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CITY OF HERNANDO, MISSISSIPPI

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2006

CITY OF HERNANDO, MISSISSIPPI

**ANNUAL FINANCIAL REPORT
Year Ended September 30, 2006**

TABLE OF CONTENTS

<i>Independent Auditors' Report</i>	1
<i>Management's Discussion and Analysis</i>	2
<i>General Purpose Financial Statements</i>	
<i>Statement of Net Assets</i>	7
<i>Statement of Activities</i>	8
<i>Balance Sheet – Governmental Funds</i>	9
<i>Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets</i>	10
<i>Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds</i>	11
<i>Reconciliation of Revenues, Expenditures, and Changes in Fund Balances Of Government Funds to the Statement of Activities</i>	12
<i>Statement of Net Assets – Proprietary Fund</i>	13
<i>Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund</i>	14
<i>Statement of Cash Flows – Proprietary Funds</i>	15
<i>Notes to Financial Statements</i>	16
<i>Combining Financial Statements and Schedules of Individual Fund Types and Account Groups</i>	
<i>General Fund:</i>	
<i>Budgetary Comparison Schedule</i>	29
<i>Fidelity Bond Coverage</i>	30
<i>Additional Auditors' Reports</i>	
<i>Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	32
<i>Independent Auditors' Report on the City's Compliance with the Requirements of the State Audit Department, as set forth in the Municipal Compliance Questionnaire</i>	33
<i>Independent Auditors' Report on the City's Compliance with State Laws and Regulations</i>	34



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2006, 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 an opinion 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 opinion.

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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 29 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 supplementary information. However, we did not audit the information and express no opinion on it

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 12, 2007

CITY OF HERNANDO
Management's Discussion and Analysis
For the Year Ended September 30, 2006
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, 2006. 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.

- Governmental Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over monies that have been earmarked for specific activities of projects. These financial do not include any of the "business" type funds, which are our water, sewer, and sanitation. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. We currently have the General Fund, 2003 Improvement Fund, Capital Lease Fund, and Other Governmental Funds.

CONDENSED COMPARATIVE FINANCIAL STATEMENTS

The City's combined net assets in 2006 increased 8.52% from a year ago. The combined assets increased from \$10,083,515 in 2005 to \$10,941,750 in 2006, which is an increase of \$ 858,235.

NET ASSETS (IN THOUSANDS)

	2005		2006		2005		2006		2005		2006
	Governmental		Governmental		Business		Business		Total		Total
	Activities (All		Activities (All		Type		Type				
	other funds)		other funds)		(Utility		(Utility				
					Fund)		Fund)				
ASSETS											
Current and Other Assets	\$ 6,457	\$	\$ 5,881	\$	\$ 1,343	\$	\$ 1,788	\$	\$ 7,800	\$	\$ 7,669
Capital Assets, Net	7,192		7,268		6,722		7,745		13,914		15,013
TOTAL ASSETS	\$ 13,649	\$	\$ 13,149	\$	\$ 8,065	\$	\$ 9,533	\$	\$21,714	\$	\$ 22,682
LIABILITIES											
Current and Other Liabilities	\$ 2,457	\$	\$ 2,670	\$	\$ 282	\$	\$ 435	\$	\$ 2,739	\$	\$ 3,105
Long Term Liabilities:											
Due Within One Year	514		398		226		209		740		607
Due in More than One Year	5,719		5,537		2,433		2,491		8,152		8,028
TOTAL LIABILITIES	\$ 8,690	\$	\$ 8,605	\$	\$ 2,941	\$	\$ 3,135	\$	\$11,631	\$	\$ 11,740
NET ASSETS											
Invested in Capital Assets Net of Debt	\$ 997	\$	\$ 1,591	\$	\$ 4,079	\$	\$ 5,120	\$	\$ 5,076	\$	\$ 6,711
Restricted:											
Capital Projects	1,741		261		-		-		1,741		261
Debt Service	93		93		-		-		93		93
Unrestricted	2,128		2,599		1,046		1,278		3,174		3,877
TOTAL NET ASSETS	\$ 4,959	\$	\$ 4,544	\$	\$ 5,125	\$	\$ 6,398	\$	\$10,084	\$	\$ 10,942

Net assets of the City's governmental activities decreased by 8.38% (\$4,543,770 compared to \$4,958,976). 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 \$2,128,258 at 9-30-05 to \$2,599,136 at the end of this year which is an increase of 22.13%.

Net assets of the City's business type activities (utility fund) increased by 24.85% (\$5,124,539 compared to \$6,397,977). Unrestricted net assets changed from \$1,046,032 at 9-30-05 to \$1,278,264 at the end of this year, which is an increase of 22.21%.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

The City of Hernando is continuing to see rapid growth as it has over the last few years. 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 9-30-06, 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 of the City's net assets for Governmental Activities, Business-type Activities and the two.

	2006 Governmental Activities	2005 Governmental Activities	2006 Business-Type Activities	2005 Business-Type Activities	2006 Total	2005 Total
General revenues						
Taxes	\$ 2,860,757	\$ 2,480,682	\$ 65,531	\$ 120,756	\$ 2,926,288	\$ 2,601,438
Licenses and permits	18,892	15,929	-	-	18,892	15,929
Intergovernmental	2,646,924	2,066,432	-	-	2,646,924	2,066,432
Charges for services	-	3,500	2,519,933	2,162,967	2,519,933	2,166,467
Rents	48,357	47,959	-	-	48,357	47,959
Interest	119,428	61,795	40,059	13,783	159,487	75,578
Grants	166,086	25,208	14,100	200,150	180,186	225,358
Contributed capital	13,950	2,145,439	-	577,600	13,950	2,723,039
Interfund transfers	(1,101,721)	(98,885)	1,101,721	98,885	-	-
Miscellaneous	67,911	61,355	-	-	67,911	61,355
Sale of assets	24,029	19,577	-	-	24,029	19,577
Total general revenues	4,864,613	6,828,991	3,741,344	3,174,141	8,605,957	10,003,132
Total general expenses	(5,251,513)	(4,330,541)	(2,467,907)	(2,010,229)	(7,719,420)	(6,340,770)
Change in net assets	(386,900)	2,498,450	1,273,437	1,163,912	886,537	3,662,362
Net assets-beginning of year	4,958,072	2,280,486	5,124,540	3,960,627	10,082,612	6,241,113
Prior period adjustment	(27,400)	180,041	-	-	(27,400)	180,041
Net assets-beginning of year-adjusted	4,930,672	2,460,527	5,124,540	3,960,627	10,055,212	6,421,154
Net assets-end of year	\$ 4,543,772	\$ 4,958,977	\$ 6,397,977	\$ 5,124,539	\$10,941,749	\$10,083,516

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 9-30-06, the City amended its General Fund. The total dollar amount of the budget for the General Fund was increased in the amount of \$129,319. These amendments were necessary in the General Fund Revenues due to receiving approval of an application for a Firefighters Grant, which 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 \$1,603,317 and at the end of year (GAAP basis) was \$2,297,606, which was an increase of \$694,289. 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 \$7,191,846 at 9-30-05 to \$7,268,329 at 9-30-06. This is an increase of \$76,483 after depreciation. The primary increase in capital assets occurred in vehicles, construction in progress, buildings, and infrastructure. In the category of Business-type Activities capital assets, net, increased from \$6,721,831 at 9-30-05 to \$7,745,122 at 9-30-06. This is an increase of \$1,023,291 after depreciation. The primary increase in capital assets in this category occurred in construction in progress, waterworks system, equipment, and vehicles. During the past year, the city completed East Commerce Street Extension, Fire Station #3, Police Station, Nesbit Sewer, Paving Projects, DWSI Phase III Water Project, Commerce Street Water Main, and McIngvale Road Water Main.

General Long-Term Debt is located on pages 23 - 26. As of September 30, 2006, the City had \$5,075,000 in outstanding General Obligation Bonds and \$2,794,343 in loans and long-term debt. The bonds were issued for sanitary sewer improvements, water improvements, City Hall renovation, construction of new fire stations, and renovation of an existing building for the Police Department and Court. The City also issued a General Obligation Note in 2002 for five years, in the amount of \$295,000; these funds were used for street improvement projects and to purchase an asphalt roller. 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 that have included a new well, water tank, and larger water mains. Phase III will install larger mains in some of the older sections of town and loop the lines for better pressure and fire protection. All these improvements were needed due to the age of the systems, accommodate the growth, and to give better fire protection. The City has also received an additional cap loan for the Country Haven Sewer Project in order to complete the project. The construction for the sewer main was started in the fiscal year ending 9-30-04 but was not completed until 2006. The City Engineer is currently designing further extension of the sewer system in the Nesbit area so that all annexed areas will have the city sewer service. Capital Improvement Projects currently under construction is the water plant improvement project which will install a new well.

CURRENTLY KNOWN FACTS

Hernando is 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 2006 is 12,500. In 2006 the City issued 325 building permits as compared to 275 in 2005 and 206 in 2004. Over the past year the City has added 315 sewer customers, and 208 water customers. Since FYE 9-30-2000 the City has added 1,877 sewer customers, and 1,318 water customers. 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 personnel, police equipment, fire equipment, and sewer expansion to the Nesbit area, and we have received state funding for water and sewer improvements.

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 brush removal 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, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in bank and on hand	\$ 2,353,858	\$ 1,121,701	\$ 3,475,559
Cash-restricted	-	270,590	270,590
Accounts receivable-net of allowance for doubtful accounts of \$71,557	463,916	342,286	806,202
Due from other funds	-	21,631	21,631
Intergovernmental receivables	2,326,657	-	2,326,657
Prepaid expenses	293,009	26,824	319,833
Capital lease receivable	345,638	-	345,638
Other receivables	-	4,988	4,988
Bond issue costs	98,142	-	98,142
Fixed assets (net, where applicable, of accumulated depreciation)	7,268,329	7,745,122	15,013,451
Total assets and other debits	13,149,550	9,533,142	22,682,692
Liabilities			
Accounts payable	\$ 193,227	\$ 123,743	\$ 316,970
Accrued expenses	135,440	40,740	176,180
Due to other funds	21,631	-	21,631
Customer deposits	-	270,590	270,590
Deferred revenue	2,302,657	-	2,302,657
Escrow deposit	16,939	-	16,939
Non-current liabilities			
Due within one year			
General obligation bonds payable - current	190,000	-	190,000
Loans payable - current	92,810	88,948	181,758
Leases payable - current	115,627	120,557	236,184
Due in more than one year			
General obligation bonds payable	4,885,000	-	4,885,000
Loans payable	228,289	2,384,298	2,612,587
Accrued compensated absences	258,713	74,683	333,396
Leases payable	165,443	31,606	197,049
Total liabilities	8,605,777	3,135,165	11,740,942
Net assets			
Invested in capital assets, net of related debt	1,591,160	5,119,713	6,710,873
Restricted for:			
Capital projects	260,787	-	260,787
Debt service	92,689	-	92,689
Unreserved	2,599,134	1,278,264	3,877,399
Total net assets	\$ 4,543,770	\$ 6,397,977	\$ 10,941,747

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

CITY OF HERNANDO, MISSISSIPPI
Statement of Activities
September 30, 2006

	Program Revenues			Net (Expenses)Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities						
Administrative	\$ 719,283	\$ -	\$ -	\$ (719,283)	\$ -	\$ (719,283)
Ambulance	351,209	353,629	-	2,420	-	2,420
Amortization	5,773	-	-	(5,773)	-	(5,773)
Animal shelter	164	1,060	-	896	-	896
Attorney	17,279	-	-	(17,279)	-	(17,279)
Court	186,186	-	-	(186,186)	-	(186,186)
Dispatch	169,107	-	-	(169,107)	-	(169,107)
Fire	1,987,338	-	-	(1,987,338)	-	(1,987,338)
Interest on long-term debt	236,280	-	-	(236,280)	-	(236,280)
Library	90,359	-	-	(90,359)	-	(90,359)
Other	16,060	-	-	(16,060)	-	(16,060)
Park	77,857	-	-	(77,857)	-	(77,857)
Planning	297,972	440,692	-	142,721	-	142,721
Police	1,686,716	187,384	24,316	(1,475,016)	-	(1,475,016)
Street	417,010	-	-	(417,010)	-	(417,010)
Total governmental activities	6,258,595	982,765	24,316	(5,251,514)	-	(5,251,514)
Business-type activities						
Water personnel	237,959	-	-	-	(237,959)	(237,959)
Water supplies	57,728	-	-	-	(57,728)	(57,728)
Water other	506,543	-	-	-	(506,543)	(506,543)
Sewer personnel	112,088	-	-	-	(112,088)	(112,088)
Sewer supplies	6,324	-	-	-	(6,324)	(6,324)
Sewer other	334,355	-	-	-	(334,355)	(334,355)
Sanitation personnel	574,650	-	-	-	(574,650)	(574,650)
Sanitation supplies	48,481	-	-	-	(48,481)	(48,481)
Sanitation other	55,982	-	-	-	(55,982)	(55,982)
Interest on long-term debt	71,083	-	-	-	(71,083)	(71,083)
Depreciation	462,714	-	-	-	(462,714)	(462,714)
Total business-type activities	2,467,907	-	-	-	(2,467,907)	(2,467,907)
General revenues						
Taxes				2,860,757	65,531	2,926,288
Contributed capital				13,950	-	13,950
Licenses and permits				18,892	-	18,892
Intergovernmental				2,646,924	-	2,646,924
Charges for services				-	2,519,933	2,519,933
Rents				48,357	-	48,357
Interest				119,428	40,059	159,487
Grants				166,086	14,100	180,186
Miscellaneous				67,911	-	67,911
Transfers in(out)				(1,101,721)	1,101,721	-
Sale of assets				24,029	-	24,029
Total general revenues				4,864,612	3,741,344	8,605,956
Change in net assets				(386,902)	1,273,437	886,535
Net assets-beginning of year				4,958,072	5,124,540	10,082,612
Prior period adjustment				(27,400)	-	(27,400)
Net assets-beginning of year-adjus				4,930,672	5,124,540	10,055,212
Net assets-end of year				\$ 4,543,770	\$ 6,397,977	\$ 10,941,746

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

CITY OF HERNANDO, MISSISSIPPI
 Balance Sheet
 Governmental Funds
 September 30, 2006

	General Fund	2003 Improvement	Cap Lease	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in bank and on hand	\$ 1,802,980	\$ -	\$ 5,107	\$ 192,295	\$ 2,000,382
Cash-restricted	-	260,787	-	92,689	353,476
Due from other funds	272,043	-	-	63,491	335,534
Intergovernmental receivables	369,333	-	-	305	369,638
Other receivables	-	-	-	5,341	5,341
Capital lease receivable	-	-	345,638	-	345,638
Prepaid expenses	251,497	-	3,329	41,514	296,340
Total assets	\$ 2,695,853	\$ 260,787	\$ 354,074	\$ 395,635	\$ 3,706,349
Liabilities					
Accounts payable	\$ 189,081	\$ -	\$ -	\$ 4,149	\$ 193,230
Accrued expenses	169,409	-	-	-	169,409
Due to other funds	-	347,837	9,329	-	357,166
Deferred revenue	-	-	345,638	-	345,638
Escrow deposit	-	-	16,939	-	16,939
Total liabilities	358,490	347,837	371,906	4,149	1,082,382
Fund balances					
Reserved for:					
Capital projects	-	260,787	-	-	260,787
Debt service	-	-	-	92,689	92,689
Unreserved	2,337,363	(347,837)	(17,832)	298,797	2,270,491
Total fund balances	2,337,363	(87,050)	(17,832)	391,486	2,623,967
Total liabilities and fund balances	\$ 2,695,853	\$ 260,787	\$ 354,074	\$ 395,635	\$ 3,706,349

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, 2006

Total Fund Balance - Governmental Funds \$ 2,623,967

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	-	
Buildings and improvements	4,129,815	
Equipment	1,721,309	
Vehicles	543,100	
Infrastructure	3,066,230	
Improvements other than buildings	13,571	
Accumulated depreciation	<u>(2,766,121)</u>	
		7,268,329

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. 98,142

Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 489,217

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

Notes payable	(321,099)	
General obligation bonds	(5,075,000)	
Capital leases payable	(281,070)	
Compensated absences payable	<u>(258,713)</u>	
		<u>(5,935,882)</u>

Net Assets of Governmental Activities \$ 4,543,773

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, 2006

	General Fund	2003 Improvement	Cap Lease	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,214,287	\$ -	\$ -	\$ 646,469	\$ 2,860,756
Licenses and permits	18,892	-	-	-	18,892
Intergovernmental	2,639,364	-	-	7,560	2,646,924
Charges for services	686,805	-	-	-	686,805
Fines	187,384	-	-	-	187,384
Interest	61,557	19,033	208	38,631	119,429
Miscellaneous	67,921	-	-	-	67,921
Rents	21,008	-	27,349	-	48,357
Sale of cemetery lots	27,950	-	-	-	27,950
Total revenues	<u>5,925,168</u>	<u>19,033</u>	<u>27,557</u>	<u>692,660</u>	<u>6,664,418</u>
Expenditures					
Administrative	627,990	-	-	-	627,990
Ambulance	332,734	-	-	-	332,734
Animal shelter	164	-	-	-	164
Attorney	17,278	-	-	-	17,278
Capital outlay	-	459,730	-	-	459,730
Court	177,728	-	-	-	177,728
Dispatch	165,675	-	-	-	165,675
Fire	1,709,536	-	-	-	1,709,536
Library	-	-	-	90,359	90,359
Other	-	-	-	16,059	16,059
Park	-	-	-	59,363	59,363
Planning	279,304	-	-	-	279,304
Police	1,555,570	-	-	-	1,555,570
Street	393,759	-	-	-	393,759
Debt service					
Principle	-	-	30,255	290,000	320,255
Interest	147,579	-	11,223	274,478	433,280
Total expenditures	<u>5,407,317</u>	<u>459,730</u>	<u>41,478</u>	<u>730,259</u>	<u>6,638,784</u>
Excess (deficiency) of revenues over (under) expenditures	<u>517,851</u>	<u>(440,697)</u>	<u>(13,921)</u>	<u>(37,599)</u>	<u>25,634</u>
Other financing sources (uses)					
Sale of equipment	7,793	-	-	-	7,793
Grants	190,402	-	-	-	190,402
Lease proceeds	-	-	-	-	-
Transfers	-	(1,101,721)	-	-	(1,101,721)
Contributed capital	18,000	(4,050)	-	-	13,950
Total other financing sources (uses)	<u>216,195</u>	<u>(1,105,771)</u>	<u>-</u>	<u>-</u>	<u>(889,576)</u>
Net change in fund balances	<u>734,046</u>	<u>(1,546,468)</u>	<u>(13,921)</u>	<u>(37,599)</u>	<u>(863,942)</u>
Fund balance - beginning of year	<u>1,630,717</u>	<u>1,459,418</u>	<u>(3,911)</u>	<u>429,085</u>	<u>3,515,309</u>
Prior period adjustment	<u>(27,400)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,400)</u>
Fund balance - beginning of year(as restated)	<u>1,603,317</u>	<u>1,459,418</u>	<u>(3,911)</u>	<u>429,085</u>	<u>3,487,909</u>
Fund balance - end of year	<u>\$ 2,337,363</u>	<u>\$ (87,050)</u>	<u>\$ (17,832)</u>	<u>\$ 391,486</u>	<u>\$ 2,623,967</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, 2006

Net change in fund balances-total governmental funds	\$ (863,942)
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 (\$538,766) exceeded depreciation (\$449,667) in the current period.	89,099
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 (\$517,240) exceeded proceeds (\$220,384)	296,856
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 (\$0) exceeded amortization (\$5,773) in the current period.	(5,773)
Some revenues will not be collected for several months after year end. They are not considered available resources in the governmental funds.	108,572
Loss on disposal of equipment.	<u>(11,711)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (386,899)</u></u>

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, 2006

	<u>Utility Fund</u>
Assets	
Current assets	
Cash in bank and on hand	\$ 1,121,701
Accounts receivable(net of allowance for doubtful accounts)	342,286
Prepaid expenses	26,824
Due from other funds	21,631
Other receivable	4,988
Total current assets	<u>1,517,430</u>
Restricted assets:	
Customer deposits	270,590
Total restricted assets	<u>270,590</u>
Fixed assets	
Waterworks system	10,171,649
Machinery and equipment	989,105
Vehicles	336,627
Work in process	72,595
Accumulated depreciation	(3,824,854)
Total fixed assets	<u>7,745,122</u>
Total assets	<u>\$ 9,533,142</u>
Liabilities and fund equity	
Current liabilities	
Accounts payable	\$ 123,743
Accrued expenses	40,740
Capital lease payable	120,557
Notes payable	88,948
Total current liabilities	<u>373,988</u>
Current liabilities payable from restricted assets	
Customer deposits	<u>270,590</u>
Long-term liabilities	
Capital lease payable	31,606
Accrued compensated absences	74,683
Notes payable	2,384,298
Total long-term liabilities	<u>2,490,587</u>
Total liabilities	<u>3,135,165</u>
Fund equity	
Invested in capital assets(net of related debt)	5,281,612
Unreserved net assets	1,116,365
Total fund equity	<u>6,397,977</u>
Total liabilities and fund equity	<u>\$ 9,533,142</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, 2006

	<u>Utility Fund</u>
Operating revenues	
Water sales	\$ 819,317
Sewer sales	667,648
Garbage sales	518,226
Tap fees	465,610
Late charges	49,132
Taxes	<u>65,531</u>
Total operating revenues	<u>2,585,464</u>
Operating expenses	
Water personnel	237,959
Water supplies	57,728
Water other	506,543
Sewer personnel	112,088
Sewer supplies	6,324
Sewer other	334,355
Sanitation personnel	574,650
Sanitation supplies	48,481
Sanitation other	55,982
Depreciation	<u>462,714</u>
Total operating expenses	<u>2,396,824</u>
Operating income	<u>188,640</u>
Non-operating revenues (expenses)	
Interest revenue	40,059
Contributed capital	-
Grants	14,100
Transfers in	1,101,721
Interest expense	<u>(71,083)</u>
Total non-operating revenues (expenses)	<u>1,084,797</u>
Net income	1,273,437
Net assets - beginning of year unadjusted	<u>5,124,540</u>
Net assets - end of year	<u><u>\$ 6,397,977</u></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, 2006

	Utility Fund
Cash flows from operating activities	
Cash received from customers	\$ 2,578,444
Cash payments for goods and services	(953,304)
Cash payments to employees	(864,437)
Net cash provided by operating activities	<u>760,703</u>
Cash flows from noncapital financing activities	
Transfers from other funds	<u>1,101,721</u>
Net cash provided by noncapital financing activities	<u>1,101,721</u>
Cash flows from capital and related financing activities	
Payments for capital acquisitions	(1,486,005)
Payments from customer deposits	54,608
Debt proceeds	221,330
Grant proceeds	14,100
Principal payments on debt	(240,846)
Interest payments on debt	(64,254)
Net cash provided by capital and related financing activities	<u>(1,501,067)</u>
Cash flows from investing activities	
Receipts of interest	<u>40,059</u>
Net increase in cash and cash equivalents	401,416
Cash and cash equivalents-beginning of year	<u>990,875</u>
Cash and cash equivalents-end of year	<u>\$ 1,392,291</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 188,640</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	462,714
(Increase) decrease in customer receivables	(7,023)
(Increase) decrease in prepaid items	(14,791)
Increase (decrease) in accounts payable	65,952
Increase (decrease) in accrued expenses	5,647
Total adjustments	<u>512,499</u>
Net cash provided by operating activities	<u>\$ 701,139</u>

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

(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 polices 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

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

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. Nonmajor 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, 2006

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 1st. 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, 2006

(4) General Fixed Assets

Changes in General Fixed Assets are as follows:

	<u>Balance at</u> <u>9/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>9/30/2006</u>
<i>Governmental Activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 560,425	\$ -	\$ -	\$ 560,425
Construction in progress	2,232,390	441,168	(2,673,558)	-
Total capital assets, not being depreciated:	2,792,815	441,168	(2,673,558)	560,425
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	2,608,532	1,521,283	-	4,129,815
Equipment	1,733,023	-	(11,714)	1,721,309
Vehicles	517,868	25,232	-	543,100
Improvements other than buildings	13,571	-	-	13,571
Infrastructure	1,842,491	1,224,640	(901)	3,066,230
Total capital assets, being depreciated:	6,715,485	2,771,155	(12,615)	9,474,025
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(729,609)	(114,372)	-	(843,981)
Equipment	(1,024,271)	(151,972)	-	(1,176,243)
Vehicles	(441,391)	(53,637)	-	(495,028)
Improvements other than buildings	(1,086)	(543)	-	(1,629)
Infrastructure	(120,097)	(129,143)	-	(249,240)
Total accumulated depreciation	(2,316,454)	(449,667)	-	(2,766,121)
Total capital assets, being depreciated, net	4,399,031	2,321,488	(12,615)	6,707,904
Governmental activities capital assets, net	\$ 7,191,846	\$ 2,762,656	\$ (2,686,173)	\$ 7,268,329
<i>Business-type activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$ 1,419,336	\$ 1,378,845	\$ 2,725,586	\$ 72,595
Total capital assets, not being depreciated:	1,419,336	1,378,845	2,725,586	72,595
<i>Capital assets, being depreciated:</i>				
Waterworks system	7,396,217	2,775,432	-	10,171,649
Equipment	950,582	38,523	-	989,105
Vehicles	317,836	18,791	-	336,627
Total capital assets, being depreciated:	8,664,635	2,832,746	-	11,497,381
<i>Less accumulated depreciation for:</i>				
Waterworks system	(2,599,909)	(353,737)	-	(2,953,646)
Equipment	(523,860)	(84,291)	-	(608,151)
Vehicles	(238,371)	(24,686)	-	(263,057)
Total accumulated depreciation	(3,362,140)	(462,714)	-	(3,824,854)
Total capital assets, being depreciated, net	5,302,495	2,370,032	-	7,672,527
Business-type activities capital assets, net	\$ 6,721,831	\$ 3,748,877	\$ 2,725,586	\$ 7,745,122

No interest was capitalized during the year due to immateriality.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Commitments under construction at September 30, 2006 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
<i>Water Plant Improvement</i>	349,905	326,905	<i>Utility</i>

A summary of depreciation expense is as follows:

<u>Function</u>	<u>Depreciation Expense</u>
<i>Administrative</i>	\$ 38,271
<i>Ambulance</i>	5,613
<i>Fire</i>	212,737
<i>Park</i>	18,495
<i>Police</i>	71,863
<i>Planning</i>	1,753
<i>Street</i>	100,935
<i>Total depreciation expense</i>	<u>\$ 449,667</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

(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	1,800,000
2003	various	10/1/2003	10/1/2023	3,500,000	3,275,000
				<u>\$ 5,500,000</u>	<u>\$ 5,075,000</u>

Loans

The City also uses loans to finance its projects.

Hancock Bank

2003 General Obligation	3.10%	9/19/2002	9/19/2007	\$ 295,000	\$ 62,655
Department of Economic and Community Development Industrial Building	4.00%	6/30/1997	4/1/2014	450,000	258,443
Department of Economic and Community Development Sewer Cap Loan	3.00%	10/31/2002	10/31/2021	288,000	232,306
State of Mississippi DWSIRLF	3.00%	2/10/2002	10/10/2021	752,086	614,157
State of Mississippi DWSIRLF	3.00%	2/10/2003	9/10/2022	391,232	335,676
Department of Environmental Quality Water Pollution Control	1.75%	6/1/2003	1/1/2023	508,741	435,895
State of Mississippi DWSIRLF	4.00%	5/1/2006	2/1/2026	233,505	448,947
Department of Economic and Community Development Sewer Cap Loan	2.00%	2/1/2005	2/1/2025	237,400	221,036
Department of Economic and Community Development Sewer Cap Loan	3.00%	11/1/2005	11/1/2025	191,116	185,228
<i>Total</i>				<u>\$ 3,347,080</u>	<u>\$ 2,794,343</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Annual requirements to retire debt obligations.

The aggregate maturities of general obligation bonds and loans for the years subsequent to September 30, 2006 are as follows:

	<i>Year Ending September 30</i>	<i>General long-term Debt</i>	
		<i>Principle</i>	<i>Interest</i>
	2007	\$ 398,437	\$ 217,651
	2008	320,488	202,496
	2009	322,648	189,392
	2010	265,343	176,726
	2011	265,377	165,094
	2012-2016	1,424,874	660,213
	2017-2021	1,655,000	386,800
	2022-2026	1,025,000	72,108
<i>Total</i>		<u>\$ 5,677,167</u>	<u>\$ 2,070,480</u>

	<i>Year Ending September 30</i>	<i>Enterprise Fund</i>	
		<i>Principle</i>	<i>Interest</i>
	2007	\$ 209,505	\$ 66,177
	2008	156,012	61,074
	2009	148,681	57,093
	2010	139,579	53,156
	2011	133,779	49,643
	2012-2016	723,899	193,207
	2017-2021	825,258	91,848
	2022-2026	288,694	12,532
	2027-2031	-	-
<i>Subtotal</i>		<u>2,625,407</u>	<u>584,730</u>
<i>Less: Uncommitted Principal</i>			<u>-</u>
<i>Total</i>		<u>\$ 2,625,407</u>	<u>\$ 584,730</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Long-term activity for the year ended September 30, 2006 was as follows:

	<u>Balance at 9/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2006</u>	<u>Amounts Due Within One Year</u>
<i>Governmental Activities:</i>					
<i>Bonds, notes and leases payable:</i>					
<i>General obligation bonds Payable</i>	\$ 5,365,000	\$ -	\$ 290,000	\$ 5,075,000	\$ 190,000
<i>Notes payable</i>	411,244	-	90,145	321,099	92,810
<i>Leases Payable</i>	418,165	-	137,095	281,070	115,627
<i>Accrued compensated absences</i>	<u>38,329</u>	<u>220,384</u>	<u>-</u>	<u>258,713</u>	<u>-</u>
<i>Governmental activities long-term liabilities</i>	<u>\$ 6,232,738</u>	<u>\$ 220,384</u>	<u>\$ 517,240</u>	<u>\$ 5,935,882</u>	<u>\$ 398,437</u>
<i>Business-type activities:</i>					
<i>Notes and leases payable:</i>					
<i>Notes payable</i>	\$ 2,358,069	\$ 222,930	\$ 107,754	\$ 2,473,245	\$ 88,948
<i>Leases Payable</i>	285,254	-	133,092	152,162	120,557
<i>Accrued compensated absences</i>	<u>15,119</u>	<u>74,683</u>	<u>-</u>	<u>89,802</u>	<u>-</u>
<i>Business-type activities long-term liabilities</i>	<u>\$ 2,658,442</u>	<u>\$ 297,613</u>	<u>\$ 240,846</u>	<u>\$ 2,715,209</u>	<u>\$ 209,505</u>

The total amount of interest incurred for the year ended September 30, 2006 was \$308,714.

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

(6) Capital Leases

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2006 were as follows:

<u>Year Ending September 30</u>	<u>General Long-Term Debt</u>	
	<u>Principle</u>	<u>Interest</u>
2007	\$ 115,627	\$ 6,788
2008	84,106	3,685
2009	74,986	1,410
2010	6,351	16
2011	-	-
<i>Total</i>	<u>\$ 281,070</u>	<u>\$ 11,899</u>

<u>Year Ending September 30</u>	<u>Enterprise Fund</u>	
	<u>Principle</u>	<u>Interest</u>
2007	\$ 88,948	\$ 3,312
2008	32,283	1,383
2009	21,692	661
2010	9,239	73
2011	-	-
<i>Total</i>	<u>\$ 152,162</u>	<u>\$ 5,429</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Assets acquired through capital leases are recorded at the present value of the future minimum lease payments and are as follows:

	<u>General Fixed Assets</u>	<u>Enterprise Fund</u>
<i>Vehicles and Equipment</i>	\$ 541,365	\$ 573,652
<i>Less: Accumulated Depreciation</i>	<u>(229,147)</u>	<u>(272,462)</u>
<i>Total</i>	<u>\$ 312,218</u>	<u>\$ 301,190</u>

(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, 2006, and 2005, were \$388,085 and \$304,679 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>		
<i>General fund</i>	\$ 272,043	\$ -
<i>2003 Improvement</i>	-	347,837
<i>Cap lease</i>	-	9,329
<i>Utility fund</i>	21,631	-
<i>Nonmajor funds</i>	<u>63,491</u>	<u>-</u>
<i>Total funds</i>	<u>\$ 357,165</u>	<u>\$ 357,166</u>

CITY OF HERNANDO, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

(9) Intergovernmental Receivables

Intergovernmental Receivables consist of the following:

	<u>General Fund</u>
<i>County pro rata</i>	
<i>Ad valorem</i>	\$ 2,009,488
<i>Franchise and sales tax</i>	284,782
<i>Other</i>	<u>32,387</u>
<i>Totals</i>	<u>\$ 2,326,657</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.

(11) Prior Period Adjustment

The City erroneously overstated sales tax receivable by \$27,400 in the previous year. The overstatement has been corrected during the current year.

CITY OF HERNANDO, MISSISSIPPI
 Budgetary Comparison Schedule – General Fund
 September 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,798,263	1,812,263	\$ 2,217,059	404,796
Licenses and permits	-	17,000	18,892	1,892
Intergovernmental	2,565,600	2,771,600	2,659,129	(112,471)
Charges for services	717,380	470,380	686,805	216,425
Fines	275,000	275,000	187,384	(87,616)
Interest	10,000	10,000	61,557	51,557
Miscellaneous	44,000	10,000	52,986	42,986
Sale of cemetery lots	18,000	18,000	27,950	9,950
Total revenues	<u>5,428,243</u>	<u>5,384,243</u>	<u>5,911,762</u>	<u>527,519</u>
Expenditures				
Administrative	768,636	767,436	627,987	139,449
Ambulance	427,796	427,796	332,733	95,063
Animal shelter	5,500	5,500	164	5,336
Attorney	16,067	16,067	17,279	(1,212)
Court	197,035	197,035	177,727	19,308
Dispatch	157,401	157,401	165,674	(8,273)
Fire	1,689,929	1,819,248	1,709,535	109,713
Park	-	-	-	-
Planning	301,039	301,039	279,304	21,735
Police	1,597,484	1,597,484	1,555,569	41,915
Street	589,338	589,338	393,758	195,580
Debt service	146,635	147,835	147,579	256
Total expenditures	<u>5,896,860</u>	<u>6,026,179</u>	<u>5,407,309</u>	<u>618,870</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(468,617)</u>	<u>(641,936)</u>	<u>504,453</u>	<u>(91,351)</u>
Other financing sources (uses)				
Grants	125,000	278,319	190,403	(87,916)
Rents	-	18,000	21,008	3,008
Sale of assets	-	2,000	7,793	5,793
Total other financing sources(uses)	<u>125,000</u>	<u>298,319</u>	<u>219,204</u>	<u>(79,115)</u>
Net changes in fund balances	<u>\$ (343,617)</u>	<u>\$ (343,617)</u>	<u>723,657</u>	<u>\$ (170,466)</u>
Fund balance - beginning of year			<u>1,603,317</u>	
Fund balance - end of year			2,326,974	
Adjustments to conform with GAAP:				
Revenues			<u>(29,368)</u>	
Fund balance - end of year(GAAP basis)			<u>\$ 2,297,606</u>	

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

CITY OF HERNANDO, MISSISSIPPI
 Fidelity Bond Coverage
 September 30, 2006

Fidelity Bonds

Fidelity bonds in force at September 30, 2006 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, 2006

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
Cassaundra 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.



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 basic financial statements of the City of Hernando, Mississippi as of and for the year ended, September 30, 2006, and have issued our report thereon dated January 12, 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Hernando's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hernando's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level other risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control financial reporting and its operation that we consider to be a material weakness. This report is intended solely for the information and use of management, the Mississippi State Department of Audit and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC
Certified Public Accountants
January 12, 2007



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2006, and issued our report thereon dated January 12, 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
January 12, 2007



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and Board of Aldermen
City of Hernando
Hernando, Mississippi

We have audited the financial statements of the City of Hernando as of and for the year ended September 30, 2006, and have issued our report thereon dated January 12, 2007.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to the City of Hernando, is the responsibility of City of Hernando's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contract, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the City of Hernando did not comply, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Hernando had not complied, in all material respects, with those provisions.

Finding

Section 21-35-15, Miss. Code Ann.(1972), requires that no expenditures be made in excess of budget estimates. Expenditures for the general fund exceeded budget estimates.

Recommendation

Controls should be established to ensure that the budget is revised upon expenditures exceeding budget estimates.

This report is intended for the information of management, the Mississippi State Department of Audit, and the United States Bureau of Census. 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 12, 2007