

**CITY OF HORN LAKE  
HORN LAKE, MISSISSIPPI  
ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2008**

**CITY OF HORN LAKE, MISSISSIPPI**

**ANNUAL FINANCIAL REPORT  
Year Ended September 30, 2008**

**TABLE OF CONTENTS**

Independent Auditors' Report .....	1
Management Discussion and Analysis .....	3
Basic Financial Statements	
Statement of Net Assets .....	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds .....	13
Reconciliation of Governmental Funds Balance to The Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	16
Statement of Net Assets – Proprietary Funds.....	17
Statement of Revenues, Expenses and Changes In Net Assets – Proprietary Funds.....	19
Statement of Cash Flows – Proprietary Funds .....	20
Notes to Financial Statements .....	21
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund .....	36
Schedule of Surety Bonds for Municipal Officials.....	37
Additional Auditors' Reports	
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 .....	38
Independent Auditors' Report on the Compliance with State Laws and Regulations .....	40
Schedule of Findings and Responses.....	42

## 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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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, 2008, 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 July 30, 2009, 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

July 30, 2009

# CITY OF HORN LAKE

## MISSISSIPPI



Management's Analysis and Discussion

FYE 2008

THE CITY OF HORN LAKE, MISSISSIPPI

CITY OFFICIALS

**MAYOR**

NATHAN “NAT” BAKER, JR

**ALDERMEN**

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 and CITY CLERK**

ANDREA FREEZE, MPPA

**CITY ATTORNEY**

BILLY CAMPBELL

**DEPARTMENT HEADS**

POLICE CHIEF - DARRYL WHALEY  
FIRE CHIEF - DAVID LINVILLE  
PUBLIC WORKS/UTILITIES - SPENCER SHIELDS  
PLANNING AND DEVELOPMENT - ANITA RAINEY  
COURT CLERK – TARA WARREN  
PARKS AND RECREATION – JOHN WILLOUGHBY  
EMERGENCY MANAGEMENT – TOMMY BLEDSOE  
COMMUNITY DEVELOPMENT / HUMAN RESOURCES - A.J. JENKINS

**City of Horn Lake, Mississippi  
Management's Discussion and Analysis  
For Year Ended September 30, 2008  
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, 2008. 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 2008 were as follows:

Total net assets increased from \$ 12,992,631 to \$ 13,981,047

Total liabilities decreased from \$ 46,551,296 to \$ 45,233,779

Total assets of governmental activities increased from \$ 9,780,163 to \$ 9,874,167

Total assets of business-type activities increased from \$ 3,212,468 to \$ 4,106,880

**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 Net 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 2008?" 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 thirteen. 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 2008 compared to 2007.

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

	2007	2008
<b>Assets</b>		
<i>Current and Other Assets</i>	\$ 17,586,464	\$ 17,217,818
<i>Capital Assets Net</i>	<u>41,957,463</u>	<u>41,997,008</u>
<i>Total Assets</i>	<u>59,543,927</u>	<u>59,214,826</u>
<b>Liabilities</b>		
<i>Current and other Liabilities</i>	7,764,486	8,039,172
<i>Due Within One Year</i>	1,812,120	1,937,811
<i>Long Term Liabilities</i>		
<i>Due in More Than One Year</i>	<u>36,974,690</u>	<u>35,256,796</u>
<i>Total Liabilities</i>	<u>46,551,296</u>	<u>45,233,779</u>
<b>Net Assets</b>		
<i>Invested in Capital Assets Net of Debt</i>	4,360,247	6,034,296
<i>Restricted</i>	2,346,395	1,739,934
<i>Unrestricted</i>	<u>6,285,989</u>	<u>6,206,817</u>
<i>Total Net Assets</i>	<u>\$ 12,992,631</u>	<u>\$ 13,981,047</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, 2008

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

<b>Revenues</b>	<b>2007</b>	<b>2008</b>
<i>Program Revenues</i>		
<i>Charges for Services</i>	\$ 5,461,767	\$ 5,738,816
<i>Operating Grants and Contributions</i>	160,954	144,282
<i>Other</i>	<u>-</u>	<u>-</u>
<i>Total Program Revenues</i>	5,622,721	5,883,098
 <b>General Revenues</b>		
<i>Property Taxes &amp; Special Assessment</i>	6,756,282	6,824,901
<i>Other</i>	<u>6,195,704</u>	<u>5,801,746</u>
<i>Total General Revenue</i>	<u>12,951,986</u>	<u>12,626,647</u>
 <i>Total Revenues</i>	 <u>\$ 18,574,707</u>	 <u>\$ 18,509,745</u>
 <b>Program Expenses</b>		
<i>General Government</i>	<u>\$ 16,650,027</u>	<u>\$ 17,760,096</u>

Information about the City's major governmental funds begins on page 13. 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 2007-2008 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, 2008**  
**Net Depreciation**  
**Governmental Activities**

	<b>2007</b>	<b>2008</b>
<i>Land</i>	\$ 3,560,356	\$ 3,632,643
<i>Buildings and Improvements</i>	5,515,639	5,719,041
<i>Equipment and Vehicles</i>	3,705,460	4,559,402
<i>Construction in Progress</i>	102,027	377,215
<i>Infrastructure</i>	24,828,988	24,420,317
<i>Accumulated Depreciation</i>	<u>(10,421,124)</u>	<u>(11,602,646)</u>
	<u>\$ 27,291,346</u>	<u>\$ 27,105,972</u>

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

	<b>2007</b>	<b>2008</b>
<i>General Obligation Bonds</i>	\$ 8,381,400	\$ 7,960,200
<i>Special Assessment Bonds</i>	13,870,000	13,135,000
<i>Lease Payable</i>	306,192	352,469
<i>Bond Premium</i>	241,622	222,546
<i>Deferred Loss</i>	(263,017)	(242,252)
<i>Compensated Absences</i>	<u>362,675</u>	<u>391,330</u>
<i>Total</i>	<u>\$ 22,898,872</u>	<u>\$ 21,819,293</u>
<b><i>Business Activities</i></b>		
<i>Bonds and Notes Payable</i>	\$ 12,490,000	\$ 12,220,000
<i>Loans Payable</i>	2,666,173	2,717,146
<i>Leases Payable</i>	94,983	-
<i>Compensated Absences</i>	<u>34,365</u>	<u>38,875</u>
<i>Total</i>	<u>\$ 15,285,521</u>	<u>\$ 14,976,021</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 Finance Director at 662-393-6178.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Net Assets

September 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash in bank and on hand	\$ 260,067	\$ 1,589,885	\$ 1,849,952
Accounts receivable, net	2,070,464	584,339	2,654,803
Intergovernmental receivable	413,810	-	413,810
Property tax receivable	6,167,507	-	6,167,507
Prepaid expense	567,234	74,773	642,007
Inventories	-	2,195	2,195
Internal balances	(181,983)	181,983	-
Restricted assets			
Cash in bank	2,213,639	1,897,413	4,111,052
Warranty bonds	133,156	441,646	574,802
Bond issue costs, net	133,266	668,424	801,690
Capital assets, net	<u>27,105,972</u>	<u>14,891,036</u>	<u>41,997,008</u>
<b>Total assets and other debits</b>	<u><u>38,883,132</u></u>	<u><u>20,331,694</u></u>	<u><u>59,214,826</u></u>
<b>Liabilities</b>			
Accounts payable	731,114	176,716	907,830
Accrued expenses	629,000	27,760	656,760
Warranty bonds	133,156	441,646	574,802
Deferred revenue	5,250,928	-	5,250,928
Accrued interest	445,474	203,378	648,852
Long-term liabilities			
Due within one year:			
Capital debt	1,508,018	429,793	1,937,811
Due in more than one year:			
Capital debt	19,919,945	14,906,646	34,826,591
Non-capital debt	<u>391,330</u>	<u>38,875</u>	<u>430,205</u>
<b>Total liabilities</b>	<u><u>29,008,965</u></u>	<u><u>16,224,814</u></u>	<u><u>45,233,779</u></u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	5,811,275	223,021	6,034,296
Restricted for:			
Capital projects	1,172,770	-	1,172,770
Debt service	294,468	-	294,468
Special revenue	272,696	-	272,696
Unrestricted	<u>2,322,958</u>	<u>3,883,859</u>	<u>6,206,817</u>
<b>Total net assets</b>	<u><u>\$ 9,874,167</u></u>	<u><u>\$ 4,106,880</u></u>	<u><u>\$ 13,981,047</u></u>

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



**CITY OF HORN LAKE, MISSISSIPPI**

Balance Sheet

Governmental Funds

September 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash in bank and on hand	\$ 247,596	\$ 12,472	\$ 260,068
Due from other funds	707,498	129,408	836,906
Accounts receivable, net	2,070,583	-	2,070,583
Intergovernmental receivable	413,810	-	413,810
Property tax receivable	916,579	-	916,579
Prepaid expenses	124,403	442,831	567,234
<b>Restricted assets</b>			
Cash in bank	132,959	2,080,680	2,213,639
Warranty bonds	133,156	-	133,156
<b>Total assets</b>	<b>\$ 4,746,584</b>	<b>\$ 2,665,391</b>	<b>\$ 7,411,975</b>
<b>Liabilities</b>			
Accounts payable	\$ 439,676	\$ 291,558	\$ 731,234
Accrued expenses	629,000	-	629,000
Warranty bonds	133,156	-	133,156
Due to other funds	384,990	633,899	1,018,889
<b>Total liabilities</b>	<b>1,586,822</b>	<b>925,457</b>	<b>2,512,279</b>
<b>Fund balances</b>			
<b>Reserved for :</b>			
Capital projects	-	1,172,770	1,172,770
Debt service	-	294,468	294,468
<b>Unreserved - undesignated, reported in:</b>			
General	3,159,762	-	3,159,762
Special revenue	-	272,696	272,696
<b>Total fund balances</b>	<b>3,159,762</b>	<b>1,739,934</b>	<b>4,899,696</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,746,584</b>	<b>\$ 2,665,391</b>	<b>\$ 7,411,975</b>

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



**CITY OF HORN LAKE, MISSISSIPPI**  
 Reconciliation of Governmental Funds Balance  
 To the Statement of Net Assets  
 September 30, 2008

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

**Total Fund Balance - Governmental Funds** \$ 4,899,696

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	3,632,643	
Buildings and improvements	5,719,041	
Equipment and vehicles	4,559,402	
Infrastructure	24,420,317	
Construction in progress	377,215	
Accumulated depreciation	<u>(11,602,646)</u>	
		27,105,972

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		133,266
-----------------	--	---------

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	(352,469)	
General obligation and special assessment bonds	(21,095,200)	
Accrued interest	(445,474)	
Bond premium	(222,546)	
Deferred loss on refunding	242,252	
Compensated absences	<u>(391,330)</u>	
		<u>(22,264,767)</u>

**Net Assets of Governmental Activities** \$ 9,874,167

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

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended September 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 4,206,792	\$ 2,707,207	\$ 6,913,999
Licenses and permits	248,694	-	248,694
Intergovernmental	4,194,689	-	4,194,689
Charges for services	528,324	297,067	825,391
Fines	691,290	-	691,290
Interest	25,328	20,510	45,838
Miscellaneous	283,669	122,336	406,005
Total revenues	<u>10,178,786</u>	<u>3,147,120</u>	<u>13,325,906</u>
<b>Expenditures</b>			
Administrative	1,500,364	-	1,500,364
Culture & recreation	381,535	442,200	823,735
Economic development	323,961	156,350	480,311
Public safety	6,593,903	188,601	6,782,504
Public works	1,173,488	-	1,173,488
Debt service			
Principal	13,777	1,397,807	1,411,584
Interest	-	941,449	941,449
Capital outlay	304,621	782,345	1,086,966
Total expenditures	<u>10,291,649</u>	<u>3,908,752</u>	<u>14,200,401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(112,863)</u>	<u>(761,632)</u>	<u>(874,495)</u>
<b>Other financing sources (uses)</b>			
Grant revenue	84,922	59,360	144,282
Sale of assets	11,015	-	11,015
Contributed capital	-	39,585	39,585
Interfund transfers	(429,299)	-	(429,299)
Lease proceeds	287,884	-	287,884
Total other financing sources (uses)	<u>(45,478)</u>	<u>98,945</u>	<u>53,467</u>
Net change in fund balances	(158,341)	(662,687)	(821,028)
Fund balance - beginning of year	3,374,329	2,346,395	5,720,724
Prior period adjustments	(56,226)	56,226	-
Fund balance - as restated	<u>3,318,103</u>	<u>2,402,621</u>	<u>5,720,724</u>
Fund balance - end of year	<u>\$ 3,159,762</u>	<u>\$ 1,739,934</u>	<u>\$ 4,899,696</u>

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

**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, 2008

**Net Change in Fund Balances - Total Governmental Funds** \$ (821,028)

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 (\$1,569,709) were exceeded by depreciation (\$1,306,864). 262,845

Some assets were transferred from the governmental funds to the business-type funds. (429,299)

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 (\$287,884) and amortization expense (\$13,112) in the current period is exceeded by repayments \$1,397,807. 1,096,811

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.

Accrued interest payable	23,819
Compensated absences payable	(28,655)
Retainage payable	8,431
Sale of assets	(18,920)

**Change in Net Assets of Governmental Activities** \$ 94,004

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

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Net Assets

Proprietary Funds

September 30, 2008

	Utility Fund	Sanitation Fund	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash in bank and on hand	\$ 1,104,425	\$ 485,459	\$ 1,589,884
Accounts receivable, net	471,938	112,402	584,340
Inventory	2,195	-	2,195
Prepaid expenses	74,773	-	74,773
Due from other funds	332,092	(42,554)	289,538
<b>Total current assets</b>	<b>1,985,423</b>	<b>555,307</b>	<b>2,540,730</b>
<b>Restricted assets:</b>			
Cash	1,897,413	-	1,897,413
Customer deposits	290,768	150,879	441,647
<b>Total restricted assets</b>	<b>2,188,181</b>	<b>150,879</b>	<b>2,339,060</b>
<b>Other assets</b>			
Bond issue cost, net	668,424	-	668,424
<b>Total other assets</b>	<b>668,424</b>	<b>-</b>	<b>668,424</b>
<b>Fixed assets</b>			
Land	28,225	-	28,225
Buildings and improvements	151,001	67,547	218,548
Infrastructure	18,026,026	-	18,026,026
Machinery and equipment	41,614	699,886	741,500
Vehicles	-	348,465	348,465
Construction in progress	513,667	-	513,667
Accumulated depreciation	(4,190,933)	(794,463)	(4,985,396)
<b>Total fixed assets</b>	<b>14,569,600</b>	<b>321,435</b>	<b>14,891,035</b>
<b>Total assets</b>	<b>19,411,628</b>	<b>1,027,621</b>	<b>20,439,249</b>

Continued

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

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Net Assets

Proprietary Funds

September 30, 2008

	Utility Fund	Sanitation Fund	Total
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 154,206	\$ 22,509	\$ 176,715
Accrued expenses	12,818	14,942	27,760
Accrued interest payable	203,378	-	203,378
Bond premium	399,293	-	399,293
Due to other funds	21,689	85,866	107,555
<b>Total current liabilities</b>	<b>791,384</b>	<b>123,317</b>	<b>914,701</b>
<b>Current liabilities payable from restricted assets</b>			
Notes payable	144,793	-	144,793
General obligation bond payable	285,000	-	285,000
Customer deposits	290,768	150,879	441,647
<b>Total current liabilities payable from restricted assets</b>	<b>720,561</b>	<b>150,879</b>	<b>871,440</b>
<b>Long-term liabilities</b>			
Compensated absences	17,660	21,215	38,875
Notes payable	2,572,353	-	2,572,353
Revenue bonds payable	11,935,000	-	11,935,000
<b>Total long-term liabilities</b>	<b>14,525,013</b>	<b>21,215</b>	<b>14,546,228</b>
<b>Total liabilities</b>	<b>16,036,958</b>	<b>295,411</b>	<b>16,332,369</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	(367,546)	321,435	(46,111)
Unrestricted	3,742,216	410,775	4,152,991
<b>Total net assets</b>	<b>\$ 3,374,670</b>	<b>\$ 732,210</b>	<b>\$ 4,106,880</b>
			Concluded

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

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year Ended September 30, 2008

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating revenues			
Water and sewer sales	\$ 3,555,760	\$ 1,357,665	\$ 4,913,425
Miscellaneous	62,471	1,212	63,683
Total operating revenues	<u>3,618,231</u>	<u>1,358,877</u>	<u>4,977,108</u>
Operating expenses			
Personnel	379,905	831,399	1,211,304
Supplies	62,872	200,994	263,866
Depreciation	612,628	80,510	693,138
Maintenance and other	671,344	86,058	757,402
Water & sewer system management	1,151,248	-	1,151,248
Total operating expenses	<u>2,877,997</u>	<u>1,198,961</u>	<u>4,076,958</u>
Operating income	<u>740,234</u>	<u>159,916</u>	<u>900,150</u>
Non-operating revenues (expenses)			
Interest revenue	23,405	7,362	30,767
Interest expense	(704,571)	-	(704,571)
Grant proceeds	238,767	-	238,767
Interfund transfers	429,299	-	429,299
Total non-operating revenues (expenses)	<u>(13,100)</u>	<u>7,362</u>	<u>(5,738)</u>
Net income	727,134	167,278	894,412
Net assets - beginning of year	2,647,536	564,932	3,212,468
Net assets - end of year	<u>\$ 3,374,670</u>	<u>\$ 732,210</u>	<u>\$ 4,106,880</u>

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

**CITY OF HORN LAKE, MISSISSIPPI**

Statement of Cash Flows

Proprietary Funds

Year Ended September 30, 2008

	Utility System	Sanitation Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 3,902,330	\$ 1,246,475	\$ 5,148,805
Cash payments for goods and services	(2,023,400)	(267,166)	(2,290,566)
Cash payments to employees	(377,896)	(828,898)	(1,206,794)
Net cash provided by operating activities	<u>1,501,034</u>	<u>150,411</u>	<u>1,651,445</u>
Cash flows from noncapital financing activities			
Interfund transfers	(66,378)	249,458	183,080
Net cash provided by noncapital financing activities	<u>(66,378)</u>	<u>249,458</u>	<u>183,080</u>
Cash flows from capital and related financing activities			
Payments for capital acquisitions	(901,419)	-	(901,419)
Customer deposits	34,774	19,674	54,448
Loan proceeds	185,509	-	185,509
Grant proceeds	238,767	-	238,767
Principal payments on debt	(404,535)	(94,983)	(499,518)
Interest payments on debt	(709,188)	-	(709,188)
Net cash (used in) capital and related financing activities	<u>(1,556,092)</u>	<u>(75,309)</u>	<u>(1,631,401)</u>
Cash flows from investing activities			
Receipts of interest	23,405	7,362	30,767
Net increase (decrease) in cash and cash equivalents	(98,031)	331,922	233,891
Cash and cash equivalents-beginning of year	<u>3,390,637</u>	<u>304,416</u>	<u>3,695,053</u>
Cash and cash equivalents-end of year	<u>\$ 3,292,606</u>	<u>\$ 636,338</u>	<u>\$ 3,928,944</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	<u>\$ 740,234</u>	<u>\$ 159,916</u>	<u>900,150</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation and amortization	612,628	80,510	693,138
(Increase) decrease in customer receivables	284,099	(112,402)	171,697
(Increase) decrease in prepaid expenses	5,706	-	5,706
Increase (decrease) in accounts payable	(150,403)	11,820	(138,583)
Increase (decrease) in accrued expenses	6,761	8,066	14,827
Increase (decrease) in compensated absences	2,009	2,501	4,510
Total adjustments	<u>760,800</u>	<u>(9,505)</u>	<u>751,295</u>
Net cash provided by operating activities	<u>\$ 1,501,034</u>	<u>\$ 150,411</u>	<u>\$ 1,651,445</u>

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

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

Notes to Financial Statements

Year Ended September 30, 2008

### **(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.

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."



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

Notes to Financial Statements

Year Ended September 30, 2008

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.

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

Notes to Financial Statements

Year Ended September 30, 2008

### **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.

### **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.

### **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.

The city reports the following major Governmental Funds:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

Additionally, the city reports the following fund types:

Special Revenue Funds – These funds are used to account for the proceeds of specific revenues sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Debt Service Funds – These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

Notes to Financial Statements

Year Ended September 30, 2008

Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

### **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.

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

Notes to Financial Statements

Year Ended September 30, 2008

### **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 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. Interfund Transactions and Balances:**

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### **K. Long-term Liabilities**

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities or Proprietary Funds Statement of Net Assets.

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2008

L. 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.

M. Net Assets:

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

**(2) Deposits and Investments**

The carrying amount of the county's total deposits with financial institutions at September 30, 2008, was \$6,535,805, and the bank balance was \$6,521,673. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. As of September 30, 2008 \$788,487 of the City's bank balances was exposed to custodial credit risk because it was uninsured and uncollateralized with the State Treasurer of the State of Mississippi.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the city will not be able to recover deposits or collateral securities that are in the possession of an outside party. The city does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

**(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, 2008

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

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

	Balance at 9/30/2007	Additions	Deletions	Transfers/ Adjustments	Balance at 9/30/2008
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 3,560,356	\$ 72,287	\$ -	\$ -	\$ 3,632,643
Construction in progress	102,027	364,945	102,027	12,270	377,215
Total capital assets, not being depreciated:	<u>3,662,383</u>	<u>437,232</u>	<u>102,027</u>	<u>12,270</u>	<u>4,009,858</u>
Capital assets, being depreciated:					
Buildings and improvements	5,515,639	81,201	-	122,201	5,719,041
Equipment and machinery	1,023,625	121,031	-	(2,098)	1,142,558
Infrastructure	24,828,988	102,027	-	(510,698)	24,420,317
Vehicles	2,681,835	636,246	144,262	(50,974)	3,122,845
Leased property under captial leases	-	293,999	-	-	293,999
Total capital assets, being depreciated:	<u>34,050,087</u>	<u>1,234,504</u>	<u>144,262</u>	<u>(441,569)</u>	<u>34,698,760</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,072,684)	(136,084)	-	(5,277)	(1,214,045)
Equipment and machinery	(626,422)	(83,755)	-	(8,895)	(719,072)
Infrastructure	(6,510,190)	(872,207)	-	(16,916)	(7,399,313)
Vehicles	(2,211,828)	(187,654)	(125,342)	31,088	(2,243,052)
Leased property under captial leases	-	(27,164)	-	-	(27,164)
Total accumulated depreciation	<u>(10,421,124)</u>	<u>(1,306,864)</u>	<u>(125,342)</u>	<u>-</u>	<u>(11,602,646)</u>
Total capital assets, being depreciated, net	<u>23,628,963</u>	<u>(72,360)</u>	<u>18,920</u>	<u>(441,569)</u>	<u>23,096,114</u>
Governmental activities capital assets, net	<u>\$ 27,291,346</u>	<u>\$ 364,872</u>	<u>\$ 120,947</u>	<u>\$ (429,299)</u>	<u>\$ 27,105,972</u>
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 28,225	\$ -	\$ -	\$ -	\$ 28,225
Construction in progress	68,802	457,134	-	(12,270)	513,666
Total capital assets, not being depreciated:	<u>97,027</u>	<u>457,134</u>	<u>-</u>	<u>(12,270)</u>	<u>541,891</u>
Capital assets, being depreciated:					
Buildings and improvements	218,548	-	-	-	218,548
Equipment and machinery	824,467	15,000	-	(555,482)	283,985
Infrastructure	17,486,492	-	-	539,535	18,026,027
Vehicles	348,465	-	-	457,516	805,981
Total capital assets, being depreciated:	<u>18,877,972</u>	<u>15,000</u>	<u>-</u>	<u>441,569</u>	<u>19,334,541</u>
Less accumulated depreciation for:					
Buildings and improvements	(24,257)	(4,371)	-	-	(28,628)
Equipment and machinery	(660,174)	(43,905)	-	498,785	(205,294)
Infrastructure	(3,499,004)	(570,043)	-	(42,862)	(4,111,909)
Vehicles	(125,447)	(58,195)	-	(455,923)	(639,565)
Total accumulated depreciation	<u>(4,308,882)</u>	<u>(676,514)</u>	<u>-</u>	<u>-</u>	<u>(4,985,396)</u>
Total capital assets, being depreciated, net	<u>14,569,090</u>	<u>(661,514)</u>	<u>-</u>	<u>441,569</u>	<u>14,349,145</u>
Business-type activities capital assets, net	<u>\$ 14,666,117</u>	<u>\$ (204,380)</u>	<u>\$ -</u>	<u>\$ 429,299</u>	<u>\$ 14,891,036</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, 2008

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

Governmental activities		
General government		\$ 117,596
Public safety		285,110
Public works		710,984
Cultural and recreational		<u>193,174</u>
	Total depreciation expense, governmental activities	<u>\$ 1,306,864</u>
Business-type activities		
Water and sewer		\$ 596,004
Sanitation		<u>80,510</u>
	Total depreciation expense, business-type activities	<u>\$ 676,514</u>

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

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Street Rehabilitation	\$ 475,928	\$ 98,713	General
Church Road & Tulane Interchange	11,000	11,000	General
Tulane Road Connector	19,450	19,450	General
Rolling Green	516,946	3,280	Enterprise
Sewer Extension Value Place Hotel	11,000	11,000	Enterprise
	<u>\$ 1,034,324</u>	<u>\$ 143,443</u>	

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
 Year Ended September 30, 2008

**(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:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
1997	8.75%	7/22/1997	2/15/2012	\$ 134,000	\$ 55,200
1998	4.62% - 5.70%	12/1/1998	12/1/2018	5,800,000	3,995,000
2004	3.70% - 5.00%	8/11/2004	8/1/2024	4,500,000	3,910,000
Total general obligation bonds				<u>\$ 10,434,000</u>	<u>\$ 7,960,200</u>

*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	\$ 7,190,000
2001 Special Obligation Recreation Facilities Project	4.10% - 5.00%	10/1/2001	4/1/2022	7,000,000	5,945,000
Total special assessment bonds				<u>\$ 15,540,000</u>	<u>\$ 13,135,000</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	\$ 12,220,000
Total revenue bonds				<u>\$ 12,750,000</u>	<u>\$ 12,220,000</u>



**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
 Year Ended September 30, 2008

*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	\$ 1,067,788
Drinking Water System Improvements Revolving Loan (Water Treatment Plant)	3.50%	11/13/2002	10/2/2023	773,901	636,004
Cap Loan (Water Treatment Plant)	2.00%	11/20/2002	10/2/2023	476,333	439,860
Cap Loan (Water Treatment Plant)	3.00%	2/1/2005	10/1/2027	587,905	573,494
Total loans				<u>\$ 3,347,695</u>	<u>\$ 2,717,146</u>

*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, 2008 are as follows:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2009	\$ 447,100	\$ 350,203
2010	473,200	329,284
2011	499,300	306,839
2012	525,600	283,168
2013	540,000	257,903
2014-2018	3,165,000	919,300
2019-2023	1,965,000	292,444
2024-2028	345,000	14,835
Total	<u>\$ 7,960,200</u>	<u>\$ 2,753,976</u>

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements

Year Ended September 30, 2008

Year Ending September 30	Speical Assessment Bonds	
	Principal	Interest
2009	\$ 765,000	\$ 583,685
2010	800,000	556,520
2011	830,000	527,613
2012	875,000	495,463
2013	915,000	461,426
2014-2018	5,290,000	1,687,506
2019-2023	3,660,000	388,331
Total	<u>\$ 13,135,000</u>	<u>\$ 4,700,544</u>

Year Ending September 30	Revenue Bonds	
	Principal	Interest
2009	\$ 285,000	\$ 587,990
2010	300,000	576,290
2011	315,000	562,415
2012	335,000	546,165
2013	350,000	529,040
2014-2018	2,055,000	2,363,686
2019-2023	2,060,000	1,918,357
2024-2028	4,010,000	1,119,938
2029-2033	2,510,000	282,375
Total	<u>\$ 12,220,000</u>	<u>\$ 8,486,256</u>

Year Ending September 30	Loans	
	Principal	Interest
2009	\$ 144,792	\$ 88,569
2010	149,873	83,487
2011	155,141	78,220
2012	160,602	72,758
2013	166,264	67,098
2014-2018	923,761	243,044
2019-2023	767,533	84,809
2024-2028	249,180	12,650
Total	<u>\$ 2,717,146</u>	<u>\$ 730,635</u>

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
Year Ended September 30, 2008

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

	Balance at 9/30/2007	Additions	Deletions	Balance at 9/30/2008	Amounts Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds payable	\$ 8,381,400	\$ -	\$ 421,200	\$ 7,960,200	\$ 447,100
Special assessment bonds payable	13,870,000	-	735,000	13,135,000	765,000
Leases payable	306,192	287,884	241,607	352,469	295,918
Bond premium	241,622	-	19,076	222,546	-
Deferred loss	(263,017)	-	(20,765)	(242,252)	-
Compensated absences	362,675	28,655	-	391,330	-
<b>Governmental activities long-term liabilities</b>	<b>\$ 22,898,872</b>	<b>\$ 316,539</b>	<b>\$ 1,396,118</b>	<b>\$ 21,819,293</b>	<b>\$ 1,508,018</b>
<b>Business-type activities:</b>					
Revenue bonds payable	\$ 12,490,000	\$ -	\$ 270,000	\$ 12,220,000	\$ 285,000
Loans payable	2,666,173	185,509	134,536	2,717,146	144,793
Leases payable	94,983	-	94,983	-	-
Bond premium	416,909	-	17,616	399,293	-
Compensated absences	34,365	4,510	-	38,875	-
<b>Business-type activities long-term liabilities</b>	<b>\$ 15,702,430</b>	<b>\$ 190,019</b>	<b>\$ 517,135</b>	<b>\$ 15,375,314</b>	<b>\$ 429,793</b>

Business-type activities bond premium is added to disclosure. In prior year, it was not presented.

**(6) Capital Leases**

The following is a schedule by years of total payments due as of September 30, 2008:

Year Ending September 30	Governmental Fund	
	Principal	Interest
2009	\$ 295,918	\$ 11,035
2010	56,551	538
<b>Total</b>	<b>\$ 352,469</b>	<b>11,573</b>

**7) Intergovernmental Receivables**

Intergovernmental receivables at September 30, 2008 consisted of the following:

	General Fund
Sales tax	\$ 320,362
Ad Valorem	93,391
Other	57
<b>Total</b>	<b>\$ 413,810</b>

**CITY OF HORN LAKE, MISSISSIPPI**

Notes to Financial Statements  
 Year Ended September 30, 2008

**(8) Interfund Receivables and Payables**

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund		
Other governmental funds	\$ 612,473	\$ 384,990
Utility fund	9,159	-
Sanitation fund	85,866	-
Total general fund	<u>707,498</u>	<u>384,990</u>
Other governmental funds		
General fund	98,043	333,783
Other governmental funds	31,365	31,365
Utility fund	-	268,751
Total other governmental funds	<u>129,408</u>	<u>633,899</u>
Utility fund		
General fund	63,341	-
Other governmental funds	268,751	-
Sanitation fund	-	134,091
Total utility fund	<u>332,092</u>	<u>134,091</u>
Sanitation fund		
General fund	-	85,866
Other governmental funds	4,920	-
Utility fund	64,929	-
Total sanitation fund	<u>69,849</u>	<u>85,866</u>
Total	<u>\$ 1,238,847</u>	<u>\$ 1,238,846</u>

The receivables mainly represent a loan for payroll and other accounts payable items.

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund		
Utility fund	\$ -	\$ 429,299
Total general fund	<u>-</u>	<u>429,299</u>
Utility fund		
General fund	429,299	-
Total utility fund	<u>429,299</u>	<u>-</u>
Total	<u>\$ 429,299</u>	<u>\$ 429,299</u>

The purpose of the interfund transfers was transfer fixed assets from the Utility fund to the General fund.

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

Notes to Financial Statements

Year Ended September 30, 2008

### **(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, 2008, 2007, and 2006 were \$819,047, \$711,955, and \$658,013 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.

### **(12) Prior Period Adjustment**

In the prior year, the Accounts Payable Fund was shown on the Financial Statements in Other Governmental Funds. In current year it has been included in the General Fund.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**CITY OF HORN LAKE, MISSISSIPPI**  
 Budgetary Comparison Schedule  
 General Fund  
 September 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Taxes	\$ 4,254,808	\$ 4,254,808	\$ 4,156,630	\$ -	\$ (98,178)
Licenses and permits	455,000	455,000	248,694	-	(206,306)
Intergovernmental	4,404,000	4,404,000	4,185,130	-	(218,870)
Charges for services	250,000	250,000	486,783	-	236,783
Fines	838,000	838,000	634,776	-	(203,224)
Interest	2,000	12,000	24,833	10,000	12,833
Miscellaneous	712,403	769,135	282,558	56,732	(486,577)
Total revenues	<u>10,916,211</u>	<u>10,982,943</u>	<u>10,019,404</u>	<u>66,732</u>	<u>(963,539)</u>
Expenditures					
Administrative	1,612,216	1,697,316	1,475,304	(85,100)	222,012
Culture & recreation	445,576	430,476	379,048	15,100	51,428
Economic development	339,396	334,846	322,048	4,550	12,798
Public safety	6,845,433	7,093,625	6,552,520	(248,192)	541,105
Public works	1,107,890	1,176,390	1,168,300	(68,500)	8,090
Debt service	80,000	-	-	80,000	-
Capital outlay	746,100	656,383	462,222	89,717	194,161
Total expenditures	<u>11,176,611</u>	<u>11,389,036</u>	<u>10,359,442</u>	<u>(212,425)</u>	<u>1,029,594</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(260,400)</u>	<u>(406,093)</u>	<u>(340,038)</u>	<u>(145,693)</u>	<u>66,055</u>
Other financing sources (uses)					
Grant revenue	277,654	349,093	84,922	71,439	(264,171)
Sale of assets	7,000	12,000	11,015	5,000	(985)
Total other financing sources (uses)	<u>284,654</u>	<u>361,093</u>	<u>95,937</u>	<u>76,439</u>	<u>(265,156)</u>
Net changes in fund balances	<u>\$ 24,254</u>	<u>\$ (45,000)</u>	<u>(244,101)</u>	<u>\$ (69,254)</u>	<u>\$ (199,101)</u>
Fund balance - beginning of year			3,374,329		
Prior period adjustments			<u>(56,226)</u>		
Fund balance - as restated			<u>3,318,103</u>		
Fund balance - end of year			3,074,002		
Adjustments to conform with GAAP:					
Revenues			17,967		
Expenditures			<u>67,793</u>		
Fund balance - end of year (GAAP basis)			<u>\$ 3,159,762</u>		

**CITY OF HORN LAKE, MISSISSIPPI**  
 Schedule of Surety Bonds for Municipal Officials  
 September 30, 2008

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Nat Baker	Mayor	Fidelity & Deposit Co.	\$ 75,000
Tara Warren	City Clerk	Fidelity & Deposit Co.	75,000
Darrell Whaley	Police Chief	Fidelity & Deposit Co.	75,000
Public Employees		Travelers Insurance Co.	250,000
Aldermen		Fidelity & Deposit Co.	75,000 each



**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, 2008, and have issued our report thereon dated July 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 accompanying Schedule of Findings and Responses as 08 -1, 08 - 2, 08-3, 08 -4, and 08 -5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of 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 08 -3, 08 -4, and 08 -5 to be a material weaknesses.

### 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  
July 30, 2009

## INDEPENDENT AUDITORS' REPORT ON THE COMPLIANCE WITH STATE LAWS AND REGULATIONS

Mayor and Board of Aldermen  
City of Horn Lake, Mississippi

We have audited the accompanying financial statements of the City of Horn Lake, Mississippi as of and for the year ended September 30, 2008, and have issued our report date July 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of those procedures and our audit of the general purpose financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

1- Finding

*Rule 4.700: Title 4, authority by Section 99-19-73, Miss Code Ann. (1972)*, requires all daily collections of court assessments must be settled by the court clerk within one working day. In addition, the Municipal Clerk must make a monthly settlement of assessments to the appropriate state agency. The Court Department did not comply with the statute, as daily collections were not timely deposited and the monthly settlements were behind by six months.

Recommendation

The Court Clerk should deposit collections daily and settle assessments to the state monthly.

Response

We agree with the auditors' comments and were aware of this issue prior to the start of the audit. Disciplinary action was taken along with the assignment of a new court clerk Tara Warren, effective September 2, 2008. Internal cash control policies have been developed and steps are ongoing to improve the effectiveness of our court department.

2- Finding

*Section 27-105-5, Miss Code Ann (1972)* requires a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year end. As of September 30, 2008, \$788,487 of the City's \$5,733,186 bank balance was not reported to the State Treasurer, thus exposing the funds to custodial credit risk.

Recommendation

The City should review the *Collateral Sufficiency Report* provided by the State Treasurer's office to ensure accuracy of the accounts listed.

Response

We agree with the auditor's comments, however, under the circumstances in which these balances are reported to the State we have no way of knowing in advance if the correct balances and accounts are being reported by our banks. We do in fact review each collateral report provided to the City, however, the reports for this particular fiscal year had not been going to the proper staff and therefore were not reviewed in a timely manner. We have taken the necessary steps to ensure that proper staff receives and reviews this correspondence.

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

*Williams, Pitts & Beard, PLLC*

Williams, Pitts & Beard, PLLC  
Certified Public Accountants  
July 30, 2009

**CITY OF HORN LAKE, MISSISSIPPI**  
Scheduling of Findings and Responses  
September 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

- |   |             |
|---|-------------|
| 1. Type of auditor's report issued on the financial statements:                             | Unqualified |
| 2. Internal control over financial reporting:   |             |
| a. Material weaknesses identified?  | Yes         |
| b. Significant deficiencies identified that are not considered to be a material weaknesses? | Yes         |
| 3. Noncompliance material to the financial statements noted?                                | Yes         |

Section 2: Financial Statements Findings

Significant Deficiency

- 08 – 1. Finding  
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. Also, there are no standard procedures for reconciling information from the third-party billing company to the City's internal ambulance records.

Recommendation

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.

Response

We agree with the auditors; comments and will continue to seek help from our audit firm to develop and implement these policies in order to improve the recognition of ambulance revenues. Moving forward in fiscal year 2009 we are planning to bring ambulance billing in house which should also help to alleviate this problem.

**CITY OF HORN LAKE, MISSISSIPPI**

Scheduling of Findings and Responses

September 30, 2008

08 – 2. Finding

Fixed assets and capital projects

*A. 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.

Recommendation

To ensure that all property purchases and disposals are consistent with City policy, we recommend that formal policies be adopted.

Response

We agree with the auditors' comments and will continue to seek help from our audit firm to develop and implement these policies in order to improve the recognition of property additions and disposals, in addition, new staff with the appropriate training and experience is slated to come on staff during fiscal year 2009.

Finding

*B. 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.

Recommendation

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.

Response

We agree with the auditors' comments and through the implementation of our new financial software, we will have the capability to track all projects and detail associated with those projects in order to rectify this finding. We will be live with the previously mentioned software no later than June 2009.

Finding

*C. 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.

Recommendation

Monthly reconciliation of capital expenditures and board approved disposals will help ensure all capital expenditures are entered into fixed asset detail record.

**CITY OF HORN LAKE, MISSISSIPPI**

Scheduling of Findings and Responses

September 30, 2008

Response

We agree with the auditors' comments and through the implementation of our new financial software we will have the capability to record all additions, disposals and capital expenditures in the fixed assets subsidiary ledgers monthly, this will rectify this finding.

Material Weaknesses

08 – 3. Finding

Cash

*A. Reconciliation of Cash*

While conducting our cash and cash equivalents procedures, we noted the City has not properly and timely reconciled the general ledger accounts for cash to the bank statements. On further review, we discovered several material transactions that were not recorded in the general ledger.

Recommendation

We recommend that all bank accounts be reconciled each month and reviewed for accuracy and completeness on a timely basis by management.

Response

We agree with the auditors' comments and through the implementation of our new financial software, staff changes, and online banking, upper management will have the capability to monitor this process closely. Trial balances will be available and current on a daily basis as well as daily available bank balances via online banking. This will help to reconcile bank accounts throughout the month to the general ledger. Management will begin to review and sign all bank reconciliations. This process will rectify this finding.

Finding

*B. Deposits of Cash Receipts*

During our audit, we discovered that cash receipts were not being deposited on a timely basis. Certain ad valorem tax receipts, with material balances, and court fine receipts were being held for more than 30 days. As a result, not only is there risk of loss from theft, misplacement, or misappropriation, but the cash is not available for expenditures or investment.

Recommendation

We recommend that deposits be made on a daily basis both to improve cash flow and to reduce the risk of loss.

Response

We agree with the auditor' comments and through the implementation of our new financial software, staff changes, and online banking upper management will have the capability to monitor this process closely. Trial balances will be available and current on a daily basis as well as daily available bank balances via online banking. This will help to identify when deposits are being posted to the bank and give the ability to cross reference deposits to the general ledger on a daily basis. The process will rectify this finding.

**CITY OF HORN LAKE, MISSISSIPPI**

Scheduling of Findings and Responses

September 30, 2008

08 -4. Finding  
Financial Reporting

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).

Recommendation

The City needs to provide appropriate support and training for financial personnel. As well as, ensure upper management performs proper reviews to prevent and detect fraud.

Response

We agree with the auditors' comments and will continue to seek help from our audit firm to develop and implement policies in order to prevent, detect and correct any misstatements as well as ensure staff has been properly trained to understand and follow generally accepted accounting principles.

08 -5. Finding  
Payroll Procedures

While conducting payroll audit procedures, it was noted that 1099 income was included with W-2 income and reported on Form 941 instead of Form 945.

Recommendation

The City needs stronger oversight and controls over the payroll process.

Response

We agree with the auditors' comments and will continue to seek help from our audit firm to develop and implement these policies in order to improve the oversight and controls over the payroll process. In addition, new employees with the appropriate training and experience are slated to take over this process during fiscal year 2009 as well as outsourcing the preparation of all payroll taxes and paperwork associated with such task. This process will rectify this finding.