,800
Capital leases	129,031	132,699	58,473	-	203,257	59,793
Other loans	3,728,187	-	321,991	-	3,406,196	331,675
<b>Total</b>	\$ <u>4,554,443</u>	<u>138,145</u>	<u>475,064</u>	<u>-</u>	<u>4,217,524</u>	<u>488,268</u>

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

(11) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2017:

Fund	Deficit Amount
First Time Homebuyers	\$ 19,012

(12) Contingencies.

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

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



## CITY OF HERNANDO, MISSISSIPPI

Notes to Financial Statements  
For the Year Ended September 30, 2017

### (13) Effect of Deferred Amounts on Net Position

The governmental activities' unrestricted net position amount of (\$11,739,150) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$196,752 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. The \$2,640,883 balance of the deferred outflow of resources related to pensions at September 30, 2017, will be recognized in pension expense over the next 3 years. The \$1,343,938 balance of the deferred inflow of resources related to pension at September 30, 2017, will be recognized in pension expense over the next four years.

The business-type activities' unrestricted net position amount of (\$1,676,333) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$30,240 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$462,360 balance of the deferred outflow of resources related to pensions at September 30, 2017, will be recognized in pension expense over the next 3 years. The \$214,808 balance of the deferred inflow of resources related to pension at September 30, 2017, will be recognized in pension expense over the next four years.

### (14) Tax Abatements.

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

The City of Hernando Board of Aldermen negotiates property tax abatements on an individual basis. All abatements are for ten years and are for economic development purposes. The City had six (6) tax abatement agreements with four (4) entities as of September 30, 2017.

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

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

All allowable property tax levies

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

All four companies have tax abatements listed under this statute.

These economic development projects, collectively, had \$14,672 in taxes abated in fiscal year 2017 accounting for 44% of taxes abated of potential collections without abatements present.

### (15) Subsequent Events.

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

**CITY OF HERNANDO, MISSISSIPPI**

Notes to Financial Statements  
For the Year Ended September 30, 2017

Subsequent to September 30, 2017, the City issued the following debt obligation(s):

<u>Issue</u>	<u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Amount</u>	<u>Type of</u> <u>Financing</u>	<u>Source of Financing</u>
11/07/2017		1.93%	\$ 1,000,000	tax anticipation loan	ad valorem taxes
11/06/2018		2.78%	1,080,000	tax anticipation loan	ad valorem taxes
12/17/2018		4.39%	598,000	capital lease	ad valorem taxes

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HERNANDO, MISSISSIPPI**

Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 3,645,483	3,625,483	3,727,784	102,301
Franchise taxes	460,000		438,208	438,208
Intergovernmental revenues	6,758,037	8,158,037	4,555,354	(3,602,683)
Charges for services	1,002,500	1,462,500	1,264,720	(197,780)
Interest income	2,500		4,102	4,102
Miscellaneous revenues	149,430	531,930	361,986	(169,944)
Total Revenues	<u>12,017,950</u>	<u>13,777,950</u>	<u>10,352,154</u>	<u>(3,425,796)</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,769,913	1,952,841	1,461,724	491,117
Public safety	7,269,224	7,266,224	7,448,301	(182,077)
Public works	3,253,626	3,254,126	1,177,015	2,077,111
Health and welfare	125,040	125,040	112,686	12,354
Debt service:				
Principal	1,635,171	1,614,010	1,230,633	383,377
Interest	29,548		24,892	(24,892)
Total Expenditures	<u>14,082,522</u>	<u>14,212,241</u>	<u>11,455,251</u>	<u>2,756,990</u>
Excess of Revenues over (under) Expenditures	<u>(2,064,572)</u>	<u>(434,291)</u>	<u>(1,103,097)</u>	<u>(668,806)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued	360,000		359,406	359,406
Long-term non-capital debt issued	1,400,000		1,000,000	1,000,000
Proceeds from sale of capital assets			1,644	1,644
Transfers in	485,000	485,000		(485,000)
Transfers out	(180,428)		(180,428)	(180,428)
Total Other Financing Sources and Uses	<u>2,064,572</u>	<u>485,000</u>	<u>1,180,622</u>	<u>695,622</u>
Net Change in Fund Balance	<u>-</u>	<u>50,709</u>	<u>77,525</u>	<u>26,816</u>
Fund Balances - Beginning - Cash Basis				<u>167,567</u>
Fund Balances - Ending - Cash Basis				<u>194,383</u>
Adjustments to conform with GAAP:				
Revenues			(125,181)	
Expenditures			<u>586,771</u>	
Net Change in Fund Balance - GAAP Basis			<u>\$ 539,115</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

Last 10 Fiscal Years\*

For the Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.096292%	0.0864%	0.0857%
City's proportionate share of the net pension liability (asset)	\$ 16,006,999	15,428,554	13,247,529
City's covered payroll	\$ 6,177,208	5,525,573	5,356,568
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	259.13%	279.22%	247.31%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%

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

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

**CITY OF HERNANDO, MISSISSIPPI**  
 Schedule of City Contributions  
 Last 10 Fiscal Years\*  
 For the Year Ended September 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 958,587	887,769	842,484
Contributions in relation to the contractually required contribution	<u>958,587</u>	<u>885,004</u>	<u>846,661</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>2,765</u>	<u>(4,177)</u>
City's covered payroll	\$ 6,086,267	5,636,630	5,349,104
Contributions as a percentage of covered payroll	15.75%	15.70%	15.83%

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

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

## City of Hernando, Mississippi

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2017

### Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget amendments and revisions

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

(3) Budget/GAAP Reconciliation

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

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

### Pension Schedules

A. Changes of assumptions.

2015

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

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

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

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

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

## City of Hernando, Mississippi

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2017

### 2016

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

### 2017

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

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

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

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

## (2) Change in Benefit Provisions

### 2016:

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



## OTHER INFORMATION

**CITY OF HERNANDO, MISSISSIPPI**  
Schedule of Surety Bonds for City Officials  
For the Year Ended September 30, 2017  
UNAUDITED

Name	Position	Company	Bond
Newton Ferguson	Mayor	Travelers Casualty & Surety Company	\$100,000
Sonny Bryant	Alderman, Ward 1	Brierfield Insurance Company	\$100,000
Andrew Miller	Alderman, Ward 2	Brierfield Insurance Company	\$100,000
Gary N. Higdon	Alderman, Ward 3	Brierfield Insurance Company	\$100,000
Michael McLendon	Alderman, Ward 4	Brierfield Insurance Company	\$100,000
Cathy Brooks	Alderman, Ward 5	Travelers Casualty & Surety Company	\$100,000
Jeff Hobbs	Alderman, Ward 6	Brierfield Insurance Company	\$100,000
W. I. "Doc" Harris, Jr	Alderman, At-Large	Travelers Casualty & Surety Company	\$100,000
Katie Harbin	City Clerk	Travelers Casualty & Surety Company	\$50,000
Octavia Glasper	Bookkeeper	Travelers Casualty & Surety Company	\$50,000
Cassandra E. Perry	Court Clerk	Travelers Casualty & Surety Company	\$50,000
Jennifer Borden	Deputy Court Clerk	Travelers Casualty & Surety Company	\$50,000
Dawn Winkler	Deputy Court Clerk	Travelers Casualty & Surety Company	\$50,000
Robin Nichlos	Deputy Court Clerk	Travelers Casualty & Surety Company	\$50,000
Keith Briley	Director of Planning	Travelers Casualty & Surety Company	\$50,000
Joe Engel	Building Inspector	Travelers Casualty & Surety Company	\$50,000
Kristin Duggan	Planning Clerk	Travelers Casualty & Surety Company	\$50,000
Annette Statler	Planning Clerk	Travelers Casualty & Surety Company	\$50,000
Julie Harris	Deputy Clerk	Travelers Casualty & Surety Company	\$50,000
Gia Matheny	Deputy Clerk	Travelers Casualty & Surety Company	\$50,000
Eva Ward	Deputy Clerk	Travelers Casualty & Surety Company	\$50,000
Janet Hawks	Utility Clerk	Travelers Casualty & Surety Company	\$50,000
C. Scott Worsham	Police Chief	Travelers Casualty & Surety Company	\$50,000
Shane Ellis	Assistant Police Chief	Travelers Casualty & Surety Company	\$50,000
Tarra Davis	Police Officer	Travelers Casualty & Surety Company	\$50,000
Dewayne Williams	Parks Director	Travelers Casualty & Surety Company	\$50,000
Miranda Williams	Parks Director	Travelers Casualty & Surety Company	\$50,000
Susan Huff	Animal Shelter Manager	Travelers Casualty & Surety Company	\$50,000
Brittany McGown	Animal Control Officer	Travelers Casualty & Surety Company	\$50,000
Michael Carson	Athletic Coordinator	Travelers Casualty & Surety Company	\$50,000
Gia Matheny	Director of Community Development	Travelers Casualty & Surety Company	\$50,000
Stacey Barnette	Receptionist	Travelers Casualty & Surety Company	\$50,000

## SPECIAL REPORTS

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen  
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, 2017, and the related notes to the financial statements, which collectively comprise City of Hernando's basic financial statements, and have issued our report thereon dated May 31, 2019.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC  
May 31, 2019

Certified Public Accountants

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen  
City of Hernando, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi as of and for the year ended September 30, 2017, which collectively comprise the City of Hernando's basic financial statements and have issued our report thereon dated May 31, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC  
May 31, 2019

Certified Public Accountants

## SCHEDULE OF FINDINGS AND RESPONSES

## City of Hernando, Mississippi

### Schedule of Findings and Responses For the Year Ended September 30, 2017

#### Section I: Summary of Auditor's Results

##### Financial Statements:

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

#### Section II: Financial Statements Findings

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