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CITY OF HERNANDO, MISSISSIPPI
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2008

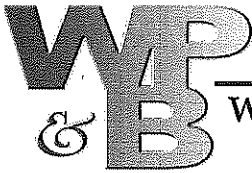
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CITY OF HERNANDO, MISSISSIPPI

ANNUAL FINANCIAL REPORT

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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, 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on 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 basic 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, 2008, 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 January 27, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 31, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED COMPARATIVE FINANCIAL STATEMENTS

The City's combined net assets in 2008 increased 2.34% from a year ago. The combined assets increased from \$12,539,469 in 2007 to \$12,833,359 in 2008, which is an increase of \$293,890.

NET ASSETS (IN THOUSANDS)

		2007	2008	2007 Business Type Activities (Utility Fund)	2008 Business Type Activities (Utility Fund)	2007 Total	2008 Total
		Governmental Activities (All other funds)	Governmental Activities (All other funds)				
<u>ASSETS</u>							
Current and Other Assets	\$	10,680	\$ 9,011	\$ 1,891	\$ 1,708	\$12,571	\$ 10,719
Capital Assets, Net		9,012	11,410	7,766	8,409	16,778	19,819
TOTAL ASSETS	\$	19,692	\$ 20,421	\$ 9,657	\$ 10,117	\$29,349	\$ 30,538
<u>LIABILITIES</u>							
Current and Other Liabilities	\$	3,179	\$ 4,524	\$ 507	\$ 435	\$ 3,686	\$ 4,959
Long Term Liabilities:							
Due Within One Year		480	514	153	198	633	712
Due in More than One Year		10,081	9,720	2,409	2,313	12,490	12,033
TOTAL LIABILITIES	\$	13,740	\$ 14,758	\$ 3,069	\$ 2,946	\$16,809	\$ 17,704
<u>NET ASSETS</u>							
Invested in Capital Assets Net of Debt	\$	(1,267)	\$ 1,175	\$ 5,291	\$ 6,187	\$ 4,024	\$ 7,362
Restricted:							
Capital Projects		4,817	2,080	-	-	4,817	2,080
Debt Service		93	32	-		93	32
Unrestricted		2,308	2,375	1,297	983	3,605	3,358
TOTAL NET ASSETS	\$	5,951	\$ 5,662	\$ 6,588	\$ 7,170	\$12,539	\$ 12,832

Net assets of the City's governmental activities decreased by 4.86% (\$5,951,981 in 2007, compared to \$5,662,493). 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 \$2,308,492 at 9-30-07 to \$2,375,578 at the end of this year which is an increase of 2.91%.

Net assets of the City's business type activities (utility fund) increased by 8.86% (\$7,170,866 compared to \$6,587,488). Unrestricted net assets changed from \$1,296,748 at 9-30-07 to \$983,347 at the end of this year, which is a decrease of 24.16%.

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 27.

During the fiscal year ending 9-30-08, the City amended its budget two times. The total dollar amount of the budget for all funds was decreased in the amount of \$206,000.00, which was in the General Fund, Culture and Recreation Fund, and Utility Fund. The amendment was necessary in the General Fund due to an overestimate of sales tax and building permit fees and an underestimate of the cost of gas and oil. The amendment in the Culture and Recreation Fund was to account for grant funds received this year and playground equipment that was purchased this year but budgeted in last year. The Utility Fund amendment was to account for an overestimate of water and sewer tap revenue and the underestimate of the cost of gas and oil and to account for the solid waste contract. 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 \$2,352,689 for the General Fund and at the end of the year (GAAP basis) was \$2,195,112, which was a decrease of \$157,577. 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

Changes in General Fixed Assets can be found on page 21 and 22. In the category of Governmental Activities capital assets, net, increased from \$9,012,100 at 9-30-07 to \$11,409,775 at 9-30-08. This is an increase of \$2,397,675 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 \$7,765,704 at 9-30-07 to \$8,409,650 at 9-30-07. This is an increase of \$643,946 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 Oak Grove Road Project, East Commerce Ext. Project, and three drainage projects.

General Long-Term Debt is located on pages 22 - 26. As of September 30, 2008, the City had \$9,520,000 in outstanding General Obligation Bonds and \$2,425,864 in loans and long-term debt. The City issued \$5,000,000 in General Obligation Bonds in FYE 9-30-07. The bond funds have been used for infrastructure improvements such as 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.

year the City purchased a knuckle boom loader, street sweeper and an asphalt-patching machine, which were all, financed with low interest loans.

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, Utility 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. Solid Waste Collection and Disposal taxes are deposited in the Utility Fund to help offset the cost of sanitation service, which includes household garbage, brush removal, street sweeping, and litter control.

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 Activities
September 30, 2008

	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 1,589,934	\$ 209,385	\$ 9,277	\$ 733,350	\$ (637,922)	\$ -	\$ (637,922)
Public safety	4,855,744	294,300	63,724	-	(4,497,720)	-	(4,497,720)
Public works	591,736	-	-	-	(591,736)	-	(591,736)
Cultural and recreational	272,913	35,564	153,000	-	(84,349)	-	(84,349)
Health and welfare	78,663	272,782	-	-	194,119	-	194,119
Interest on long-term debt	450,227	-	-	-	(450,227)	-	(450,227)
Total governmental activities	7,839,217	812,031	226,001	733,350	(6,067,835)	-	(6,067,835)
Business-type activities:							
Water	1,401,221	835,426	-	-	-	(565,795)	(565,795)
Sewer	1,176,396	1,824,873	-	-	-	648,477	648,477
Sanitation	1,186,860	659,244	-	-	-	(527,616)	(527,616)
Interest on long-term debt	67,429	-	-	-	-	(67,429)	(67,429)
Total business-type activities	3,831,906	3,319,543	-	-	-	(512,363)	(512,363)
General revenues:							
Taxes:							
Property				3,264,176	81,204		3,345,380
Sales and use				2,655,681	-		2,655,681
Other				346,327	-		346,327
Intergovernmental				160,430	-		160,430
Interest				177,220	38,119		215,339
Miscellaneous				118,893	5,588		124,481
Transfers in (out)				(970,830)	970,830		-
Sale of assets				26,450	-		26,450
Total general revenues				5,778,347	1,095,741		6,874,088
Change in net assets				(289,488)	583,378		293,890
Net assets-beginning of year				5,951,981	6,587,488		12,539,469
Net assets-end of year				\$ 5,662,493	\$ 7,170,866		\$ 12,833,359

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

CITY OF HERNANDO, MISSISSIPPI
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 September 30, 2008

Total Fund Balance - Governmental Funds \$ 4,286,132

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	
Construction in progress	47,675	
Buildings and improvements	5,571,555	
Equipment	1,881,967	
Vehicles	864,932	
Infrastructure	6,169,226	
Improvements other than buildings	147,786	
Accumulated depreciation	<u>(3,838,791)</u>	
		11,409,775

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. 186,046

Other assets are not available to pay for current period
 expenditures and, therefore, are deferred in the funds. 125,993

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

Accrued interest	(110,911)	
Notes payable	(196,906)	
General obligation bonds	(9,520,000)	
Capital leases payable	(186,764)	
Compensated absences payable	<u>(330,872)</u>	
		<u>(10,345,453)</u>

Net Assets of Governmental Activities \$ 5,662,493

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

CITY OF HERNANDO, MISSISSIPPI
 Reconciliation of Revenues, Expenditures, and Changes in Fund
 Balances of Government Funds to the Statement of Activities
 For The Year Ended September 30, 2008

Net change in fund balances-total Governmental Funds \$(3,072,363)

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

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$3,093,824) exceeded depreciation (\$696,149) in the current period. 2,397,675

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 (\$487,095) and amortization expense (\$11,298) exceeded proceeds (\$112,034). 363,763

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:

Interest payable	62,742	(12,605)
Compensated absences payable	(75,347)	

Some revenues will not be collected for several months after year end. They are not considered available resources in the governmental funds. 34,042

Change in Net Assets of Governmental Activities \$ (289,488)

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended September 30, 2008

	Utility Fund
Operating revenues	
Taxes	\$ 81,204
Water sales	835,426
Sewer sales	1,824,873
Sanitation sales	659,244
Miscellaneous	5,588
Total operating revenues	<u>3,406,335</u>
Operating expenses	
Personnel	1,035,251
Supplies	205,917
Other	2,008,454
Depreciation	514,855
Total operating expenses	<u>3,764,477</u>
Operating loss	<u>(358,142)</u>
Non-operating revenues (expenses)	
Interest revenue	38,119
Transfers	970,830
Interest expense	(67,429)
Total non-operating revenues (expenses)	<u>941,520</u>
Net income	583,378
Net assets - beginning of year	<u>6,587,488</u>
Net assets - end of year	<u>\$ 7,170,866</u>

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

(1) Summary of Significant Accounting Policies

A. General Statement:

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

The financial statements of the City of Hernando 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 City's most significant accounting policies are described below.

B. Reporting Entity:

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Based upon the application of these criteria, the City of Hernando has no component units.

C. Encumbrance Accounting:

The City of Hernando does not use the encumbrance method of accounting.

D. Fund Accounting:

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets

when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

F. Capital Assets and Depreciation:

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the governments-wide statement of net assets. Capital assets used by proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the individual proprietary funds.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Capital Asset Account Group. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. 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.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Proprietary fund types have selected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20.

J. Compensated Absences:

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditures are reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

K. Net Assets:

Net assets is 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.

(2) Cash and Investments

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the 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.

(3) Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and payable on or before February 1. DeSoto County bills and collects the City's property taxes and monthly remits the taxes to the City.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2008

Commitments under construction at September 30, 2008 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Green T Water	\$ 300,000	\$ 169,228	General Obligation Debt
Nesbit Sewer Extension	936,568	71,934	General Obligation Debt
Hernando/Southaven Sewer	10,000	8,900	Utility

A summary of depreciation expense by function is as follows:

Governmental Activities:	<u>Amount</u>
Administrative	\$ 25,727
Ambulance	2,703
Animal Control	2,305
Fire	139,397
Park	28,267
Police	111,900
Street	385,850
Total depreciation expense-governmental activities	<u>\$ 696,149</u>

Business-type Activities:	<u>Amount</u>
Water	\$ 514,855
Total depreciation expense-business-type activities	<u>\$ 514,855</u>

(5) Long-Term Debt

A. General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount</u>	
				<u>Issued</u>	<u>Outstanding</u>
2003	Various	4/1/2003	4/1/2023	\$ 2,000,000	\$ 1,655,000
2003	Various	10/1/2003	10/1/2023	3,500,000	3,025,000
2007	Various	5/31/2007	5/1/2027	5,000,000	4,840,000
				<u>\$ 10,500,000</u>	<u>\$ 9,520,000</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2008

Long-term debt activity for the year ended September 30, 2008 was as follows:

	Balance at 9/30/2007	Additions	Deletions	Balance at 9/30/2008	Amounts Due Within One Year
Governmental Activities:					
Bonds, notes and leases payable:					
General obligation bonds payable	\$ 9,885,000	\$ -	\$ 365,000	\$ 9,520,000	\$ 380,000
Notes payable	228,289	-	31,383	196,906	32,661
Leases payable	165,442	112,034	90,712	186,764	101,926
Accrued compensated absences	282,835	48,037	-	330,872	-
Governmental activities long-term liabilities	\$ 10,561,566	\$ 160,071	\$ 487,095	\$ 10,234,542	\$ 514,587
Business-type activities:					
Notes and leases payable:					
Notes payable	\$ 2,352,688	\$ -	\$ 123,730	\$ 2,228,958	\$ 126,989
Leases payable	122,275	135,368	66,630	191,013	70,853
Accrued compensated absences	87,150	3,773	-	90,923	-
Business-type activities long-term liabilities	\$ 2,562,113	\$ 139,141	\$ 190,360	\$ 2,510,894	\$ 197,842

The total amount of interest incurred for the year ended September 30, 2008 was \$580,399.

D. Hurricane Creek Project

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, 2009. 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 constructions. 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.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2008

(9) Intergovernmental Receivables

Intergovernmental Receivables consist of the following:

	<u>General Fund</u>
County pro rata	
Ad valorem	\$ 3,681,509
Franchise and sales tax	<u>316,299</u>
Total	<u>\$ 3,997,808</u>

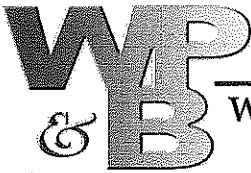
(10) Risk Management

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.

CITY OF HERNANDO, MISSISSIPPI
 Surety Bond Coverage
 September 30, 2008

Surety bonds in force at September 30, 2008 were as follows:

<u>Name</u>	<u>Position</u>	<u>Insurance Company</u>	<u>Bond</u>
Willis W. Johnson	Mayor	Fidelity and Deposit Company of Maryland	\$100,000
Sonny Bryant	Alderman	Fidelity and Deposit Company of Maryland	\$100,000
Gary N. Higdon	Alderman	Fidelity and Deposit Company of Maryland	\$100,000
Sam Lauderdale	Alderman	Fidelity and Deposit Company of Maryland	\$100,000
Andrew Miller	Alderman	Fidelity and Deposit Company of Maryland	\$100,000
James P. Tipton, Jr	Alderman	Fidelity and Deposit Company of Maryland	\$100,000
Jannett P. Riley	City Clerk	Fidelity and Deposit Company of Maryland	\$50,000
James M. Riley	Police Chief	Fidelity and Deposit Company of Maryland	\$50,000
Kristin Dugan	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Gwen P. House	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Sandra Hubbard	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Rikki Johnson	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Dot Oldacre	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Cassandra E. Perry	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Donna Riales	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Denise Stringfellow	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Katie Subia	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Debra Tipton	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Alana Woodard	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$25,000
Charlie Bicknell	Policeman	Fidelity and Deposit Company of Maryland	\$25,000
Shane Ellis	Policeman	Fidelity and Deposit Company of Maryland	\$25,000
Kenneth L. Hodge, Jr.	Policeman	Fidelity and Deposit Company of Maryland	\$25,000
Freddie Newsom	Policeman	Fidelity and Deposit Company of Maryland	\$25,000
Andrew R. Perry	Policeman	Fidelity and Deposit Company of Maryland	\$25,000
Jason Scallorn	Policeman	Fidelity and Deposit Company of Maryland	\$25,000
Charles L. Terry	Policeman	Fidelity and Deposit Company of Maryland	\$25,000
Dewayne Williams	Park Director	Fidelity and Deposit Company of Maryland	\$25,000
Melissa Zizmann	Asst. Park Director	Fidelity and Deposit Company of Maryland	\$25,000
Ruthie Dearth	Park Receptionist	Fidelity and Deposit Company of Maryland	\$25,000



**REPORT ON INTERNAL CONTROL 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 City of Hernando, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise the City of Hernando, Mississippi's basic financial statements and have issued our report thereon dated January 27, 2009. 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 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.

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 of Hernando, Mississippi's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hernando, Mississippi's financial statements that is more than inconsequential will not be prevented or detected by the City of Hernando, Mississippi's internal control.

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 the financial statements will not be prevented or detected by the City of Hernando, Mississippi's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Continued

Continued ...

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

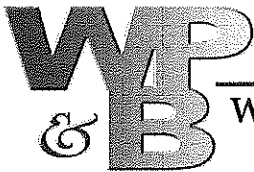
This report is intended solely for the information and use of management, the board of aldermen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC

Certified Public Accountants

January 27, 2009



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

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Hernando, MS 38632

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**INDEPENDENT AUDITORS' REPORT ON THE CITY'S COMPLIANCE WITH THE
REQUIREMENTS OF THE STATE AUDIT DEPARTMENT, AS SET FORTH
IN THE MUNICIPAL COMPLIANCE QUESTIONNAIRE**

Mayor and Board of Aldermen
City of Hernando
Hernando, Mississippi

We have audited the financial statements of the City of Hernando, Mississippi for the Year Ended September 30, 2008, and issued our report thereon dated January 27, 2009. Our audit was made in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Hernando, Mississippi is not in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire.

This report is intended for the use of the City of Hernando and the State Department of Audit. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 27, 2009