

CITY OF HORN LAKE, MISSISSIPPI

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2017



**CITY OF HORN LAKE, MISSISSIPPI
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INTRODUCTORY SECTION (UNAUDITED)

MAYOR

Allen B. Latimer

ALDERMEN

Donnie White, Alderman – At – Large
Michael Guice, Alderman Ward One
Tommy Bledsoe, Alderman Ward Two
Tim Smith, Alderman Ward Three
Charles T. Roberts, Alderman Ward Four
LaShonda Johnson, Alderman Ward Five
John E. Jones, Jr., Alderman Ward Six

CITY CLERK

Jim Robinson

CITY ATTORNEY

Billy Campbell, Hunt, Ross & Allen

DEPARTMENT HEADS

Police Chief – Troy Rowell
Fire Chief – David Linville
Director of Operations – Spencer Shields
Court Clerk – Tara Warren
Parks and Recreation – Keith Calvert
Community Development/Human Resources – A.J. Linville

CITY ENGINEER

Vince Malavasi, Neel-Schaffer

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Board of Aldermen of the
City of 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, 2017, 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, Mississippi, as of September 30, 2017, 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 required supplementary information as listed in the table of contents 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Horn Lake's basic financial statements. The introductory section and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and other information have not been subjected to the auditing procedures applied in 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 August 23, 2018, on our consideration of the City of Horn Lake'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Horn Lake's 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 of Horn Lake's internal control over financial reporting and compliance.


Memphis, Tennessee
August 23, 2018

CITY OF HORN LAKE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

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, 2017. 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 2017 as compared 2016 were as follows:

- Total net position increased from \$(4,660,176) to \$(4,271,921).
- Total liabilities and deferred inflows decreased from \$63,311,748 to \$60,525,868.
- Total assets and deferred outflows of governmental activities decreased from \$42,034,183 to \$39,399,496.
- Total assets and deferred outflows of business-type activities increased from \$16,617,391 to \$16,854,451.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Horn Lake's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The government-wide financial statements are:

- **Statement of Net Position** -- presents information on all of the City's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial net position of the City is improving or deteriorating.
- **Statement of Activities** -- presents information showing how the City's net position changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) and other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public works, public safety, parks and recreation, and economic development. The business-type activities of the City include the operations of the water and sewer facilities.

The government-wide financial statements can be found on pages 11-12 of this report.

CITY OF HORN LAKE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended September 30, 2017

Fund financial statements: 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. Operating revenues of the System are utilized to fund the operation and maintenance expenses and debt service.

The basic proprietary fund financial statements can be found on page 17-19 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-39 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information as well as other supporting schedules included as suggested by the State of Mississippi or included by management for continuing bond disclosures.

CITY OF HORN LAKE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended September 30, 2017

Government-Wide Financial Analysis

Net Position: Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred outflows by (\$3,792,518) at the close of the most recent fiscal year, an increase of \$867,658 from last year.

The following provides a summary of the City's net position for the years ended September 30, 2017 and 2016. The 2016 balances have been restated for prior period adjustments:

	Condensed Statement of Net Position					
	Governmental Activities		Business-Type Activities		Totals	
	2017	(Restated) 2016	2017	2016	2017	(Restated) 2016
Current and other assets	\$ 11,200,275	\$ 10,380,441	\$ 3,737,706	\$ 3,784,539	\$ 14,937,981	\$ 14,164,980
Capital assets, net	26,606,927	27,191,208	12,660,997	12,084,639	39,267,924	39,275,847
Total Assets	37,807,202	37,571,649	16,398,703	15,869,178	54,205,905	53,440,827
Deferred Outflows of Resources	1,592,294	4,462,534	455,748	748,213	2,048,042	5,210,747
Long-term liabilities outstanding	34,301,500	34,624,602	13,968,775	14,134,069	48,270,275	48,758,671
Other liabilities	1,685,926	4,119,095	1,370,551	1,417,593	3,056,477	5,536,688
Total Liabilities	35,987,426	38,743,697	15,339,326	15,551,662	51,326,752	54,295,359
Deferred Inflows of Resources	9,065,540	8,832,917	133,576	183,472	9,199,116	9,016,389
Net Asset						
Invested in capital assets	11,512,453	10,027,249	97,800	(459,617)	11,610,253	9,567,632
Restricted		92,330	658,653	423,991	658,653	516,321
Unrestricted	(17,165,923)	(15,662,012)	625,096	917,883	(16,540,827)	(14,744,129)
Total Net Position	\$ (5,653,470)	\$ (5,542,433)	\$ 1,381,549	\$ 882,257	\$ (4,271,921)	\$ (4,660,176)

An additional portion of the City's net position of \$658,653 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of (\$16,540,827) may be used to meet the government's ongoing obligations to citizens and creditors.

Changes in Net Position: Governmental activities decreased the City's net position by \$(111,037) while Business-type activities increased the City's net position by \$499,292 resulting in a net increase of \$867,658. Key elements of the changes are as follows:

- Additions to net position were provided primarily by increases in invested in capital assets for governmental activities of \$1,485,204 and invested in capital assets for business type activities for \$557,417. Further, increases in capital assets were offset by increases in cash and decreases in accounts payable.

**CITY OF HORN LAKE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended September 30, 2017

The following provides a summary of activities for the City for the years ended September 30, 2017 and 2016:

	Condensed Statement of Activities					
	Governmental Activities		Business-Type Activities		Totals	
		(Restated)				(Restated)
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	\$ 2,152,829	\$ 1,781,258	\$ 4,506,403	\$ 4,515,206	\$ 6,659,232	\$ 6,296,464
Operating grants and contributions	360,429	476,645	-	-	360,429	476,645
General Revenues:						
Property taxes	7,289,946	7,071,187	-	-	7,289,946	7,071,187
Local taxes	5,820,114	5,828,641	-	-	5,820,114	5,828,641
Intergovernmental	757,096	347,504	-	-	757,096	347,504
Interest on investments	4,728	4,061	234	-	4,962	4,061
Other revenue	1,572,092	2,054,868	65,063	1,195	1,637,155	2,056,063
Loss on disposal of capital assets	(148,092)	(138,517)	-	-	(148,092)	(138,517)
Total Revenues	17,809,142	17,425,647	4,571,700	4,516,401	22,380,842	21,942,048
Expenses:						
General government	\$ 1,721,182	\$ 2,464,668	\$ -	\$ -	\$ 1,721,182	\$ 2,464,668
Public safety	10,405,519	9,144,060	-	-	10,405,519	9,144,060
Public works	3,473,863	2,604,389	-	-	3,473,863	2,604,389
Parks and recreation	1,267,567	1,075,063	-	-	1,267,567	1,075,063
Economic development	476,376	367,358	-	-	476,376	367,358
Tax sale settlement	479,403	-	-	-	479,403	-
Interest and fiscal charges	496,269	502,060	-	-	496,269	502,060
Pension	-	1,722,030	-	147,922	-	1,869,952
Water and sewer	-	-	3,672,408	3,599,498	3,672,408	3,599,498
Total Expenses	18,320,179	17,879,628	3,672,408	3,747,420	21,992,587	21,627,048
Increase/(Decrease) in net position before transfers	(511,037)	(453,981)	899,292	768,981	388,255	315,000
Transfers	400,000	400,000	(400,000)	(400,000)	-	-
Increase/(Decrease) in net position	(111,037)	(53,981)	499,292	368,981	388,255	315,000
Net position, September 30, 2016	(6,196,219)	(5,796,652)	882,257	513,276	(5,313,962)	(5,283,376)
Prior period adjustment	653,786	308,200	-	-	653,786	308,200
Net position, September 30, 2016 restated	(5,542,433)	(5,488,452)	-	-	(4,660,176)	-
Net position, September 30, 2017	\$ (5,653,470)	\$ (5,542,433)	\$ 1,381,549	\$ 882,257	\$ (4,271,921)	\$ (4,660,176)

Governmental Activities: Several revenues fund the City's governmental activities. The largest funding source, property tax revenue, accounted for \$7,289,946, or 46.4% of general revenues; sales tax revenue accounted for \$4,829,511, or 30.7% of general revenues. Fines of \$828,123 accounted for 5.2% of general revenues, and franchise taxes of \$691,239 accounted for 4.4% of general revenues.

The remaining 13.3% of general revenues was comprised of miscellaneous revenues and transfers.

Total general revenues from governmental activities increased from \$15,219,414 in 2016 to \$15,695,884, or 3.1%. Major expense activities included public safety expenditures accounting for 58.3% of total program expenses, and general government expenses accounting for 9.6% of total program expenses. 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 \$499,292. Operating revenues from the utility system fund totaled \$4,571,466 in 2017, an increase of 1.2% from 2016 operating revenues of \$4,515,206. Expenses of the utility fund decreased by 2.0% in 2017, totaling \$ 3,672,408 in 2017 and \$3,747,420 in 2016.

CITY OF HORN LAKE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended September 30, 2017

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to help control and manage money for particular purposes or to ensure and demonstrate compliance with finance-related legal requirements. The following provides a more detailed analysis of 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 18 and 20, 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 13 and 15 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.

Proprietary Funds

The net position of the proprietary funds at the end of fiscal year 2017 totaled \$1,381,549 which represents a \$499,292 increase from 2016.

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 2017, the City amended its general fund budget. All recommendations for a budget change come from the Department Heads to the City Clerk. 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 and other financing sources were \$15,970,342; amended budget amounts were \$16,420,459 and actual revenue collections-budgetary basis and other financing sources were \$16,486,077.

CITY OF HORN LAKE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended September 30, 2017

Capital Asset and Debt Administration

Capital assets: The City's investment in capital assets for its governmental and business type activities as of September 30, 2017 amounts to \$39,267,924 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure including streets. Depreciation expense for the year was \$2,051,182 mostly from depreciation of infrastructure.

	Condensed Statement of Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-Type Activities		Totals	
	2017	(Restated) 2016	2017	2016	2017	(Restated) 2016
Land	\$ 3,729,631	\$ 3,950,345	\$ 28,225	\$ 28,225	\$ 3,757,856	\$ 3,978,570
Buildings and improvements	11,019,977	11,019,977	151,001	151,001	11,170,978	11,170,978
Equipment & machinery	3,205,281	2,980,617	297,064	333,007	3,502,345	3,313,624
Construction in progress	-	474,930	342,189	912,514	342,189	1,387,444
Infrastructure	28,049,349	27,414,029	22,014,167	20,199,935	50,063,516	47,613,964
Vehicles	5,022,265	5,145,874	56,121	56,121	5,078,386	5,201,995
Accumulated depreciation	(24,419,576)	(23,794,564)	(10,227,770)	(9,596,164)	(34,647,346)	(33,390,728)
Total capital assets, net	\$ 26,606,927	\$ 27,191,208	\$ 12,660,997	\$ 12,084,639	\$ 39,267,924	\$ 39,275,847

Long-term debt: At the end of the current fiscal year, the City had total debt outstanding of \$28,286,290. Of this amount \$24,180,524 comprises debt backed by the full faith and credit of the government and \$4,105,766 represents notes secured primarily by a specified revenue source with a full faith and credit pledge.

	Condensed Statement of Outstanding Debt					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 10,785,000	\$ 12,180,000	\$ -	\$ -	\$ 10,785,000	\$ 12,180,000
Special assessment bonds	3,355,000	3,980,000	9,860,000	10,415,000	13,215,000	14,395,000
Loans payable	1,012,519	245,628	2,912,002	2,372,318	3,924,521	2,617,946
Leases payable	181,245	788,349	-	-	181,245	788,349
Tax sale settlement	479,403	-	-	-	479,403	-
Bond premium	114,259	138,618	93,597	105,273	207,856	243,891
Bond discount	(27,332)	(32,798)	-	-	(27,332)	(32,798)
Total debt	\$ 15,900,094	\$ 17,299,797	\$ 12,865,599	\$ 12,892,591	\$ 28,765,693	\$ 30,192,388

The City's total debt decreased by a net \$1,426,695 or 5% during the current fiscal year due to increased borrowing of \$3,813,119 less debt retirements of \$5,239,814 within the governmental and business-type activities.

Additional information on the City's long-term debt can be found in note 3(G) of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Horn Lake is experiencing new development, new business, and expansion in the new fiscal budget year. First with new developments is the Real Estate International group out of Destin Florida. This year Circle G will be holding an unveiling event. This project is underway with a \$3.2 million cost for first phase of the old Elvis Presley Circle G Ranch, which is located at the corner of Hwy 301 and Hwy 302. Project leaders that have worked on former Disney projects anticipate 160,000 visitors annually will visit the development after completion of the first phase and up to 400,000 annually will visit after additional phases are added. The Circle G Ranch will place Horn Lake on the map internationally with the restoration of the Elvis Honeymoon cottage, Stables/Equestrian programs, wedding chapel, shopping, hotels, housing, senior living, and other amenities with outdoor music around a lake that would come first. The second new business development is the CORE5 group out of Atlanta Georgia is underway with Horn Lake Business Center. The new Business Center will consist of 5 warehouse/manufacturing buildings totaling 2.7 million square feet.

The CORE5 project has an estimated cost of \$120 million to build and supply the 5 new warehouse/manufacturing buildings. Currently 2 warehouse/building buildings are built and in negotiations for leasing companies.

**CITY OF HORN LAKE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended September 30, 2017

Also there are several other projects and new businesses that will help build a better economy throughout the City of Horn Lake. Captain D's restaurant has built and doing well. McDonalds have submitted plans to build on Goodman Road in Horn Lake. Bojangles is conducting a feasibility study on a location in Horn Lake. Other projects include the expansion of Titan, Rite Hite International Dock Door Safety Systems, and Ground Support Specialist, LLC. The City of Horn Lake is also committed to providing all public services needed to support this growth in each fiscal year.

Requests for Information

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 Clerk at 662-342-3488.

BASIC FINANCIAL STATEMENTS

CITY OF HORN LAKE, MISSISSIPPI
STATEMENT OF NET POSITION
September 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activity	Total
ASSETS			
Cash and cash equivalents	\$ 594,828	\$ 1,651,855	\$ 2,246,683
Restricted cash and cash equivalents	-	658,653	658,653
Receivables			
Property taxes	7,748,695	-	7,748,695
Accounts receivable	7,696,018	497,072	8,193,090
Other	38,189	-	38,189
Less allowance for doubtful accounts	(7,284,657)	(115,200)	(7,399,857)
Investments	129,645	744,867	874,512
Due from other governments	1,428,589	-	1,428,589
Internal balances	(238,264)	238,264	-
Restricted assets - property held for sale	982,591	-	982,591
Prepaid items	104,641	60,000	164,641
Inventory	-	2,195	2,195
Capital assets, not being depreciated	3,729,631	370,414	4,100,045
Capital assets, being depreciated, net	22,877,296	12,290,583	35,167,879
Total assets	<u>37,807,202</u>	<u>16,398,703</u>	<u>54,205,905</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	326,217	321,427	647,644
Related to pension	1,266,077	134,321	1,400,398
Total deferred outflows of resources	<u>1,592,294</u>	<u>455,748</u>	<u>2,048,042</u>
LIABILITIES			
Accounts payable and accrued liabilities	1,111,778	86,400	1,198,178
Accrued interest payable	167,638	137,900	305,538
Customer deposits	406,510	356,442	762,952
Unearned revenue	-	16,491	16,491
Noncurrent liabilities:			
Due within one year	2,412,859	773,318	3,186,177
Due in more than one year	13,766,324	12,125,398	25,891,722
Net pension liability	18,122,317	1,843,377	19,965,694
Total liabilities	<u>35,987,426</u>	<u>15,339,326</u>	<u>51,326,752</u>
DEFERRED INFLOWS OF RESOURCES			
Current property taxes assessed for subsequent period	7,652,122	-	7,652,122
Related to pension	1,413,418	133,576	1,546,994
Total deferred inflows of resources	<u>9,065,540</u>	<u>133,576</u>	<u>9,199,116</u>
NET POSITION			
Net investment in capital assets	11,512,453	97,800	11,610,253
Restricted:			
Debt service	-	658,653	658,653
Unrestricted	(17,165,923)	625,096	(16,540,827)
Total net position	<u>\$ (5,653,470)</u>	<u>\$ 1,381,549</u>	<u>\$ (4,271,921)</u>

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

CITY OF HORN LAKE, MISSISSIPPI
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 1,721,182	\$ -	\$ -	\$ -	\$ (1,721,182)	\$ -	\$ (1,721,182)
Public safety	10,405,519	585,565	360,429	-	(9,459,525)	-	(9,459,525)
Public works	3,473,863	1,425,005	-	-	(2,048,858)	-	(2,048,858)
Culture and recreation	1,267,567	142,259	-	-	(1,125,308)	-	(1,125,308)
Economic development	476,376	-	-	-	(476,376)	-	(476,376)
Interest on long-term debt	496,269	-	-	-	(496,269)	-	(496,269)
Total governmental activities	17,840,776	2,152,829	360,429	-	(15,327,518)	-	(15,327,518)
Business-type activity:							
Utility services	3,672,408	4,506,403	-	-	-	833,995	833,995
Total business-type activities	3,672,408	4,506,403	-	-	-	833,995	833,995
Total primary government	\$ 21,513,184	\$ 6,659,232	\$ 360,429	\$ -	(15,327,518)	833,995	(14,493,523)
General revenues:							
Property taxes					7,289,946	-	7,289,946
Sales tax					4,829,511	-	4,829,511
Licenses and permits					319,060	-	319,060
Franchise fees					691,239	-	691,239
Hotel-motel taxes					299,364	-	299,364
Fines					828,123	-	828,123
Intergovernmental revenues					757,096	-	757,096
Other revenue					424,909	65,063	489,972
Interest on investments					4,728	234	4,962
Loss on sale of capital assets					(148,092)	-	(148,092)
Settlement of 2008 tax sale					(479,403)	-	(479,403)
Transfers					400,000	(400,000)	-
Total general revenues and transfers					15,216,481	(334,703)	14,881,778
Change in net position					(111,037)	499,292	388,255
Net position - beginning					(6,196,219)	882,257	(5,313,962)
Prior period adjustment					653,786	-	653,786
Net position - beginning, as restated					(5,542,433)	882,257	(4,660,176)
Net position - ending					\$ (5,653,470)	\$ 1,381,549	\$ (4,271,921)

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

CITY OF HORN LAKE, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,564	\$ 24,172	\$ 569,092	\$ 594,828
Investments	129,645	-	-	129,645
Receivables				
Property taxes	4,996,567	2,599,542	152,586	7,748,695
Customer	7,696,018	-	-	7,696,018
Other	38,189	-	-	38,189
Less allowance for doubtful accounts	(7,284,657)	-	-	(7,284,657)
Due from other governments	1,428,589	-	-	1,428,589
Due from other funds	322,438	-	-	322,438
Prepaid Items	104,641	-	-	104,641
	<u>\$ 7,432,994</u>	<u>\$ 2,623,714</u>	<u>\$ 721,678</u>	<u>\$ 10,778,386</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,110,438	\$ -	\$ 1,340	\$ 1,111,778
Customer deposits	406,510	-	-	406,510
Due to other funds	-	560,702	-	560,702
Total liabilities	<u>1,516,948</u>	<u>560,702</u>	<u>1,340</u>	<u>2,078,990</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Property taxes	4,847,040	2,582,832	151,605	7,581,477
Other	49,984	-	-	49,984
Total deferred inflows of resources	<u>4,897,024</u>	<u>2,582,832</u>	<u>151,605</u>	<u>7,631,461</u>
FUND BALANCES				
Nonspendable	104,641	-	-	104,641
Committed		-	92,642	92,642
Assigned	-	-	476,091	476,091
Unassigned	914,381	(519,820)	-	394,561
Total fund balances	<u>1,019,022</u>	<u>(519,820)</u>	<u>568,733</u>	<u>1,067,935</u>
	<u>\$ 7,432,994</u>	<u>\$ 2,623,714</u>	<u>\$ 721,678</u>	<u>\$ 10,778,386</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,432,994</u>	<u>\$ 2,623,714</u>	<u>\$ 721,678</u>	<u>\$ 10,778,386</u>

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

CITY OF HORN LAKE, MISSISSIPPI
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
September 30, 2017

Total fund balances, governmental funds		\$ 1,067,935
Amounts reported for governmental activities in the statement of net position are different because:		
(1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		26,606,927
(2) Other long-term assets are not available to pay for current-period expenditures and, therefore, are unearned or unavailable in the funds.		
Add: tax forfeited land	982,591	
Less: unavailable revenue	<u>(20,661)</u>	961,930
(3) Long-term debt is not due and payable in the current period and, therefore is not reported in the funds.		
Less: loans payable	(1,012,519)	
Less: bonds payable	(14,140,000)	
Less: capital leases	(181,245)	
Less: settlement liability	(479,403)	
Less: unamortized premiums and discounts on debt	(86,927)	
Add: deferred amount on refunding	<u>326,217</u>	(15,573,877)
(4) Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Less: accrued interest payable	(167,638)	
Less: compensated absences payable	<u>(279,089)</u>	(446,727)
(5) Net pension assets are not a financial resource in the current period, and net pension liabilities and net other postemployment liabilities are not payable with current financial resources and, therefore, are not reported in the funds.		(18,122,317)
(6) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be amortized and recognized as components of pension and OPEB expense in future years.		
Add: deferred outflows of resources related to pensions	1,266,077	
Less: deferred inflows of resources related to pensions	<u>(1,413,418)</u>	<u>(147,341)</u>
Net position of governmental activities		<u><u>\$ (5,653,470)</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, 2017

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 4,475,614	\$ 2,736,242	\$ 148,735	\$ 7,360,591
Local sales taxes	5,520,750	-	299,364	5,820,114
Intergovernmental	731,206	-	-	731,206
Intergovernmental gas tax	25,890	-	-	25,890
Licenses and permits	319,060	-	-	319,060
Charges for services	2,152,829	-	-	2,152,829
Fines, forfeitures, and penalties	778,139	-	-	778,139
Grants	360,429	-	-	360,429
Interest on investments	4,728	-	-	4,728
Other	357,733	67,176	-	424,909
Total revenues	<u>14,726,378</u>	<u>2,803,418</u>	<u>448,099</u>	<u>17,977,895</u>
EXPENDITURES				
Current				
General government	1,455,645	-	-	1,455,645
Public safety	8,615,893	-	-	8,615,893
Public works	2,679,625	-	-	2,679,625
Culture and recreation	857,420	-	148,423	1,005,843
Economic development	233,710	-	226,295	460,005
Debt Service				
Principal	629,599	3,820,001	-	4,449,600
Interest and fiscal charges	14,001	439,345	-	453,346
Capital outlays	1,941,178	-	-	1,941,178
Total expenditures	<u>16,427,071</u>	<u>4,259,346</u>	<u>374,718</u>	<u>21,061,135</u>
Excess (deficiency) of revenues over (under) expenditures	(1,700,693)	(1,455,928)	73,381	(3,083,240)
OTHER FINANCING SOURCES (USES)				
Loan and lease proceeds	787,795	1,800,000	-	2,587,795
Sale of capital assets	188,944	-	-	188,944
Transfers in	782,960	-	-	782,960
Transfers out	-	(382,960)	-	(382,960)
Total other financing sources and uses	<u>1,759,699</u>	<u>1,417,040</u>	<u>-</u>	<u>3,176,739</u>
Net change in fund balances	59,006	(38,888)	73,381	93,499
Fund balances - beginning	529,968	(480,932)	523,486	572,522
Prior period adjustment	430,048	-	(28,134)	401,914
Fund balances - beginning as restated	<u>960,016</u>	<u>(480,932)</u>	<u>495,352</u>	<u>974,436</u>
Fund balances - ending	<u>\$ 1,019,022</u>	<u>\$ (519,820)</u>	<u>\$ 568,733</u>	<u>\$ 1,067,935</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, 2017

Net change in fund balance - total governmental funds		\$ 93,499
Amounts reported for governmental activities in the statement of activities are different because:		
(1) Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Add: capital outlays capitalized	\$ 40,731	
Less: depreciation expense	<u>(625,012)</u>	(584,281)
(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(20,661)
(3) The issuance of long-term debt (e.g. bonds, notes, other loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Add: principal payments on long-term debt	4,448,008	
Add: amortization of premiums and discounts	18,893	
Less: change in deferred amount on refunding	(61,495)	
Less: proceeds from debt issuance	<u>(2,587,795)</u>	1,817,611
(4) Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Settlement of 2008 tax sale	(479,403)	
Change in accrued interest payable	1,271	
Change in compensated absences	1,741	
Change in net pension liability	1,343,081	
Change in deferred outflows related to pensions	(2,808,745)	
Change in deferred inflows related to pensions	524,850	<u>(1,417,205)</u>
Change in net position of governmental activities		<u><u>\$ (111,037)</u></u>

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

CITY OF HORN LAKE, MISSISSIPPI
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2017

	<u>Enterprise Fund Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 1,651,855
Cash and cash equivalents - restricted	658,653
Receivables	
Customers	497,072
Less allowance for doubtful accounts	(115,200)
Investments	744,867
Due from other funds	238,264
Inventory	2,195
Prepaid expenses	60,000
Total current assets	<u>3,737,706</u>
Noncurrent assets:	
Capital assets, not being depreciated	370,414
Capital assets, being depreciated, net	12,290,583
Total capital assets, net	<u>12,660,997</u>
Total noncurrent assets	<u>12,660,997</u>
Total assets	<u>16,398,703</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pension	134,321
Deferred charges on refunding	321,427
Total deferred outflows of resources	<u>455,748</u>
LIABILITIES	
Current liabilities:	
Accounts payable and other accruals	86,400
Accrued interest payable	137,900
Customer deposits	356,442
Unearned revenue	16,491
Current portion of notes payable	773,318
Total current liabilities	<u>1,370,551</u>
Noncurrent liabilities:	
Notes payable, net of current portion	12,092,281
Accrued compensated absences	33,117
Net pension liability	1,843,377
Total noncurrent liabilities	<u>13,968,775</u>
Total liabilities	<u>15,339,326</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pension	<u>133,576</u>
NET POSITION	
Net investment in capital assets	97,800
Restricted for debt service	658,653
Unrestricted	625,096
Total net position	<u>\$ 1,381,549</u>

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, 2017

	Enterprise Fund Utility Fund
Operating Revenues:	
Water and sewer service fee	\$ 4,506,403
Other	65,063
Total operating revenues	<u>4,571,466</u>
Operating Expenses:	
Salaries	685,514
Benefits	353,655
Materials and supplies	259,167
Utilities	162,350
Sewer treatment fees	799,813
Professional services	198,457
Water and sewer system management	170,752
Depreciation	667,548
Total operating expenses	<u>3,297,256</u>
Operating income	1,274,210
Nonoperating Revenues (Expenses):	
Interest income	234
Bond interest and fiscal charges	<u>(375,152)</u>
Total nonoperating expenses	<u>(374,918)</u>
Income (loss) before transfers	899,292
Transfers out	<u>(400,000)</u>
Change in net position	499,292
Total net position - beginning	<u>882,257</u>
Total net position - ending	<u>\$ 1,381,549</u>

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

CITY OF HORN LAKE, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2017

	Enterprise Fund
	Sewer Fund
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,484,272
Payments to suppliers	(1,424,632)
Payments to employees	(949,729)
Other receipts	270,789
Net cash provided by operating activities	<u>2,380,700</u>
CASH FLOW FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES	
Payment to other fund	(400,000)
CASH FLOW FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(1,243,908)
Proceeds from long-term debt	745,921
Principal paid on capital debt	(761,237)
Interest paid on capital debt	(367,348)
Net cash from (used for) capital and related financing activities	<u>(1,626,572)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(528,911)
Interest income	234
Net cash used for investing activities	<u>(528,677)</u>
Net decrease in cash and cash equivalents	(174,549)
Cash and cash equivalents - beginning of the year	<u>2,485,057</u>
Cash and cash equivalents - end of the year	<u>\$ 2,310,508</u>
Reconciliation of operating income to net cash from operating activities:	
Operating income	\$ 1,274,210
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	667,548
Pension expense in excess of employer contributions	89,440
Change in assets and liabilities	
Receivables	167,505
Prepaid expenses	233,690
Customer deposits	16,090
Accounts payable	(67,783)
Net cash provided by operating activities	<u>\$ 2,380,700</u>

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

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Horn Lake ("the City") was incorporated in 1973. The City operates under the Board of Aldermen-Mayor form of government and provides the following services: public safety (police and fire), public works (streets and sanitation), culture, 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.

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*.

B. Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Certain eliminations have been made in regards to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and business type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated.

The statement of net position presents information on all the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. The activities of the government are organized into funds, each of which are considered to be separate entities. Each fund is accounted for by providing a set of self-balancing accounts which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures/expenses. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City has presented all major funds that met the quantitative or qualitative qualifications to be reported as a major fund as separate columns in the fund financial statements. The City's major governmental funds include the General Fund and Debt Service Fund. In addition, the City reports the Utility Fund as a major proprietary fund. Detailed descriptions of these funds are presented below:

1. Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and statement of revenues, expenditures, and changes in fund balance individually for all major funds and in the aggregate for the remaining nonmajor funds. An accompanying schedule is presented to reconcile and explain the difference in fund balance and changes in fund balances as presented in these statements to net position and changes in net position presented in the government-wide financial statements. The governmental funds of the City are described below:

- a. **General Fund** – The primary operating fund of the City and accounts for all financial resources of the general government not specifically provided for in other funds. Most of the essential governmental services such as general administration, community services, and public works are reported in the general fund.
- b. **Special Revenue Funds** – These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted or committed to expenditures for specific purposes.
- c. **Debt Service Fund** – The fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

2. Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. The proprietary funds of the City are described below:

- a. **Enterprise Fund** – Account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of the financial activity focuses on net income measurement similar to private sector businesses.

Utility Fund – The fund is used to account for the provision of water and sewer services to 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 and adjusted if necessary to ensure integrity of the funds.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the “economic resources” measurement focus. Accordingly, all of the City's assets and liabilities, including capital assets and long-term liabilities, along with deferred inflows and outflows of resources, are included in the accompanying statement of net position. The statement of activities presents changes in net position.

Proprietary funds are also accounted for using the “economic resources” measurement focus. Accordingly all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. The statement of revenues, expenses, and changes in net position presents revenues (additions) and expenses (deductions) in total net position.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. These funds use fund balance as their measure of available resources at the end of the period.

Basis of Accounting

The government-wide financial statements are presented using the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available to finance expenditures of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, other local taxes, and intergovernmental revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The issuance of long-term debt is reported as other financing sources.

D - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances

1. Deposits and investments

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

The City’s investments consists of shares of common stock and certificate of deposits. The stock is valued at fair market value using quoted prices in an actively traded market.

2. Receivables

All trade and property taxes receivable are shown net of an allowance for uncollectibles.

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.

CITY OF HORN LAKE, MISSISSIPPI
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The Board of Aldermen, 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 the original purchase occurs.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned as "unearned revenue". At the end of the current fiscal year, unavailable revenue principally represents amounts relating to property taxes and grants.

3. Interfund transactions

Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Interfund transfers

Permanent reallocations of resources between funds of the City are classified as interfund transfers. For the purpose of the statement of activities, all transfers between individual governmental funds have been eliminated.

4. Restricted Assets

The property held for sale is carried at an amount equal to the property taxes uncollected at the time the City received title to the property and limited to appraised values as assessed by the local tax collector.

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.

5. Prepaid items

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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

6. Capital assets

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

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

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:

Land and construction in progress are not depreciated. Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
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

7. Deferred outflows of resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has qualifying items for reporting in this category. Deferred outflows of resources include pension changes in experience, pension changes in investment earnings, and employer contributions to the pension plan after the measurement date.

8. 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.

9. Long-term obligations

In the governmental-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Premiums and discounts are deferred and amortized over the life of the associated debt using the effective interest method. Debt is reported net of the applicable premium or discount. Debt issuance costs are expensed when incurred.

In the governmental fund financial statements, debt premiums and discounts, as well as issuance costs are recognized in the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Deferred inflows/outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred amount of refunding – For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred outflows related to pensions – This amount represents the City's proportionate share of the deferred outflows of resources reported by the pension plan in which the City participates.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Deferred inflows related to pensions – This amount represents the City's proportionate share of the deferred inflows of resources reported by the pension plan in which the City participates.

11. *Net position and fund balance*

In the government-wide financial statements and the proprietary fund in the fund financial statements, equity is classified as net position and displayed in three components:

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 notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislations.

Unrestricted net position – all other net position that does not meet the definition of restricted or net investment in capital assets.

In the fund financial statements, governmental funds report fund balances in classifications that compromise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classification consist of the following five components, as applicable:

Nonspendable – amounts that cannot be spent because they are either in a (a) non-spendable form, including items not expected to be converted to cash (i.e. inventories, prepaid amounts, long-term portion of loans and notes receivable), or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

Restricted – amounts constrained to be used for a specific purpose as per external parties, constitutional provision, or enabling legislation.

Committed – amounts constrained to be used for specific purposes by formal action by ordinance adopted by the Board of Mayor and Aldermen. Amounts classified as committed are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the Board removes or changes the commitment by taking the same action it employed to impose the commitment. The City has committed \$92,642 of property tax revenue to the Library Fund.

Assigned – amounts intended to be used by the City 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. The City has assigned \$476,091 for economic development.

Unassigned – represents the residual balance available for any purpose in the general fund or deficit balances in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the City to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Fair Value Measurements

GASB Statement 72, Fair Value Measurement and Application, categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities accessible at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that can be corroborated by observable market data. Such inputs include market interest rates and volatilities, spreads and yield curves. Level 3 inputs are inputs which are unobservable for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining fair value, the City utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at reporting date.

14. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E – New Governmental Accounting Standards Board (GASB) Pronouncements

The City adopted GASB Statement No. 77, *Tax Abatement Disclosures*, required for fiscal periods beginning after December 15, 2015. This Statement improves financial reporting by giving users of financial statements essential information regarding tax abatements that was not previously reported consistently or comprehensively.

The City adopted GASB Statement No. 82, *Pension Issues*, required for fiscal periods beginning after June 15, 2016, except for certain provisions effective for fiscal periods beginning after June 15, 2017. This Statement modifies the measure of payroll that is presented in the required supplementary information.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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 expenditures 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.

B. Excess of expenditures over appropriations

For the year ended September 30, 2017, capital outlay expenditures exceeded appropriations by \$1,173,588.

C. Deficit fund equity

As of September 30, 2017, the debt service fund had a deficit fund balance of (\$519,820).

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits

Legal Provisions

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

Custodial Credit Risk

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, 2017, the City's bank balance was not exposed to custodial credit risk.

CITY OF HORN LAKE, MISSISSIPPI
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September 30, 2017

As of September 30, 2017, the carrying amount of the City’s deposits with financial institutions was \$2,905,336 and the bank balances totaled \$2,287,273. 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.

B. Investments

1. Primary Government Investments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017.

- *Common Stock:* Based on trading prices in active markets.

For the year ended September 30, 2017, investments held in governmental funds totaled \$874,512 and valued using Level 1 inputs.

Long-term certificate of deposits are reported at amortized cost which approximates fair value.

C. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2017, is as follows:

	Interfund Receivable	Interfund Payable
Major Funds		
General Fund		
Debt Service Fund	\$ 322,438	\$ -
	322,438	-
Debt Service Fund		
General Fund	-	322,438
Utility Fund	-	238,264
	-	560,702
Utility Fund		
Debt Service Fund	238,264	-
	238,264	-
	\$ 560,702	\$ 560,702

These balances resulted from the time lag between the dates that the interfund goods and services are provided or reimbursable expenditures occur and when payments between funds are made.

The composition of interfund transfers for the year ended September 30, 2017 is as follows:

	Transfers In	Transfers Out
Major Funds		
General Fund	\$ 782,960	\$ -
Debt Service Fund	-	382,960
Utility Fund	-	400,000
	\$ 782,960	\$ 782,960

Transfers out of the major funds and enterprise funds generally represent debt service and capital project funding.

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

D. Property Held For Sale

During 2013, five parcels of property were forfeited to the City due to taxes being delinquent for three years. The parcels were recorded on the Statement of Net Position as property held for sale and valued at the accumulated uncollected taxes and limited to fair value as listed by the Desoto County Tax Assessor which is \$982,591.

E. Capital assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,950,345	\$ 31,160	\$ (251,874)	\$ 3,729,631
Construction in progress	474,930	-	(474,930)	-
Total capital assets, not being depreciated	<u>4,425,275</u>	<u>31,160</u>	<u>(726,804)</u>	<u>3,729,631</u>
Capital assets, being depreciated:				
Buildings and improvements	11,019,977	-	-	11,019,977
Equipment and machinery	2,980,617	754,995	(530,331)	3,205,281
Infrastructure	27,414,029	635,320	-	28,049,349
Vehicles	5,145,874	190,721	(314,330)	5,022,265
Total capital assets, being depreciated	<u>46,560,497</u>	<u>1,581,036</u>	<u>(844,661)</u>	<u>47,296,872</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,132,010)	(284,874)	-	(3,416,884)
Equipment and machinery	(2,135,527)	(215,518)	476,601	(1,874,444)
Infrastructure	(14,193,738)	(758,370)	-	(14,952,108)
Vehicles	(4,333,289)	(125,749)	282,898	(4,176,140)
Total accumulated depreciation	<u>(23,794,564)</u>	<u>(1,384,511)</u>	<u>759,499</u>	<u>(24,419,576)</u>
Total capital assets, being depreciated, net	<u>22,765,933</u>	<u>196,525</u>	<u>(85,162)</u>	<u>22,877,296</u>
Governmental activities capital assets, net	<u>\$ 27,191,208</u>	<u>\$ 227,685</u>	<u>\$ (811,966)</u>	<u>\$ 26,606,927</u>

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

Business-type activities:

Capital assets, not being depreciated:

Land	\$ 28,225	\$ -	\$ -	\$ 28,225
Construction in progress	912,514	1,186,073	(1,756,398)	342,189
Total capital assets, not being depreciated	<u>940,739</u>	<u>1,186,073</u>	<u>(1,756,398)</u>	<u>370,414</u>

Capital assets, being depreciated:

Buildings and improvements	151,001	-	-	151,001
Equipment and machinery	333,007	-	(35,943)	297,064
Infrastructure	20,199,935	87,260	1,726,972	22,014,167
Vehicles	56,121	-	-	56,121
Total capital assets, being depreciated	<u>20,740,064</u>	<u>87,260</u>	<u>1,691,029</u>	<u>22,518,353</u>

Less accumulated depreciation for:

Buildings and improvements	(44,435)	(2,850)	-	(47,285)
Equipment and machinery	(311,740)	(1,414)	35,942	(277,212)
Infrastructure	(9,189,479)	(663,284)	-	(9,852,763)
Vehicles	(50,510)	-	-	(50,510)
Total accumulated depreciation	<u>(9,596,164)</u>	<u>(667,548)</u>	<u>35,942</u>	<u>(10,227,770)</u>

Total capital assets, being depreciated, net

	<u>11,143,900</u>	<u>(580,288)</u>	<u>1,726,971</u>	<u>12,290,583</u>
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Business-type activities capital assets, net

	<u>\$ 12,084,639</u>	<u>\$ 605,785</u>	<u>\$ (29,427)</u>	<u>\$ 12,660,997</u>
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Depreciation expense was charged to function/programs of the primary government as follows:

Governmental Activities:

General government	\$ 182,331
Public safety	294,628
Public works	694,406
Parks and recreation	213,146
Total depreciation expense - governmental activities	<u>\$ 1,384,511</u>

Business-Type Activities:

Utility	<u>\$ 667,548</u>
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Construction and other significant commitments

The government has active construction projects as of September 30, 2017. At year-end the government's commitments with contractors are approximately as follows:

Project	Remaining Commitment
Nail Road Overlay Project	<u>\$ 523,612</u>

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

F. Operating Leases

The City receives income from the Newly Weds Foods, Inc. rail spur it leases under a noncancellable operating lease. Total income from this lease was \$20,904. The future minimum lease receivables for this lease are as follows:

Years Ending September 30	Amount
2018	\$ 20,904
2019	20,904
2020	20,904
2021	20,904
2022	20,904
2023-2027	104,520
2028	17,420
	<u>\$226,460</u>

G. Long-Term Liabilities

1. Long-Term Debt

A summary of long-term liability activity, including debt, for the year ended September 30, 2017 is as follows. Additional detailed information is available following the summary.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 12,180,000	\$ -	\$ (1,395,000)	\$ 10,785,000	\$ 1,575,000
Special obligation bonds payable	3,980,000	-	(625,000)	3,355,000	635,000
Loans payable	245,628	2,587,795	(1,820,904)	1,012,519	111,570
Leases payable	788,349	-	(607,104)	181,245	91,289
Settlement payable	-	479,403	-	479,403	-
Unamortized premiums (discounts), net	105,820	-	(18,893)	86,927	-
Total long-term debt	17,299,797	3,067,198	(4,466,901)	15,900,094	2,412,859
Compensated absences	280,830	-	(1,741)	279,089	-
Net pension liability*	19,465,398	-	(1,343,081)	18,122,317	-
	<u>\$ 37,046,025</u>	<u>\$ 3,067,198</u>	<u>\$ (5,811,723)</u>	<u>\$ 34,301,500</u>	<u>\$ 2,412,859</u>
Business-type activities:					
Special obligation bonds payable	\$ 10,415,000	\$ -	\$ (555,000)	\$ 9,860,000	\$ 560,000
Loans payable	2,372,318	745,921	(206,237)	2,912,002	213,318
Unamortized premiums	105,273	-	(11,676)	93,597	-
Total long-term debt	12,892,591	745,921	(772,913)	12,865,599	773,318
Compensated absences	33,117	-	-	33,117	-
Net pension liability*	1,969,598	-	(126,221)	1,843,377	-
	<u>\$ 14,895,306</u>	<u>\$ 745,921</u>	<u>\$ (899,134)</u>	<u>\$ 14,742,093</u>	<u>\$ 773,318</u>

*net increase (decrease) shown

For governmental activities, net pension liability, and compensated absences are generally liquidated by the general fund.

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

The City has pledged special assessment taxes levied against certain properties to service a portion of the \$7,120,000 GO bonds issued during fiscal year 2015. The levy will continue through tax year 2019 and is expected to generate an average of \$67,500 in taxes per year.

General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds outstanding as of September 30, 2017 are as follows:

	Interest Rates	Maturity Date	Original Issue	Outstanding at Year End
Governmental activities:				
General obligation bonds				
Series 2008	3.25%-4.63%	4/1/2023	\$ 4,410,000	\$ 2,180,000
Series 2011	2.00%-3.125%	8/1/2024	3,395,000	2,100,000
Series 2015	2.00%-3.125%	11/1/2028	7,120,000	6,505,000
Total General Obligation Bonds			<u>\$ 14,925,000</u>	<u>\$ 10,785,000</u>

Special obligation bonds are issued by the Mississippi Development Bank under the Mississippi Development Bank Act, the proceeds of which are used to loan money to the City pursuant to a loan agreement between the City and the Bank (or its assignee) and secured by a promissory note. The note will never constitute a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged, however a tax intercept agreement secures the note payments. Special obligation bonds outstanding at year end are as follows:

Special obligation bonds				
2012 Recreation Facility				
Refunding	2.0%-3.0%	10/1/2021	<u>\$ 5,185,000</u>	<u>\$ 3,355,000</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:

Business-type activities:				
Special obligation bonds				
2014 Special Obligation				
Refunding	2.0%-3.5%	10/1/2027	\$ 7,320,000	\$ 7,205,000
2015 Special Obligation				
Refunding	3.00%-3.25%	12/1/2030	<u>2,695,000</u>	<u>2,655,000</u>
Total revenue bonds			<u>\$ 10,015,000</u>	<u>\$ 9,860,000</u>

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

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

General Loans payable					
Fire pumper truck	2.29%	12/15/2024	\$ 787,795	\$ 787,795	
MDA Railroad Spur	0%	11/1/2020	313,568	224,724	
			<u>\$ 1,101,363</u>	<u>\$ 1,012,519</u>	
Business-Type Loans payable					
Drinking Water System					
Improvements Revolving Loan	4.00%	11/1/2020	\$ 1,509,556	\$ 329,598	
Drinking Water System					
Improvements Revolving Loan	3.50%	10/2/2023	773,901	297,308	
Cap Loan (Water Treatment Plant)	2.00%	10/2/2023	476,333	237,706	
Cap Loan (Water Treatment Plant)	3.00%	10/1/2027	587,905	342,075	
Cap Loan (Allen Subdivision Sewer Improvement)	2.00%	2/1/2035	367,350	325,147	
Cap Loan (Twin Lakes Sewer Improvement)	2.00%	2/1/2035	1,380,168	1,380,168	
			<u>1,380,168</u>	<u>1,380,168</u>	
Total loans payable			<u>\$ 5,095,213</u>	<u>\$ 2,912,002</u>	

Annual debt service requirements to maturity for bonds and notes payable are as follows:

Year Ending September 30	General Obligation Bonds		Special Obligation Bonds		Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,575,000	\$ 311,537	\$ 635,000	\$ 77,262	\$ 111,570	\$ 18,391
2019	1,625,000	271,807	650,000	64,412	113,775	16,186
2020	1,670,000	230,256	670,000	49,956	115,931	14,030
2021	1,715,000	185,525	690,000	31,650	118,105	11,856
2022	975,000	133,775	710,000	10,650	120,394	9,567
2023-2027	2,575,000	280,019	-	-	417,060	14,630
2028-2032	650,000	31,450	-	-	15,684	-
Total	<u>\$ 10,785,000</u>	<u>\$ 1,444,369</u>	<u>\$ 3,355,000</u>	<u>\$ 233,930</u>	<u>\$ 1,012,519</u>	<u>\$ 84,660</u>

Business Type Activities:

Year Ending September 30	Revenue Bonds		Loans	
	Principal	Interest	Principal	Interest
2018	\$ 560,000	\$ 290,744	\$ 213,318	\$ 42,343
2019	600,000	273,344	288,509	61,318
2020	610,000	258,194	297,446	52,380
2021	625,000	245,744	212,792	43,935
2022	640,000	229,844	199,360	39,478
2023-2027	3,530,000	820,222	820,471	132,928
2028-2032	3,295,000	211,937	531,989	60,821
2033-2037	-	-	348,117	12,395
	<u>\$ 9,860,000</u>	<u>\$ 2,330,029</u>	<u>\$ 2,912,002</u>	<u>\$ 445,598</u>

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2017 is as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2018	\$ 91,289	\$ 3,979
2019	89,956	1,787
	<u>\$ 181,245</u>	<u>\$ 5,766</u>

On July 17, 2018, the City entered into an agreement to repay funding between DeSoto County, Mississippi and the City related to the settlement of a 2008 tax sale voided by Order of the Chancery Court of DeSoto County, Mississippi and affirmed by the Supreme Court of Mississippi. The City has agreed to pay \$479,403 to DeSoto County in annual installments of \$119,851 starting February 28, 2019 and ending February 28, 2022.

Advance refunding – On October 29, 2015, the City issued \$2,695,000 in Water and Sewer System Revenue Refunding Bonds with an average interest rate of 3.00% to advance refund \$2,510,000 of the 2005 Special Obligation Water & Sewer Refunding Bonds with an average interest rate of 5.00%.

The bonds had a total outstanding balance of \$3,350,000 at the time of refunding, but only \$2,510,000 of the 2005 bonds was refunded.

The net proceeds of \$2,566,475 (after payment of \$128,525 in underwriting fees and other issuance costs) were used to purchase US government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Position.

The City advance refunded the above bonds to reduce its total debt service payment over the next 15 years by almost \$325,495 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$259,971.

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 \$12,171,365 (the smaller of the two computed margins) as of September 30, 2017.

	<u>15% Test</u>	<u>20% Test</u>
Net assessed value as of September 30, 2017 (\$153,042,435 times applicable percentage)	\$ 22,956,365	\$ 30,608,487
Present debt subject to limit as of September 30, 2017: Total bonds outstanding (excluding proprietary)	<u>(10,785,000)</u>	<u>(10,785,000)</u>
Margin for additional debt	<u>\$ 12,171,365</u>	<u>\$ 19,823,487</u>

NOTE 4 – PENSIONS

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 Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444 PERS.

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007).

PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2017, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2017 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2017, 2016 and 2015 were \$1,243,512, \$1,241,388, and \$1,237,471, respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the City reported a liability of \$19,965,694 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was .1201 percent, as opposed to its proportion of .1200 percent measured as of June 30, 2016.

For the year ended September 30, 2017, the City recognized pension expense of \$1,030,254. At September 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

Deferred Outflows of Resources and Deferred Inflows of Resources.

For the year ended September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the City PERS plan from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 290,683	\$ 145,684
Changes of assumptions	466,300	33,992
Net difference between projected and actual earnings on pension plan investments	299,774	-
Changes in the City's proportion and differences between the City's contributions and proportionate share of contributions	-	1,367,318
City contributions subsequent to the measurement date	343,641	-
Total	\$ 1,400,398	\$ 1,546,994

The amounts shown above for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending September 30:

	Total
2018	\$ (34,547)
2019	(48,392)
2020	(21,634)
2021	(385,664)
	<u>\$ (490,237)</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Actuarial Assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00%
Salary increases	3.75 - 18.50%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 September 30, 2017

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Broad	27.00%	4.60%
International Equity	18.00%	4.50%
Emerging Markets Equity	4.00%	4.75%
Global	12.00%	4.75%
Fixed Income	18.00%	0.75%
Real Assets	10.00%	3.50%
Private Equity	8.00%	5.10%
Emerging Debt	2.00%	2.25%
Cash	1.00%	0.00%
	100.00%	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.75 percent) or 1- percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability	\$ 26,186,340	\$ 19,965,694	\$ 14,801,205

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued PERS financial report.

NOTE 7 - COMMITMENTS AND 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.

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. This exposure is covered by purchase of commercial insurance.

NOTE 9 – RESTATEMENT OF NET POSITION

The following table summarizes the effects of prior period adjustments related to correction of errors related to the fiscal 2016 financial statements.

	<u>Total Assets</u>	<u>Deferred Outflows of Resources</u>	<u>Total Liabilities</u>	<u>Deferred Inflows of Resources</u>	<u>Net Position</u>
General Fund					
As previously reported September 30, 2016	\$ 5,482,830	\$ -	\$ 967,893	\$ 3,984,969	\$ 529,968
Correction of insurance expense	105,717	-	-	-	105,717
Correction of overstatement of ambulance A/R	(226,065)	-	-	-	(226,065)
Record beginning court A/R balance	173,932				173,932
Correction of sales taxes	<u>376,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>376,464</u>
As restated September 30, 2016	<u>\$ 5,912,878</u>	<u>\$ -</u>	<u>\$ 967,893</u>	<u>\$ 3,984,969</u>	<u>\$ 960,016</u>
Other Governmental Funds					
As previously reported September 30, 2016	\$ 673,341	\$ -	\$ 170	\$ 149,685	\$ 523,486
Correction of hotel/motel tax	<u>(28,134)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,134)</u>
As restated September 30, 2016	<u>\$ 645,207</u>	<u>\$ -</u>	<u>\$ 170</u>	<u>\$ 149,685</u>	<u>\$ 495,352</u>
Governmental Activities					
As previously reported September 30, 2016	\$ 36,917,861	\$ 4,462,534	\$ 38,743,697	\$ 8,832,917	\$ (6,196,219)
Record donation of land	251,872	-	-	-	251,872
Restatement of net change in fund balance - governmental funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401,914</u>
As restated September 30, 2016	<u>\$ 37,169,733</u>	<u>\$ 4,462,534</u>	<u>\$ 38,743,697</u>	<u>\$ 8,832,917</u>	<u>\$ (5,542,433)</u>

CITY OF HORN LAKE, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2017

The following prior period adjustments were made to the fund balance and/or net position for the correction of errors related to the fiscal 2016 financial statements:

General Fund

- It was noted the insurance premiums effective October 1, 2016 were paid on September 19, 2016, and determined the premiums should have been prepaid in the prior year instead of expensed. An entry was made to restate fund balance in the amount of \$105,717.
- The ambulance accounts receivable balance has not been reconciled during fiscal year 2017. Based on testing performed, it was determined that the fiscal year 2016 ambulance accounts receivable was overstated by approximately \$226,065. An entry was recorded to restate fund balance in the amount of (\$226,065).
- Per discussion with the client and review of the trial balances, it was noted there was no accounts receivable recorded related to court fines. Based on testing performed, an entry was recorded to fund balance in the amount of \$173,932.
- Sales tax revenue payments are received two months in arrears. It was noted the September 2016 sales tax payment of \$376,464 should have been recognized as revenue in the prior period since it was received and earned within the 60 day availability period. An entry was made to restate fund balance in the amount of \$376,464.

Other Governmental Funds

- Per discussion with City officials, the City stopped receiving hotel/motel tax revenue in September 2017, and therefore should not have a receivable recorded as of September 30, 2017. It was noted a balance of \$28,134 has been carried forward from previous years, and the prior year receivable balance was not adjusted when the revenue was received in the prior period. An entry was recorded to restate fund balance in the amount of (\$28,134).

Governmental Activities

- The City received two parcels of land in 2014 as a donation, however, the land was not recorded at the time of donation. The appraised value of the lots donated to the City amounted to \$251,872. An adjustment was made to the government-wide financial statements to restate beginning net position.

NOTE 10 – SUBSEQUENT EVENT

On October 2, 2017, a tax anticipation loan was issued in the amount of \$2,000,000, with an interest rate of 1.215 percent per year maturing March 15, 2018. The loan was paid off in March 2018.

On May 29, 2018, the Board of Mayor and Aldermen authorized the issuance of and private placement of general obligation refunding bonds, series 2018, in the amount of \$1,936,000.

See page 34 for disclosure of a settlement agreement between the City and DeSoto County, Mississippi entered into on July 17, 2018 related to a 2008 tax sale.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HORN LAKE, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 4,766,000	\$ 4,769,685	\$ 4,434,890	\$ (334,795)
Property tax interest and penalties	35,000	35,000	40,724	5,724
Total property taxes	<u>4,801,000</u>	<u>4,804,685</u>	<u>4,475,614</u>	<u>(329,071)</u>
LOCAL TAXES				
Local sales tax	4,600,000	4,600,000	4,829,511	229,511
Franchise tax	730,500	730,500	691,239	(39,261)
Total local taxes	<u>5,330,500</u>	<u>5,330,500</u>	<u>5,520,750</u>	<u>190,250</u>
INTERGOVERNMENTAL	723,000	723,000	757,096	34,096
LICENSES AND PERMITS	212,100	212,100	319,060	106,960
CHARGES FOR SERVICES				
Public safety	410,000	570,000	585,565	15,565
City service fees	1,000	1,000	7,510	6,510
Recreation fees for services	403,905	403,905	142,259	(261,646)
Sanitation	1,375,000	1,375,000	1,417,495	42,495
Total charge for services	<u>2,189,905</u>	<u>2,349,905</u>	<u>2,152,829</u>	<u>(197,076)</u>
FINES, FORFEITURES, AND PENALTIES	1,201,000	1,201,000	778,139	(422,861)
GRANTS	238,450	231,882	360,429	128,547
INTEREST ON INVESTMENTS	3,000	3,000	4,728	1,728
OTHER	<u>416,400</u>	<u>416,400</u>	<u>357,733</u>	<u>(58,667)</u>
Total Revenues	<u>15,115,355</u>	<u>15,272,472</u>	<u>14,726,378</u>	<u>(546,094)</u>

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CITY OF HORN LAKE, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
GENERAL GOVERNMENT				
General Government				
Salaries	811,400	813,435	736,243	77,192
Benefits	312,100	319,073	285,016	34,057
Contractual services	146,000	143,667	74,109	69,558
Materials and supplies	37,650	38,450	32,957	5,493
Insurance	446,000	306,749	307,462	(713)
Other charges	36,500	28,525	19,858	8,667
Total general government	<u>1,789,650</u>	<u>1,649,899</u>	<u>1,455,645</u>	<u>194,254</u>
PUBLIC SAFETY				
Salaries	6,139,045	6,010,035	5,698,752	311,283
Benefits	2,198,600	2,205,500	2,023,711	181,789
Contractual services	74,000	146,000	143,725	2,275
Materials and supplies	434,400	469,400	412,551	56,849
Other charges	253,600	410,220	337,154	73,066
Total public safety	<u>9,099,645</u>	<u>9,241,155</u>	<u>8,615,893</u>	<u>625,262</u>
PUBLIC WORKS				
Salaries	386,300	374,420	362,636	11,784
Benefits	183,500	174,710	166,857	7,853
Contractual services	1,762,000	1,957,450	1,835,818	121,632
Materials and supplies	177,000	175,420	154,115	21,305
Other charges	186,000	165,510	160,199	5,311
Total public works	<u>2,694,800</u>	<u>2,847,510</u>	<u>2,679,625</u>	<u>167,885</u>
CULTURE AND RECREATION				
Salaries	343,500	353,655	347,078	6,577
Benefits	143,500	147,700	139,426	8,274
Contractual services	250,500	240,500	157,123	83,377
Materials and supplies	183,000	189,000	153,329	35,671
Other charges	94,500	89,145	60,464	28,681
	<u>1,015,000</u>	<u>1,020,000</u>	<u>857,420</u>	<u>162,580</u>

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CITY OF HORN LAKE, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
ECONOMIC DEVELOPMENT				
Salaries	122,000	125,467	126,162	(695)
Benefits	44,800	45,740	45,001	739
Contractual services	35,400	69,893	58,103	11,790
Materials and supplies	1,000	1,100	130	970
Other charges	6,500	8,500	4,314	4,186
	<u>209,700</u>	<u>250,700</u>	<u>233,710</u>	<u>16,990</u>
CAPITAL OUTLAY	899,500	767,590	1,941,178	(1,173,588)
DEBT SERVICE	303,847	643,605	643,600	5
Total Expenditures	<u>16,012,142</u>	<u>16,420,459</u>	<u>16,427,071</u>	<u>(6,612)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(896,787)	(1,147,987)	(1,700,693)	(552,706)
OTHER FINANCING SOURCES (USES)				
Loan and lease proceeds	192,000	192,000	787,795	595,795
Sale of capital assets	62,987	62,987	188,944	125,957
Transfers in	600,000	893,000	782,960	(110,040)
Total Other Financing Sources (Uses)	<u>854,987</u>	<u>1,147,987</u>	<u>1,759,699</u>	<u>611,712</u>
Net change in fund balances	<u>\$ (41,800)</u>	<u>\$ -</u>	59,006	<u>\$ 59,006</u>
Fund balances - beginning as restated			<u>960,016</u>	
Fund balances - ending			<u>\$ 1,019,022</u>	

CITY OF HORN LAKE, MISSISSIPPI
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
 Last Ten Fiscal Years September 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.1201%	0.1200%	0.1265%
City's proportionate share of the net pension liability	\$ 19,965,694	\$ 21,434,996	\$ 19,554,406
City's covered employee payroll	\$ 7,895,302	\$ 7,881,829	\$ 7,902,200
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	252.88%	271.95%	247.46%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF HORN LAKE, MISSISSIPPI
SCHEDULE OF CITY'S CONTRIBUTIONS
 LAST TEN FISCAL YEARS SEPTEMBER 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,243,512	\$ 1,241,338	\$ 1,237,471
Contributions in relation to the contractually required contribution	<u>1,243,512</u>	<u>1,241,338</u>	<u>1,235,977</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,494</u>
City's covered employee payroll	\$ 7,895,302	\$ 7,881,829	\$ 7,856,961
Contributions as a percentage of covered employee payroll	15.75%	15.75%	15.75%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SUPPLEMENTARY INFORMATION

CITY OF HORN LAKE, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Number	Expenditures
FEDERAL AWARDS			
<hr/>			
U.S. Department of Transportation/MS Dept. of Transportation			
Highway Planning and Construction	20.205	STP-9227-00(008)LPA	\$ 421,313
Highway Safety Cluster			
State and Community Highway Safety	20.600	PT-2017-PT-21-81	29,620
National Priority Safety Programs	20.616	MSX-2017-MD-21-81	<u>123,044</u>
Subtotal - Highway Safety Cluster			<u>152,664</u>
Total U.S. Department of Transportation			<u>573,977</u>
Environmental Protection Agency/MS. Dept. of Health			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	DWI-L170022-03-0	<u>1,696,703</u>
Total Federal Awards			<u><u>\$ 2,270,680</u></u>

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Horn Lake, Mississippi (the City) under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

NOTE 2 – LOANS OUTSTANDING

At September 30, 2017, there was an outstanding balance of \$1,380,168 on a loan obtained through the Capitalization Grant for Drinking Water State Revolving Loan Fund. Federally funded amounts received during the year ended September 30, 2017 of \$1,062,456 related to reimbursement of expenditures. Payment on the loan during the current fiscal year totaled \$316,535.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in either OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the Uniform Guidance, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available
- 3) There were no federal awards passed through to subrecipients.
- 4) The City has elected not to use the de minimis indirect cost rate as allowed under the Uniform Guidance.

OTHER INFORMATION (UNAUDITED)

CITY OF HORN LAKE, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
For the Year Ended September 30, 2017

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount of Bond</u>
Allen Latimer	Mayor	Fidelity	\$ 75,000
Jim Robinson	City Clerk	Fidelity	\$ 50,000
Tara Warren	Court Clerk	Fidelity	\$ 50,000
Darryl Whaley	Police Chief (6/1/2016 - 6/1/2017)	Fidelity	\$ 50,000
Troy Rowell	Police Chief	Fidelity	\$ 50,000
Ronald L. White, Jr.	Deputy Fire Marshall	Fidelity	\$ 50,000
Arianne Linville	Human Resources Director	Fidelity	\$ 50,000
Danny Smith	Animal Shelter Director	Fidelity	\$ 50,000
Willis Charles Dixon	Finance Officer	Fidelity	\$ 50,000
Julie Valsamis	Accounting Clerk	Traveler's	\$ 50,000
	Aldermen (each)	Fidelity	\$ 100,000

GOVERNMENT AUDITING STANDARDS SECTION

INDEPENDENT AUDITOR’S 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

To the Mayor and Board of Aldermen of the
City of 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, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 23, 2018.

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 first paragraph of this section 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 questioned costs as findings 2017-001, 2017-002, 2017-003, and 2017-004 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control 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 questioned costs to be a significant deficiency 2017-005.

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 Standards*.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's responses was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Memphis, Tennessee
August 23, 2018

Watkins Mikusall, PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Mayor and Board of Aldermen of the
City of Horn Lake, Mississippi:

Report on Compliance for Each Major Federal Program

We have audited the City of Horn Lake, Mississippi (the "City")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended September 30, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Memphis, Tennessee
August 23, 2018

**INDEPENDENT AUDITOR'S 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, 2017, and have issued our report dated August 23, 2018. 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 *Government Auditing Standard*, issued by the Comptroller General of the United States of America.

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 basic financial statements disclosed no material instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of the City's management, federal awarding agencies the Office of the State Auditor and pass-through entities 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.

Watkins Uiberall, PLLC

Memphis, Tennessee
August 23, 2018

CITY OF HORN LAKE, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the City of Horn Lake, Mississippi (the "City") were prepared in accordance with accounting principles generally accepted in the United State of America.
2. Material weaknesses and significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's 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*.
3. No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for the City expresses an unmodified opinion on the major program.
6. There were no audit findings required to be reported in accordance with 2 CFR Section 200.516(a)
7. The programs tested as major programs were

CFDA number 66.468 Capitalization Grants for Drinking Water State Revolving Funds
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. The City does not qualify as a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS

MATERIAL WEAKNESSES

2017-001 Ambulance Revenue

Condition: A prior period adjustment was required to restate the ambulance accounts receivable account for an overstatement of prior year revenue.

Criteria: Internal controls should include procedures to properly reconcile the ambulance receivable account in order to provide reasonable assurance of proper revenue recognition.

Cause: There are no standard procedures for reconciling information from the third-party billing company to the City's internal ambulance records.

Effect: Ambulance accounts receivable and revenue were misstated.

Recommendation: We recommend that the City establish and document a standard policy for ambulance revenue recognition in accordance with generally accepted accounting principles and reconcile the accounts receivable on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions: The City of Horn Lake has contracted with Ambulance Medical Billing, LLC for all collections and billing of ambulance services provided. AMB (Ambulance Medical Billing) provides a monthly report of all ambulance services billed and ambulance services collected. The

CITY OF HORN LAKE, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

City Finance department will update the ambulance receivables on a monthly basis and outstanding uncollected will be updated as a receivable at year end.

2017-002 Court Fines

Condition: Accounts receivable related to court fines are not recorded on the City's books. A current year adjustment was required to establish the receivable balance related to court fines and record a corresponding allowance.

Criteria: Internal controls should include procedures to properly reconcile the court fines receivable account to the reports generated by the City's Court Clerk in order to provide reasonable assurance of proper revenue recognition.

Cause: There are no standard procedures for recording, reconciling, and monitoring of court fines receivable.

Effect: Court fines receivable and revenue were misstated.

Recommendation: We recommend that the City establish and document a standard policy for court fines recognition in accordance with generally accepted accounting principles and reconcile the receivable account on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions: Court Fines are recorded on the City Books. Court fines received are recorded in the Court software system (Syscon). The Court Clerk records all fines in Syscon and generates a report from Syscon and each individual receivable. From the generated report, all court fines are recorded in the City software (Munis). The City Finance department will update the court fines receivable on a monthly basis and outstanding uncollected will be updated as a receivable at year end.

2017-003 Sales Tax Receivable

Condition: A prior period adjustment was required to adjust beginning governmental activities net position on the statement of activities related to sales tax revenue that was not recognized in the prior fiscal year.

Criteria: Internal controls should be in place that provide reasonable assurance that revenue recognition is complete and accurate for financial reporting.

Cause: Management of the City was not aware that sales tax payments are received two months in arrears.

Effect: Beginning governmental activities net position was understated by \$376,000.

Recommendation: We recommend that the City management review their internal controls to ensure sales tax revenue is recorded in the correct fiscal year.

Views of Responsible Officials and Planned Corrective Actions: Each year there is a timing issue when funds come into the City during a budget year cycle. The funds in question were not booked as a receivable, reversed out, and re-booked in the proper fiscal year. The City Finance department will update the governmental net position at the beginning of each year and book all Sales Tax as a receivable to account for all twelve months.

2017-004 Recording Audit Adjustments

Condition: Proposed audit adjustments for the prior fiscal year were not recorded by the City.

Criteria: Proposed audit adjustments should be reviewed and recorded prior to closing the books for the fiscal year.

CITY OF HORN LAKE, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

Effect: The beginning fund balance of the governmental funds and net position of the proprietary funds did not agree to the prior year audited financial statements by (\$246,784) and (\$174,390), respectively.

Recommendation: We recommend recording audit adjustments prior to closing the books for the fiscal year so beginning fund balances/net position will agree to the prior year audited financial statements.

Views of Responsible Officials and Planned Corrective Actions: With delays in the 2016 audit completion, the fiscal year needed to be closed in Munis in order for the Finance Officer to continue reconciling each month of the new year. The City of Horn Lake is attempting to get audits completed on a timely basis. The City Finance department will make all necessary financial adjustments prior to close of yearly audit.

SIGNIFICANT DEFICIENCIES

2017-005 Segregation of Duties – Bank Reconciliations

Condition: The Finance Officer reconciles the bank accounts and has access via phone to make cash transactions. The bank reconciliations are not reviewed after preparation by City management.

Criteria: Generally accepted accounting principles requires that proper internal controls are in place to provide reasonable assurance that expenditures are properly recorded and assets are properly safeguarded.

Cause: The City lacks the appropriate oversight and monitoring as there is no review or approval of the bank reconciliations after preparation.

Effect: Potential misappropriation of assets may occur and not be detected.

Recommendation: We recommend management of the City review, approve, and sign the bank reconciliation each month.

Views of Responsible Officials and Planned Corrective Actions: Bank reconciliations are now reviewed and signed for approval by the City Clerk.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None reported.

CITY OF HORN LAKE, MISSISSIPPI
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended September 30, 2017

None reported.