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**CITY OF HERNANDO, MISSISSIPPI**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED SEPTEMBER 30, 2007**

**RECEIVED**  
**MAR 17 2008**  
**STATE AUDITOR'S OFFICE**

**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, as of and for the year ended September 30, 2007, 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 of Hernando'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, 2007, 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 December 17, 2007 on our consideration of the City of Hernando'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 2 through 6 and 27 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  
December 17, 2007

**CITY OF HERNANDO**  
**Management's Discussion and Analysis**  
**For the Year Ended September 30, 2007**  
**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, 2007. 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. There are eight required elements of MD&A as follows:

1. Brief discussion of basic financial statements
2. Condensed comparative financial statements
3. Analysis of financial position and results of operation
4. Analysis of balances and transactions of individual funds
5. Budgetary analysis
6. Capital assets and long term debt activity
7. Infrastructure activity
8. Currently known facts

**BRIEF DISCUSSION OF BASIC FINANCIAL STATEMENTS**

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 7 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 8.

**CONDENSED COMPARATIVE FINANCIAL STATEMENTS**

The City's combined net assets in 2007 increased 14.60% from a year ago. The combined assets increased from \$10,941,750 in 2006 to \$12,539,469 in 2007, which is an increase of \$1,597,719.

<b>NET ASSETS (IN THOUSANDS)</b>
--------------------------------------

	2007 Governmental Activities (All other funds)	2006 Governmental Activities (All other funds)	2007 Business Type Activities (Utility Fund)	2006 Business Type Activities (Utility Fund)	2007 Total	2006 Total
<b>ASSETS</b>						
Current and Other Assets	\$ 10,680	\$ 5,881	\$ 1,891	\$ 1,788	\$12,571	\$ 7,669
Capital Assets, Net	9,012	7,268	7,766	7,745	16,778	15,013
<b>TOTAL ASSETS</b>	<b>19,692</b>	<b>13,149</b>	<b>9,657</b>	<b>9,533</b>	<b>29,349</b>	<b>22,682</b>
<b>LIABILITIES</b>						
Current and Other Liabilities	3,179	2,670	507	435	3,686	3,105
Long Term Liabilities:						
Due Within One Year	480	398	153	209	633	607
Due in More than One Year	10,081	5,537	2,409	2,491	12,490	8,028
<b>TOTAL LIABILITIES</b>	<b>13,740</b>	<b>8,605</b>	<b>3,069</b>	<b>3,135</b>	<b>16,809</b>	<b>11,740</b>
<b>NET ASSETS</b>						
Invested in Capital Assets						
Net of Debt	(1,267)	1,591	5,291	5,120	4,024	6,711
Restricted:						
Capital Projects	4,817	261	-	-	4,817	261
Debt Service	93	93	-	-	93	93
Unrestricted	2,308	2,599	1,297	1,278	3,605	3,877
<b>TOTAL NET ASSETS</b>	<b>\$ 5,951</b>	<b>\$ 4,544</b>	<b>\$ 6,588</b>	<b>\$ 6,398</b>	<b>\$12,539</b>	<b>\$ 10,942</b>

Net assets of the City's governmental activities increased by 30.99% (\$5,951,981 compared to \$4,543,773). 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 \$2,599,136 at 9-30-06 to \$2,308,492 at the end of this year which is an decrease of 11.18%.

Net assets of the City's business type activities (utility fund) increased by 2.96% (\$6,397,977 compared to \$6,587,488). Unrestricted net assets changed from \$1,278,264 at 9-30-06 to \$1,296,748 at the end of this year, which is an increase of 1.45%.

### ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

The City of Hernando is continuing to see growth as it has over the last few years but the growth in the residential section has slowed down and the commercial/retail growth has increased. 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. For the fiscal year ending 9-30-07, the City of Hernando was able to operate within the budget, show a small profit, and a small increase in net assets.

## 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.

	2006 Governmental Activities	2007 Governmental Activities	2006 Business-Type Activities	2007 Business- Type Activities	2006 Total	2007 Total
<b>General revenues</b>						
Taxes	\$ 2,860,757	\$ 3,026,477	\$ 65,531	\$ 70,676	\$ 2,926,288	\$ 3,097,153
Licenses and permits	18,892	16,762	-	-	18,892	16,762
Intergovernmental	2,646,924	2,992,453	-	-	2,646,924	2,992,453
Charges for services	-	-	2,519,933	2,583,970	2,519,933	2,583,970
Rents	48,357	93,301	-	-	48,357	93,301
Interest	119,428	184,825	40,059	53,027	159,487	237,852
Grants	166,086	-	14,100	-	180,186	-
Contributed capital	13,950	1,276,660	-	-	13,950	1,276,660
Interfund transfers	(1,101,721)	(57,514)	1,101,721	57,514	-	-
Miscellaneous	67,911	93,109	-	-	67,911	93,109
Sale of assets	24,029	32,611	-	-	24,029	32,611
Total general revenues	4,864,613	7,658,684	3,741,344	2,765,187	8,605,957	10,423,871
Total general expenses	(5,251,513)	(5,883,400)	(2,467,907)	(2,575,677)	(7,719,420)	(8,459,077)
Change in net assets	(386,900)	1,775,284	1,273,437	189,510	886,537	1,964,794
Net assets-beginning of year	4,958,072	4,176,697	5,124,540	6,397,978	10,082,612	10,574,675
Prior period adjustment	(27,400)	-	-	-	(27,400)	-
Net assets-beginning of year-adjusted	4,930,672	4,176,697	5,124,540	6,397,978	10,055,212	10,574,675
Net assets-end of year	\$ 4,543,772	\$ 5,951,981	\$ 6,397,977	\$ 6,587,488	\$10,941,749	\$12,539,469

## 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 29.

During the fiscal year ending 9-30-07, the City amended its budget. The total dollar amount of the budget for all funds was increased in the amount of \$1,000,000.00, which was in the G O Debt Construction Fund. There was no increase in any other fund but there were transfers from one category to another. These amendments are necessary in the General Fund Expenditures due to the underestimate of overtime and sick time. The amendment in the Culture & Recreation Fund was necessary to pay for appraisals and a long-term park plan to be developed. The G O Debt Construction Fund Amendment was to budget for the additional bond funds received. The Utility Fund Amendment is to pay for new controls on the I-55 water well that was not budgeted. 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 \$2,337,363 for the General Fund and at the end of the year (GAAP basis) was \$2,352,689, which was an increase of \$15,326. 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 \$7,268,329 at 9-30-06 to \$9,012,100 at 9-30-07. This is an increase of \$1,743,771 after depreciation. The primary increase in capital assets occurred in equipment, vehicles, construction in progress, improvements other than buildings, and infrastructure. In the category of Business-type Activities capital assets, net, increased from \$7,745,122 at 9-30-06 to \$7,764,704 at 9-30-07. This is an increase of \$19,582 after depreciation. The primary increase in capital assets in this category occurred in construction in progress, waterworks system, and equipment. During the past year, the city completed two Paving Projects, Water Well Project, Water Plant Electrical Improvements Project, and Water Plant Piping Improvements Project.

General Long-Term Debt is located on pages 23 - 26. As of September 30, 2007, the City had \$9,885,000 in outstanding General Obligation Bonds and \$2,580,978 in loans and long-term debt. The City issued \$5,000,000 in General Obligation Bonds this year. The bonds were issued for improvements in existing and annexed areas such as; Sewer Extension Projects, Downtown Sewer and Water Improvements, additional renovation of the Gale Center to add a Community Center, Court Department, and Courtroom, widening Oak Grove Road, Fire Protection Water in Green T area, and Commerce Street Extension. 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. The water improvements have included a new well, water tank, and larger water mains. This year the City completed a project that added another larger well and major improvements to the water plant, which was necessary because of the growth of the area and allows the City to maintain water pressure and improve fire protection. All these improvements were needed due to the age of the systems, accommodate the growth, and to give better fire protection. Capital Improvement Projects currently under construction is the Nesbit Sewer Extension Project Phase II, Oak Grove Road Improvement Project, and East Commerce Street Extension Phase II.

### **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 2007 is 14,000. In 2007 the City assessed value of property increased 16.1% and the sales tax revenue increased 11.1% over the prior year. Residential building permits have slowed down but the commercial (retail) permits have increased. The City issued 258 building permits in FYE 9-30-07 of which 9% were commercial. Over the past year the City has

added 242 sewer customers, and 126 water customers. Since FYE 9-30-2000 the City has added 2,119 sewer customers, and 1,444 water customers. We have two rural water systems that also provide water inside the corporate limits of Hernando, which is the reason there are more sewer customers than water. Over the last few years, the Mississippi Department of Environmental 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). At the end of this year the City of Hernando went on line with the DCRUA, which will eventually allow us to close the sewage lagoons and recapture this property for a better use.

Our Park and Recreation facilities have grown from three parks to seven facilities and improvements have been made to two of the existing parks. This year the City has been very fortunate to be given two more properties for park use, one by an individual and one by a developer. The City also received approval for \$150,000 grant to improve land donated for the park. The Gale Center renovation, that was started this year with bond funds, will also include a community center that can be used for the Seniors Program, Youth Programs, and can be leased for various functions.

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. We have received low interest loans to finance vehicles and equipment; we have received grants for police equipment, fire equipment, and park improvements. In May of this year the City issued \$5,000,000 in General Obligation Bonds and received a less than 3% rate, which according to our financial council was one of the best rates he has ever seen. These bonds will be used to provide services to annexed areas such as fire protection and sewer and to do capital improvements that cannot be paid for from ordinary revenue.

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, Park Fund, and Solid Waste Collection and Disposal. 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 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.

CITY OF HERNANDO, MISSISSIPPI  
Statement of Net Assets  
September 30, 2007

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash in bank and on hand	\$ 7,540,728	\$ 1,100,260	\$ 8,640,988
Cash-restricted	-	289,401	289,401
Accounts receivable, net of allowance for doubtful accounts of \$90,038	116,949	467,774	584,723
Due from other funds	29,078	-	29,078
Intergovernmental receivables	2,198,384	-	2,198,384
Prepaid expenses	340,084	30,527	370,611
Capital lease receivable	257,564	-	257,564
Other receivables	-	3,078	3,078
Bond issue costs	197,344	-	197,344
Fixed assets (net, where applicable, of accumulated depreciation)	9,012,100	7,765,704	16,777,804
<b>Total assets and other debits</b>	<u>19,692,231</u>	<u>9,656,744</u>	<u>29,348,975</u>
<b>Liabilities</b>			
Accounts payable	804,453	165,102	969,555
Accrued expenses	301,465	23,561	325,026
Due to other funds	-	29,078	29,078
Customer deposits	-	289,401	289,401
Deferred revenue	2,055,827	-	2,055,827
Escrow deposit	16,939	-	16,939
<b>Non-current liabilities</b>			
Due within one year			
General obligation bonds payable	365,000	-	365,000
Loans payable	31,383	104,975	136,358
Leases payable	84,105	47,905	132,010
Due in more than one year			
General obligation bonds payable	9,520,000	-	9,520,000
Loans payable	196,906	2,247,714	2,444,620
Leases payable	81,337	74,370	155,707
Accrued compensated absences	282,835	87,150	369,985
<b>Total liabilities</b>	<u>13,740,250</u>	<u>3,069,256</u>	<u>16,809,506</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	(1,266,631)	5,290,740	4,024,109
Restricted:			
Capital projects	4,817,431	-	4,817,431
Debt service	92,689	-	92,689
Unrestricted	2,308,492	1,296,748	3,605,240
<b>Total net assets</b>	<u>\$ 5,951,981</u>	<u>\$ 6,587,488</u>	<u>\$ 12,539,469</u>

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

CITY OF HERNANDO, MISSISSIPPI  
Statement of Activities  
September 30, 2007

	Program Revenues			Net (Expenses)Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities						
Administrative	\$ 747,584	\$ -	\$ -	\$ (747,584)	\$ -	\$ (747,584)
Ambulance	417,222	306,715	-	(110,507)	-	(110,507)
Amortization	11,298	-	-	(11,298)	-	(11,298)
Animal shelter	36,775	295	-	(36,480)	-	(36,480)
Attorney	17,347	-	-	(17,347)	-	(17,347)
Court	200,669	-	-	(200,669)	-	(200,669)
Dispatch	242,694	-	-	(242,694)	-	(242,694)
Engineering	15,534	-	-	(15,534)	-	(15,534)
Fire	1,855,638	-	3,000	(1,852,638)	-	(1,852,638)
Interest on long-term debt	352,447	-	-	(352,447)	-	(352,447)
Library	94,158	-	-	(94,158)	-	(94,158)
Other	48,476	-	-	(48,476)	-	(48,476)
Park	131,612	-	-	(131,612)	-	(131,612)
Planning	294,302	301,394	-	7,092	-	7,092
Police	1,879,838	299,885	12,000	(1,567,953)	-	(1,567,953)
Street	461,095	-	-	(461,095)	-	(461,095)
Total governmental activities	<u>6,806,689</u>	<u>908,289</u>	<u>15,000</u>	<u>(5,883,400)</u>	<u>-</u>	<u>(5,883,400)</u>
Business-type activities						
Water	837,450	904,199	-	-	66,749	66,749
Sewer personnel	438,106	1,092,713	-	-	654,607	654,607
Sanitation personnel	748,886	587,058	-	-	(161,828)	(161,828)
Interest on long-term debt	60,154	-	-	-	(60,154)	(60,154)
Depreciation	491,081	-	-	-	(491,081)	(491,081)
Total business-type activities	<u>2,575,677</u>	<u>2,583,970</u>	<u>-</u>	<u>-</u>	<u>8,293</u>	<u>8,293</u>
General revenues						
Taxes				3,026,477	70,676	3,097,153
Contributed capital				1,276,660	-	1,276,660
Licenses and permits				16,762	-	16,762
Intergovernmental				2,992,453	-	2,992,453
Rents				93,301	-	93,301
Interest				184,825	53,027	237,852
Miscellaneous				93,109	-	93,109
Transfers in(out)				(57,514)	57,514	-
Sale of assets				32,611	-	32,611
Total general revenues				<u>7,658,684</u>	<u>181,217</u>	<u>7,839,901</u>
Change in net assets				<u>1,775,284</u>	<u>189,510</u>	<u>1,964,794</u>
Net assets-beginning of year				<u>4,176,697</u>	<u>6,397,978</u>	<u>10,574,675</u>
Net assets-end of year				<u>\$ 5,951,981</u>	<u>\$ 6,587,488</u>	<u>\$ 12,539,469</u>

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

CITY OF HERNANDO, MISSISSIPPI  
 Balance Sheet  
 Governmental Funds  
 September 30, 2007

	General Fund	2007 Improvement	Cap Lease	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash in bank and on hand	\$ 2,469,184	\$ -	\$ 23,731	\$ 137,693	\$ 2,630,608
Cash-restricted	-	4,817,431	-	92,689	4,910,120
Due from other funds	31,070	1,220	-	-	32,290
Intergovernmental receivables	388,293	-	-	11,828	400,121
Other receivables	-	-	-	25,000	25,000
Capital lease receivable	-	-	257,563	-	257,563
Prepaid expenses	73,318	-	3,329	263,439	340,086
<b>Total assets</b>	<b>\$ 2,961,865</b>	<b>\$ 4,818,651</b>	<b>\$ 284,623</b>	<b>\$ 530,649</b>	<b>\$ 8,595,788</b>
<b>Liabilities</b>					
Accounts payable	\$ 447,394	\$ 211,784	\$ -	\$ 138,619	\$ 797,797
Accrued expenses	161,782	-	-	-	161,782
Due to other funds	-	-	-	3,212	3,212
Deferred revenue	-	-	257,563	-	257,563
Escrow deposit	-	-	16,939	-	16,939
<b>Total liabilities</b>	<b>609,176</b>	<b>211,784</b>	<b>274,502</b>	<b>141,831</b>	<b>1,237,293</b>
<b>Fund balances</b>					
<b>Reserved for:</b>					
Capital projects	-	4,817,431	-	-	4,817,431
Debt service	-	-	-	92,689	92,689
Unreserved	2,352,689	(210,564)	10,121	296,129	2,448,375
<b>Total fund balances</b>	<b>2,352,689</b>	<b>4,606,867</b>	<b>10,121</b>	<b>388,818</b>	<b>7,358,495</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,961,865</b>	<b>\$ 4,818,651</b>	<b>\$ 284,623</b>	<b>\$ 530,649</b>	<b>\$ 8,595,788</b>

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

CITY OF HERNANDO, MISSISSIPPI  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
 September 30, 2007

**Total Fund Balance - Governmental Funds** **\$ 7,358,495**

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	560,425	
Construction in progress	263,314	
Buildings and improvements	4,129,815	
Equipment	1,738,983	
Vehicles	677,888	
Infrastructure	4,715,447	
Improvements other than buildings	147,786	
Accumulated depreciation	<u>(3,221,558)</u>	9,012,100

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. 197,344

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 122,590

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	(176,982)	
Notes payable	(228,289)	
General obligation bonds	(9,885,000)	
Capital leases payable	(165,442)	
Compensated absences payable	<u>(282,835)</u>	<u>(10,738,548)</u>

**Net Assets of Governmental Activities** **\$ 5,951,981**

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

CITY OF HERNANDO, MISSISSIPPI  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2007

	General Fund	2007 Improvement	Cap Lease	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 2,322,493	\$ -	\$ -	\$ 703,981	\$ 3,026,474
Licenses and permits	16,762	-	-	-	16,762
Intergovernmental	2,975,191	-	-	17,262	2,992,453
Charges for services	607,953	-	-	-	607,953
Fines	299,885	-	-	-	299,885
Interest	89,583	72,332	514	22,397	184,826
Miscellaneous	68,115	-	-	25,000	93,115
Rents	29,248	-	64,053	-	93,301
Sale of cemetery lots	29,800	-	-	-	29,800
Total revenues	<u>6,439,030</u>	<u>72,332</u>	<u>64,567</u>	<u>768,640</u>	<u>7,344,569</u>
<b>Expenditures</b>					
Administrative	718,084	-	-	-	718,084
Ambulance	423,272	-	-	-	423,272
Animal shelter	36,776	-	-	-	36,776
Attorney	17,347	-	-	-	17,347
Capital outlay	-	373,814	-	-	373,814
Court	199,915	-	-	-	199,915
Dispatch	242,002	-	-	-	242,002
Engineering	15,534	-	-	-	15,534
Fire	1,708,311	-	-	-	1,708,311
Library	-	-	-	94,158	94,158
Other	-	29,694	-	18,774	48,468
Park	-	-	-	240,928	240,928
Planning	291,131	-	-	-	291,131
Police	1,924,735	-	-	-	1,924,735
Street	1,938,623	-	-	-	1,938,623
Debt service					
Principle	-	-	27,595	190,000	217,595
Interest	119,838	-	9,019	227,449	356,306
Total expenditures	<u>7,635,568</u>	<u>403,508</u>	<u>36,614</u>	<u>771,309</u>	<u>8,846,999</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,196,538)</u>	<u>(331,176)</u>	<u>27,953</u>	<u>(2,669)</u>	<u>(1,502,430)</u>
<b>Other financing sources (uses)</b>					
Sale of equipment	2,811	-	-	-	2,811
Grants	15,000	-	-	-	15,000
Bond proceeds	-	5,000,000	-	-	5,000,000
Transfers	(82,607)	25,093	-	-	(57,514)
Contributed capital	1,276,660	-	-	-	1,276,660
Total other financing sources (uses)	<u>1,211,864</u>	<u>5,025,093</u>	<u>-</u>	<u>-</u>	<u>6,236,957</u>
Net change in fund balances	<u>15,326</u>	<u>4,693,917</u>	<u>27,953</u>	<u>(2,669)</u>	<u>4,734,527</u>
Fund balance - beginning of year	2,337,363	(87,050)	(17,832)	391,487	2,623,968
Fund balance - end of year	<u>\$ 2,352,689</u>	<u>\$ 4,606,867</u>	<u>\$ 10,121</u>	<u>\$ 388,818</u>	<u>\$ 7,358,495</u>

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

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, 2007

<b>Net change in fund balances-total Governmental Funds</b>	<b>\$ 4,734,527</b>
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 (\$2,199,208) exceeded depreciation (\$455,437) in the current period.	1,743,771
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 proceeds (\$5,024,122) exceeded repayments (\$398,437)	(4,625,685)
Interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than when it accrues.	(176,982)
Bond issue costs are expenditures to governmental funds, but are deferred assets in the statement of net assets. This is the amount by which costs incurred (\$110,500) exceeded amortization (\$11,298) in the current period.	99,202
Some revenues will not be collected for several months after year end. They are not considered available resources in the governmental funds.	451
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 1,775,284</u></b>

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



CITY OF HERNANDO, MISSISSIPPI  
Statement of Net Assets – Proprietary Fund  
For the Year Ended September 30, 2007

	<u>Utility Fund</u>
Assets	
Current assets	
Cash in bank and on hand	\$ 1,100,260
Accounts receivable(net of allowance for doubtful accounts)	467,774
Prepaid expenses	30,527
Other receivable	3,078
Total current assets	<u>1,601,639</u>
Restricted assets:	
Customer deposits	<u>289,401</u>
Fixed assets	
Waterworks system	10,558,413
Machinery and equipment	1,079,490
Vehicles	336,627
Work in process	107,109
Accumulated depreciation	(4,315,935)
Total fixed assets	<u>7,765,704</u>
Total assets	<u>\$ 9,656,744</u>
Liabilities and fund equity	
Current liabilities	
Accounts payable	\$ 165,102
Accrued expenses	23,561
Due to other funds	29,078
Capital lease payable	47,905
Notes payable	104,975
Total current liabilities	<u>370,621</u>
Current liabilities payable from restricted assets	
Customer deposits	<u>289,401</u>
Long-term liabilities	
Capital lease payable	74,370
Accrued compensated absences	87,150
Notes payable	2,247,714
Total long-term liabilities	<u>2,409,234</u>
Total liabilities	<u>3,069,256</u>
Fund equity	
Invested in capital assets(net of related debt)	5,290,740
Unreserved net assets	1,296,748
Total fund equity	<u>6,587,488</u>
Total liabilities and fund equity	<u>\$ 9,656,744</u>

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

CITY OF HERNANDO, MISSISSIPPI  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
For the Year Ended September 30, 2007

	<u>Utility Fund</u>
Operating revenues	
Water sales	\$ 853,098
Sewer sales	792,689
Garbage sales	587,057
Tap fees	300,025
Late charges	51,101
Taxes	<u>70,676</u>
Total operating revenues	<u>2,654,646</u>
Operating expenses	
Water personnel	259,763
Water supplies	108,411
Water other	469,276
Sewer personnel	109,413
Sewer supplies	7,204
Sewer other	321,489
Sanitation personnel	622,502
Sanitation supplies	48,916
Sanitation other	77,468
Depreciation	<u>491,081</u>
Total operating expenses	<u>2,515,523</u>
Operating income	<u>139,123</u>
Non-operating revenues (expenses)	
Interest revenue	53,027
Transfers in	57,514
Interest expense	<u>(60,154)</u>
Total non-operating revenues (expenses)	<u>50,387</u>
Net income	189,510
Net assets - beginning of year	<u>6,397,978</u>
Net assets - end of year	<u>\$ 6,587,488</u>

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

CITY OF HERNANDO, MISSISSIPPI  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended September 30, 2007

	Utility Fund
Cash flows from operating activities	
Cash received from customers	\$ 2,533,487
Cash payments for goods and services	(986,544)
Cash payments to employees	(1,007,373)
Net cash provided by operating activities	<u>539,570</u>
Cash flows from noncapital financing activities	
Transfers from other funds	<u>108,223</u>
Net cash provided by noncapital financing activities	<u>108,223</u>
Cash flows from capital and related financing activities	
Payments for capital acquisitions	(511,663)
Payments from customer deposits	18,811
Debt proceeds	65,385
Principal payments on debt	(215,829)
Interest payments on debt	(60,155)
Net cash provided by capital and related financing activities	<u>(703,451)</u>
Cash flows from investing activities	
Receipts of interest	<u>53,028</u>
Net increase in cash and cash equivalents	(2,630)
Cash and cash equivalents-beginning of year	<u>1,392,291</u>
Cash and cash equivalents-end of year	<u>\$ 1,389,661</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 139,123</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	491,081
(Increase) decrease in customer receivables	(123,577)
(Increase) decrease in prepaid items	(3,704)
Increase (decrease) in accounts payable	41,359
Increase (decrease) in accrued expenses	(4,712)
Total adjustments	<u>400,447</u>
Net cash provided by operating activities	<u>\$ 539,570</u>

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

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

**(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*

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

*and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."*

*Governmental funds are used to account for all or most of a government's general activities including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government, which are not required legally, or by sound financial management, to be accounted for in another fund.*

*Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.*

*The City applies all governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.*

**E. Basis of Accounting:**

**Government-Wide Financial Statements**

*The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.*

*The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.*

*The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each program of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City. Net assets should be reported as restricted*

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

*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.*

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

G. Budgets and Budgetary Accounting:

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

- 1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them*
- 2. A public hearing is conducted at City Hall.*
- 3. Prior to October 1, the budget is legally enacted through passage of ordinance.*
- 4. The Mayor 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.*
- 5. 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.*

H. Revenue Recognition:

*In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made, or when received in advance, deferred until expenditures are made.*

*Other revenues, including licenses and permits, certain charges for service, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.*

I. Expenditure Recognition:

*The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.*

***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 though 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, 2007

**(4) General Fixed Assets**

Changes in General Fixed Assets are as follows:

	<u>Balance at</u> <u>9/30/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>9/30/2007</u>
<i>Governmental Activities:</i>				
<i>Capital assets, not being depreciated:</i>				
<i>Land</i>	\$ 560,425	\$ -	\$ -	\$ 560,425
<i>Construction in progress</i>	-	263,314	-	263,314
<i>Total capital assets, not being depreciated:</i>	<u>560,425</u>	<u>263,314</u>	<u>-</u>	<u>823,739</u>
<i>Capital assets, being depreciated:</i>				
<i>Buildings and improvements</i>	4,129,815	-	-	4,129,815
<i>Equipment</i>	1,721,309	17,674	-	1,738,983
<i>Vehicles</i>	543,100	134,788	-	677,888
<i>Improvements other than buildings</i>	13,571	134,215	-	147,786
<i>Infrastructure</i>	3,066,230	1,649,217	-	4,715,447
<i>Total capital assets, being depreciated:</i>	<u>9,474,025</u>	<u>1,935,894</u>	<u>-</u>	<u>11,409,919</u>
<i>Less accumulated depreciation for:</i>				
<i>Buildings and improvements</i>	(843,981)	(83,946)	-	(927,927)
<i>Equipment</i>	(1,176,243)	(107,518)	-	(1,283,761)
<i>Vehicles</i>	(495,028)	(69,837)	-	(564,865)
<i>Improvements other than buildings</i>	(1,629)	(543)	-	(2,172)
<i>Infrastructure</i>	(249,240)	(193,593)	-	(442,833)
<i>Total accumulated depreciation</i>	<u>(2,766,121)</u>	<u>(455,437)</u>	<u>-</u>	<u>(3,221,558)</u>
<i>Total capital assets, being depreciated, net</i>	<u>6,707,904</u>	<u>1,480,457</u>	<u>-</u>	<u>8,188,361</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 7,268,329</u>	<u>\$ 1,743,771</u>	<u>\$ -</u>	<u>\$ 9,012,100</u>
<i>Business-type activities:</i>				
<i>Capital assets, not being depreciated:</i>				
<i>Construction in progress</i>	\$ 72,595	\$ 421,278	\$ 386,764	\$ 107,109
<i>Total capital assets, not being depreciated:</i>	<u>72,595</u>	<u>421,278</u>	<u>386,764</u>	<u>107,109</u>
<i>Capital assets, being depreciated:</i>				
<i>Waterworks system</i>	10,171,649	386,764	-	10,558,413
<i>Equipment</i>	989,105	90,385	-	1,079,490
<i>Vehicles</i>	336,627	-	-	336,627
<i>Total capital assets, being depreciated:</i>	<u>11,497,381</u>	<u>477,149</u>	<u>-</u>	<u>11,974,530</u>
<i>Less accumulated depreciation for:</i>				
<i>Waterworks system</i>	(2,953,646)	(372,172)	-	(3,325,818)
<i>Equipment</i>	(608,151)	(94,223)	-	(702,374)
<i>Vehicles</i>	(263,057)	(24,686)	-	(287,743)
<i>Total accumulated depreciation</i>	<u>(3,824,854)</u>	<u>(491,081)</u>	<u>-</u>	<u>(4,315,935)</u>
<i>Total capital assets, being depreciated, net</i>	<u>7,672,527</u>	<u>(13,932)</u>	<u>-</u>	<u>7,658,595</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 7,745,122</u>	<u>\$ 407,346</u>	<u>\$ 386,764</u>	<u>\$ 7,765,704</u>

No interest was capitalized during the year due to immateriality.

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

Commitments under construction at September 30, 2007 are summarized as follows:

<i>Project</i>	<i>Contract Amount</i>	<i>Remaining Balance</i>	<i>Fund</i>
<i>Oak Grove Road Improvement</i>	276,978	271,478	<i>2003 Improvement</i>
<i>East Commerce Street Extension</i>	277,442	207,195	<i>2003 Improvement</i>
<i>Gale Building Phase II</i>	913,400	725,833	<i>2003 Improvement</i>
<i>Nesbit Sewer Extension</i>	936,568	879,054	<i>2003 Improvement</i>

A summary of depreciation expense is as follows:

<i>Function</i>	<i>Depreciation Expense</i>
<i>Administrative</i>	\$ 26,795
<i>Ambulance</i>	7,903
<i>Fire</i>	150,133
<i>Park</i>	24,899
<i>Police</i>	72,462
<i>Planning</i>	1,753
<i>Street</i>	171,492
<i>Total depreciation expense</i>	\$ 455,437

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

**(5) Long-Term Debt**

*General obligation bonds*

*General obligation bonds are direct obligations and pledge 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>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
2003	various	4/1/2003	4/1/2023	\$ 2,000,000	\$ 1,730,000
2003	various	10/1/2003	10/1/2023	3,500,000	3,155,000
2007	various	5/31/2007	5/1/2027	5,000,000	5,000,000
				<u>\$ 10,500,000</u>	<u>\$ 9,885,000</u>

*Loans*

*The City also uses loans to finance its projects.*

<i>Department of Economic and Community Development</i>					
<i>Industrial Building</i>	4.00%	6/30/1997	4/1/2014	\$ 450,000	\$ 228,289
<i>Department of Economic and Community Development</i>					
<i>Sewer Cap Loan</i>	3.00%	10/31/2002	10/31/2021	288,000	219,940
<i>State of Mississippi</i>					
<i>DWSIRLF</i>	3.00%	2/10/2002	10/10/2021	752,086	581,462
<i>State of Mississippi</i>					
<i>DWSIRLF</i>	3.00%	2/10/2003	9/10/2022	391,232	319,078
<i>Department of Environmental Quality</i>					
<i>Water Pollution Control</i>	1.75%	6/1/2003	1/1/2023	508,741	412,634
<i>State of Mississippi</i>					
<i>DWSIRLF</i>	4.00%	5/1/2006	2/1/2026	233,505	430,655
<i>Department of Economic and Community Development</i>					
<i>Sewer Cap Loan</i>	2.00%	2/1/2005	2/1/2025	237,400	210,953
<i>Department of Economic and Community Development</i>					
<i>Sewer Cap Loan</i>	3.00%	11/1/2005	11/1/2025	191,116	177,967
<i>Total</i>				<u>\$ 3,052,080</u>	<u>\$ 2,580,978</u>

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

*Annual requirements to retire debt obligations.*

*The aggregate maturities of general obligation bonds and loans for the years subsequent to September 30, 2007 are as follows:*

<i>Year Ending September 30</i>	<i>General long-term Debt</i>	
	<i>Principle</i>	<i>Interest</i>
2008	\$ 396,383	\$ 400,504
2009	412,662	380,593
2010	433,992	371,683
2011	445,377	350,617
2012	466,818	329,246
2013-2017	2,533,057	1,279,106
2018-2022	3,090,000	736,533
2023-2027	2,335,000	208,450
<i>Total</i>	<u>\$ 10,113,289</u>	<u>\$ 4,056,732</u>

<i>Year Ending September 30</i>	<i>Enterprise Fund</i>	
	<i>Principle</i>	<i>Interest</i>
2008	\$ 123,730	\$ 59,692
2009	126,989	56,432
2010	130,338	53,083
2011	133,779	53,083
2012	137,313	46,868
2013-2017	743,085	174,021
2018-2022	782,416	70,670
2023-2027	175,038	6,787
<i>Total</i>	<u>\$ 2,352,688</u>	<u>\$ 520,636</u>

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

Long-term activity for the year ended September 30, 2007 was as follows:

	<u>Balance at 9/30/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2007</u>	<u>Amounts Due Within One Year</u>
<i>Governmental Activities:</i>					
<i>Bonds, notes and leases payable:</i>					
General obligation bonds payable	\$ 5,075,000	\$ 5,000,000	\$ 190,000	\$ 9,885,000	\$ 365,000
Notes payable	321,099	-	92,810	228,289	31,383
Leases Payable	281,070	-	115,628	165,442	84,105
Accrued compensated absences	258,713	24,122	-	282,835	-
<i>Governmental activities long-term liabilities</i>	<u>\$ 5,935,882</u>	<u>\$ 5,024,122</u>	<u>\$ 398,438</u>	<u>\$ 10,561,566</u>	<u>\$ 480,488</u>
<i>Business-type activities:</i>					
<i>Notes and leases payable:</i>					
Notes payable	\$ 2,473,245	\$ -	\$ 120,557	\$ 2,352,688	\$ 104,975
Leases payable	152,162	65,385	95,272	122,275	47,905
Accrued compensated absences	74,683	12,467	-	87,150	-
<i>Business-type activities long-term liabilities</i>	<u>\$ 2,700,090</u>	<u>\$ 77,852</u>	<u>\$ 215,829</u>	<u>\$ 2,562,113</u>	<u>\$ 152,880</u>

The total amount of interest incurred for the year ended September 30, 2007 was \$412,601.

**(6) Capital Leases**

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2007 were as follows:

<u>Year Ending September 30</u>	<u>General Long-Term Debt</u>	
	<u>Principle</u>	<u>Interest</u>
2008	\$ 84,105	\$ 1,410
2009	74,986	16
2010	6,351	16
2011	-	-
2012	-	-
<i>Total</i>	<u>\$ 165,442</u>	<u>\$ 1,442</u>

<u>Year Ending September 30</u>	<u>Enterprise Fund</u>	
	<u>Principle</u>	<u>Interest</u>
2008	\$ 47,905	\$ 3,508
2009	37,965	2,135
2010	26,193	869
2011	10,212	140
2012	-	-
<i>Total</i>	<u>\$ 122,275</u>	<u>\$ 6,652</u>

CITY OF HERNANDO, MISSISSIPPI  
Notes to Financial Statements  
Year Ended September 30, 2007

**(7) Defined Benefit Pension Plan**

*Plan Description.* The City of Hernando 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, MS39201-1005 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. The current rate is 12.50% 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 year ending September 30, 2007, and 2006, were \$457,321 and \$388,085 respectively, equal to the required contributions for each year.

**(8) Interfund Receivables and Payables**

<i>A. Due from/to other funds</i>	<u>Due from</u>	<u>Due to</u>
<i>Major funds:</i>		
General fund	\$ 31,070	\$ -
2007 Improvement	1,220	-
Cap lease	-	-
Utility fund	-	29,078
Nonmajor funds	-	3,212
<i>Total funds</i>	<u>\$ 32,290</u>	<u>\$ 32,290</u>

**(9) Intergovernmental Receivables**

*Intergovernmental Receivables consist of the following:*

	<u>General Fund</u>
<i>County pro rata</i>	
Ad valorem	\$ 1,864,761
Franchise and sales tax	292,715
Other	<u>40,908</u>
<i>Totals</i>	<u>\$ 2,198,384</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  
 Budgetary Comparison Schedule – General Fund  
 September 30, 2007

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,957,019	\$ 2,297,019	\$ 2,314,256	17,237
Licenses and permits	17,000	17,000	16,762	(238)
Intergovernmental	3,312,600	2,973,600	2,972,990	(610)
Charges for services	854,000	509,000	607,953	98,953
Fines	294,000	309,000	299,885	(9,115)
Interest	30,000	70,000	89,583	19,583
Miscellaneous	290,500	316,000	68,115	(247,885)
Sale of cemetery lots	25,000	25,000	29,800	4,800
<b>Total revenues</b>	<b>6,780,119</b>	<b>6,516,619</b>	<b>6,399,344</b>	<b>(117,275)</b>
<b>Expenditures</b>				
Administrative	720,274	753,670	718,084	35,586
Ambulance	436,751	446,751	423,272	23,479
Animal shelter	49,396	49,396	36,776	12,620
Attorney	18,094	18,094	17,347	747
Court	207,391	208,391	199,915	8,476
Dispatch	252,487	252,487	242,002	10,485
Engineering	-	16,000	15,534	466
Fire	1,795,004	1,798,004	1,708,311	89,693
Planning	335,959	335,959	291,131	44,828
Police	2,163,452	2,099,056	1,924,735	174,321
Street	998,344	999,344	661,963	337,381
Debt service	178,380	178,380	119,838	58,542
<b>Total expenditures</b>	<b>7,155,532</b>	<b>7,155,532</b>	<b>6,358,908</b>	<b>796,624</b>
Excess (deficiency) of revenues over (under) expenditures	(375,413)	(638,913)	40,436	679,349
<b>Other financing sources (uses)</b>				
Grants	-	38,000	15,000	(23,000)
Transfers	375,413	375,413	(82,607)	(458,020)
Loan proceeds	-	170,000	-	(170,000)
Rents	-	28,500	29,248	748
Sale of assets	-	27,000	2,811	(24,189)
<b>Total other financing sources(uses)</b>	<b>375,413</b>	<b>638,913</b>	<b>(35,548)</b>	<b>(674,461)</b>
<b>Net changes in fund balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>4,888</b>	<b>\$ 4,888</b>
Fund balance - beginning of year			2,337,363	
Fund balance - end of year			2,342,251	
Adjustments to conform with GAAP:				
Revenues			10,438	
Fund balance - end of year(GAAP basis)			<u>\$ 2,352,689</u>	

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

CITY OF HERNANDO, MISSISSIPPI  
 Fidelity Bond Coverage  
 September 30, 2007

Fidelity Bonds

Fidelity bonds in force at September 30, 2007 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
James M. Riley	Police Chief	Fidelity and Deposit Company of Maryland	\$ 50,000
Jannett P. Riley	City Clerk	Fidelity and Deposit Company of Maryland	\$ 50,000
Denise Stringfellow	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$ 25,000
Debra Tipton	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$ 25,000
Donna Riales	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$ 25,000
Shane Ellis	Policeman	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
Andrew R. Perry	Policeman	Fidelity and Deposit Company of Maryland	\$ 25,000
Kenneth L. Hodge, Jr.	Policeman	Fidelity and Deposit Company of Maryland	\$ 25,000

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



CITY OF HERNANDO, MISSISSIPPI  
 Fidelity Bond Coverage - Continued  
 September 30, 2007

Dot Oldacre	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$ 25,000
Andrew Miller	Alderman	Fidelity and Deposit Company of Maryland	\$100,000
Sam Lauderdale	Alderman	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
James P. Tipton, Jr	Alderman	Fidelity and Deposit Company of Maryland	\$100,000
Gwen P. House	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$ 25,000
Cassandra E. Perry	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$ 25,000
Katie Subia	Deputy Clerk	Fidelity and Deposit Company of Maryland	\$ 25,000
Charles L. Terry	Policeman	Fidelity and Deposit Company of Maryland	\$ 25,000
Freddie Newsom	Policeman	Fidelity and Deposit Company of Maryland	\$ 25,000
Jason Scallorn	Policeman	Fidelity and Deposit Company of Maryland	\$ 25,000
Charlie Bicknell	Policeman	Fidelity and Deposit Company of Maryland	\$ 25,000

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



**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, 2007, which collectively comprise the City of Hernando, Mississippi's basic financial statements and have issued our report thereon dated December 17, 2007. 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  
December 17, 2007



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

**DANNY L. WILLIAMS**  
**JERRY W. PITTS**  
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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, 2007, and issued our report thereon dated December 17, 2007. 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  
December 17, 2007