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**City of Hernando, Mississippi  
Audited Financial Statements  
Year Ended September 30, 2009**

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**CITY OF HERNANDO, MISSISSIPPI**  
**Annual Financial Statements**

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## INDEPENDENT AUDITORS' REPORT

Mayor and Board of Aldermen  
City of Hernando  
Hernando, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hernando, Mississippi ("the City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2009, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplemental information on Surety Bond Coverage is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Williams, Pitts & Beard, PLLC*

Williams, Pitts & Beard, PLLC

Certified Public Accountants

June 4, 2010



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF HERNANDO, MISSISSIPPI**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2009**  
**Unaudited**

This Discussion and Analysis of the City of Hernando's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

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

The statements presented in this audit consist of two types:

- Government-wide financial statements are prepared using the modified accrual basis of accounting and include all assets and liabilities of the City of Hernando as a whole. These statements provide an overall view of Hernando's finances. The Statement of Net Assets is found on page 11 of the audit report.
- In the Statement of Activities, the City's activities are reported as (1) Governmental Activities; which includes: administration, ambulance, fire, park, planning, police, and street departments, (2) Business-type Activities; which includes: water, sewer, and sanitation. This statement shows the revenues, expenses, and net assets. The Statement of Activities is found on page 12.

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

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

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

The City maintains several governmental funds. Information presented separately in the Governmental Funds Balance Sheet (Page 13) and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Capital Projects Fund which are considered to be major funds. All other Governmental Funds are combined into a single amount listed as Other Governmental Funds. The basic governmental funds financial statements can be found on pages 13-16.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Water, Sewer, and Sanitation funds since they are considered major funds of the City. The combining proprietary fund financial statements can be found on pages 17-19 of this report.

**Notes to the Financial Statements**- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-29 of this report.

**BRIEF DISCUSSION OF BASIC FINANCIAL STATEMENTS**

Net assets and net assets by category may serve over time as a useful indicator of a government's financial position. The assets of the City of Hernando, Mississippi exceeded its liabilities at September 30, 2009 by \$12,289,353 or 70.10%. The majority of the City's net assets are invested in capital assets, net of related debt and unrestricted assets and may be used to meet the governments ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. The remaining \$1,421,783 is restricted for specific purposes. Unrestricted net assets decreased by \$1,557,909, restricted assets decreased in the amount of \$689,899, and invested in capital assets increased by \$1,703,802.

As of the close of the current fiscal year the City of Hernando's governmental funds reported combined ending fund balances of \$2,707,202 and a total liabilities and fund balances combined of \$7,501,867.

**CONDENSED COMPARATIVE FINANCIAL STATEMENTS**

The City's combined net assets in 2009 decreased 4.23% from a year ago. The combined assets decreased from \$12,833,359 in 2008 to \$12,289,353 in 2009, which is a decrease of \$544,006.

**CITY OF HERNANDO, MISSISSIPPI**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2009**  
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NET ASSETS (IN THOUSANDS)						
	2009		2008			
	Governmental Activities (All other funds)	Governmental Activities (All other funds)	2009 Business Type Activities (Utility Fund)	2008 Business Type Activities (Utility Fund)	2009 Total	2008 Total
<b>ASSETS</b>						
Current and Other Assets	\$ 7,802	\$ 9,011	\$ 1,250	\$ 1,708	\$ 9,052	\$ 10,719
Capital Assets, Net	11,965	11,410	8,802	8,409	20,767	19,819
<b>TOTAL ASSETS</b>	<b>19,767</b>	<b>20,421</b>	<b>10,052</b>	<b>10,117</b>	<b>29,819</b>	<b>30,538</b>
<b>LIABILITIES</b>						
Current and Other Liabilities	4,883	4,524	499	435	5,382	4,959
Long Term Liabilities:						
Due Within One Year	468	514	215	198	683	712
Due in More than One Year	9,294	9,720	2,171	2,313	11,465	12,033
<b>TOTAL LIABILITIES</b>	<b>14,645</b>	<b>14,758</b>	<b>2,885</b>	<b>2,946</b>	<b>17,530</b>	<b>17,704</b>
<b>NET ASSETS</b>						
Invested in Capital Assets Net of Debt	2,576	1,175	6,491	6,187	9,067	7,362
Restricted:						
Capital Projects	967	2,080	-	-	967	2,080
Prepaid Expenses	390	-	-	-	390	-
Debt Service	64	32	-	-	64	32
Unrestricted	1,124	2,375	677	983	1,801	3,358
<b>TOTAL NET ASSETS</b>	<b>\$ 5,121</b>	<b>\$ 5,662</b>	<b>\$ 7,168</b>	<b>\$ 7,170</b>	<b>\$ 12,289</b>	<b>\$ 12,832</b>

Net assets of the City's governmental activities decreased by 9.55% (\$5,662,493 in 2008, compared to \$5,121,422). Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$2,375,578 at 9-30-08 to \$1,123,950 at the end of this year which is a decrease of 52.68%.

Net assets of the City's business type activities (utility fund) decreased by .04% (\$7,170,866 compared to \$7,167,931). Unrestricted net assets changed from \$983,347 at 9-30-08 to \$677,066 at the end of this year, which is a decrease of 31.14%.

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

The City of Hernando has not seen the growth this year that it has had during the previous years due to the economy. The economy has also affected Hernando's revenues, which have decreased noticeably in sales tax, building permits, and police fines. In order to continue to furnish the quality services to the citizens, Hernando has been fortunate to receive grants and loans for projects such as water improvements, sewer extension, and parks. The City has also had to use surplus funds for the operation of the City. For the fiscal year ending 9-30-09, the City of Hernando was able to operate within the budget.

**CITY OF HERNANDO, MISSISSIPPI**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2009**  
**Unaudited**

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

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

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

	2008	2009	2008	2009	2008	2009
	Governmental	Governmental	Business-Type	Business-Type	2008	2009
	Activities	Activities	Activities	Type Activities	Total	Total
<b>Revenues</b>						
Taxes - Property	\$ 3,264,176	\$ 3,971,850	\$ 81,204	\$ 6,047	\$ 3,345,380	\$ 3,977,897
Sales and Use	2,655,681	2,533,495	-	-	2,655,681	-
Other	346,327	443,801	-	-	346,327	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	160,430	175,425	-	-	160,430	175,425
Charges for services	-	-	-	-	-	-
Rents	-	-	-	-	-	-
Interest	177,220	67,373	38,119	2,686	215,339	70,059
Grants	-	-	-	-	-	-
Contributed capital	-	-	-	-	-	-
Interfund transfers	(970,830)	(736,816)	970,830	736,816	-	-
Miscellaneous	118,893	122,011	5,588	4,629	124,481	126,640
Sale of assets	26,450	30,700	-	18,833	26,450	49,533
<b>Total revenues</b>	<b>5,778,347</b>	<b>6,607,839</b>	<b>1,095,741</b>	<b>769,011</b>	<b>6,874,088</b>	<b>7,376,850</b>
<b>Total expenses</b>	<b>(6,067,835)</b>	<b>(6,929,635)</b>	<b>(512,363)</b>	<b>(592,616)</b>	<b>(6,580,198)</b>	<b>(7,522,251)</b>
<b>Change in net assets</b>	<b>(289,488)</b>	<b>(321,796)</b>	<b>583,378</b>	<b>176,395</b>	<b>293,890</b>	<b>(145,401)</b>
Net assets-beginning of year	5,951,981	5,662,493	6,587,488	7,170,866	12,539,469	12,833,359
Prior Period Adjustment	-	(219,275)	-	(179,330)	-	(398,605)
<b>Net assets-end of year</b>	<b>\$ 5,662,493</b>	<b>\$ 5,121,422</b>	<b>\$ 7,170,866</b>	<b>\$ 7,167,931</b>	<b>\$ 12,833,359</b>	<b>\$ 12,687,958</b>

**BUDGETARY ANALYSIS**

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

During the fiscal year ending 9-30-09, the City amended its budget two times. The total dollar amount of the budget for all funds was increased in the amount of \$611,677.00, which was in the General Fund, Culture and Recreation Fund, 1<sup>st</sup> Time Homebuyers Fund, and Utility Fund. The amendment was necessary in the General Fund due to an overestimate of sales tax, the receipt of prior years public utility tax from Entergy that was due from 2002 - 2006 (that was not budgeted), numerous grants and stimulus funds that were not budgeted. These amendments are to account for the revenues and the expenses associated with the grants and stimulus funds. Also, expenses had to be increased for the additional Aldermen salaries. Funds were moved

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in the departments for unexpected expenses, overtime, and the animal control building being constructed. The amendments in the Culture & Recreation Fund are necessary to account for a grant that were approved for Lee's Summit Park, prior year public utility taxes received, and additional soccer revenues and expenses. First Time Homebuyers Fund, is amended to add the grant that the City has been approved to receive and the expenses that may occur this year. The Utility Fund Amendment is the result of an overestimate of water sales, receipt of prior years public utility tax, NRCS grant revenue and the associated expenses.

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

The fund balance at the beginning of the year was \$1,997,637 for the General Fund and at the end of the year (GAAP basis) was \$1,330,800, which was a decrease of \$666,837. The most significant revenues in the General Fund are derived from ad-valorem taxes, sales taxes, franchise taxes, building permit fees, police fines, and ambulance fees.

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

**CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY**

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

<u>Description</u>	<u>FYE 9-30-08</u>	<u>FYE 9-30-09</u>	<u>Difference</u>
Land	\$ 565,425	\$ 565,425	-
Buildings and improvements	5,571,555	5,634,371	62,816
Equipment	1,881,967	1,959,709	77,742
Vehicles	864,932	939,978	75,046
Infrastructure	6,169,226	7,274,650	1,105,424
Construction in progress	47,675	34,374	(13,301)
Improvements other than buildings	147,786	196,411	48,625
Accumulated depreciation	(3,838,791)	(4,639,959)	(801,168)
	<u>\$ 11,409,775</u>	<u>\$ 11,964,959</u>	<u>\$ 555,184</u>

Changes in General Fixed Assets can be found on page 25. In the category of Governmental Activities capital assets, net, increased from \$11,409,775 at 9-30-08 to \$11,964,959 at 9-30-09. This is an increase of \$555,184 after depreciation. The primary increase in capital assets occurred in buildings and improvements, equipment, vehicles, construction in progress, and infrastructure. In the category of Business-type Activities capital assets, net, increased from \$8,409,650 at 9-30-08 to \$8,802,137 at 9-30-09. This is an increase of \$392,487 after depreciation. The primary increase in capital assets in this category occurred in construction in progress, sewer and water system improvements, and equipment. During the past year, the city completed lift station upgrades, Old Town Water and Sewer projects, Green T Water Improvement Project, Old Highway 51 Sewer Project, two overlay projects, and NRCS drainage projects.

General Long-Term Debt is located on pages 27-29. As of September 30, 2009, the City had \$9,140,000 in outstanding General Obligation Bonds and \$2,273,364 in notes payable. The City issued \$5,000,000 in General Obligation Bonds in FYE 9-30-07. The bond funds have been used for infrastructure improvements



**CITY OF HERNANDO, MISSISSIPPI**  
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such as Old Highway 51 Sewer Project, Nesbit Sewer Extension Project Phase II, Green T Water Improvement Project for fire protection, lift station upgrades, and completing the Gale Center Phase II renovations which included a court clerks office's, courtroom, and community center. The long-term debt is low interest loans from the State of Mississippi for water and sewer improvements.

**INFRASTRUCTURE ACTIVITY**

Over the past few years, the City has applied for state funding to improve the City water system and sanitary sewer system. The DWSIRLF loan application included major water projects for the city that would be completed in five phases. At this time, Hernando has received three DWSIRLF loans and has completed an application to apply for the fourth loan, which would construct a new above ground water tank among other things. The water improvements have included a new well, water tank, and larger water mains. Capital Improvement Projects currently under construction is the Lee's Summit Park Project (paid with grant funds), Nesbit Sewer Extension Project Phase II, and the Hernando/Southaven Sewer Project.

**CURRENTLY KNOWN FACTS**

Hernando has been growing at a very rapid pace; according to the Census in 1990, the population was 3,200, in 2000 the population was 6,812, and currently the estimated population in 2009 is 14,800. In 2009 the City assessed value of property increased 14.89% and the sales tax revenue decreased 4.6% over the prior year. Residential and commercial building permits have slowed down but the City of Hernando is steadily growing.

People are continuing to move to Hernando as is shown by the increased number of utility customers. Over the past year the City has added 116 sewer customers, and 52 water customers. Since FYE 9-30-2000 the City has added 2,464 sewer customers, and 1,563 water customers. We have two rural water systems that also provides water inside the corporate limits of Hernando, which is the reason there are more sewer customers than water. Over the last few years, the Mississippi Department of Environmental quality has mandated that Hernando and the other cities in DeSoto County improve the level of sewage treatment. This mandate is in place to protect our environment and our groundwater. In order to satisfy this mandate more cost effectively, the cities joined with the county to create the DeSoto County Regional Utility Authority (DCRUA). Last year the City of Hernando entered into an agreement with the City of Southaven to construct a sewer main on the east side of I-55 from Southaven to Hernando and then connect into the DCRUA main. This main will sewer annexed areas and future developments.

Our Park and Recreation facilities have grown from three parks to eight facilities. Each year we try to improve our facilities as funds become available either from tax revenues, grants, or donations. This year we started a community garden at the Gale Center that is open to the public and also opened a farmers market on the square where the public can purchase home grown items. Our park facilities include community center, tennis courts, basketball courts, football fields, and soccer fields, exercise equipment, walking trails, pavilions and playgrounds. We have made an effort to have facilities and programs to accommodate all ages. This year Hernando was again given the "Playful City USA" designation. We are one of 67 cities from across the country and the first and only city in Mississippi to receive this prestigious award. Hernando received a \$150,000 grant last year, which will be used to build a parking lot, bathroom facilities and additional walking trails in Lee's Summit Park.

Hernando has been promoting a healthier city by improving and extending the sidewalks, adding walking trails, and bike trails on the streets. We have been approved to receive a grant to install more sidewalks in school areas to give children a safe way to walk to school.

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**Management's Discussion and Analysis**  
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With this rapid growth comes responsibilities, in that the City must continue to furnish quality services such as water, sewer, garbage collection, fire, police, and ambulance to name a few. These services are not without a price and the City has had to be innovative to fund these services and keep the City financially stable. This year we purchased very little equipment and tried to live within our means.

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

**CONTACT:**

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

**BASIC FINANCIAL STATEMENTS**

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Net Assets**  
**September 30, 2009**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 1,586,231	\$ 370,479	\$ 1,956,710
Accounts receivable, net of allowance for doubtful accounts of \$669,632	206,348	477,017	683,365
Property tax receivable	3,725,363	-	3,725,363
Intergovernmental receivable	350,027	-	350,027
Other receivables	30,432	3,077	33,509
Prepaid expense	390,156	33,966	424,122
Internal balances	(30,952)	30,952	-
Restricted assets:			
Customer deposits	-	334,632	334,632
Cash in bank	1,177,715	-	1,177,715
Capital lease receivable	192,174	-	192,174
Bond issue costs, net	174,748	-	174,748
Capital assets, net of accumulated depreciation	11,964,959	8,802,137	20,767,096
Total Assets	<u>19,767,201</u>	<u>10,052,260</u>	<u>29,819,461</u>
<b><u>Liabilities</u></b>			
Accounts payable	508,267	82,589	590,856
Accrued expenses	429,662	81,617	511,279
Customer deposits	-	334,632	334,632
Deferred revenue	3,917,537	-	3,917,537
Escrow deposit	27,703	-	27,703
Long-term liabilities			
Due within one year:			
Capital debt	468,121	214,595	682,716
Due in more than one year:			
Capital debt	8,921,149	2,096,677	11,017,826
Non-capital debt	373,340	74,219	447,559
Total Liabilities	<u>14,645,779</u>	<u>2,884,329</u>	<u>17,530,108</u>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	2,575,689	6,490,865	9,066,554
Restricted:			
Capital projects	967,148	-	967,148
Prepaid expenscs	390,155	-	390,155
Debt service	64,480	-	64,480
Unrestricted	<u>1,123,950</u>	<u>677,066</u>	<u>1,801,016</u>
Total Net Assets	<u>\$ 5,121,422</u>	<u>\$ 7,167,931</u>	<u>\$ 12,289,353</u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Activities**  
**Year Ended September 30, 2009**

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities</b>							
General government	\$ 1,670,969	\$ 159,286	\$ 7,551	\$ 713,000	\$ (791,132)	\$ -	\$ (791,132)
Public safety	5,301,459	311,495	73,388	-	(4,916,576)	-	(4,916,576)
Public works	756,520	-	-	-	(756,520)	-	(756,520)
Culture and recreation	380,875	76,077	500	-	(304,298)	-	(304,298)
Health and welfare	102,014	345,615	-	-	243,601	-	243,601
Interest on long-term debt	404,710	-	-	-	(404,710)	-	(404,710)
Total governmental activities	<u>8,616,547</u>	<u>892,473</u>	<u>81,439</u>	<u>713,000</u>	<u>(6,929,635)</u>	<u>-</u>	<u>(6,929,635)</u>
<b>Business-Type Activities</b>							
Water	1,466,957	786,998	-	-	-	(679,959)	(679,959)
Sewer	1,009,813	1,663,325	-	-	-	653,512	653,512
Sanitation	1,181,442	682,137	-	-	-	(499,305)	(499,305)
Interest on long-term debt	66,864	-	-	-	-	(66,864)	(66,864)
Total business-type activities	<u>3,725,076</u>	<u>3,132,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(592,616)</u>	<u>(592,616)</u>
Total government	<u>\$ 12,341,623</u>	<u>\$ 4,024,933</u>	<u>\$ 81,439</u>	<u>\$ 713,000</u>	<u>\$ (6,929,635)</u>	<u>\$ (592,616)</u>	<u>\$ (7,522,251)</u>
<b>General Revenues</b>							
Property taxes					3,971,850	6,047	3,977,897
Intergovernmental					175,425	-	175,425
Sales tax					2,533,495	-	2,533,495
Other taxes					443,801	-	443,801
Interest					67,373	2,686	70,059
Miscellaneous					122,011	4,629	126,640
Transfers other funds					(736,816)	736,816	-
Sale of assets					30,700	18,833	49,533
Total General Revenues					<u>6,607,839</u>	<u>769,011</u>	<u>7,376,850</u>
Change in Net Assets					<u>(321,796)</u>	<u>176,395</u>	<u>(145,401)</u>
Net assets-Beginning of Year					5,662,493	7,170,866	12,833,359
Prior Period Adjustment					(219,275)	(179,330)	(398,605)
Net Assets-End of Year					<u>\$ 5,121,422</u>	<u>\$ 7,167,931</u>	<u>\$ 12,289,353</u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Balance Sheet - Governmental Funds**  
**September 30, 2009**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,337,769	\$ -	\$ 248,462	\$ 1,586,231
Property tax receivable	3,725,363	-	-	3,725,363
Intergovernmental receivable	349,905	-	122	350,027
Other receivables	30,432	-	-	30,432
Prepaid expenses	90,524	-	299,631	390,155
Due from other funds	27,373	20,893	1,505	49,771
Restricted cash	-	1,113,234	64,480	1,177,714
Capital lease receivable	-	-	192,174	192,174
<b>Total Assets</b>	<b><u>\$ 5,561,366</u></b>	<b><u>\$ 1,134,127</u></b>	<b><u>\$ 806,374</u></b>	<b><u>\$ 7,501,867</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 212,058	\$ 166,979	\$ 129,228	\$ 508,265
Accrued expenses	255,362	-	5,074	260,436
Due to other funds	37,783	-	42,940	80,723
Deferred revenue	3,725,363	-	192,174	3,917,537
Escrow deposit	-	-	27,704	27,704
<b>Total Liabilities</b>	<b><u>4,230,566</u></b>	<b><u>166,979</u></b>	<b><u>397,120</u></b>	<b><u>4,794,665</u></b>
<b><u>Fund Balances</u></b>				
Reserved for:				
Capital projects	-	967,148	-	967,148
Prepaid expenses	90,524	-	299,631	390,155
Debt service	-	-	64,480	64,480
Unreserved, reported in:				
General Fund	1,240,276	-	-	1,240,276
Special Revenue Funds	-	-	45,143	45,143
<b>Total Fund Balances</b>	<b><u>1,330,800</u></b>	<b><u>967,148</u></b>	<b><u>409,254</u></b>	<b><u>2,707,202</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 5,561,366</u></b>	<b><u>\$ 1,134,127</u></b>	<b><u>\$ 806,374</u></b>	<b><u>\$ 7,501,867</u></b>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**September 30, 2009**

Total Fund Balance - Governmental Funds \$ 2,707,202

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

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

Land	565,425	
Buildings and improvements	5,634,371	
Equipment	1,959,709	
Vehicles	939,978	
Infrastructure	7,274,650	
Construction in progress	34,374	
Improvements other than buildings	196,411	
Accumulated depreciation	<u>(4,639,959)</u>	
		11,964,959

Bonds issued by the City have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the Statement of Net Assets. 174,748

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 206,348

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

Notes payable	(164,432)	
General obligation and revenue bonds	(9,140,000)	
Compensated absences	(373,340)	
Accrued interest	(169,225)	
Capital leases payable	<u>(84,838)</u>	
		<u>(9,931,835)</u>

Net Assets of Governmental Activities \$ 5,121,422

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Governmental Funds**  
**Year Ended September 30, 2009**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>				
General property taxes	\$ 3,237,951	\$ -	\$ 1,177,700	\$ 4,415,651
Intergovernmental	2,708,920	-	-	2,708,920
Licenses and permits	159,286	-	-	159,286
Charges for services	265,259	-	76,077	341,336
Fines and forfeitures	268,108	-	43,387	311,495
Interest	62,132	4,472	769	67,373
Miscellaneous	77,970	-	44,041	122,011
<b>Total Revenues</b>	<u>6,779,626</u>	<u>4,472</u>	<u>1,341,974</u>	<u>8,126,072</u>
<b><u>Expenditures</u></b>				
General government	1,414,716	-	4,002	1,418,718
Public safety	4,986,224	-	3,086	4,989,310
Public works	288,768	-	-	288,768
Culture and recreation	-	-	354,654	354,654
Health and welfare	86,999	-	10,638	97,637
Capital outlay	1,334,483	155,451	74,235	1,564,169
Debt service:				
Principal	101,925	-	412,475	514,400
Interest	4,270	-	342,124	346,394
<b>Total Expenditures</b>	<u>8,217,385</u>	<u>155,451</u>	<u>1,201,214</u>	<u>9,574,050</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,437,759)</u>	<u>(150,979)</u>	<u>140,760</u>	<u>(1,447,978)</u>
<b><u>Other Financial Sources</u></b>				
Grant revenue	76,939	-	4,500	81,439
Sale of assets	-	-	30,700	30,700
Interfund transfers	-	(736,816)	-	(736,816)
Contributed capital	713,000	-	-	713,000
<b>Total Other Financing Sources</b>	<u>789,939</u>	<u>(736,816)</u>	<u>35,200</u>	<u>88,323</u>
<b>Net Change in Fund Balances</b>	<b>(647,820)</b>	<b>(887,795)</b>	<b>175,960</b>	<b>(1,359,655)</b>
Fund Balance - Beginning of Year	2,195,112	1,854,943	236,077	4,286,132
Prior Period Adjustment	(216,492)	-	(2,783)	(219,275)
<b>Fund Balance - End of Year</b>	<u><u>\$ 1,330,800</u></u>	<u><u>\$ 967,148</u></u>	<u><u>\$ 409,254</u></u>	<u><u>\$ 2,707,202</u></u>

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



**CITY OF HERNANDO, MISSISSIPPI**  
**Reconciliation of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended September 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (1,359,655)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,356,352) exceeded depreciation (\$801,168) in the current period.</p>	555,184
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments (\$514,400) exceed amortization expense (\$11,298).</p>	503,102
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Those amounts by which the (increase) decrease consist of are as follows:</p>	
Interest payable	(58,315)
Compensated absences payable	<u>(42,468)</u>
	(100,783)
<p>Some revenues will not be collected for several months after year-end. They are not considered available resources in the governmental funds.</p>	<u>80,356</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (321,796)</u></u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Net Assets – Proprietary Fund**  
**September 30, 2009**

	<u>Utility Fund</u>
<b><u>Assets</u></b>	
Current Assets	
Cash and cash equivalents	\$ 370,479
Accounts receivable , net of allowance for doubtful accounts of \$90,038	477,017
Other receivable	3,077
Prepaid expenses	33,966
Due from other funds	41,492
Total Current Assets	<u>926,031</u>
Noncurrent Assets	
Restricted assets:	
Customer deposits	334,632
Capital assets, net of accumulated depreciation	8,802,137
Total Noncurrent Assets	<u>9,136,769</u>
Total Assets	<u>\$ 10,062,800</u>
<b><u>Liabilities and Net Assets</u></b>	
Current liabilities	
Accounts payable	\$ 82,589
Accrued expenses	81,617
Due to other funds	10,540
Total Current Liabilities	<u>174,746</u>
Current liabilities payable from restricted assets:	
Customer deposits	334,632
Long-term liabilities due within one year:	
Capital debt	214,595
Total current liabilities payable from restricted assets	<u>549,227</u>
Long-term liabilities due in more than one year:	
Capital debt	2,096,677
Non-capital debt	74,219
Total Long-term Liabilities	<u>2,170,896</u>
Total Liabilities	<u>2,894,869</u>
Net Assets	
Invested in capital assets, net of related debt	6,490,865
Unrestricted	677,066
Total Net Assets	<u>7,167,931</u>
Total Liabilities and Net Assets	<u>\$ 10,062,800</u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets – Proprietary Fund**  
**Year Ended September 30, 2009**

	<b>Utility Fund</b>
<b><u>Operating Revenues</u></b>	
Sewer sales	\$ 1,663,325
Water sales	786,998
Sanitation sales	682,137
Taxes	6,047
Miscellaneous	4,629
	<u>3,143,136</u>
<b><u>Operating Expenses</u></b>	
Cost of sales	963,321
Personnel	1,142,977
Depreciation and amortization	512,622
Material and supplies	189,315
Repairs and maintenance	606,206
Professional services	60,334
Other	183,437
	<u>3,658,212</u>
Total Operating Expenses	<u>3,658,212</u>
Operating Income	<u>(515,076)</u>
<b><u>Non-operating Revenues (Expenses)</u></b>	
Interest income	2,686
Interest expense	(66,864)
Interfund transfers	736,816
Sale of assets	18,833
	<u>691,471</u>
Total Non-Operating Revenues (Expenses)	<u>691,471</u>
Change in Net Assets	176,395
Net Assets - Beginning of Year	7,170,866
Prior Period Adjustment	(179,330)
Net Assets - End of Year	<u>\$ 7,167,931</u>

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Statement of Cash Flows – Proprietary Fund**  
**Year Ended September 30, 2009**

	<b>Utility Fund</b>
<b><u>Cash Flows From Operating Activities</u></b>	
Cash received from customers	\$ 3,138,057
Cash payments for goods and services	(1,950,505)
Cash payments to employees	(1,208,237)
Net Cash Provided By (Used In) Operating Activities	(20,685)
<b><u>Cash Flows From Non-Capital Financing Activities</u></b>	
Interfund transfers	874,043
Net Cash Provided By (Used In) Non-Capital Financing Activities	874,043
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>	
Payments for capital acquisitions	(1,035,881)
Proceeds from sale of assets	18,833
Customer deposits	15,130
Debt proceeds	99,938
Principal payments on debt	(208,637)
Interest payments on debt	(66,864)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(1,177,481)
<b><u>Cash Flows From Investing Activities</u></b>	
Interest on investments	2,686
Net Cash Provided By (Used In) Investing Activities	2,686
Net Increase (Decrease) in Cash and Cash Equivalents	(321,437)
Cash and Cash Equivalents - Beginning of Year	1,026,548
Cash and Cash Equivalents - End of Year	\$ 705,111
<b><u>Reconciliation of Operating Income to Net Cash</u></b>	
Provided By (Used In) Operating Activities	
Operating Income	\$ (515,076)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation and amortization	512,622
(Increase) decrease in customer receivables	(5,079)
(Increase) decrease in prepaid items	4,114
Increase (decrease) in accounts payable	6,240
Increase (decrease) in accrued expenses	(6,804)
Increase (decrease) in accrued compensated absences	(16,702)
Total adjustments	494,391
Net Cash Provided By (Used In) Operating Activities	\$ (20,685)

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. General Statement**

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant polices.

**B. Financial Reporting Entity**

These financial statements present all the accounts of the City. There are no component units as defined by GASB Statement 14, *The Financial Reporting Entity*.

**C. Basis of Presentation**

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

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

***Fund Financial Statements***

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

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

**General Fund:**

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

**Capital Projects Fund:**

This fund is used to account for the financial resources to be used for the acquisition or construction of major capital projects. Such resources are derived principally from proceeds of general obligation bond issues.

*Proprietary Funds*

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. FASB pronouncements issued subsequent to November 30, 1989 that conflict with GASB pronouncements have not been followed, as permitted under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. The City has presented the following major proprietary funds:

**Utility Fund:**

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

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

**D. Measurement Focus/Basis of Accounting**

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they both become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recognized when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

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

**E. Budgets and Budgetary Accounting**

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

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

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

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

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

**F. Cash and Cash Equivalents**

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

**G. Prepaid Expenses**

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

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

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

I. Restricted Assets

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

J. Capital Assets and Depreciation

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

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

- Buildings - 20 to 50 years
- Improvements/infrastructure - 5 to 50 years
- Equipment - 2 to 15 years

K. Compensated Absences

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

L. Nature and Purpose of Reservations and Designations of Fund Equity

The financial statements report reservations of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. Following are descriptions of fund reserves used by the City:

Reserved for capital projects – An account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than the capital project for which is it restricted.

Reserved for prepaid expenses – An account that represents a portion of the fund balance which indicates that prepaid items do not represent available spendable resources even though they are a component of net assets.

Reserved for debt service – An account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than the debt instrument for which it is restricted.

M. Net Assets

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



**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

**N. Property Tax Revenues**

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

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

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

**O. Subsequent Events**

Subsequent events have been evaluated by the City through June 4, 2010 which is the date the financial statements were available to be issued.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

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

Custodial credit risk is the risk that, in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. As of September 30, 2009, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2009, the carrying amount of the City's deposits was \$3,469,057 and the bank balances totaled \$3,518,539. Of the bank balances, \$500,000 was insured by federal deposit insurance and \$2,969,057 was covered by pooled and/or pledged collateral.

**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables consist of sales tax and franchise tax.

	<u>General Fund</u>
Ad valorem	\$ 26,059
Franchise and sales tax	<u>323,968</u>
Total	<u>\$ 350,027</u>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

NOTE 4 – CAPITAL ASSETS

	Balance at 9/30/2008	Additions	Deletions	Adjustments	Balance at 9/30/2009
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 565,425	\$ -	\$ -	\$ -	\$ 565,425
Construction in progress	47,675	26,467	(39,768)	-	34,374
Total capital assets, not being depreciated:	<u>613,100</u>	<u>26,467</u>	<u>(39,768)</u>	<u>-</u>	<u>599,799</u>
Capital assets, being depreciated:					
Buildings and improvements	5,571,555	62,816	-	-	5,634,371
Infrastructure	6,169,226	1,118,402	-	(12,978)	7,274,650
Equipment	1,881,967	49,886	-	27,856	1,959,709
Vehicles	864,932	89,924	-	(14,878)	939,978
Improvements other than buildings	147,786	48,625	-	-	196,411
Total capital assets, being depreciated:	<u>14,635,466</u>	<u>1,369,653</u>	<u>-</u>	<u>-</u>	<u>16,005,119</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,040,708)	(113,916)	-	-	(1,154,624)
Infrastructure	(784,796)	(417,609)	-	-	(1,202,405)
Equipment	(1,419,987)	(146,332)	-	-	(1,566,319)
Vehicles	(585,217)	(115,455)	-	-	(700,672)
Improvements other than buildings	(8,083)	(7,856)	-	-	(15,939)
Total accumulated depreciation	<u>(3,838,791)</u>	<u>(801,168)</u>	<u>-</u>	<u>-</u>	<u>(4,639,959)</u>
Total capital assets, being depreciated, net	<u>10,796,675</u>	<u>568,485</u>	<u>-</u>	<u>-</u>	<u>11,365,160</u>
Governmental activities capital assets, net	<u>\$ 11,409,775</u>	<u>\$ 594,952</u>	<u>\$ (39,768)</u>	<u>\$ -</u>	<u>\$ 11,964,959</u>
<b>Business-Type Activities</b>					
Capital assets, not being depreciated:					
Construction in progress	1,000,207	\$ 736,815	\$ (257,652)	\$ -	\$ 1,479,370
Total capital assets, not being depreciated:	<u>1,000,207</u>	<u>736,815</u>	<u>(257,652)</u>	<u>-</u>	<u>1,479,370</u>
Capital assets, being depreciated:					
Infrastructure	10,677,062	263,568	-	-	10,940,630
Equipment	1,226,544	111,939	(76,680)	-	1,261,803
Vehicles	336,627	50,439	-	-	387,066
Total capital assets, being depreciated:	<u>12,240,233</u>	<u>425,946</u>	<u>(76,680)</u>	<u>-</u>	<u>12,589,499</u>
Less accumulated depreciation for:					
Infrastructure	(3,697,590)	(377,203)	-	-	(4,074,793)
Equipment	(823,968)	(116,583)	76,680	-	(863,871)
Vehicles	(309,232)	(18,836)	-	-	(328,068)
Total accumulated depreciation	<u>(4,830,790)</u>	<u>(512,622)</u>	<u>76,680</u>	<u>-</u>	<u>(5,266,732)</u>
Total capital assets, being depreciated, net	<u>7,409,443</u>	<u>(86,676)</u>	<u>-</u>	<u>-</u>	<u>7,322,767</u>
Business-type activities capital assets, net	<u>\$ 8,409,650</u>	<u>\$ 650,139</u>	<u>\$ (257,652)</u>	<u>\$ -</u>	<u>\$ 8,802,137</u>

No interest was capitalized during the year due to immateriality.

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

A summary of depreciation expense by function is as follows:

Governmental activities:	
General Government	\$ 25,727
Public Safety	279,240
Public Works	467,408
Culture and Recreation	24,969
Health and Wellness	3,824
Total governmental activities depreciation expense	<u>\$ 801,168</u>
Business-type activities:	
Water	<u>\$ 512,622</u>
Total business-type activities depreciation expense	<u>\$ 512,622</u>

Commitments under construction at September 30, 2009 are summarized as follows:

Project	Contract Amount	Remaining Balance	Fund
Old Hwy 51 Sewer Improvement	\$ 505,033	\$ 132,844	General Obligation Debt
Nesbit Sewer Extension	1,086,413	56,046	General Obligation Debt
Hernando/Southaven Sewer	10,000	7,900	Utility

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transactions are for the payment of monthly claims, and to provide funds for debt service and capital outlay. All transfers were routine and consistent with the activities of the fund, and all interfund balances are expected to be repaid within a year. The following is a summary of interfund transactions and balances as of September 30, 2009:

	Due from	Due to
Major funds:		
General fund	\$ 27,373	\$ 37,783
General obligation debt	20,893	-
Utility fund	41,492	10,540
Nonmajor funds	1,505	42,940
Total funds	<u>\$ 91,263</u>	<u>\$ 91,263</u>
	Transfer in	Transfer out
Major funds:		
General obligation debt	\$ 736,816	\$ -
Utility fund	-	(736,816)
Total funds	<u>\$ 736,816</u>	<u>\$ (736,816)</u>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

**NOTE 6 - LONG-TERM DEBT**

Long-term debt activity for the year ended September 30, 2009 was as follows:

	Balance at 9/30/2008	Additions	Deletions	Balance at 9/30/2009	Amounts Due Within One Year
<b>Governmental Activities:</b>					
General obligation bonds payable	\$ 9,520,000	\$ -	\$ 380,000	\$ 9,140,000	\$ 400,000
Notes payable	196,906	-	32,474	164,432	33,992
Leases payable	186,764	-	101,926	84,838	34,129
Compensated absences payable	330,872	42,468	-	373,340	-
<b>Governmental activities long-term liabilities</b>	<b>\$ 10,234,542</b>	<b>\$ 42,468</b>	<b>\$ 514,400</b>	<b>\$ 9,762,610</b>	<b>\$ 468,121</b>
<b>Business-type activities:</b>					
Notes payable	\$ 2,228,958	\$ -	\$ 120,026	\$ 2,108,932	\$ 130,130
Leases payable	191,013	99,938	88,611	202,340	84,465
Compensated absences payable	90,923	-	16,704	74,219	-
<b>Business-type activities long-term liabilities</b>	<b>\$ 2,510,894</b>	<b>\$ 99,938</b>	<b>\$ 225,341</b>	<b>\$ 2,385,491</b>	<b>\$ 214,595</b>

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding as of September 30, 2009 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount	
				Issued	Outstanding
2003	Various	4/1/2003	4/1/2023	\$ 2,000,000	\$ 1,575,000
2003	Various	10/1/2003	10/1/2023	3,500,000	2,890,000
2007	Various	5/31/2007	5/1/2027	5,000,000	4,675,000
				<u>\$ 10,500,000</u>	<u>\$ 9,140,000</u>

Notes payable as of September 30, 2009 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount	
				Issued	Outstanding
Dept. of Econ. and Community Dev. - Industrial Building	4.00%	6/30/1997	4/1/2014	\$ 450,000	\$ 164,432
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	10/31/2002	10/31/2021	288,000	194,145
State of Mississippi - DWSIRLF	3.00%	2/10/2002	10/10/2021	752,086	513,059
State of Mississippi - DWSIRLF	3.00%	2/10/2003	9/10/2022	391,232	284,350
Dept. of Environ. Quality - Water Pollution Control	1.75%	6/1/2003	1/1/2023	508,741	364,876
Dept. of Econ. and Community Dev. - Sewer Cap Loan	2.00%	2/1/2005	2/1/2025	237,400	190,573
Dept. of Econ. and Community Dev. - Sewer Cap Loan	3.00%	11/1/2005	11/1/2025	191,116	169,258
State of Mississippi - DWSIRLF	4.00%	5/1/2006	2/1/2026	233,505	392,671
<b>Total</b>				<u>\$ 3,052,080</u>	<u>\$ 2,273,364</u>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

The aggregate maturities of general obligation bonds, revenue bonds, and loans for the years subsequent to September 30, 2009 are as follows:

Year ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2010	\$ 433,985	\$ 365,391	\$ 130,130	\$ 53,291
2011	445,369	344,462	133,565	49,857
2012	466,810	323,254	137,093	46,328
2013	493,310	301,632	140,718	42,702
2014	494,958	202,820	144,443	38,978
2015-2019	2,705,000	1,090,600	781,777	135,329
2020-2024	3,210,000	516,120	572,763	36,710
2025-2029	1,055,000	81,510	68,443	1,490
<b>Total</b>	<b>\$ 9,304,432</b>	<b>\$ 3,225,789</b>	<b>\$ 2,108,932</b>	<b>\$ 404,685</b>

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2009 were as follows:

Year Ending September 30	General Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2010	34,129	2,037	\$ 84,465	\$ 5,283
2011	28,643	1,156	70,346	2,694
2012	22,066	283	40,893	794
2013	-	-	6,636	36
<b>Total</b>	<b>\$ 84,838</b>	<b>\$ 3,476</b>	<b>\$ 202,340</b>	<b>\$ 8,807</b>

Legal debt margin. The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$8,429,245 (the smaller of the two computed margins) as of September 30, 2009.

	15% Test	20% Test
Assessed value as of September 30, 2009:		
\$118,224,515 times applicable percentage	\$17,733,677	\$ 23,644,903
Less present debt subject to debt limits as of September 30, 2009:		
Total bonds outstanding (excluding proprietary)	(9,304,432)	(9,304,432)
Margin for additional debt	<u>\$ 8,429,245</u>	<u>\$ 14,340,471</u>

**CITY OF HERNANDO, MISSISSIPPI**  
**Notes to the Financial Statements**  
**Year Ended September 30, 2009**

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

The City will make the first annual payment to the City of Southaven within sixty days of completion of the project, and then annually on October 1. It is expected that the project will be completed during the year ended September 30, 2010. Upon the completion of the project, this agreement will be recorded as debt by the City.

Certain costs have been incurred by the City of Hernando, as shown in Note 4 as commitments under construction. These costs are related to the City's independent oversight of the project and are not related to the \$1,000,000 that will be payable to the City of Southaven.

**NOTE 7 – DEFINED BENEFIT PENSION PLAN**

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary and the City of Hernando is required to contribute at an actuarially determined rate. At September 30, 2009, the current rate is 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Hernando's contributions to PERS for the years ending September 30, 2009, 2008 and 2007 were \$588,356, \$548,849 and \$457,321 respectively, equal to the required contributions for each year.

**NOTE 8 – PRIOR PERIOD ADJUSTMENT**

In the prior year, accrued payroll was understated within both the governmental activities and the business-type activities. This resulted in a prior year overstatement of net assets in the amount of \$219,275 for the governmental activities and \$48,558 for the business-type activities. Additionally, an adjustment of \$130,772 was made to the business-type activities to expense costs associated with assets previously capitalized.

**NOTE 9 – RISK MANAGEMENT**

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

**NOTE 10 – LITIGATION**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HERNANDO, MISSISSIPPI**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended September 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
General property taxes	\$ 2,498,948	\$ 2,938,948	\$ 3,237,951	\$ 299,003
Intergovernmental	3,692,500	2,790,000	2,675,314	(114,686)
Licenses and permits	517,200	156,000	159,286	3,286
Charges for services	300,000	300,200	265,259	(34,941)
Fines and forfeitures	307,000	322,000	268,108	(53,892)
Interest	-	60,000	62,132	2,132
Miscellaneous	148,000	72,000	101,505	29,505
Total revenues	<u>7,463,648</u>	<u>6,639,148</u>	<u>6,769,555</u>	<u>130,407</u>
<b><u>Expenditures</u></b>				
General government	1,317,610	1,550,315	1,413,207	137,108
Public safety	5,505,708	5,259,510	4,810,772	448,738
Public works	353,204	324,204	288,768	35,436
Health and welfare	-	93,143	86,999	6,144
Capital outlay	1,070,750	1,303,417	621,483	681,934
Debt service	104,196	106,196	106,195	1
Total expenditures	<u>8,351,468</u>	<u>8,636,785</u>	<u>7,327,424</u>	<u>1,309,361</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(887,820)</u>	<u>(1,997,637)</u>	<u>(557,869)</u>	<u>1,439,768</u>
<b>Other Financing Sources (Uses)</b>				
Grant revenue	-	700,167	76,939	(623,228)
Sale of assets	-	1,000	-	(1,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>701,167</u>	<u>76,939</u>	<u>(624,228)</u>
Net Change in Fund Balances	<u>\$ (887,820)</u>	<u>\$ (1,296,470)</u>	<u>(480,930)</u>	<u>\$ 815,540</u>
Fund Balance - Beginning of Year			1,978,622	
Fund Balance - End of Year			1,497,692	
<b>Adjustments to conform with GAAP:</b>				
Revenues			723,069	
Expenditures			<u>(889,961)</u>	
Fund Balance - End of Year (GAAP basis)			<u>\$ 1,330,800</u>	



**SUPPLEMENTARY INFORMATION**

**CITY OF HERNANDO, MISSISSIPPI**  
**Surety Bond Coverage**  
**September 30, 2009**

Surety bonds in force at September 30, 2009 were as follows:

<u>Name</u>	<u>Position</u>	<u>Insurance Company</u>	<u>Bond</u>
Willis W. Johnson	Mayor	Travelers Casualty and Surety Co.	\$100,000
Sonny Bryant	Alderman	Brierfield Insurance Co.	\$100,000
Gary N. Higdon	Alderman	Brierfield Insurance Co.	\$100,000
Jeff Hobbs	Alderman	Brierfield Insurance Co.	\$100,000
Sam Lauderdale	Alderman	Brierfield Insurance Co.	\$100,000
Marcus Manning	Alderman	Brierfield Insurance Co.	\$100,000
Andrew Miller	Alderman	Brierfield Insurance Co.	\$100,000
James P. Tipton, Jr	Alderman	Brierfield Insurance Co.	\$100,000
Jannett P. Riley	City Clerk	Travelers Casualty and Surety Co.	\$50,000
Cassandra E. Perry	Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Ruthie Dearth	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Kristin Dugan	Planning Clerk	Travelers Casualty and Surety Co.	\$50,000
Gwen P. House	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Dot Hughes	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Rikki Johnson	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Donna Riales	Deputy Court Clerk	Travelers Casualty and Surety Co.	\$50,000
Denise Stringfellow	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Katie Subia	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
Debra Tipton	Deputy Clerk	Travelers Casualty and Surety Co.	\$50,000
James M. Riley	Police Chief	Travelers Casualty and Surety Co.	\$50,000
Lee Hodge	Police Captain	Travelers Casualty and Surety Co.	\$50,000
Tara Davis	Policeman	Travelers Casualty and Surety Co.	\$50,000
Shiloh Lane	Policeman	Travelers Casualty and Surety Co.	\$50,000
Dewayne Williams	Park Director	Travelers Casualty and Surety Co.	\$50,000
Melissa Zizmann	Asst. Park Director	Travelers Casualty and Surety Co.	\$50,000



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

Mayor and Board of Aldermen  
City of Hernando  
Hernando, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi as of and for the year ended, September 30, 2009, which collectively comprise the City of Hernando, Mississippi's basic financial statements and have issued our report thereon dated June 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

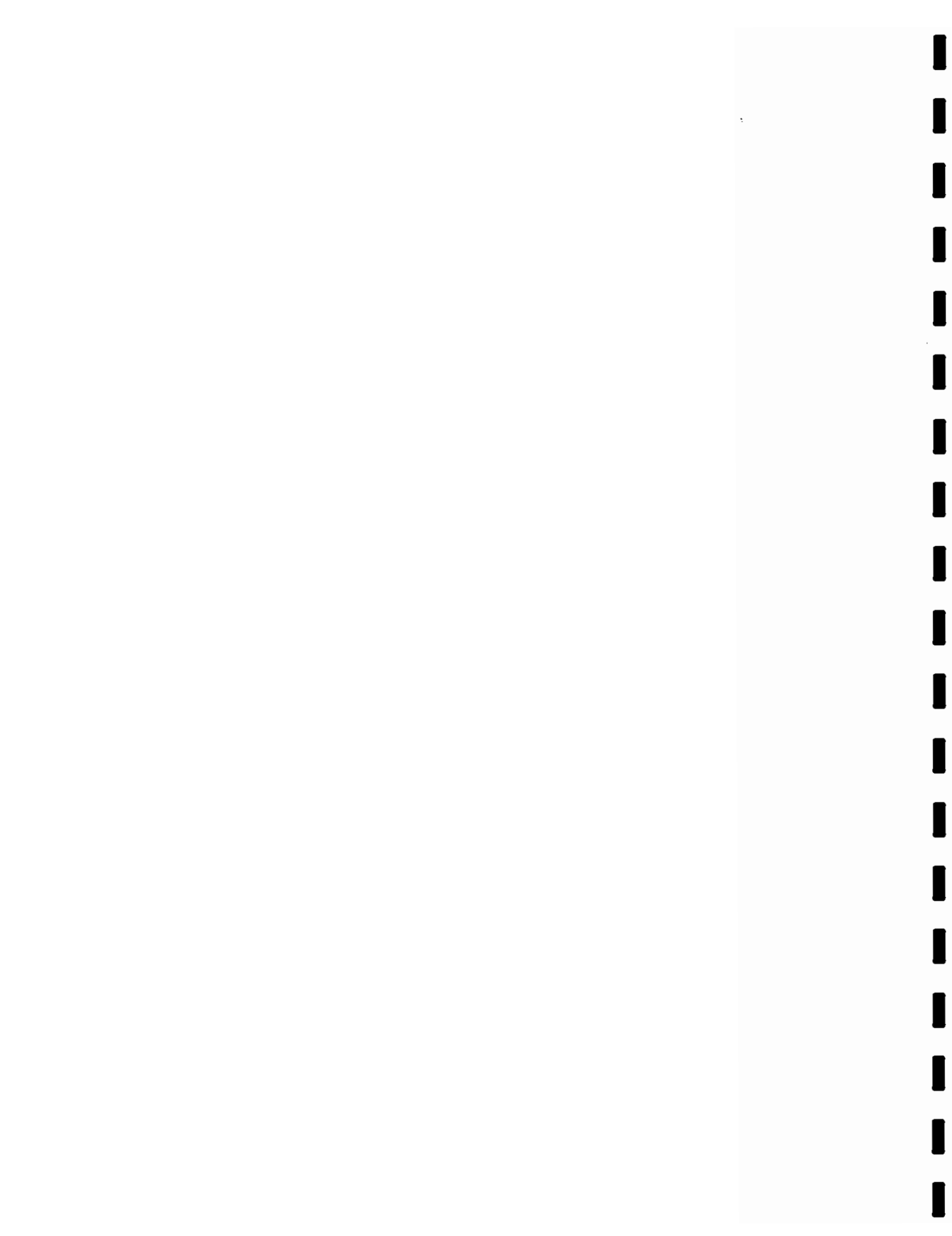
In planning and performing our audit, we considered the City of Hernando, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliable in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 09-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of financial statements will not be prevented or detected by the City of Hernando's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hernando, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 09-1.

The City of Hernando, Mississippi's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Aldermen, others within the entity, and the Mississippi State Department of Audit and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

*Williams, Pitts & Beard, PLLC*

Williams, Pitts and Beard, PLLC  
Certified Public Accountants  
June 4, 2010





**WILLIAMS • PITTS • BEARD, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen  
City of Hernando, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hernando, Mississippi as of and for the year ended September 30, 2009, and have issued our report thereon dated June 4, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

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

*Williams, Pitts & Beard, PLLC*

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Certified Public Accountants  
June 4, 2010





**CITY OF HERNANDO, MISSISSIPPI**  
**Schedule of Findings and Responses**  
**September 30, 2009**

Section 1: Summary of Auditor's Results

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

Section 2: Financial Statements Findings

Significant Deficiencies and Material Weaknesses

09-1 Criteria:  
Part of effective internal controls over financial reporting is the ability to properly produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are reported correctly on the City's financial statements.

Condition:  
The City did not prepare the financial statements or footnotes to the financial statements in accordance with generally accepted accounting principles ("GAAP").

Effect:  
The City must outsource their financial statement preparation along with their annual independent audit.

Recommendation:  
Realizing that the size of the City and the costs of implementing an additional employee with the skills to prepare financial statements in conformity with GAAP, no change is recommended.

Response:  
In response to the "Schedule of Findings and Responses, Section 2: Financial Statements Findings" the City of Hernando has assessed the costs and benefits of financial statement preparation in accordance with "GAAP" and has determined that it is not cost beneficial for the City to prepare the external financial statements and related disclosures.

