

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

**CITY OF HORN LAKE, MISSISSIPPI**

**ANNUAL FINANCIAL REPORT  
Year Ended September 30, 2007**

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## INDEPENDENT AUDITORS' REPORT

Mayor and Board of Aldermen  
City of Horn Lake  
Horn Lake, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund and the aggregate remaining fund information of the City of Horn Lake, 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 Horn Lake'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 opinions.

In our opinion, the financial statements referred to in the first paragraph 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 Horn Lake, Mississippi as of September 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the City of Horn Lake'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. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 36, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Horn Lake, Mississippi's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Williams, Pitts & Beard, PLLC*

Williams, Pitts & Beard, PLLC

Certified Public Accountants

September 29, 2008

# CITY OF HORN LAKE

## MISSISSIPPI



Management's Analysis and Discussion

FYE 2007

THE CITY OF HORN LAKE, MISSISSIPPI

CITY OFFICIALS

**MAYOR**

NATHAN "NAT" BAKER, JR

**ALDERMAN**

DONNIE WHITE, ALDERMAN-AT-LARGE

AMY LAY, WARD 1  
CHRIS SHELEY, WARD 2  
TIM SMITH, WARD 3  
TOM POLZIN, WARD 4  
DEREK DOWNING, WARD 5  
JOHN E JONES, JR, WARD 6

**CITY ADMINISTRATOR/CAO**

ANDREA FREEZE

**CITY ACCOUNTANT**

BARRY THOMPSON

**CITY ATTORNEY**

BILLY CAMPBELL

**CITY CLERK**

TARA WARREN

**DEPARTMENT HEADS**

POLICE CHIEF - DARRYL WHALEY  
FIRE CHIEF - DAVID LINVILLE  
PUBLIC WORKS/UTILITIES - SPENCER SHIELDS  
PLANNING AND DEVELOPMENT - ANITA RAINEY  
PARKS AND RECREATION - TOMMY BLEDSOE  
COMMUNITY DEVELOPMENT - A.J. JENKINS

**City of Horn Lake, Mississippi  
Management's Discussion and Analysis  
For Year Ended September 30, 2007  
Unaudited**

This discussion and analysis of the City of Horn Lake'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.

**Financial Highlights**

Key financial highlights for 2007 were as follows:

Total net assets increased from \$ 11,067,951 to \$ 12,992,631

Total liabilities decreased from \$ 49,040,293 to \$ 46,551,296

Total assets of governmental activities increased from \$ 8,167,631 to \$ 9,780,163

Total assets of business-type activities increased from \$ 2,900,320 to \$ 3,212,468

**Using This Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Horn Lake's performance as a whole. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of New Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a long-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as funds that remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in an aggregate column.

Reporting the City of Horn Lake, Mississippi as a whole.

**Statement of Net Assets and the Statement of Activities**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial

information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services including police, fire, administrative, and all other departments.

## **REPORTING THE CITY OF HORN LAKE'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

The analysis of the City's major funds begins on page three. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Horn Lake, the City's major funds are the General, Debt Service, \$4.5 Million Street Fund, Horn Lake Utility System, Sanitation and Utility Refunding Fund.

### **Governmental Funds**

All of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statement.



## The City of Horn Lake as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2007 compared to 2006.

**Table 1**  
**Statement of Net Assets**

	2006	2007
<b>Assets</b>		
<i>Current and Other Assets</i>	\$ 18,423,432	\$ 17,586,464
<i>Capital Assets Net</i>	<u>41,684,810</u>	<u>41,957,463</u>
<i>Total Assets</i>	<u>60,108,244</u>	<u>59,543,927</u>
<b>Liabilities</b>		
<i>Current and other Liabilities</i>	7,824,792	7,764,486
<i>Due Within One Year</i>	2,320,978	1,812,120
<i>Long Term Liabilities</i>		
<i>Due in More Than One Year</i>	<u>38,894,523</u>	<u>36,974,690</u>
<i>Total Liabilities</i>	<u>49,040,293</u>	<u>46,551,296</u>
<b>Net Assets</b>		
<i>Invested in Capital Assets Net of Debt</i>	1,761,798	4,360,247
<i>Restricted</i>	9,627,293	2,346,395
<i>Unrestricted</i>	<u>(321,140)</u>	<u>6,285,989</u>
<i>Total Net Assets</i>	<u>\$ 11,067,951</u>	<u>\$ 12,992,631</u>

The City of Horn Lake is attempting to stabilize certain long-term liabilities such as compensated absences.

Table 2 shows the Changes in Net Assets for the year ended September 30, 2007

**Table 2**  
**Changes in Net Assets**  
**Statement of Activities**

<b>Revenues</b>	<b>2006</b>	<b>2007</b>
<i>Program Revenues</i>		
<i>Charges for Services</i>	\$ 4,771,297	\$ 5,461,767
<i>Operating Grants and Contributions</i>	258,791	160,954
<i>Other</i>	<u>-</u>	<u>-</u>
<i>Total Program Revenues</i>	5,030,088	5,622,721
 <b>General Revenues</b>		
<i>Property Taxes &amp; Special Assessment</i>	6,332,769	6,756,282
<i>Other</i>	<u>5,582,278</u>	<u>6,195,704</u>
<i>Total General Revenue</i>	<u>11,915,047</u>	<u>12,951,986</u>
 <i>Total Revenues</i>	 <u>\$ 16,945,135</u>	 <u>\$ 18,574,707</u>
 <b>Program Expenses</b>		
<i>General Government</i>	<u>\$ 15,563,158</u>	<u>\$ 16,650,027</u>

Information about the City's major governmental funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. It is important to realize that all short-term notes issued by the City are recognized in the current period as short-term liabilities, and once bonded by the City they become long-term general obligation debt of the City.

Although the City has worked very hard on increasing our income tax base by being proactive with new businesses and reducing cost department by department, we still strive to provide better service at a lower cost per man-hour. The ability of the City to continue to provide quality services without income tax increases rests on the City management's ability to keep these costs in line.

**General Fund Budgeting Highlights**

The City'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.

During 2006-2007 the City amended its general fund budget. All recommendations for a budget change come from the Department Heads to the City Administrator. The Board of Aldermen of the City does not allow budget changes that modify totals within departments without Board approval. With the General Fund supporting many of our major activities such as our police, fire, ambulance, street and park departments, as well as legislative, judicial and executive activities, the General Fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

**Table 3**  
**Capital Assets at September 30, 2007**  
**Net Depreciation**  
**Governmental Activities**

	<b>2006</b>	<b>2007</b>
<i>Land</i>	\$ 3,560,356	\$ 3,560,356
<i>Buildings</i>	5,515,639	5,515,639
<i>Equipment</i>	924,354	1,023,625
<i>Vehicles</i>	2,728,093	2,681,835
<i>Construction in Progress</i>	723,579	102,027
<i>Infrastructure</i>	23,970,475	24,828,988
<i>Accumulated Depreciation</i>	<u>(9,206,309)</u>	<u>(10,421,124)</u>
	<u>\$ 28,216,187</u>	<u>\$ 27,291,346</u>

**Table 4**  
**Outstanding Notes and Long Term Obligations at Year End**  
**Governmental Activities**

	<b>2006</b>	<b>2007</b>
<i>General Obligation Bonds</i>	\$ 8,946,700	\$ 8,381,400
<i>Special Assessment Bonds</i>	14,580,000	13,870,000
<i>Lease Payable</i>	131,418	306,192
<i>Bond Premium</i>	260,698	241,622
<i>Deferred Loss</i>	(283,782)	(263,017)
<i>Compensated Absences</i>	<u>743,953</u>	<u>362,675</u>
 <i>Total</i>	 <u>\$ 24,758,987</u>	 <u>\$ 22,898,872</u>
 <b><i>Business Activities</i></b>		
<i>Bonds and Notes Payable</i>	\$ 12,750,000	\$ 12,490,000
<i>Loans Payable</i>	2,960,915	2,666,173
<i>Leases Payable</i>	268,964	94,983
<i>Compensated Absences</i>	<u>42,110</u>	<u>34,365</u>
 <i>Total</i>	 <u>\$ 16,021,989</u>	 <u>\$ 15,285,521</u>

The compensated absences liability identified above refers to the current balance of what has been earned as a termination/retirement benefit that will be paid over time as people leave or retire. Under GAAP reporting, this liability must be reported as a compensated absence at year-end, due to the contract language to the effect that the employee has “earned” this compensation.

***Contacting the City's Finance Department***

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 information, contact the City Administrator or the City Accountant at 662-393-6178.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Net Assets

September 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash in bank and on hand	\$ 1,465,517	\$ 1,035,355	\$ 2,500,872
Accounts receivable, net	1,705,752	756,037	2,461,789
Intergovernmental receivable	417,970	-	417,970
Property tax receivable	5,424,310	-	5,424,310
Prepaid expense	553,081	80,479	633,560
Capital loan receivable	-	185,509	185,509
Inventories	-	2,195	2,195
Due from other funds	64,235	-	64,235
Restricted assets			
Cash in bank	2,314,696	2,272,498	4,587,194
Warranty bonds	74,279	387,199	461,478
Bond issue costs, net	144,688	702,664	847,352
Capital assets, net	27,291,346	14,666,117	41,957,463
<b>Total assets and other debits</b>	<b>39,455,874</b>	<b>20,088,053</b>	<b>59,543,927</b>
<b>Liabilities</b>			
Accounts payable	399,754	315,285	715,039
Retainage payable	8,430	-	8,430
Accrued expenses	400,773	12,933	413,706
Warranty bonds	74,279	387,199	461,478
Deferred revenue	5,424,310	-	5,424,310
Accrued interest	469,293	207,995	677,288
Due to other funds	-	64,235	64,235
Current liabilities			
General obligation bonds payable	421,200	-	421,200
Special assessment bonds payable	735,000	-	735,000
Loans payable	-	138,101	138,101
Leases payable	152,836	94,983	247,819
Revenue bonds payable	-	270,000	270,000
Noncurrent liabilities			
General obligation bonds payable	7,960,200	-	7,960,200
Special assessment bonds payable	13,135,000	-	13,135,000
Loans payable	-	2,713,580	2,713,580
Leases payable	153,356	-	153,356
Revenue bonds payable	-	12,220,000	12,220,000
Bond premium	241,622	416,909	658,531
Loss on extinguishment of debt	(263,017)	-	(263,017)
Compensated absences	362,675	34,365	397,040
<b>Total liabilities</b>	<b>29,675,711</b>	<b>16,875,585</b>	<b>46,551,296</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	5,096,429	(736,182)	4,360,247
Restricted for:			
Capital projects	1,666,913	-	1,666,913
Debt service	303,710	-	303,710
Special revenue	375,772	-	375,772
Unrestricted	2,337,339	3,948,650	6,285,989
<b>Total net assets</b>	<b>\$ 9,780,163</b>	<b>\$ 3,212,468</b>	<b>\$ 12,992,631</b>

See accompanying notes to financial statements.



**CITY OF HORN LAKE, MISSISSIPPI**

Balance Sheet

Governmental Funds

September 30, 2007

	General Fund	\$ 4,500,000 Project Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash in bank and on hand	\$ 1,447,725	\$ -	\$ 91,615	\$ 1,539,340
Due from other funds	386,837	-	76,363	463,200
Accounts receivable, net	1,705,752	-	-	1,705,752
Intergovernmental receivable	417,970	-	-	417,970
Property tax receivable	3,632,263	-	1,792,048	5,424,311
Prepaid expenses	125,250	-	427,831	553,081
Restricted assets				
Cash in bank	74,279	1,704,128	536,745	2,315,152
Total assets	<u>\$ 7,790,076</u>	<u>\$ 1,704,128</u>	<u>\$ 2,924,602</u>	<u>\$ 12,418,806</u>
<b>Liabilities</b>				
Accounts payable	\$ 256,172	\$ 37,215	\$ 106,367	\$ 399,754
Accrued expenses	400,773	-	-	400,773
Deferred revenue	3,632,263	-	1,792,048	5,424,311
Warranty bonds	74,279	-	-	74,279
Due to other funds	52,260	-	346,705	398,965
Total liabilities	<u>4,415,747</u>	<u>37,215</u>	<u>2,245,120</u>	<u>6,698,082</u>
<b>Fund balances</b>				
Reserved for :				
Capital projects	-	1,666,913	-	1,666,913
Debt service	-	-	303,710	303,710
Undesignated reported in:				
General	3,374,329	-	-	3,374,329
Special revenue	-	-	375,772	375,772
Total fund balances	<u>3,374,329</u>	<u>1,666,913</u>	<u>679,482</u>	<u>5,720,724</u>
Total liabilities and fund balances	<u>\$ 7,790,076</u>	<u>\$ 1,704,128</u>	<u>\$ 2,924,602</u>	<u>\$ 12,418,806</u>

See accompanying notes to financial statements.



**CITY OF HORN LAKE, MISSISSIPPI**  
 Reconciliation of Total Governmental Fund Balance  
 To the Statement of Net Assets  
 September 30, 2007

**Total Fund Balance - Governmental Funds** \$ 5,720,724

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	3,560,356	
Buildings and improvements	5,515,639	
Equipment and vehicles	3,705,460	
Infrastructure	24,828,988	
Construction in progress	102,027	
Accumulated depreciation	<u>(10,421,124)</u>	
		27,291,346

Other long-term assets are not available to pay for current period expenditures  
 and therefore are deferred in the funds. These assets consist of the following:

Bond issue cost		144,688
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Some liabilities are not due and payable in the current period and therefore  
 are not reported in the funds. Those liabilities consist of:

Leases payable	(306,192)	
General obligation and special assessment bonds	(22,251,400)	
Accrued interest	(469,293)	
Bond premium	(241,622)	
Deferred loss on refunding	263,017	
Compensated absences	(362,675)	
Retainage payable	<u>(8,430)</u>	
		<u>(23,376,595)</u>

**Net Assets of Governmental Activities** \$ 9,780,163

See accompanying notes to financial statements.

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended September 30, 2007

	General Fund	\$ 4,500,000 Project Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 4,091,143	\$ -	\$ 2,740,173	\$ 6,831,316
Licenses and permits	379,771	-	-	379,771
Intergovernmental	4,314,579	-	-	4,314,579
Charges for services	446,772	-	257,650	704,422
Fines	806,499	-	-	806,499
Interest	3,212	4,274	2,294	9,780
Miscellaneous	370,653	-	104,879	475,532
Total revenues	<u>10,412,629</u>	<u>4,274</u>	<u>3,104,996</u>	<u>13,521,899</u>
<b>Expenditures</b>				
Administrative	1,117,531	-	-	1,117,531
Culture & recreation	452,605	-	384,942	837,547
Economic development	311,974	-	97,413	409,387
Public safety	6,043,275	-	751,361	6,794,636
Public works	1,150,325	58,597	13,432	1,222,354
Debt service				
Principal	1,100,000	-	1,608,684	2,708,684
Interest	18,655	-	1,012,030	1,030,685
Total expenditures	<u>10,194,365</u>	<u>58,597</u>	<u>3,867,862</u>	<u>14,120,824</u>
Excess (deficiency) of revenues over (under) expenditures	<u>218,264</u>	<u>(54,323)</u>	<u>(762,866)</u>	<u>(598,925)</u>
<b>Other financing sources (uses)</b>				
Grant revenue	85,813	-	75,141	160,954
Sale of assets	4,065	-	-	4,065
Interfund transfers	-	-	(57,111)	(57,111)
Loan proceeds	720,000	-	-	720,000
Lease proceeds	36,557	-	471,601	508,158
Total other financing sources (uses)	<u>846,435</u>	<u>-</u>	<u>489,631</u>	<u>1,336,066</u>
Net change in fund balances	1,064,699	(54,323)	(273,235)	737,141
Fund balance - beginning of year	<u>2,309,630</u>	<u>1,721,236</u>	<u>952,717</u>	<u>4,983,583</u>
Fund balance - end of year	<u>\$ 3,374,329</u>	<u>\$ 1,666,913</u>	<u>\$ 679,482</u>	<u>\$ 5,720,724</u>

See accompanying notes to financial statements.

**CITY OF HORN LAKE, MISSISSIPPI**  
 Reconciliation of the Statement of Revenues,  
 Expenditures and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities  
 Year Ended September 30, 2007

**Net Change in Fund Balances - Total Governmental Funds** \$ 737,141

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 (\$336,233) were exceeded by depreciation (\$1,247,029). (910,796)

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 (\$1,228,158) and amortization expense (\$13,112) in the current period exceeded repayments (\$2,708,684). 1,467,414

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Bond issue cost	(48,461)
Compensated absences payable	381,278
Sale of assets	(14,044)

**Change in Net Assets of Governmental Activities** \$ 1,612,532

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Net Assets

Proprietary Funds

September 30, 2007

	Utility Fund	Sanitation Fund	Total
<b>Assets</b>			
Current assets			
Cash in bank and on hand	\$ 862,144	\$ 173,211	\$ 1,035,355
Accounts receivable, net	756,037	-	756,037
Cap loan receivable	185,509	-	185,509
Inventory	2,195	-	2,195
Prepaid expenses	80,479	-	80,479
Due from other funds	1,723,186	183,823	1,907,009
Total current assets	<u>3,609,550</u>	<u>357,034</u>	<u>3,966,584</u>
Restricted assets:			
Cash	2,272,499	-	2,272,499
Customer deposits	255,994	131,205	387,199
Total restricted assets	<u>2,528,493</u>	<u>131,205</u>	<u>2,659,698</u>
Other assets			
Bond issue cost, net	702,664	-	702,664
Total other assets	<u>702,664</u>	<u>-</u>	<u>702,664</u>
Fixed assets			
Land	28,225	-	28,225
Buildings and improvements	151,001	67,547	218,548
Infrastructure	17,486,491	-	17,486,491
Machinery and equipment	124,580	699,886	824,466
Vehicles	-	348,465	348,465
Construction in progress	68,803	-	68,803
Accumulated depreciation	(3,594,929)	(713,953)	(4,308,882)
Total fixed assets	<u>14,264,171</u>	<u>401,945</u>	<u>14,666,116</u>
Total assets	<u>21,104,878</u>	<u>890,184</u>	<u>21,995,062</u>

Continued

See accompanying notes to financial statements.

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Net Assets

Proprietary Funds

September 30, 2007

	Utility Fund	Sanitation Fund	Total
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 304,595	\$ 10,690	\$ 315,285
Accrued expenses	6,057	6,876	12,933
Accrued interest payable	207,995	-	207,995
Bond premium	416,909	-	416,909
Due to other funds	1,908,460	62,784	1,971,244
Total current liabilities	<u>2,844,016</u>	<u>80,350</u>	<u>2,924,366</u>
Current liabilities payable from restricted assets			
Leases payable	-	94,983	94,983
Notes payable	138,101	-	138,101
General obligation bond payable	270,000	-	270,000
Customer deposits	255,994	131,205	387,199
Total current liabilities payable from restricted assets	<u>664,095</u>	<u>226,188</u>	<u>890,283</u>
Long-term liabilities			
Compensated absences	15,651	18,714	34,365
Notes payable	2,713,580	-	2,713,580
Revenue bonds payable	12,220,000	-	12,220,000
Total long-term liabilities	<u>14,949,231</u>	<u>18,714</u>	<u>14,967,945</u>
Total liabilities	<u>18,457,342</u>	<u>325,252</u>	<u>18,782,594</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	(1,077,510)	306,962	(770,548)
Unrestricted	3,725,046	257,970	3,983,016
Total net assets	<u>\$ 2,647,536</u>	<u>\$ 564,932</u>	<u>\$ 3,212,468</u>

Concluded

See accompanying notes to financial statements.

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year Ended September 30, 2007

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating revenues			
Water and sewer sales	\$ 3,760,517	\$ 996,828	\$ 4,757,345
Miscellaneous	<u>107,753</u>	<u>13,983</u>	<u>121,736</u>
Total operating revenues	<u>3,868,270</u>	<u>1,010,811</u>	<u>4,879,081</u>
Operating expenses			
Personnel	358,433	680,706	1,039,139
Supplies	71,154	120,558	191,712
Depreciation	455,051	103,682	558,733
Maintenance and other	588,081	63,163	651,244
Water & sewer system management	<u>1,489,130</u>	<u>-</u>	<u>1,489,130</u>
Total operating expenses	<u>2,961,849</u>	<u>968,109</u>	<u>3,929,958</u>
Operating income	<u>906,421</u>	<u>42,702</u>	<u>949,123</u>
Non-operating revenues (expenses)			
Interest revenue	22,341	413	22,754
Interest expense	(716,840)	-	(716,840)
Interfund transfers	<u>57,111</u>	<u>-</u>	<u>57,111</u>
Total non-operating revenues (expenses)	<u>(637,388)</u>	<u>413</u>	<u>(636,975)</u>
Net income	269,033	43,115	312,148
Net assets - beginning of year	<u>2,378,503</u>	<u>521,817</u>	<u>2,900,320</u>
Net assets - end of year	<u>\$ 2,647,536</u>	<u>\$ 564,932</u>	<u>\$ 3,212,468</u>

See accompanying notes to financial statements.

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Cash Flows

Proprietary Funds

Year Ended September 30, 2007

	Utility System	Sanitation Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 3,723,047	\$ 1,010,811	\$ 4,733,858
Cash payments for goods and services	(2,008,013)	(190,476)	(2,198,489)
Cash payments to employees	(350,550)	(696,334)	(1,046,884)
Net cash provided by operating activities	<u>1,364,484</u>	<u>124,001</u>	<u>1,488,485</u>
Cash flows from noncapital financing activities			
Interfund transfers	<u>77,791</u>	<u>37,673</u>	<u>115,464</u>
Net cash provided by noncapital financing activities	<u>77,791</u>	<u>37,673</u>	<u>115,464</u>
Cash flows from capital and related financing activities			
Payments for capital acquisitions	(1,729,692)	(10,400)	(1,740,092)
Customer deposits	14,881	40,906	55,787
Loan proceeds	304,882	-	304,882
Principal payments on debt	(368,713)	(173,981)	(542,694)
Interest payments on debt	(722,187)	-	(722,187)
Net cash (used in) capital and related financing activities	<u>(2,500,829)</u>	<u>(143,475)</u>	<u>(2,644,304)</u>
Cash flows from investing activities			
Receipts of interest	<u>22,341</u>	<u>413</u>	<u>22,754</u>
Net increase (decrease) in cash and cash equivalents	(1,036,213)	18,612	(1,017,601)
Cash and cash equivalents-beginning of year	<u>4,426,850</u>	<u>285,804</u>	<u>4,712,654</u>
Cash and cash equivalents-end of year	<u>\$ 3,390,637</u>	<u>\$ 304,416</u>	<u>\$ 3,695,053</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	<u>\$ 906,421</u>	<u>\$ 42,702</u>	<u>949,123</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation and amortization	455,051	103,682	558,733
(Increase) decrease in customer receivables	(145,223)	-	(145,223)
(Increase) decrease in prepaid expenses	5,706	-	5,706
Increase (decrease) in accounts payable	133,192	(9,091)	124,101
Increase (decrease) in accrued expenses	1,454	2,336	3,790
Increase (decrease) in compensated absences	7,883	(15,628)	(7,745)
Total adjustments	<u>458,063</u>	<u>81,299</u>	<u>539,362</u>
Net cash provided by operating activities	<u>\$ 1,364,484</u>	<u>\$ 124,001</u>	<u>\$ 1,488,485</u>

See accompanying notes to financial statements.

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2007

**(1) Summary of Significant Accounting Policies**

A. General Statement:

The City of Horn Lake (the City) was incorporated in 1973. The City operates under a Board of Aldermen-Mayor form of government and provides the following services; public safety (police and fire), streets, sanitation, culture, recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Horn Lake 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 decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Generally Accepted Accounting Principles. 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 has no component units.

C. Encumbrance Accounting:

The City of Horn Lake 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.



## **CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2007

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

## **CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2007

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. Non-major funds are aggregated and presented in a single column

### **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.

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

### **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.

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2007

**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, that conflict with GASB pronouncements. Operating revenues and expenses for proprietary funds are those that result from providing utilities to customers. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

F. Cash and investments:

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

G. Budgets and Budgetary Accounting:

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

1. Prior to September 15, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. 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. 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

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2007

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.

I. Inventories:

Inventory is stated at cost. Inventory in the Utility System Fund consists of expendable supplies held for consumption.

J. Advances from Other Funds:

Current portions of interfund loans receivable (reported in "Due From" asset accounts) are considered "available spendable resources".

K. Compensated Absences:

The City accrues unused portions of vacation pay in the period the fund liability is incurred. As permitted by Governmental Accounting Standards Board Statement No. 16, the vesting method is used to accrue sick leave liability. The liability is based on the sick leave accumulated at year-end by those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. Even though the City has appropriated, accumulated and earmarked expendable available fund resources for these amounts, the portion not normally expected to be liquidated with expendable available financial resources is not reported as a fund liability in accordance with Interpretation No. 6 of the Governmental Accounting Standards Board- Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2007

L. Net Assets:

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

**(2) Cash and Investments**

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

**(3) Property Tax**

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

**CITY OF HORN LAKE, MISSISSIPPI**  
Notes to Financial Statements  
Year Ended September 30, 2007

**(4) Changes in General Fixed Assets**

The following is a summary of changes in general fixed assets:

	Balance at 9/30/2006	Additions	Deletions	Balance at 9/30/2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,560,356	\$ -	\$ -	\$ 3,560,356
Construction in progress	723,579	236,962	858,514	102,027
Total capital assets, not being depreciated:	<u>4,283,935</u>	<u>236,962</u>	<u>858,514</u>	<u>3,662,383</u>
Capital assets, being depreciated:				
Buildings and improvements	5,515,639	-	-	5,515,639
Equipment and machinery	924,354	99,271	-	1,023,625
Infrastructure	23,970,475	858,513	-	24,828,988
Vehicles	2,728,093	-	46,258	2,681,835
Total capital assets, being depreciated:	<u>33,138,561</u>	<u>957,784</u>	<u>46,258</u>	<u>34,050,087</u>
Less accumulated depreciation for:				
Buildings and improvements	(943,562)	(129,122)	-	(1,072,684)
Equipment and machinery	(521,028)	(105,394)	-	(626,422)
Infrastructure	(5,620,133)	(890,057)	-	(6,510,190)
Vehicles	(2,121,585)	(122,455)	(32,212)	(2,211,828)
Total accumulated depreciation	<u>(9,206,308)</u>	<u>(1,247,028)</u>	<u>(32,212)</u>	<u>(10,421,124)</u>
Total capital assets, being depreciated, net	<u>23,932,253</u>	<u>(289,244)</u>	<u>14,046</u>	<u>23,628,963</u>
Governmental activities capital assets, net	<u>\$ 28,216,188</u>	<u>\$ (52,282)</u>	<u>\$ 872,560</u>	<u>\$ 27,291,346</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 28,225	\$ -	\$ -	\$ 28,225
Construction in progress	2,137,858	1,753,267	3,822,323	68,802
Total capital assets, not being depreciated:	<u>2,166,083</u>	<u>1,753,267</u>	<u>3,822,323</u>	<u>97,027</u>
Capital assets, being depreciated:				
Buildings and improvements	218,548	-	-	218,548
Equipment and machinery	814,067	10,400	-	824,467
Infrastructure	13,688,234	3,798,258	-	17,486,492
Vehicles	348,465	-	-	348,465
Total capital assets, being depreciated:	<u>15,069,314</u>	<u>3,808,658</u>	<u>-</u>	<u>18,877,972</u>
Less accumulated depreciation for:				
Buildings and improvements	(19,886)	(4,371)	-	(24,257)
Equipment and machinery	(605,893)	(54,281)	-	(660,174)
Infrastructure	(3,078,271)	(420,733)	-	(3,499,004)
Vehicles	(62,723)	(62,724)	-	(125,447)
Total accumulated depreciation	<u>(3,766,773)</u>	<u>(542,109)</u>	<u>-</u>	<u>(4,308,882)</u>
Total capital assets, being depreciated, net	<u>11,302,541</u>	<u>3,266,549</u>	<u>-</u>	<u>14,569,090</u>
Business-type activities capital assets, net	<u>\$ 13,468,624</u>	<u>\$ 5,019,816</u>	<u>\$ 3,822,323</u>	<u>\$ 14,666,117</u>

No interest was capitalized on constructed or in-progress fixed assets during the year due to immateriality.

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
 Year Ended September 30, 2007

Depreciation was charged to functions of the City of Horn Lake as follows:

Governmental activities		
General government	\$	118,083
Planning and zoning		3,190
Police		70,352
Fire		154,525
Street		706,889
Animal control		1,298
Park		<u>192,691</u>
Total depreciation expense, governmental activities	\$	<u>1,247,028</u>
Business-type activities		
Water and sewer	\$	438,427
Sanitation		<u>103,682</u>
Total depreciation expense, business-type activities	\$	<u>542,109</u>

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

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Church Road Extension	\$ 67,222	\$ 6,722	General
Rolling Green Subdivision Sanitary Sewer	453,620	401,717	Enterprise
	<u>\$ 520,842</u>	<u>\$ 408,439</u>	

**(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>
1997	8.75%	7/22/1997	2/15/2012	\$ 134,000	\$ 66,400
1998	4.62% - 5.70%	12/1/1998	12/1/2018	5,800,000	4,245,000
2004	3.70% - 5.00%	8/11/2004	8/1/2024	4,500,000	4,070,000
Total general obligation bonds				<u>\$ 10,434,000</u>	<u>\$ 8,381,400</u>

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
 Year Ended September 30, 2007

*Special assessment bonds.* Special assessment improvement bonds are issued by a municipality for construction of special improvements primarily chargeable to the property benefited. Special assessment improvement bonds outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
2005 Special Assessment Refunding	2.75% - 5.00%	5/18/2005	4/15/2020	\$ 8,540,000	\$ 7,640,000
2001 Special Obligation Recreation Facilities Project	4.10% - 5.00%	10/1/2001	4/1/2022	7,000,000	6,230,000
Total special assessment bonds				<u>\$ 15,540,000</u>	<u>\$ 13,870,000</u>

*Revenue bonds.* The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
2005 Special Obligation Refunding	2.40% - 5.00%	6/1/2006	12/1/2030	\$ 12,750,000	\$ 12,490,000
Total revenue bonds				<u>\$ 12,750,000</u>	<u>\$ 12,490,000</u>



**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2007

*Loans.* The City also uses loans to finance its projects. Loans outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Drinking Water System Improvements Revolving Loan	4.00%	3/1/2001	11/1/2020	\$ 1,509,556	\$ 1,134,607
Drinking Water System Improvements Revolving Loan (Water Treatment Plant)	3.50%	11/13/2002	10/2/2023	773,901	667,476
Cap Loan (Water Treatment Plant)	2.00%	11/20/2002	10/2/2023	476,333	461,693
Cap Loan (Water Treatment Plant)	3.00%	2/1/2005	10/1/2027	402,397	402,397
Total loans				<u>\$ 3,162,187</u>	<u>\$ 2,666,173</u>

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2007

*Annual requirements to retire debt obligations.* The aggregate maturities of general obligation, special assessment bonds, revenue bonds and loans for the years subsequent to September 30, 2007 are as follows:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2008	\$ 421,200	\$ 371,370
2009	447,100	350,203
2010	473,200	329,284
2011	499,300	306,839
2012	525,600	283,168
2013-2017	3,000,000	1,047,443
2018-2022	2,340,000	393,175
2023-2027	675,000	43,859
Total	<u>\$ 8,381,400</u>	<u>\$ 3,125,341</u>

Ending September 30	Speical Assessment Bonds	
	Principal	Interest
2008	\$ 735,000	\$ 609,298
2009	765,000	583,685
2010	800,000	556,520
2011	830,000	527,613
2012	875,000	495,463
2013-2017	5,040,000	1,909,765
2018-2022	4,825,000	627,497
Total	<u>\$ 13,870,000</u>	<u>\$ 5,309,841</u>

Year Ending September 30	Revenue Bonds	
	Principal	Interest
2008	\$ 270,000	\$ 599,090
2009	285,000	587,990
2010	300,000	576,290
2011	315,000	562,415
2012	335,000	546,165
2013-2017	1,950,000	2,457,350
2018-2022	2,515,000	2,030,258
2023-2027	2,535,000	1,291,744
2028-2031	3,985,000	434,043
Total	<u>\$ 12,490,000</u>	<u>\$ 9,085,345</u>

**CITY OF HORN LAKE, MISSISSIPPI**  
Notes to Financial Statements  
Year Ended September 30, 2007

Year Ending September 30	Loans	
	Principal	Interest
2008	\$ 138,101	\$ 92,000
2009	144,793	88,568
2010	149,874	83,488
2011	155,142	78,220
2012	160,603	72,759
2013-2017	892,187	274,620
2018-2022	851,337	111,993
2023-2027	356,386	20,986
2028-2031	3,258	8
Subtotal	2,851,681	822,642
Less: uncommitted	(185,508)	(61,410)
Total	<u>\$ 2,666,173</u>	<u>\$ 761,232</u>

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

	Balance at 9/30/2006	Additions	Deletions	Balance at 9/30/2007	Amounts Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 8,946,700	\$ -	\$ 565,300	\$ 8,381,400	\$ 421,200
Special assessment bonds payable	14,580,000	-	710,000	13,870,000	735,000
Loans payable	380,000	720,000	1,100,000	-	-
Leases payable	131,418	508,158	333,384	306,192	152,836
Bond premium	260,698	-	19,076	241,622	-
Deferred loss	(283,782)	-	(20,765)	(263,017)	-
Compensated absences	743,953	-	381,278	362,675	-
Governmental activities long-term liabilities	<u>\$ 24,758,987</u>	<u>\$ 1,228,158</u>	<u>\$ 3,088,273</u>	<u>\$ 22,898,872</u>	<u>\$ 1,309,036</u>
Business-type activities:					
Revenue bonds payable	\$ 12,750,000	\$ -	\$ 260,000	\$ 12,490,000	\$ 270,000
Loans payable	2,470,524	304,883	109,234	2,666,173	138,101
Leases payable	268,964	-	173,981	94,983	94,983
Compensated absences	42,110	-	7,745	34,365	-
Business-type activities long-term liabilities	<u>\$ 15,531,598</u>	<u>\$ 304,883</u>	<u>\$ 550,960</u>	<u>\$ 15,285,521</u>	<u>\$ 503,084</u>

**CITY OF HORN LAKE, MISSISSIPPI**  
Notes to Financial Statements  
Year Ended September 30, 2007

**(6) Capital Leases**

Year Ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
	2008	\$ 152,836	\$ 12,390	\$ 94,983
2009	151,203	6,198	-	-
2010	2,153	11	-	-
Total	<u>\$ 306,192</u>	<u>\$ 18,599</u>	<u>\$ 94,983</u>	<u>\$ 1,271</u>

**7) Intergovernmental Receivables**

	General Fund
Sales tax	\$ 324,579
Ad Valorem	93,391
Total	<u>\$ 417,970</u>

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2007

**(8) Interfund Receivables and Payables**

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund		
Other governmental funds	\$ 324,053	\$ 51,976
Utility fund	-	284
Sanitation fund	62,784	-
Total general fund	<u>386,837</u>	<u>52,260</u>
Other governmental funds		
General fund	51,976	322,318
Other governmental funds	24,387	24,387
Total other governmental funds	<u>76,363</u>	<u>346,705</u>
Utility fund		
General fund	284	-
Other governmental funds	1,300	-
Sanitation fund	588,404	243,053
Utility refunding fund	-	1,077,003
Total utility fund	<u>589,988</u>	<u>1,320,056</u>
Sanitation fund		
General fund	-	62,784
Other governmental funds	8,025	-
Utility fund	175,798	-
Total sanitation fund	<u>183,823</u>	<u>62,784</u>
Utility refunding fund		
Other governmental funds	58,101	-
Utility fund	1,075,097	588,404
Total utility refunding fund	<u>1,133,198</u>	<u>588,404</u>
Total	<u>\$ 2,370,209</u>	<u>\$ 2,370,209</u>

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
 Year Ended September 30, 2007

	<u>Transfers In</u>	<u>Transfers Out</u>
Other governmental funds		
Utility refunding fund	\$ -	\$ 57,111
Total other governmental funds	<u>-</u>	<u>57,111</u>
Utility fund		
Utility refunding fund	-	1,024,323
Total utility fund	<u>-</u>	<u>1,024,323</u>
Utility refunding fund		
Other governmental funds	57,111	-
Utility fund	1,024,323	-
Total utility refunding fund	<u>1,081,434</u>	<u>-</u>
Total	<u>\$ 1,081,434</u>	<u>\$ 1,081,434</u>

**(9) Defined Benefit Pension Plan**

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

*Funding Policy.* PERS members are required to contribute 7.25% of their annual covered salary and the City of Horn Lake is required to contribute at an actuarially determined rate. The current rate is 11.85% 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 Horn Lake's contributions to PERS for the year ending September 30, 2007, 2006, and 2005 were \$711,955, \$658,013, and \$580,468 respectively, equal to the required contribution.

**(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. The exposure is covered by purchase of commercial insurance.

**(11) Litigation**

The City is party to various legal proceedings which normally occur in governmental operations. In the opinion of the administration, these legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

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**CITY OF HORN LAKE, MISSISSIPPI**  
 Budgetary Comparison Schedule  
 General Fund  
 September 30, 2007

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Taxes	\$ 4,089,077	\$ 4,133,173	\$ 3,861,872	\$ 44,096	\$ (271,301)
Licenses and permits	418,000	424,000	379,771	6,000	(44,229)
Intergovernmental	4,292,746	4,303,609	3,990,000	10,863	(313,609)
Charges for services	250,000	250,000	146,772	-	(103,228)
Fines	437,000	880,000	806,499	443,000	(73,501)
Interest	1,500	2,400	3,212	900	812
Miscellaneous	493,575	570,791	370,653	77,216	(200,138)
Total revenues	<u>9,981,898</u>	<u>10,563,973</u>	<u>9,558,779</u>	<u>582,075</u>	<u>(1,005,194)</u>
Expenditures					
Administrative	1,423,413	1,423,030	1,055,662	383	367,368
Culture & recreation	436,510	547,299	418,707	(110,789)	128,592
Economic Development	312,503	342,332	291,990	(29,829)	50,342
Public safety	6,587,569	6,488,151	5,650,110	99,418	838,041
Public works	992,647	1,227,590	1,073,205	(234,943)	154,385
Debt service	892,000	1,200,000	1,047,980	(308,000)	152,020
Total expenditures	<u>10,644,642</u>	<u>11,228,402</u>	<u>9,537,654</u>	<u>(583,760)</u>	<u>1,690,748</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(662,744)</u>	<u>(664,429)</u>	<u>21,125</u>	<u>(1,685)</u>	<u>685,554</u>
Other financing sources (uses)					
Grant revenue	73,572	175,720	85,813	102,148	(89,907)
Sale of assets	5,000	7,000	4,065	2,000	(2,935)
Loan proceeds	800,000	1,360,000	720,000	560,000	(640,000)
Lease proceeds	-	-	36,557	-	36,557
Total other financing sources (uses)	<u>878,572</u>	<u>1,542,720</u>	<u>846,435</u>	<u>664,148</u>	<u>(696,285)</u>
Net changes in fund balances	<u>\$ 215,828</u>	<u>\$ 878,291</u>	<u>867,560</u>	<u>\$ 662,463</u>	<u>\$ (10,731)</u>
Fund balance - beginning of year			<u>2,309,630</u>		
Fund balance - end of year			3,177,190		
Adjustments to conform with GAAP:					
Revenues			854,084		
Expenditures			<u>(656,945)</u>		
Fund balance - end of year (GAAP basis)			<u>\$ 3,374,329</u>		



**CITY OF HORN LAKE, MISSISSIPPI**  
 Schedule of Surety Bonds for Municipal Officials  
 September 30, 2007

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Nat Baker	Mayor	Fidelity & Deposit Co.	\$ 75,000
Diane Stewart	City Clerk	Fidelity & Deposit Co.	75,000
Darrell Whaley	Police Chief	Fidelity & Deposit Co.	75,000
Public Employees		CNA Insurance Co.	1,000,000
Aldermen		Fidelity & Deposit Co.	375,000



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

Mayor and Board of Aldermen  
City of Horn Lake, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi (the City) as of and for the year ended, September 30, 2007, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the section below to be significant deficiencies in internal control over financial reporting.

The following is a list of internal control deficiencies noted during our audit. We recommend that immediate action be implemented.

1. The Ambulance Department

*Develop a Revenue Recognition Policy*

While conducting our accounts receivable and sales procedures, we noted the City has no formal revenue recognition policy, which would define income recognition and its relevant timing, particularly for ambulance services. In addition, we noted that ambulance fee revenue had not been recorded for the last five months of the fiscal year. Also, there are no standard procedures for reconciling information from the third-party billing company to the City's internal ambulance records. We recommend that management establish and document a standard policy for ambulance revenue recognition in accordance with generally accepted accounting principles. The policy should be consistently applied and appropriately disclosed.

2. Fixed assets and capital projects

*Adopt a Formal Policy Concerning Property Additions and Disposals*

The City has not established any formal policies concerning the acquisition and disposal of property and equipment. To ensure that all property purchases and disposals are consistent with City policy, we recommend that formal policies be adopted.

*Establish a Fixed Asset Capitalization Policy*

We noted that the City does not have a set policy for capitalization of fixed assets. Consequently, the treatment of property additions and repairs and maintenance is not consistent. The City's records reflect a number of clearly immaterial items that have been capitalized in the past. The items require the same amount of recordkeeping by the City regardless of the size of the transaction. We recommend that management establish a policy that is prescribed by the Municipal Audit and Accounting Guide under GASB 34. Purchases costing less than the established amount or having a useful life of less than one year should be expensed, since the cost of maintaining depreciation records for such items would exceed the benefits. The City should document the capitalization policy and communicate it to those who code property invoices to ensure the policy is consistently followed.

*Improve Documentation and Management of Capital Projects*

During our audit, management represented to us that it had approved the construction of certain capital projects; however, the City was unable to produce adequate written documentation. We recommend that the reports be prepared that include the nature and estimated cost of the item to be constructed, as well as, spending and progress against budgeted amounts and contractual agreements. Contractors' invoices should be reviewed to determine that they contain sufficient detailed information to support the invoices' accuracy and validity.

*Record all Additions, Disposals, and Capital Expenditures in the Fixed Assets Subsidiary Ledger*

We noted during our audit that property and equipment acquisitions and disposals were not entered into the computerized fixed assets subsidiary ledger. Monthly reconciliation of capital expenditures and board approved disposals will help ensure all capital expenditures are entered into fixed asset detail record.

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 Horn Lake's internal control.

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

The City lacks the skills and competencies to prevent, detect, and correct a misstatement. There is not an individual with the knowledge and/or experience to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

### Compliance

As part of obtaining reasonable assurance about whether the City'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.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

*Williams, Pitts & Beard, PLLC*

Williams, Pitts & Beard, PLLC  
Certified Public Accountants  
September 29, 2008



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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 Horn Lake, Mississippi

We have audited the financial statements of the City of Horn Lake, Mississippi for the year ended September 30, 2007, and issued our report thereon date September 29, 2008. Our audit was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The City of Horn Lake, Mississippi is in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire.

The report is intended for the use of the City of Horn Lake 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  
September 29, 2008