

**City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2013**



City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2013

TABLE OF CONTENTS

| | |
|---|------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | i-ix |
| Basic Financial Statements | 3 |
| Statement of Net Position | 4 |
| Statement of Activities..... | 5 |
| Balance Sheet – Governmental Funds | 6 |
| Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position | 7 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds..... | 8 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 9 |
| Statement of Net Position – Proprietary Funds..... | 10 |
| Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds | 11 |
| Statement of Cash Flows – Proprietary Funds | 12 |
| Notes to Financial Statements | 13 |
| Required Supplementary Information | 27 |
| Budgetary Comparison Schedule – General Fund | 28 |
| Other Information | 29 |
| Schedule of Surety Bonds for Municipal Officials | 30 |
| Special Reports | 31 |
| 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 <i>Government Auditing Standards</i> | 33 |
| Independent Auditors' Report on the Compliance with State Laws and Regulations | 35 |
| Schedule of Findings and Responses | 36 |



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi ("the City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-ix and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of surety bonds of municipal officials has not been subjected to the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2014, on our consideration of the City's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
October 7, 2014

CITY OF HORN LAKE

MISSISSIPPI



Management's Analysis and Discussion

FYE 2013

THE CITY OF HORN LAKE, MISSISSIPPI

CITY OFFICIALS

MAYOR

ALLEN B. LATIMER

ALDERMEN

DONNIE WHITE, ALDERMAN-AT-LARGE

AMY LAY, WARD 1

TOMMY BLEDSOE, WARD 2

TIM SMITH, WARD 3

CHARLIE ROBERTS, WARD 4

BRYAN PETTIGREW, WARD 5

JOHN E JONES, JR, WARD 6

CITY ADMINISTRATOR/CAO and CITY CLERK

ANDREA FREEZE, MPPA, MMC

CITY ATTORNEY

BILLY CAMPBELL, HUNT, ROSS & ALLEN

DEPARTMENT HEADS

POLICE CHIEF - DARRYL WHALEY

FIRE CHIEF - DAVID LINVILLE

DIRECTOR OF OPERATIONS - SPENCER SHIELDS

COURT CLERK – TARA WARREN

PARKS AND RECREATION – JOHN WILLOUGHBY

COMMUNITY DEVELOPMENT / HUMAN RESOURCES - A.J. LINVILLE

CITY ENGINEER

VINCE MALAVASI, NEEL-SCHAFFER

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2013
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, 2013. 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 2013 were as follows:

Total net position increased from \$ 11,709,368 to \$ 11,797,008
Total liabilities decreased from \$ 43,693,440 to \$ 42,449,705
Total assets of governmental activities decreased from \$ 38,079,356 to \$ 37,792,028
Total assets of business-type activities decreased from \$ 17,323,452 to \$ 16,454,685

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 Position 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 on the City of Horn Lake as a Whole

Statement of Net Position 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 2013?" The Statement of Net Position 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 position and the changes in those positions. This change in position 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.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2013
Unaudited

In the Statement of Net Position and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services such as police, fire, administrative, public services and all other departments. The business-type activities of the City of Horn Lake consist of the City's Water and Sewer System, also known as the Utility Department. This is known as the Proprietary Fund. The City of Horn Lake has no component units.

Reporting on the City of Horn Lake's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 6. 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 and Utility Funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of government's near-term financing decisions. Both the governmental fund balances and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The City of Horn Lake maintains an enterprise fund that is used to report business-type activities in the government-wide financial statements. The City uses enterprise fund accounting in order to account for the Utility System Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on page 10. Operating revenues of the System are utilized to fund the operation and maintenance expenses and debt service.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2013
Unaudited

The City of Horn Lake as a Whole

Recall that the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2013 compared to 2012. Table 2 shows the changes in net position for the 2013 year.

Table 1
Statement of Net Position

| | 2013 | | 2012 | |
|--|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Assets | | | | |
| Current and other assets | \$8,631,065 | \$ 3,896,852 | \$8,198,149 | \$ 3,981,073 |
| Capital assets, net | 29,160,963 | 12,557,833 | 29,881,207 | 13,342,379 |
| Total Assets | <u>37,792,028</u> | <u>16,454,685</u> | <u>38,079,356</u> | <u>17,323,452</u> |
| Liabilities | | | | |
| Current liabilities | 9,446,881 | 1,211,649 | 9,100,464 | 1,320,828 |
| Long-term liabilities | 19,424,714 | 12,366,461 | 20,349,939 | 12,922,209 |
| Total Liabilities | <u>28,871,595</u> | <u>13,578,110</u> | <u>29,450,403</u> | <u>14,243,037</u> |
| Net Assets | | | | |
| Invested in capital assets, net of debt | 8,934,864 | 76,842 | 8,955,295 | 364,510 |
| Restricted | 50,857 | 728,539 | 46,582 | 727,694 |
| Unrestricted | (65,288) | 2,071,194 | (372,924) | 1,988,211 |
| Total Net Assets | <u>\$8,920,433</u> | <u>\$2,876,575</u> | <u>\$8,628,953</u> | <u>\$3,080,415</u> |

Total assets decreased by \$ 1,156,095. Cash and cash equivalents increased by \$ 580,322. The following table, Table 2, presents a summary of the changes in net position for the fiscal year ended September 30, 2013.

(See next page for Table 2)

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2013
Unaudited

Table 2
Changes in Net Position

| | 2013 | | 2012 | |
|------------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Revenues | | | | |
| Program Revenues: | | | | |
| Charges for services | \$2,378,343 | \$4,017,805 | \$932,344 | \$5,531,571 |
| Operating grants and contributions | - | - | 1,293,942 | - |
| Capital grants and contributions | - | - | - | 2,250 |
| Total Program Revenues | <u>2,378,343</u> | <u>4,017,805</u> | <u>2,226,286</u> | <u>5,533,821</u> |
| General Revenues: | | | | |
| Taxes | 11,458,790 | - | 10,771,914 | - |
| Other revenues | 2,555,957 | 224,104 | 2,121,990 | 122,816 |
| Transfers | 400,000 | (400,000) | 745,073 | (745,073) |
| Total General Revenues | <u>14,414,747</u> | <u>(175,896)</u> | <u>13,638,977</u> | <u>(622,257)</u> |
| Total Revenues | <u>16,793,090</u> | <u>3,841,909</u> | <u>15,865,263</u> | <u>4,911,564</u> |
| Expenses | | | | |
| General government | \$2,839,961 | - | \$2,372,317 | - |
| Public safety | 8,722,789 | - | 8,517,172 | - |
| Public works | 2,704,507 | - | 1,553,436 | - |
| Cultural & recreational | 1,631,257 | - | 1,417,053 | - |
| Economic development | 205,160 | - | 238,090 | - |
| Interest | 882,631 | - | 1,085,564 | - |
| Utility department | - | 3,561,054 | - | 3,355,601 |
| Sanitation department | - | 0 | - | 1,147,322 |
| Total Expenses | <u>16,986,305</u> | <u>3,561,054</u> | <u>15,183,632</u> | <u>4,502,923</u> |
| Change in Net Assets | <u>(\$193,215)</u> | <u>\$280,855</u> | <u>\$681,631</u> | <u>\$408,641</u> |

Governmental Activities

Several revenues fund the City's governmental activities. The largest funding source, property tax revenue, accounted for \$ 6,868,728, or 48% of general revenues; sales tax revenue accounted for \$ 3,971,491, or 28% of general revenues. Fines of \$ 1,184,007 accounted for 8% of general revenues, and franchise taxes of \$ 618,571 accounted for 4% of general revenues.

The remaining 12% of general revenues was comprised of miscellaneous revenue and transfers.

Total general revenues from governmental activities increased from \$13,638,977 in 2012 to \$14,414,747, or 5.2%. Major expense activities included public safety expenditures accounting for 51.4% of total program expenses, and general government expenses accounting for 16.7%.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2013
Unaudited

Although the City has worked very hard on increasing its tax base by being proactive with new businesses and reducing costs 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 tax increases rests on the City management's ability to keep these costs in line.

Business-type Activities

Business-type activities increased the City's net position by \$ 280,855. Revenues from the utility system fund totaled \$ 3,841,909 in 2013, a decrease of 21.8% from 2012 revenues of \$ 4,911,564. The decrease was a result of outsourcing sanitation services and shifting the contract to a general government activity, public works.

Expenses of the utility fund and sanitation funds decreased in 2013, totaling \$ 3,561,054 in 2013 and \$ 4,502,953 in 2012. The decrease was a result of outsourcing sanitation services and shifting related contract expenses to public works.

The City's Funds

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 7 and 9, respectively.

The City maintains individual governmental funds in accordance with the Mississippi Municipal Audit and Accounting Guide issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 6 and 8 of this report. 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.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2013
Unaudited

Proprietary Funds

The net position of the proprietary funds at the end of fiscal year 2013 totaled \$ 2,876,575 which represents a \$280,855 increase from 2012, net position beginning as restated in the financial statements due to fund reclassification. Of this amount, net position of the utility fund increased by \$ 280,855.

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 the course of 2013, 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 the City's major activities such as 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. For the general fund, original budgeted revenues were \$ 12,379,400; amended budget amounts were \$12,490,170, and actual revenue collections-budgetary basis were \$14,014,860.

Table 3
Capital Assets (Net of Depreciation)

| | 2013 | | 2012 | |
|---------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Land | \$ 3,668,471 | \$ 28,225 | \$ 3,668,471 | \$ 28,225 |
| Buildings & Improvements | 11,008,229 | 151,001 | 9,047,315 | 218,548 |
| Equipment & Vehicles | 6,807,488 | 377,556 | 6,273,354 | 1,437,111 |
| Construction in Progress | 49,916 | 302,745 | 2,100,584 | 204,744 |
| Infrastructure | 27,259,618 | 19,318,868 | 26,710,865 | 19,318,868 |
| Accumulated Depreciation | <u>(19,632,759)</u> | <u>(7,620,562)</u> | <u>(17,919,382)</u> | <u>(7,865,117)</u> |
| Total Capital Assets, net | <u>\$ 29,160,963</u> | <u>\$ 12,557,833</u> | <u>\$ 29,881,207</u> | <u>\$ 13,342,379</u> |

In 2013, a sewer construction project was completed, resulting in an increase to the Infrastructure asset line, along with a corresponding decrease to the Construction in Progress asset line.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2013
Unaudited

Long-Term Obligations

Table 4

Outstanding Notes and Long-Term Obligations at Year End

| | <u>2013</u> | <u>2012</u> |
|---------------------------|-----------------------------|-----------------------------|
| Governmental Activities: | | |
| General obligation bonds | \$ 10,360,000 | \$ 11,025,000 |
| Special assessment bonds | 9,850,000 | 10,400,000 |
| Loans Payable | 310,083 | - |
| Leases payable | 330,285 | 215,558 |
| Bond premium | 127,166 | 146,242 |
| Bond discount | (49,196) | (54,662) |
| Deferred loss | (269,596) | (312,222) |
| Compensated absences | <u>232,603</u> | <u>252,880</u> |
| Total | <u>\$ 20,891,345</u> | <u>\$ 21,672,796</u> |
| Business-type Activities: | | |
| Bonds and notes payable | \$ 10,635,000 | \$ 10,985,000 |
| Loans payable | 1,939,671 | 2,103,173 |
| Leases payable | - | - |
| Bond premium | 311,213 | 328,829 |
| Compensated absences | <u>22,708</u> | <u>21,473</u> |
| Total | <u>\$ 12,908,592</u> | <u>\$ 13,438,475</u> |

At year-end, the City had \$ 33,799,937 in bonds and notes outstanding. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

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 Position
September 30, 2013

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 432,683 | \$ 1,429,161 | \$ 1,861,844 |
| Investments | 86,282 | - | 86,282 |
| Accounts receivable (net of allowance for uncollectibles of \$2,653,462) | 701,558 | 254,274 | 955,832 |
| Intergovernmental receivable | 372,072 | 472 | 372,544 |
| Property tax receivable | 6,460,933 | - | 6,460,933 |
| Prepaid items | 191,377 | 48,246 | 239,623 |
| Inventories | - | 2,195 | 2,195 |
| Internal balances | (1,029,074) | 1,029,074 | - |
| Restricted assets | | | |
| Cash in bank | - | 728,539 | 728,539 |
| Deferred charges - bond issue costs | 432,643 | 404,891 | 837,534 |
| Property held for sale | 982,591 | - | 982,591 |
| Capital assets: | | | |
| Land and construction in progress | 3,718,387 | 330,970 | 4,049,357 |
| Other capital assets, net | 25,442,576 | 12,226,863 | 37,669,439 |
| Total Assets | 37,792,028 | 16,454,685 | 54,246,713 |
| Liabilities | | | |
| Accounts payable | 434,354 | 163,129 | 597,483 |
| Intergovernmental payables | 597 | - | 597 |
| Accrued expenses | 443,632 | 39,427 | 483,059 |
| Customer deposits | 257,425 | 288,982 | 546,407 |
| Other deposits | 58,880 | - | 58,880 |
| Deferred revenue | 6,460,933 | - | 6,460,933 |
| Accrued interest | 324,429 | 177,980 | 502,409 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 1,466,631 | 542,131 | 2,008,762 |
| Due in more than one year: | | | |
| Capital debt | 19,192,111 | 12,343,753 | 31,535,864 |
| Non-capital debt | 232,603 | 22,708 | 255,311 |
| Total Liabilities | 28,871,595 | 13,578,110 | 42,449,705 |
| Net Position | | | |
| Net Investment in capital assets | 8,934,864 | 76,842 | 9,011,706 |
| Restricted for: | | | |
| Culture and recreation | 50,857 | - | 50,857 |
| Debt service | - | 728,539 | 728,539 |
| Unrestricted | (65,288) | 2,071,194 | 2,005,906 |
| Total Net Position | \$ 8,920,433 | \$ 2,876,575 | \$ 11,797,008 |

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

CITY OF HORN LAKE, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2013

| | <u>Major Funds</u> | | | <u>Total Governmental Funds</u> |
|---|-------------------------|----------------------------------|---|---|
| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | |
| Assets | | | | |
| Cash and cash equivalents | \$ 141,089 | \$ - | \$ 291,594 | \$ 432,683 |
| Investments | 86,282 | - | - | 86,282 |
| Due from other funds | 194,035 | - | 166,561 | 360,596 |
| Accounts receivable (net of allowance for uncollectibles of \$2,558,106) | 701,558 | - | - | 701,558 |
| Intergovernmental receivable | 372,072 | - | - | 372,072 |
| Prepaid items | - | 71,167 | - | 71,167 |
| Property tax receivable | 4,655,571 | 1,524,452 | 280,910 | 6,460,933 |
| Total Assets | <u>\$ 6,150,607</u> | <u>\$ 1,595,619</u> | <u>\$ 739,065</u> | <u>\$ 8,485,291</u> |
| Liabilities | | | | |
| Accounts payable | \$ 296,640 | \$ - | \$ 137,714 | \$ 434,354 |
| Intergovernmental payables | 597 | - | - | 597 |
| Accrued expenses | 443,632 | - | - | 443,632 |
| Other deposits | 316,305 | - | - | 316,305 |
| Due to other funds | - | 1,389,670 | - | 1,389,670 |
| Unearned revenue | 4,655,571 | 1,524,452 | 280,910 | 6,460,933 |
| Total Liabilities | <u>5,712,745</u> | <u>2,914,122</u> | <u>418,624</u> | <u>9,045,491</u> |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Prepaid items | - | 71,167 | - | 71,167 |
| Restricted: | | | | |
| Culture and recreation | - | - | 50,857 | 50,857 |
| Assigned: | | | | |
| Capital projects | - | - | - | - |
| Public safety | - | - | 116,009 | 116,009 |
| Economic development | - | - | 71,106 | 71,106 |
| General government | - | - | 90,466 | 90,466 |
| Unassigned | 437,862 | (1,389,670) | (7,997) | (959,805) |
| Total Fund Balances | <u>437,862</u> | <u>(1,318,503)</u> | <u>320,441</u> | <u>(560,200)</u> |
| Total Liabilities and Fund Balances | <u>\$ 6,150,607</u> | <u>\$ 1,595,619</u> | <u>\$ 739,065</u> | <u>\$ 8,485,291</u> |

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

City of Horn Lake, Mississippi
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2013

| | |
|--|-----------------------------------|
| Total Fund Balance - Governmental Funds | \$ (560,200) |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$19,632,759. | 29,160,963 |
| 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 | 432,643 |
| Tax Forfeited Land ("Investments") | 982,591 |
| Prepaid interest | 120,210 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (20,891,345) |
| Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds | <u>(324,429)</u> |
| Net Position of Governmental Activities | <u><u>\$ 8,920,433</u></u> |

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

City of Horn Lake, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013

| | <u>Major Funds</u> | | | <u>Total Governmental Funds</u> |
|--|-------------------------|----------------------------------|---|---|
| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | |
| Revenues | | | | |
| Property taxes | \$ 4,602,043 | \$ 1,684,258 | \$ 139,445 | \$ 6,425,746 |
| Franchise taxes | 618,571 | - | - | 618,571 |
| Sales taxes | 3,961,775 | - | 9,716 | 3,971,491 |
| Penalty and interest | 216,264 | - | - | 216,264 |
| Licenses and permits | 171,310 | - | - | 171,310 |
| Intergovernmental | 393,669 | - | - | 393,669 |
| Charges for services | 2,378,343 | - | - | 2,378,343 |
| Fines | 1,184,007 | - | - | 1,184,007 |
| Interest | 2,501 | - | 298 | 2,799 |
| Miscellaneous | 458,685 | - | - | 458,685 |
| Total Revenues | <u>13,987,168</u> | <u>1,684,258</u> | <u>149,459</u> | <u>15,820,885</u> |
| Expenditures | | | | |
| General government | 2,497,487 | - | - | 2,497,487 |
| Public safety | 8,223,522 | - | - | 8,223,522 |
| Public works | 2,092,063 | - | - | 2,092,063 |
| Culture and recreation | 1,160,385 | - | 126,083 | 1,286,468 |
| Economic development | 186,502 | - | 16,768 | 203,270 |
| Debt service | | | | |
| Principal | 111,342 | 1,215,044 | - | 1,326,386 |
| Interest | 4,018 | 675,795 | - | 679,813 |
| Bond issue costs | - | 10,820 | - | 10,820 |
| Capital outlay | 583,444 | - | 349,955 | 933,399 |
| Total Expenditures | <u>14,858,763</u> | <u>1,901,659</u> | <u>492,806</u> | <u>17,253,228</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(871,595)</u> | <u>(217,401)</u> | <u>(343,347)</u> | <u>(1,432,343)</u> |
| Other Financing Sources (Uses) | | | | |
| Long-term capital debt issued | 222,584 | - | - | 222,584 |
| Proceeds from sale of fixed assets | 219,454 | - | - | 219,454 |
| Loan proceeds | - | 975,000 | 313,568 | 1,288,568 |
| Loan payment | - | (975,000) | - | (975,000) |
| Interfund transfers | 409,089 | - | (9,089) | 400,000 |
| Total Other Financing Sources (Uses) | <u>851,127</u> | <u>-</u> | <u>304,479</u> | <u>1,155,606</u> |
| Net Change in Fund Balances | <u>(20,468)</u> | <u>(217,401)</u> | <u>(38,868)</u> | <u>(276,737)</u> |
| Fund Balance - Beginning | 231,361 | (1,101,102) | 359,309 | (510,432) |
| Equity transfers | 226,969 | - | - | 226,969 |
| Fund balance - as restated | 458,330 | (1,101,102) | 359,309 | (283,463) |
| Fund Balance - Ending | <u>\$ 437,862</u> | <u>\$ (1,318,503)</u> | <u>\$ 320,441</u> | <u>\$ (560,200)</u> |

The accompanying notes are an integral part of the 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
For the Year Ended September 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (276,737)

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. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of (\$540,649) exceeded depreciation of (\$1,502,178) in the current period. (961,529)

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net (gain/loss) of (\$129,223) and the proceeds from the sale of (\$219,454) in the current period. (90,231)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments (\$2,301,342) exceeded debt proceeds of (\$1,511,252). 790,190

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:

| | |
|--|-----------|
| Property tax on forfeited land not recognized for modified accrual basis | 442,982 |
| Accrued interest on debt | 19,637 |
| Compensated absences | 20,277 |
| Reduction in prepaid interest | (121,214) |
| Transfer of Fixed Assets to Utility Fund | (48,737) |
| Bond issue costs, premium and discount amortization | (90,377) |
| Adjustment for True-Up of Fixed Asset Balances | 122,524 |
| | 122,524 |

Change in Net Position of Governmental Activities \$ (193,215)

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

City of Horn Lake, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2013

| | Utility Fund |
|--|-------------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 1,429,161 |
| Accounts receivable (net of allowance for uncollectibles of \$95,356) | 254,746 |
| Inventory | 2,195 |
| Prepaid items | 48,246 |
| Due from other funds | 1,029,074 |
| Total Current Assets | 2,763,422 |
| Noncurrent Assets | |
| Restricted Cash | 728,539 |
| Deferred charges - bond issuance costs | 404,891 |
| Capital assets: | |
| Land and construction in progress | 330,970 |
| Other capital assets, net | 12,226,863 |
| Total Noncurrent Assets | 13,691,263 |
| Total Assets | 16,454,685 |
| Liabilities | |
| Current Liabilities | |
| Accounts payable | 163,129 |
| Accrued expenses | 39,427 |
| Accrued interest payable | 177,980 |
| Due to other funds | - |
| Due to other funds | - |
| Customer deposits | 288,982 |
| Capital debt: | |
| Other long-term liabilities | 542,131 |
| Total Current Liabilities | 1,211,649 |
| Noncurrent liabilities: | |
| Capital debt | 12,343,753 |
| Non-capital debt | 22,708 |
| Total noncurrent liabilities | 12,366,461 |
| Total Liabilities | 13,578,110 |
| Net Position | |
| Net investment in capital assets | 76,842 |
| Restricted for: | |
| Debt service | 728,539 |
| Unrestricted | 2,071,194 |
| Total Net Position | \$ 2,876,575 |

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

City of Horn Lake, Mississippi
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2013

| | Utility Fund |
|---|-------------------------|
| Operating Revenues | |
| Charges for services | \$ 4,017,805 |
| Miscellaneous | 174,428 |
| Total Operating Revenues | 4,192,233 |
| Operating Expenses | |
| Personnel | 945,507 |
| Supplies | 112,850 |
| Depreciation and amortization | 690,180 |
| Maintenance and other | 222,225 |
| Water & sewer system management | 994,542 |
| Total Operating Expenses | 2,965,304 |
| Operating Income | 1,226,929 |
| Non-operating Revenues (Expenses) | |
| Interest income | 939 |
| Interest expense | (595,750) |
| Total Non-operating Revenues (Expenses) | (594,811) |
| Income (Loss) Before Contributions and Transfers | 632,118 |
| Capital contributions | 48,737 |
| Transfers Out | (400,000) |
| Change in Net Position | 280,855 |
| Net Position - Beginning | 2,595,720 |
| Net Position - Ending | \$ 2,876,575 |

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

City of Horn Lake, Mississippi
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2013

| | Utility Fund |
|---|-------------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 4,220,118 |
| Payments to suppliers | (1,189,571) |
| Payments to employees | (942,450) |
| Net Cash Provided By (Used In) Operating Activities | 2,088,097 |
| Cash Flows from Non-capital Financing Activities | |
| Interfund transfers | (434,544) |
| Net Cash Provided By (Used In) Non-Capital Financing Activities | (434,544) |
| Cash Flows from Capital and Related Financing Activities | |
| Payments for capital acquisitions | (146,738) |
| Capital Contributions | 48,737 |
| Customer deposits | 14,634 |
| Principal payments on debt | (513,500) |
| Interest payments on debt | (602,844) |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | (1,199,711) |
| Cash Flows from Investing Activities | |
| Interest revenue | 939 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 454,781 |
| Cash and Cash Equivalents-Beginning of Year | 1,702,919 |
| Cash and Cash Equivalents-End of Year | \$ 2,157,700 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating income | \$ 1,226,929 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | |
| Depreciation and amortization | 690,180 |
| (Increase) decrease in customer receivables | 27,888 |
| (Increase) decrease in prepaid expenses | 3,695 |
| Increase (decrease) in accounts payable | 123,011 |
| Increase (decrease) in accrued expenses | 13,337 |
| Increase (decrease) in compensated absences | 3,057 |
| Total adjustments | 861,168 |
| Net Cash Provided By (Used In) Operating Activities | \$ 2,088,097 |

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, public works, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City 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 following is a summary of the more significant policies.

Financial Reporting Entity

These financial statements present all the accounts of the City. There are no component units as defined by GASB Statement 14, *The Financial Reporting Entity*.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information concerning the City as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Position presents the financial condition of the governmental activities and business-type activities of the City at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental and proprietary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

Measurement Focus and Basis of Accounting.

The Government-wide and Proprietary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The City reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Debt Service fund – This fund is used to account for resources accumulated and used for the payment of long-term debt principal interest and related costs.

The City reports the following major Proprietary Funds:

Utility Fund:

The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system, as well as billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

PROPRIETARY FUND TYPES

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

Budgets and Budgetary Accounting

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

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Clerk a budget of estimated expenditures for the ensuing fiscal year after which the City Clerk submits a budget of estimated expenditure and revenues to the Mayor and Board of Alderman by August 1.

Upon receipt of the budget estimates, the Board of Aldermen holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

At the September board meeting, the budget is legally enacted through passage of ordinance. The City Clerk 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.

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.

Cash and Cash Equivalents

For the purpose of the Statement of Net Position, "Cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the 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.

Investments

The City's investments consist of shares of common stock and tax forfeited land, which are valued at fair market value using quoted prices in an actively traded market and land appraisal values by the local tax assessor respectively.

Inventories and Prepaid Items.

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for Governmental Fund Types since the costs of such items are accounted for as expenditures in the period of acquisition.

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 Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

Restricted Assets

Proprietary Fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. 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 and capitalization thresholds of the various classes of depreciable capital assets are as follows:

| | <u>Capitalization Thresholds</u> | <u>Estimated Useful Life</u> |
|--------------------------------------|--------------------------------------|----------------------------------|
| Land | \$ - | N/A |
| Infrastructure | - | 20-50 years |
| Buildings | 50,000 | 40 years |
| Improvements other than buildings | 25,000 | 20 years |
| Mobile equipment | 5,000 | 5-10 years |
| Furniture and equipment | 5,000 | 3-7 years |
| Leased property under capital leases | * | * |

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 or Proprietary Funds Statement of Net Position.

Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and proprietary fund financial statements. In fund financial statements, governmental funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net position and displayed in three components:

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

Net Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the City.

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Mayor pursuant to authorization established by the Board of Aldermen.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

Property Tax Revenues

Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Alderman, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes that become a lien are due in the month that coincides with the month of the original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of the original purchase occurs.

Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

Changes in Accounting Standards

The City of Horn Lake, Mississippi adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, during the fiscal year changing the source of guidance for accounting and financial reporting. They also adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during the year ended September 30, 2013. Statement No. 63 added new classifications on the statements of position and changed net assets to net position. These statements did not significantly impact any amounts reported in the financial statements.

Fund Reclassification

The Sanitation fund's beginning fund balance of \$484,695 was reclassified from the Proprietary Funds to a beginning fund balance in the General fund of \$226,969 and to an additional beginning net position in the Governmental Activities Statement of Net Position of \$257,726 effective October 1, 2012. Sanitation services are now being contracted out by the city.

NOTE B - CASH AND CASH EQUIVALENTS

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 Deposit Insurance Corporation ("FDIC").

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

Custodial credit risk is the risk that in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. As of September 30, 2013, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2013, the carrying amount of the City's deposits with financial institutions was \$2,590,383 and the bank balances totaled \$3,113,666. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

NOTE C - INVESTMENTS

The following is a summary of changes in investments:

| <u>Investments</u> | <u>Fund</u> | <u>Balance at 9/30/2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2013</u> |
|--------------------|-------------|---------------------------------|------------------|------------------|---------------------------------|
| Capital stock | General | \$ 54,284 | \$ 31,998 | \$ - | \$ 86,282 |
| Total | | <u>\$ 54,284</u> | <u>\$ 31,998</u> | <u>\$ -</u> | <u>\$ 86,282</u> |

NOTE D - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following.

| <u>Description</u> | <u>General Fund</u> |
|--------------------|-------------------------|
| Sales tax | \$ 325,621 |
| Grant proceeds | 46,451 |
| Totals | <u>\$ 372,072</u> |

NOTE E- PROPERTY HELD FOR SALE

At September 30, 2012, the City had delinquent property taxes receivable of \$539,609. The parcels were forfeited to the City during the current year due to taxes being delinquent for 3 years. The receivable was increased by \$442,982, which represents tax revenue to the extent of fair values of the parcels as listed by the Desoto County Tax Assessor. The total of \$982,591 is presented on the Statement of Net Position as Property Held for Sale.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

NOTE F - CAPITAL ASSETS

The following is a summary of changes in capital assets:

| | Balance at 9/30/2012 | Additions | Deletions | Transfers/ Adjustments | Balance at 9/30/2013 |
|---|-------------------------|---------------------|---------------------|---------------------------|-------------------------|
| Governmental Activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 3,668,471 | \$ - | \$ - | \$ - | \$ 3,668,471 |
| Construction in progress | 2,100,584 | 184,387 | 2,235,055 | - | 49,916 |
| Total Capital Assets, Not Being Depreciated: | <u>5,769,055</u> | <u>184,387</u> | <u>2,235,055</u> | <u>-</u> | <u>3,718,387</u> |
| Capital Assets, Being Depreciated: | | | | | |
| Buildings and improvements | 9,047,315 | 1,734,208 | - | 226,706 | 11,008,229 |
| Equipment and machinery | 1,756,749 | 146,913 | 58,658 | 168,016 | 2,013,020 |
| Infrastructure | 26,710,865 | 548,753 | - | - | 27,259,618 |
| Vehicles | 4,516,605 | 161,443 | 778,270 | 894,690 | 4,794,468 |
| Total Capital Assets, Being Depreciated: | <u>42,031,534</u> | <u>2,591,317</u> | <u>836,928</u> | <u>1,289,412</u> | <u>45,075,335</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (1,937,110) | (225,511) | - | (57,747) | (2,220,368) |
| Equipment and machinery | (2,130,876) | (145,703) | (46,254) | (131,289) | (2,361,614) |
| Infrastructure | (10,470,809) | (744,655) | - | - | (11,215,464) |
| Vehicles | (3,380,587) | (386,309) | (700,443) | (768,860) | (3,835,313) |
| Total Accumulated Depreciation | <u>(17,919,382)</u> | <u>(1,502,178)</u> | <u>(746,697)</u> | <u>(957,896)</u> | <u>(19,632,759)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>24,112,152</u> | <u>1,089,139</u> | <u>90,231</u> | <u>331,516</u> | <u>25,442,576</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 29,881,207</u> | <u>\$ 1,273,526</u> | <u>\$ 2,325,286</u> | <u>\$ 331,516</u> | <u>\$ 29,160,963</u> |
| Business-type Activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 28,225 | \$ - | \$ - | \$ - | \$ 28,225 |
| Construction in progress | 204,744 | 104,673 | - | (6,672) | 302,745 |
| Total Capital Assets, Not Being Depreciated: | <u>232,969</u> | <u>104,673</u> | <u>-</u> | <u>(6,672)</u> | <u>330,970</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 218,548 | - | - | (67,547) | 151,001 |
| Equipment and machinery | 943,817 | - | - | (622,382) | 321,435 |
| Infrastructure | 19,318,868 | - | - | - | 19,318,868 |
| Vehicles | 493,294 | - | - | (437,173) | 56,121 |
| Total Capital Assets, Being Depreciated: | <u>20,974,527</u> | <u>-</u> | <u>-</u> | <u>(1,127,102)</u> | <u>19,847,425</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (50,482) | (3,057) | - | 17,963 | (35,576) |
| Equipment and machinery | (396,234) | (33,897) | - | 131,289 | (298,842) |
| Infrastructure | (6,614,533) | (626,501) | - | - | (7,241,034) |
| Vehicles | (803,868) | (10,102) | - | 768,860 | (45,110) |
| Total Accumulated Depreciation | <u>(7,865,117)</u> | <u>(673,557)</u> | <u>-</u> | <u>918,112</u> | <u>(7,620,562)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>13,109,410</u> | <u>(673,557)</u> | <u>-</u> | <u>(208,990)</u> | <u>12,226,863</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 13,342,379</u> | <u>\$ (568,884)</u> | <u>\$ -</u> | <u>\$ (215,662)</u> | <u>\$ 12,557,833</u> |

No interest was capitalized during the year due to immateriality.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

Depreciation was charged to functions of the City as follows:

Governmental Activities

| | |
|--|----------------------------|
| General government | \$ 162,957 |
| Public safety | 547,257 |
| Public works | 574,480 |
| Cultural and recreational | <u>217,484</u> |
| Total Depreciation Expense, Governmental Activities | <u>\$ 1,502,178</u> |

Business-type Activities

| | |
|---|--------------------------|
| Water and sewer | <u>\$ 673,557</u> |
| Total Depreciation Expense, Business-type Activities | <u>\$ 673,557</u> |

There are no commitments at September 30, 2013.

NOTE G – OPERATING LEASES

The city receives income from the Newly Weds Foods, Inc. rail spur it leases under a noncancellable operating lease. Total income from such lease was \$6,977. The future minimum lease receivables for these leases are as follows:

| <u>Year ended September 30</u> | <u>Amount</u> |
|--------------------------------|--------------------------|
| 2014 | \$ 20,904 |
| 2015 | 20,904 |
| 2016 | 20,904 |
| 2017 | 20,904 |
| 2018 | 20,904 |
| 2019-2023 | 104,520 |
| 2024-2028 | <u>97,552</u> |
| | <u>\$ 306,592</u> |

NOTE H - INTERFUND TRANSACTIONS

Interfund transactions are for the payment of monthly claims, and to provide funds for debt service and capital outlay. All transfers were routine and consistent with the activities of the fund, and all interfund balances are expected to be repaid within a year. The following is a summary of interfund transactions and balances as of September 30, 2013:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|--------------------------|--------------------------|
| Major | | |
| General Fund | \$ 409,089 | \$ - |
| Non Major | | |
| Other Governmental Funds | - | 9,089 |
| Major | | |
| Utility Fund | - | <u>400,000</u> |
| Total | <u>\$ 409,089</u> | <u>\$ 409,089</u> |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

| | <u>Due From</u> | <u>Due To</u> |
|--------------------------|---------------------|---------------------|
| Major | | |
| General Fund | \$ 194,035 | \$ - |
| Debt Service Fund | - | 1,389,670 |
| Non Major | | |
| Other Governmental Funds | 166,561 | - |
| Major | | |
| Utility Fund | <u>1,029,074</u> | <u>-</u> |
| Total | <u>\$ 1,389,670</u> | <u>\$ 1,389,670</u> |

NOTE I - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2013 was as follows:

| | <u>Balance at</u> <u>9/30/2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at</u> <u>9/30/2013</u> | <u>Due Within</u> <u>One Year</u> |
|---------------------------------------|---------------------------------------|---------------------|---------------------|---------------------------------------|--------------------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds payable | \$ 11,025,000 | \$ - | \$ 665,000 | \$ 10,360,000 | \$ 690,000 |
| Special assessment bonds payable | 10,400,000 | - | 550,000 | 9,850,000 | 575,000 |
| Loans payable | - | 1,288,568 | 978,485 | 310,083 | 20,904 |
| Leases payable | 215,558 | 222,584 | 107,857 | 330,285 | 180,727 |
| Bond premium | 146,242 | - | 19,076 | 127,166 | - |
| Bond discount | (54,662) | - | (5,466) | (49,196) | - |
| Deferred loss | (312,222) | - | (42,626) | (269,596) | - |
| Compensated absences | 252,880 | - | 20,277 | 232,603 | - |
| Total Governmental Activities | <u>\$ 21,672,796</u> | <u>\$ 1,511,152</u> | <u>\$ 2,292,603</u> | <u>\$ 20,891,345</u> | <u>\$ 1,466,631</u> |
| Business-type Activities: | | | | | |
| Revenue bonds payable | \$ 10,985,000 | \$ - | \$ 350,000 | \$ 10,635,000 | \$ 370,000 |
| Loans payable | 2,103,173 | 2,762 | 166,264 | 1,939,671 | 172,131 |
| Bond premium | 328,829 | - | 17,616 | 311,213 | - |
| Compensated absences | 21,473 | 3,052 | 1,817 | 22,708 | - |
| Total Business-type Activities | <u>\$ 13,438,475</u> | <u>\$ 5,814</u> | <u>\$ 535,697</u> | <u>\$ 12,908,592</u> | <u>\$ 542,131</u> |

General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds outstanding as of September 30, 2013 are as follows:

| <u>Description</u> | <u>Interest</u> <u>Rate</u> | <u>Issue</u> <u>Date</u> | <u>Maturity</u> <u>Date</u> | <u>Amounts</u> | |
|---------------------------------------|--------------------------------|-----------------------------|--------------------------------|----------------------|----------------------|
| | | | | <u>Issued</u> | <u>Outstanding</u> |
| 2008 | 3.25%- 4.63% | 4/1/2008 | 4/1/2023 | 4,410,000 | 3,375,000 |
| 2008 | 2.75% - 5.00% | 11/1/2008 | 11/1/2028 | 4,500,000 | 3,885,000 |
| 2011 | 2.00% - 3.125% | 12/15/2011 | 8/1/2024 | 3,395,000 | 3,100,000 |
| Total General Obligation Bonds | | | | <u>\$ 12,305,000</u> | <u>\$ 10,360,000</u> |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

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:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amounts</u> | |
|---|----------------------|-------------------|----------------------|----------------------|---------------------|
| | | | | <u>Issued</u> | <u>Outstanding</u> |
| 2005 Special Assessment Refunding | 2.75% - 5.00% | 5/18/2005 | 4/15/2020 | \$ 8,540,000 | \$ 4,665,000 |
| 2012 Special Obligation Recreation Facility Refunding | 2.00% - 3.00% | 3/28/2012 | 10/1/2021 | 5,185,000 | 5,185,000 |
| Total Special Assessment Bonds | | | | <u>\$ 13,725,000</u> | <u>\$ 9,850,000</u> |

The City 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:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amounts</u> | |
|-----------------------------------|----------------------|-------------------|----------------------|----------------------|----------------------|
| | | | | <u>Issued</u> | <u>Outstanding</u> |
| 2005 Special Obligation Refunding | 2.40% - 5.00% | 6/1/2006 | 12/1/2030 | \$ 12,750,000 | \$ 10,635,000 |
| Total Revenue Bonds | | | | <u>\$ 12,750,000</u> | <u>\$ 10,635,000</u> |

The City uses loans to finance its projects. Loans outstanding at year end 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> |
| General | | | | | |
| MDA Railroad Spur | 0.00% | 8/1/2013 | 7/1/2028 | 313,568 | 310,083 |
| Total Loans | | | | <u>\$ 313,568</u> | <u>\$ 310,083</u> |

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amounts</u> | |
|---|----------------------|-------------------|----------------------|---------------------|---------------------|
| | | | | <u>Issued</u> | <u>Outstanding</u> |
| Enterprise | | | | | |
| Drinking Water System Improvements Revolving Loan | 4.00% | 3/1/2001 | 11/1/2020 | 1,509,556 | 690,565 |
| Drinking Water System Improvements Revolving Loan (Water Treatment Plant) | 3.50% | 11/13/2002 | 10/2/2023 | 773,901 | 461,042 |
| Cap Loan (Water Treatment Plant) | 2.00% | 11/20/2002 | 10/2/2023 | 476,333 | 336,329 |
| Cap Loan (Water Treatment Plant) | 3.00% | 2/1/2005 | 10/1/2027 | 587,905 | 448,971 |
| Cap Loan (Sewer Improvement) | 2.00% | 2/1/2005 | 2/1/2035 | 2,764 | 2,764 |
| Total Loans | | | | <u>\$ 3,350,459</u> | <u>\$ 1,939,671</u> |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

The aggregate maturities of general obligation, special assessment bonds, revenue bonds and loans for the years subsequent to September 30, 2013 are as follows:

| Year Ending September 30 | General Obligation Bonds | |
|---|---------------------------------|---------------------|
| | Principal | Interest |
| 2014 | 690,000 | 406,741 |
| 2015 | 715,000 | 382,970 |
| 2016 | 740,000 | 357,925 |
| 2017 | 780,000 | 331,326 |
| 2018 | 795,000 | 303,125 |
| 2019-2023 | 4,525,000 | 1,015,433 |
| 2024-2028 | 1,785,000 | 267,206 |
| 2029-2033 | 330,000 | 7,838 |
| Total | \$ 10,360,000 | \$ 3,072,564 |

| Year Ending September 30 | Special Assessment Bonds | |
|---|---------------------------------|---------------------|
| | Principal | Interest |
| 2014 | 575,000 | 341,425 |
| 2015 | 1,195,000 | 312,762 |
| 2016 | 1,235,000 | 276,712 |
| 2017 | 1,285,000 | 233,112 |
| 2018 | 1,330,000 | 187,512 |
| 2019-2023 | 4,230,000 | 270,918 |
| Total | \$ 9,850,000 | \$ 1,622,441 |

| Year Ending September 30 | Revenue Bonds | |
|---|----------------------|---------------------|
| | Principal | Interest |
| 2014 | 370,000 | 511,040 |
| 2015 | 390,000 | 492,040 |
| 2016 | 410,000 | 472,040 |
| 2017 | 430,000 | 453,190 |
| 2018 | 455,000 | 435,376 |
| 2019-2023 | 2,060,000 | 1,918,357 |
| 2024-2028 | 4,010,000 | 1,119,938 |
| 2029-2033 | 2,510,000 | 282,375 |
| Total | \$ 10,635,000 | \$ 5,684,356 |

| Year Ending September 30 | Loans | |
|---|-------------------|-----------------|
| | Principal | Interest |
| 2014 | 20,904 | - |
| 2015 | 20,904 | - |
| 2016 | 20,904 | - |
| 2017 | 20,904 | - |
| 2018 | 20,904 | - |
| 2019-2023 | 104,520 | - |
| 2024-2028 | 101,043 | - |
| Total | \$ 310,083 | \$ - |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

| <u>Year Ending</u> <u>September 30</u> | <u>Loans</u> | |
|---|---------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2014 | 172,131 | 61,230 |
| 2015 | 178,215 | 55,147 |
| 2016 | 184,520 | 48,841 |
| 2017 | 191,058 | 42,302 |
| 2018 | 197,837 | 35,524 |
| 2019-2023 | 767,533 | 84,809 |
| 2024-2028 | 245,613 | 12,650 |
| 2029-2033 | 2,764 | - |
| Total | <u>\$ 1,939,671</u> | <u>\$ 340,503</u> |

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2013 were as follows:

| <u>Year Ending</u> <u>September 30</u> | <u>Governmental Fund</u> | |
|---|--------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2014 | \$ 180,727 | \$ 5,562 |
| 2015 | 74,189 | 2,380 |
| 2016 | 75,369 | 1,200 |
| Total | <u>\$ 330,285</u> | <u>\$ 9,142</u> |

Legal Debt Margin. The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$13,341,697 (the smaller of the two computed margins) as of September 30, 2013.

| | <u>15% Test</u> | <u>20% Test</u> |
|--|----------------------|----------------------|
| Assessed value as of September 30, 2012: | | |
| \$158,011,312 times applicable percentage | \$ 23,701,697 | \$ 31,602,262 |
| Less present debt subject to debt limits as of September 30, 2012: | | |
| Total bonds outstanding (exclude proprietary) | <u>(10,360,000)</u> | <u>(10,360,000)</u> |
| Margin for additional debt | <u>\$ 13,341,697</u> | <u>\$ 21,242,262</u> |

NOTE J - DEFINED BENEFIT PENSION PLAN

Plan Description. The City 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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2013

Funding Policy. PERS members are required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2013, the current rate was 15.75% 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's contributions to PERS for the years ending September 30, 2013, 2012, and 2011 were \$1,148,550, \$1,014,884 and \$931,295 respectively, equal to the required contribution for each year.

NOTE K - 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.

NOTE L – CONTINGENCIES

Federal Grants – The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the city. No provision for any liability that may result has been recognized in the City's financial statements.

Litigation – The city is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the city with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the city.

NOTE M - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Horn Lake evaluated the activity of the city through October 7, 2014, the date the financial statements were available to be issued, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

On October 1, 2013 the city entered into a lease purchase agreement with Covenant Bank for public works equipment in the amount of \$372,002 and a lease purchase with Bancorpsouth for police department vehicles in the amount of \$222,584.

On November 5, 2013 the city borrowed \$1,200,000 in the form of a tax anticipation loan at 1.47% interest. This was repaid in February, 2014.

On December 17, 2013 the city entered into a lease agreement with Bancorpsouth for police department vehicles and a tractor in the amount of \$292,000.

On February 1, 2014 the city sold 2014 Refunding Bonds in the amount of \$7,320,000 to refund the 2005 Special Obligation Bonds.

On September 14, 2014 a \$1,300,000 tax anticipation loan was approved with Bankplus at 1.25% interest.

REQUIRED SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2013

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variances Positive (Negative) | |
|--|--------------------|--------------------|-----------------------------------|----------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| | Revenues | | | | |
| Taxes | \$ 9,545,470 | \$ 9,236,570 | \$ 9,355,332 | \$ (308,900) | \$ 118,762 |
| Licenses and permits | 145,500 | 178,000 | 171,151 | 32,500 | (6,849) |
| Intergovernmental | 217,000 | 209,989 | 471,818 | (7,011) | 261,829 |
| Charges for services | 891,000 | 882,500 | 2,378,343 | (8,500) | 1,495,843 |
| Fines | 1,015,000 | 1,135,000 | 1,184,007 | 120,000 | 49,007 |
| Interest | 10,000 | 10,000 | 2,501 | - | (7,499) |
| Miscellaneous | 555,430 | 838,111 | 451,708 | 282,681 | (386,403) |
| Total Revenues | <u>12,379,400</u> | <u>12,490,170</u> | <u>14,014,860</u> | <u>110,770</u> | <u>1,524,690</u> |
| Expenditures | | | | | |
| General government | 2,484,445 | 2,674,180 | 2,612,847 | (189,735) | 61,333 |
| Public safety | 8,777,275 | 8,733,298 | 8,223,522 | 43,977 | 509,776 |
| Public works | 2,194,580 | 2,142,665 | 2,092,063 | 51,915 | 50,602 |
| Culture & recreation | 1,068,050 | 1,304,935 | 1,160,385 | (236,885) | 144,550 |
| Economic development | 251,050 | 194,200 | 186,502 | 56,850 | 7,698 |
| Debt service | - | - | - | - | - |
| Total Expenditures | <u>14,775,400</u> | <u>15,049,278</u> | <u>14,275,319</u> | <u>(273,878)</u> | <u>773,959</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(2,396,000)</u> | <u>(2,559,108)</u> | <u>(260,459)</u> | <u>(163,108)</u> | <u>2,298,649</u> |
| Other Financing Sources (Uses) | | | | | |
| Grant revenue | 196,000 | 186,424 | - | (9,576) | (186,424) |
| Lease proceeds | - | 222,584 | 222,584 | 222,584 | - |
| Interfund transfers | 2,200,000 | 2,150,000 | 409,089 | (50,000) | (1,740,911) |
| Sale of assets | - | - | 219,454 | - | 219,454 |
| Total Other Financing Sources (Uses) | <u>2,396,000</u> | <u>2,559,008</u> | <u>851,127</u> | <u>163,008</u> | <u>(1,707,881)</u> |
| Net Changes in Fund Balances | <u>\$ -</u> | <u>\$ (100)</u> | 590,668 | <u>\$ (100)</u> | <u>\$ 590,768</u> |
| Fund Balance - Beginning of Year | | | 231,361 | | |
| Equity transfer | | | 226,969 | | |
| Fund Balance - End of Year | | | <u>1,048,998</u> | | |
| Adjustments to Conform with GAAP: | | | | | |
| Revenues | | | (27,692) | | |
| Expenditures | | | (583,444) | | |
| Fund Balance - End of Year (GAAP Basis) | | | <u>\$ 437,862</u> | | |

Notes to the Required Supplementary Information

Basis of Presentation

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted amounts on a budgetary basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund. The Budgetary Comparison Schedule is part of required supplementary information.

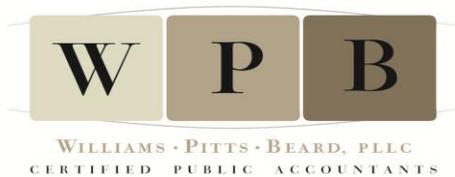
OTHER INFORMATION

City of Horn Lake, Mississippi
Schedule of Surety Bonds for Municipal Officials
For the Year Ended September 30, 2013

| <u>Name</u> | <u>Position</u> | <u>Company</u> | <u>Amount</u> |
|-------------------|--------------------------|----------------|---------------|
| Allen Latimer | Mayor | Fidelity | \$ 75,000 |
| Andrea Freeze | Administrator/City Clerk | Fidelity | 100,000 |
| Tara Warran | Court Clerk | Fidelity | 50,000 |
| Frances Williams | Deputy City Clerk | Zurich | 50,000 |
| Darryl Whaley | Police Chief | Fidelity | 50,000 |
| Arienne Linville | Human Resources Director | Fidelity | 50,000 |
| Sandra McElhannon | Finance Director | Fidelity | 50,000 |
| Pamela Pyle | Accounts Payable | Fidelity | 50,000 |
| Leslie Chung | Concession Coordinator | Fidelity | 50,000 |
| | Aldermen (each) | Fidelity | 100,000 |

SPECIAL REPORTS

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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
Horn Lake, Mississippi

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 13-01 and 13-02 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 2013-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing*.

City of Horn Lake, Mississippi's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC
Hernando, Mississippi
October 7, 2014



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**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 basic 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, 2013, and have issued our report dated October 7, 2014. 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 the *Governmental 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 no material instances of noncompliance with state laws and regulations. The prior year finding has been corrected.

This report is intended for the information of the Board of Aldermen, the City's management and the Office of the State Auditor 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
Hernando, Mississippi
October 7, 2014

City of Horn Lake, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2013

Section 1: Summary of Auditor's Results

Financial Statements:

(1) Type of auditor's report issued on the financial statements:

| | |
|--------------------------------------|------------|
| Governmental activities | Unmodified |
| General Fund | Unmodified |
| Debt Service Fund | Unmodified |
| Aggregate remaining fund information | Unmodified |
| Utility Fund | Unmodified |

(2) Internal Control over financial reporting:

| | |
|--|-----|
| (a) Material weaknesses identified? | Yes |
| (b) Significant deficiency identified that are not considered to be a material weaknesses? | Yes |

(3) Noncompliance material to the financial statements noted: No

Section 2: Financial Statement Findings

Material Weaknesses

13-01 Criteria- The city is responsible for establishing and maintaining effective controls over financial reporting.

Condition – During the audit, material adjustments to the financial statements were discovered and reported by external auditors to correct cash, grants receivable, bond issuance costs, fixed assets, customer deposits, and long-term debt. The City also relies on its external auditors in assisting in the preparation of external financial statements and related disclosures. Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered part of the entity's internal control structure. The City does not have documented procedures in place to prevent or detect material misstatements in the external financial statements. However, City personnel reviewed and approved all journal entries.

Effect – The external auditors discovered and proposed adjusting journal entries to the financial statements. Lack of effective internal control over financial statements could result in misstatements of accounts on the City's financial statements.

Cause – The City has not developed procedures or provided staffing to prepare external financial statements and, consequently, relies on its external auditors for this function.

Recommendation – The City should develop internal control procedures to ensure that all material adjustments are reflected in the financial statements.

City of Horn Lake, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2013

Response – As a result of this recommendation the City will be developing and implementing stronger controls and proper processes to mitigate potential liability as it relates to the finance function overall. Proper financial statements will be prepared by trained and qualified staff.

13-02 Criteria- Long-term debt should be presented in accordance with governmental accounting standards.

Conditon – Long term debt schedules did not accurately represent debt owed by the City.

Cause – Proceeds from loans and repayments were not accurately reflected on the long-term debt schedule. Additionally, the process is not being monitored by management to ensure it was properly performed.

Effect – Material errors or omissions may exist and not be detected.

Recommendation – Long-term debt schedules should be maintained by the City that tracks beginning debt balances, additions, deletions and ending balances. Additions and deletions should be reconciled to the City's accounting records.

Response – The City will be more proactive in ensuring debt schedules are tracked and maintained properly and in accordance with governmental accounting standards.

Significant Deficiency

13-03 Criteria – Timely preparation and subsequent review by management of bank reconciliations is critical to internal control over cash.

Cause – Although bank accounts were reconciled as of year-end, no evidence was available that they were performed timely or reviewed by management.

Effect – Monthly reports of expenditures and liabilities incurred against the budget which are required to be presented to the governing authorities by Section 21-35-11, MS Code Ann. (1972) may have material errors or omissions and not be detected.

Recommendation – The City should reconcile all bank accounts before budget and actual reports are presented to the board. Management should review the monthly reconciliations for errors, omissions, unusual reconciling items and for the timeliness of the procedures. The reviewer should sign and date the reconciliation, noting the date of the review.

Response – Due to a transition in staff the monthly sign off verification reports for the various bank account reconciliations were misplaced, the accounts were reconciled and reviewed by management however not necessarily performed timely. The appropriate personnel will be more proactive ensuring all reconciliations are done and reviewed in a timely manner and copies of signed reconciliation reports will be filed with the bank reconciliations moving forward.