

**City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2015**



City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2015

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DANNY L. WILLIAMS | 2042 MCINGVALE ROAD, SUITE A
JERRY W. PITTS | HERNANDO, MISSISSIPPI 38632
REBECCA A. BEARD | 662-429-4436
KRISTOPHER A. WHITTEN | 662-429-4438 FAX

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Board of Aldermen
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, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Horn Lake, Mississippi'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, 2015, 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.

Emphasis of Matter

As described in Note A to the financial statements, in 2015 the city adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of the city's proportionate share of the net pension liability and the schedule of city contributions on pages i-x and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Horn Lake, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedule of Surety Bonds for Municipal Officials has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the City of Horn Lake, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Horn Lake, Mississippi's internal control over financial reporting and compliance.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
December 19, 2016

CITY OF HORN LAKE

MISSISSIPPI



Management's Analysis and Discussion

FYE 2015

THE CITY OF HORN LAKE, MISSISSIPPI

CITY OFFICIALS

MAYOR

ALLEN B. LATIMER

ALDERMEN

DONNIE WHITE, ALDERMAN-AT-LARGE

AMY LAY, WARD 1

TOMMY BLEDSOE, WARD 2

TIM SMITH, WARD 3

CHARLIE ROBERTS, WARD 4

BRYAN PETTIGREW, WARD 5

JOHN E JONES, JR, WARD 6

CITY CLERK

JIM ROBINSON

CITY ATTORNEY

BILLY CAMPBELL, HUNT, ROSS & ALLEN

DEPARTMENT HEADS

POLICE CHIEF - DARRYL WHALEY

FIRE CHIEF - DAVID LINVILLE

DIRECTOR OF OPERATIONS - SPENCER SHIELDS

COURT CLERK – TARA WARREN

PARKS AND RECREATION – KEITH CALVERT

COMMUNITY DEVELOPMENT / HUMAN RESOURCES - A.J. LINVILLE

CITY ENGINEER

VINCE MALAVASI, NEEL-SCHAFFER

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2015
Unaudited

This discussion and analysis of the City of Horn Lake's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2015. 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 2015 as compared to 2014 were as follows:

Total net position decreased from \$10,915,212 to \$(5,283,376)
Total liabilities and deferred inflows increased from \$43,556,091 to \$62,506,461
Total assets and deferred outflows of governmental activities increased from \$38,938,406 to \$41,286,155
Total assets and deferred outflows of business-type activities increased from \$15,532,897 to \$15,936,930

The City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB 27, during the current fiscal year. The implementation resulted in the following items reported in the financial statements:

- A prior period adjustment resulting in a decrease to beginning net position as previously reported in the amount of \$15,553,709
- An addition of net pension liability in the amount of \$19,554,406, decreased by net pension outflows and inflows of \$2,342,322. This change of \$17,212,084 was primarily due to the prior period adjustment of \$15,553,709.

Using This Annual Financial Report

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

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

Reporting on the City of Horn Lake as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Activities answer this question.

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

City of Horn Lake, Mississippi
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These two statements report the City's net position and the change in that position. This change in position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

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

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

Fund Financial Statements

The analysis of the City's major funds begins on page 7. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Horn Lake, the City's major funds are the General, Debt Service, and Utility Funds.

Governmental Funds

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

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

Proprietary Funds

The City of Horn Lake maintains an enterprise fund that is used to report business-type activities in the government-wide financial statements. The City uses enterprise fund accounting in order to account for the Utility System Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on page 11. Operating revenues of the System are utilized to fund the operation and maintenance expenses and debt service.

The City of Horn Lake as a Whole

Recall that the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2015 compared to 2014. Table 2 shows the changes in net position for the 2015 year.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2015
Unaudited

Table 1
Statement of Net Position

| | 2015 | | 2014 | |
|---|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Assets | | | | |
| Current and other assets | 10,115,221 | 2,585,813 | 10,395,529 | 2,543,882 |
| Capital assets, net | 27,630,947 | 12,638,868 | 28,542,877 | 12,566,585 |
| Total Assets | 37,746,168 | 15,224,681 | 38,938,406 | 15,110,467 |
| Deferred Outflows of Resources | | | | |
| Deferred amount on refunding | 448,507 | 394,268 | - | 422,430 |
| Deferred outflows-pensions | 3,091,480 | 317,981 | - | - |
| Total Deferred Outflows of Resources | 3,539,987 | 712,249 | - | 422,430 |
| Liabilities | | | | |
| Current liabilities | 5,120,838 | 1,203,137 | 4,662,453 | 1,206,733 |
| Long-term liabilities | 34,244,254 | 14,120,991 | 18,008,228 | 12,863,047 |
| Total Liabilities | 39,365,092 | 15,324,128 | 22,670,681 | 14,069,780 |
| Deferred Inflows of Resources | | | | |
| Deferred revenue | 6,750,102 | - | 6,815,630 | - |
| Deferred inflows-pensions | 967,613 | 99,526 | - | - |
| Total Deferred Inflows of Resources | 7,717,715 | 99,526 | 6,815,630 | - |
| Net Assets | | | | |
| Invested in capital assets, net of debt | 7,655,685 | (320,470) | 7,359,951 | (409,446) |
| Restricted | 72,437 | 748,524 | 58,854 | 573,058 |
| Unrestricted | (13,524,774) | 85,222 | 2,033,290 | 1,299,505 |
| Total Net Assets | (5,796,652) | 513,276 | 9,452,095 | 1,463,117 |

In connection with the implementation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

| | |
|---|---------------------|
| Total unrestricted net position (deficit) | \$ (13,439,552) |
| Less unrestricted deficit in net position resulting from implementation of GASB No. 68 and 71 | 17,212,084 |
| Unrestricted net position, exclusive of the net pension liability | <u>\$ 3,772,532</u> |

Total assets and deferred outflows of resources increased by \$2,751,782. Cash and cash equivalents increased by \$236,208. The following table, Table 2, presents a summary of the changes in net position for the fiscal year ended September 30, 2015.

(See next page for Table 2)

City of Horn Lake, Mississippi
Management's Discussion and Analysis
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Table 2
Changes in Net Position

| | 2015 | | 2014 | |
|---|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Revenues | | | | |
| Program Revenues: | | | | |
| Charges for services | \$ 2,031,958 | \$ 4,394,496 | \$2,007,352 | \$ 4,159,667 |
| Operating grants and contributions | 251,016 | - | 278,762 | - |
| Capital grants and contributions | - | 118,589 | - | 258,452 |
| Total Program Revenues | <u>2,282,974</u> | <u>4,513,085</u> | <u>2,286,114</u> | <u>4,418,119</u> |
| General Revenues: | | | | |
| Taxes | 12,110,426 | - | 11,899,913 | - |
| Other revenues | 2,292,736 | 16,978 | 2,522,746 | 39,685 |
| Transfers | 400,000 | (400,000) | 1,429,074 | (1,429,074) |
| Total General Revenues | <u>14,803,162</u> | <u>(383,022)</u> | <u>15,851,733</u> | <u>(1,389,389)</u> |
| Total Revenues | <u>17,086,136</u> | <u>4,130,063</u> | <u>18,137,847</u> | <u>3,028,730</u> |
| Expenses | | | | |
| General government | 2,474,918 | - | 2,706,887 | - |
| Public safety | 8,419,746 | - | 9,200,729 | - |
| Public works | 3,139,863 | - | 2,823,515 | - |
| Cultural & recreational | 1,162,867 | - | 1,359,375 | - |
| Economic development | 337,281 | - | 301,654 | - |
| Interest | 939,654 | - | 781,382 | - |
| Pension | 1,757,450 | 180,766 | - | - |
| Utility department | - | 3,448,533 | - | 4,037,297 |
| Total Expenses | <u>18,231,779</u> | <u>3,629,299</u> | <u>17,173,542</u> | <u>4,037,297</u> |
| Change in Net Position | <u>\$ (1,145,643)</u> | <u>\$ 500,764</u> | <u>\$ 964,305</u> | <u>\$ (1,008,567)</u> |
| Net Position, Beginning of year | 9,452,095 | 1,463,117 | 8,920,433 | 2,876,575 |
| Prior period adjustment | <u>(14,103,104)</u> | <u>(1,450,605)</u> | <u>(432,643)</u> | <u>(404,891)</u> |
| Net Position, beginning of year, as restated | <u>(4,651,009)</u> | <u>12,512</u> | <u>8,487,790</u> | <u>2,471,684</u> |
| Net position - End of year | <u>\$ (5,796,652)</u> | <u>\$ 513,276</u> | <u>\$ 9,452,095</u> | <u>\$ 1,463,117</u> |

Governmental Activities

Several revenues fund the City's governmental activities. The largest funding source, property tax revenue, accounted for \$7,078,464, or 47.8% of general revenues; sales tax revenue accounted for \$4,344,979, or 29.4% of general revenues. Fines of \$1,184,370 accounted for 8% of general revenues, and franchise taxes of \$686,983 accounted for 4.6% of general revenues.

The remaining 10.2% of general revenues was comprised of miscellaneous revenues and transfers.

City of Horn Lake, Mississippi
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Total general revenues from governmental activities decreased from \$15,851,733 in 2014 to \$14,803,162 or 6.6%. Major expense activities included public safety expenditures accounting for 46.2% of total program expenses, and general government expenses accounting for 13.6% 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 \$500,764. Revenues from the utility system fund totaled \$4,513,085 in 2015, an increase of 2% from 2014 revenues of \$4,418,119.

Expenses of the utility fund decreased by 10% in 2015, totaling \$3,629,299 in 2015 and \$4,037,297 in 2014.

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 8 and 10, 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 7 and 9 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 2015 totaled \$513,276 which represents a \$500,764 decrease from 2014, net position beginning as restated in the financial statements due to implementation of GASB 68.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
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Unaudited

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 2015, 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 were \$14,327,405; amended budget amounts were \$14,481,955 and actual revenue collections-budgetary basis were \$14,434,122.

Capital Assets and Long-Term Obligations

Table 3

Capital Assets (Net of Depreciation)

| | 2015 | | 2014 | |
|---------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | Government Activities | Business-type Activities | Government Activities | Business-type Activities |
| Land | \$ 3,668,471 | \$ 28,225 | \$ 3,668,471 | \$ 28,225 |
| Buildings & Improvements | 11,019,977 | 151,001 | 10,990,997 | 151,001 |
| Equipment & Vehicles | 7,736,340 | 389,128 | 7,583,855 | 377,556 |
| Construction in Progress | 300,039 | 374,900 | 70,820 | 865,119 |
| Infrastructure | 27,414,029 | 20,142,993 | 27,414,029 | 19,408,817 |
| Accumulated Depreciation | <u>(22,507,909)</u> | <u>(8,930,434)</u> | <u>(21,185,295)</u> | <u>(8,264,133)</u> |
| Total Capital Assets, net | <u>\$ 27,630,947</u> | <u>\$ 12,155,813</u> | <u>\$ 28,542,877</u> | <u>\$ 12,566,585</u> |

City of Horn Lake, Mississippi
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Long-Term Obligations

Table 4

Outstanding Notes and Long-Term Debt at Year End

| | <u>2015</u> | <u>2014</u> |
|---------------------------|----------------------|----------------------|
| Governmental Activities: | | |
| General obligation bonds | \$ 12,920,000 | \$ 9,670,000 |
| Special assessment bonds | 4,590,000 | 9,275,000 |
| Loans payable | 1,766,532 | 1,589,179 |
| Leases payable | 574,017 | 811,357 |
| Bond premium | 162,977 | 108,090 |
| Bond discount | (38,264) | (43,730) |
| Deferred loss | (448,507) | (226,970) |
| Compensated absences | 289,613 | 293,545 |
| Total | <u>\$ 19,816,368</u> | <u>\$ 21,476,471</u> |
| Business-type Activities: | | |
| Bonds and notes payable | \$ 10,670,000 | \$ 11,060,000 |
| Loans payable | 1,990,356 | 2,114,345 |
| Bond premium | 210,195 | 224,116 |
| Deferred loss | (394,268) | - |
| Compensated absences | 36,117 | 42,830 |
| Total | <u>\$ 12,512,400</u> | <u>\$ 13,441,291</u> |

During 2015, the City issued \$7,120,000 in general obligation and special assessment combined refunding bonds to advance refund \$6,645,000 of 2005 special assessment refunding bonds and 2008 general obligation bonds. The refunding will reduce the City's debt service payments over the next 14 years by almost \$281,360. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

Economic Conditions

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 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.

City of Horn Lake, Mississippi
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Also there are several other projects that will help build a better economy throughout the City of Horn Lake. These projects include the expansion of 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.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City Clerk at 662-342-3488.

BASIC FINANCIAL STATEMENTS

City of Horn Lake, Mississippi
Statement of Net Position
September 30, 2015

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 395,286 | \$ 1,837,289 | \$ 2,232,575 |
| Investments | 95,390 | - | 95,390 |
| Accounts receivable (net of allowance for uncollectibles of \$2,511,354) | 604,111 | 293,277 | 897,388 |
| Intergovernmental receivable | 548,101 | - | 548,101 |
| Property tax receivable | 6,765,039 | - | 6,765,039 |
| Prepaid items | 724,703 | 187,583 | 912,286 |
| Inventories | - | 2,195 | 2,195 |
| Restricted assets | | | |
| Cash in bank | - | 748,524 | 748,524 |
| Property held for sale | 982,591 | - | 982,591 |
| Capital assets: | | | |
| Land and construction in progress | 3,968,510 | 403,125 | 4,371,635 |
| Other capital assets, net | <u>23,662,437</u> | <u>11,752,688</u> | <u>35,415,125</u> |
| Total Assets | <u>37,746,168</u> | <u>15,224,681</u> | <u>52,970,849</u> |
| Deferred outflows of resources | | | |
| Deferred amount on refunding | 448,507 | 394,268 | 842,775 |
| Deferred outflows - pensions | <u>3,091,480</u> | <u>317,981</u> | <u>3,409,461</u> |
| Total deferred outflows of resources | <u>3,539,987</u> | <u>712,249</u> | <u>4,252,236</u> |
| Liabilities | | | |
| Accounts payable | 648,872 | 72,738 | 721,610 |
| Accrued expenses | 115,822 | 12,715 | 128,537 |
| Customer deposits | 286,230 | 328,925 | 615,155 |
| Other deposits | 119,174 | - | 119,174 |
| Unearned revenue | - | 16,491 | 16,491 |
| Accrued interest | 199,440 | 162,864 | 362,304 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 3,751,300 | 609,404 | 4,360,704 |
| Due in more than one year: | | | |
| Capital debt | 16,223,962 | 12,261,147 | 28,485,109 |
| Non-capital debt | 289,613 | 36,117 | 325,730 |
| Net pension liability | <u>17,730,679</u> | <u>1,823,727</u> | <u>19,554,406</u> |
| Total Liabilities | <u>39,365,092</u> | <u>15,324,128</u> | <u>54,689,220</u> |
| Deferred inflows of resources | | | |
| Unavailable revenue-property taxes | 6,750,102 | - | 6,750,102 |
| Deferred inflows - pensions | <u>967,613</u> | <u>99,526</u> | <u>1,067,139</u> |
| Total deferred inflows of resources | <u>7,717,715</u> | <u>99,526</u> | <u>7,817,241</u> |
| Net Position | | | |
| Net Investment in capital assets | 7,655,685 | (320,470) | 7,335,215 |
| Restricted for: | | | |
| Culture and recreation | 72,437 | - | 72,437 |
| Debt service | - | 748,524 | 748,524 |
| Unrestricted | <u>(13,524,774)</u> | <u>85,222</u> | <u>(13,439,552)</u> |
| Total Net Position | <u>\$ (5,796,652)</u> | <u>\$ 513,276</u> | <u>\$ (5,283,376)</u> |

The accompanying notes are an integral part of the financial statements

City of Horn Lake, Mississippi
Balance Sheet
Governmental Funds
September 30, 2015

| | <u>Major Funds</u> | | | Total Governmental Funds |
|---|----------------------------|----------------------------------|---|---|
| | General Fund | Debt Service Fund | Other Governmental Funds | |
| Assets | | | | |
| Cash and cash equivalents | \$ 47,731 | \$ - | \$ 347,555 | \$ 395,286 |
| Investments | 95,390 | - | - | 95,390 |
| Accounts receivable (net of allowance for uncollectibles of \$2,511,354) | 604,111 | - | - | 604,111 |
| Intergovernmental receivable | 524,678 | - | 23,423 | 548,101 |
| Prepaid items | - | 724,701 | - | 724,701 |
| Property tax receivable | 4,562,629 | 2,054,052 | 148,358 | 6,765,039 |
| Total Assets | <u>\$ 5,834,539</u> | <u>\$ 2,778,753</u> | <u>\$ 519,336</u> | <u>\$ 9,132,628</u> |
| Liabilities | | | | |
| Accounts payable | \$ 306,464 | \$ 340,135 | \$ 2,271 | \$ 648,870 |
| Accrued expenses | 115,822 | - | - | 115,822 |
| Other deposits | 405,404 | - | - | 405,404 |
| Total Liabilities | <u>827,690</u> | <u>340,135</u> | <u>2,271</u> | <u>1,170,096</u> |
| Deferred inflows of resources: | | | | |
| Unavailable revenue - property taxes | 4,571,778 | 2,031,782 | 146,542 | 6,750,102 |
| Total deferred inflows of resources | <u>4,571,778</u> | <u>2,031,782</u> | <u>146,542</u> | <u>6,750,102</u> |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Prepaid items | - | 724,701 | - | 724,701 |
| Restricted: | | | | |
| Culture and recreation | - | - | 72,437 | 72,437 |
| Assigned: | | | | |
| Capital projects | - | - | - | - |
| Public safety | - | - | - | - |
| Capital projects | - | - | - | - |
| Economic development | - | - | 298,086 | 298,086 |
| Unassigned | 435,071 | (317,865) | - | 117,206 |
| Total Fund Balances | <u>435,071</u> | <u>406,836</u> | <u>370,523</u> | <u>1,212,430</u> |
| Total Liabilities and Fund Balances | <u>\$ 5,834,539</u> | <u>\$ 2,778,753</u> | <u>\$ 519,336</u> | <u>\$ 9,132,628</u> |

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

City of Horn Lake, Mississippi
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2015

| | |
|--|------------------------------|
| Total Fund Balance - Governmental Funds | \$ 1,212,430 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$22,507,909. | 27,630,947 |
| Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds. | 3,091,480 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These assets consist of the following: | |
| Property held for sale | 982,591 |
| Deferred inflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds. | (967,613) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (37,547,047) |
| Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds | <u>(199,440)</u> |
| Net Position of Governmental Activities | <u>\$ (5,796,652)</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, 2015

| | <u>Major Funds</u> | | | <u>Total Governmental Funds</u> |
|--|-------------------------|----------------------------------|---|---|
| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | |
| Revenues | | | | |
| Property taxes | \$ 5,098,396 | \$ 1,836,208 | \$ 143,860 | \$ 7,078,464 |
| Franchise taxes | 686,983 | - | - | 686,983 |
| Sales taxes | 4,048,624 | - | 296,355 | 4,344,979 |
| Penalty and interest | 40,476 | - | - | 40,476 |
| Licenses and permits | 230,566 | - | - | 230,566 |
| Intergovernmental | 708,014 | - | - | 708,014 |
| Charges for services | 2,031,958 | - | - | 2,031,958 |
| Fines | 1,184,370 | - | - | 1,184,370 |
| Interest | 4,556 | - | - | 4,556 |
| Miscellaneous | 375,143 | - | 607 | 375,750 |
| Total Revenues | <u>14,409,086</u> | <u>1,836,208</u> | <u>440,822</u> | <u>16,686,116</u> |
| Expenditures | | | | |
| General government | 2,307,282 | - | - | 2,307,282 |
| Public safety | 8,341,137 | - | - | 8,341,137 |
| Public works | 2,340,406 | - | - | 2,340,406 |
| Culture and recreation | 780,380 | - | 130,277 | 910,657 |
| Economic development | 202,375 | - | 137,683 | 340,058 |
| Debt service | | | | |
| Principal | 259,987 | 3,210,000 | - | 3,469,987 |
| Interest | 20,053 | 703,622 | - | 723,675 |
| Bond issue costs | - | 292,090 | - | 292,090 |
| Capital outlay | 640,879 | - | - | 640,879 |
| Total Expenditures | <u>14,892,499</u> | <u>4,205,712</u> | <u>267,960</u> | <u>19,366,171</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(483,413)</u> | <u>(2,369,504)</u> | <u>172,862</u> | <u>(2,680,055)</u> |
| Other Financing Sources (Uses) | | | | |
| Refunding bonds issued | - | 7,120,000 | - | 7,120,000 |
| Proceeds from sale of capital assets | 20 | - | - | 20 |
| Premiums on bonds issued | - | 73,963 | - | 73,963 |
| Loan proceeds | - | 1,500,000 | - | 1,500,000 |
| Payment to bond refunding escrow agent | - | (6,909,163) | - | (6,909,163) |
| Interfund transfers | 322,525 | - | 77,475 | 400,000 |
| Total Other Financing Sources (Uses) | <u>322,545</u> | <u>1,784,800</u> | <u>77,475</u> | <u>2,184,820</u> |
| Net Change in Fund Balances | (160,868) | (584,704) | 250,337 | (495,235) |
| Fund Balance - Beginning | <u>595,939</u> | <u>991,540</u> | <u>120,186</u> | <u>1,707,665</u> |
| Fund Balance - Ending | <u>\$ 435,071</u> | <u>\$ 406,836</u> | <u>\$ 370,523</u> | <u>\$ 1,212,430</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, 2015

Net Change in Fund Balances - Total Governmental Funds \$ (495,235)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$410,684 were less than depreciation of \$1,322,614 in the current period. (911,930)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments of \$10,114,987 were less than debt proceeds of \$8,620,000. 1,494,987

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

| | |
|---|-----------------|
| Accrued interest on debt | 105,127 |
| Refunding bond loss on new debt | 264,163 |
| Bond premium on new debt | (73,963) |
| Pension expense | (1,503,708) |
| Compensated absences | 3,932 |
| Bond premium, discount and deferred loss amortization | <u>(29,016)</u> |

Change in Net Position of Governmental Activities \$ (1,145,643)

City of Horn Lake, Mississippi
Statement of Net Position
Proprietary Funds
September 30, 2015

| | Utility Fund |
|---|-------------------------|
| Assets | |
| Current Assets | |
| Cash and cash equivalents | \$ 1,837,289 |
| Accounts receivable (net of allowance for uncollectibles of \$114,512) | 293,277 |
| Intergovernmental receivables | - |
| Inventory | 2,195 |
| Prepaid items | 187,583 |
| Total Current Assets | 2,320,344 |
| Noncurrent Assets | |
| Restricted Cash | 748,524 |
| Capital assets: | |
| Land and construction in progress | 403,125 |
| Other capital assets, net | 11,752,688 |
| Total Noncurrent Assets | 12,904,337 |
| Total Assets | 15,224,681 |
| Deferred outflows of resources | |
| Deferred amount on refunding | 394,268 |
| Deferred outflows - pensions | 317,981 |
| Total deferred outflows of resources | 712,249 |
| Liabilities | |
| Current Liabilities | |
| Accounts payable | 72,738 |
| Accrued expenses | 12,715 |
| Accrued interest payable | 162,864 |
| Unearned revenue | 16,491 |
| Customer deposits | 328,925 |
| Capital debt: | |
| Other long-term liabilities | 609,404 |
| Total Current Liabilities | 1,203,137 |
| Noncurrent liabilities: | |
| Capital debt | 12,261,147 |
| Non-capital debt | 36,117 |
| Net pension liability | 1,823,727 |
| Total noncurrent liabilities | 14,120,991 |
| Total Liabilities | 15,324,128 |
| Deferred inflows of resources | |
| Deferred inflows - pensions | 99,526 |
| Total deferred outflows of resources | 99,526 |
| Net Position | |
| Net investment in capital assets | (320,470) |
| Restricted for: | |
| Debt service | 748,524 |
| Unrestricted | 85,222 |
| Total Net Position | \$ 513,276 |

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, 2015

| | Utility Fund |
|---|-------------------------|
| Operating Revenues | |
| Charges for services | \$ 4,394,496 |
| Miscellaneous | 14,427 |
| | 4,408,923 |
| Operating Expenses | |
| Personnel | 874,206 |
| Pension expense | 180,766 |
| Supplies | 102,589 |
| Depreciation and amortization | 689,429 |
| Maintenance and other | 328,322 |
| Water & sewer system management | 1,132,547 |
| | 3,307,859 |
| Operating Income | 1,101,064 |
| Non-operating Revenues (Expenses) | |
| Interest income | 2,551 |
| Intergovernmental grants | 118,589 |
| Interest expense | (321,440) |
| | (200,300) |
| Income (Loss) Before Contributions and Transfers | 900,764 |
| Transfers Out | (400,000) |
| Change in Net Position | 500,764 |
| Net Position - Beginning, as previously reported | 1,463,117 |
| Prior period adjustment | (1,450,605) |
| Net Position - Beginning, as restated | 12,512 |
| Net Position - Ending | \$ 513,276 |

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

City of Horn Lake, Mississippi
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

| | <u>Utility Fund</u> |
|---|----------------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 4,414,109 |
| Payments to suppliers | (1,605,358) |
| Payments to employees | (907,018) |
| Net Cash Provided By (Used In) Operating Activities | <u>1,901,733</u> |
| Cash Flows from Non-capital Financing Activities | |
| Interfund transfers | (400,000) |
| Net Cash Provided By (Used In) Non-Capital Financing Activities | <u>(400,000)</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Payments for capital acquisitions | (255,530) |
| Capital grants received | 118,589 |
| Customer deposits | 22,677 |
| Proceeds of long-term debt | 68,432 |
| Principal payments on debt | (692,230) |
| Interest payments on debt | (336,973) |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | <u>(1,075,035)</u> |
| Cash Flows from Investing Activities | |
| Interest revenue | <u>2,551</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 429,249 |
| Cash and Cash Equivalents-Beginning of Year | <u>2,156,564</u> |
| Cash and Cash Equivalents-End of Year | <u><u>\$ 2,585,813</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating income | <u>\$ 1,101,064</u> |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | |
| Depreciation and amortization | 689,429 |
| (Increase) decrease in customer receivables | 5,186 |
| Increase (decrease) in accounts payable | (46,623) |
| Increase (decrease) in accrued expenses | 159,390 |
| Increase (decrease) in compensated absences | (6,713) |
| Total adjustments | <u>800,669</u> |
| Net Cash Provided By (Used In) Operating Activities | <u><u>\$ 1,901,733</u></u> |

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Financial Reporting Entity

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

Basis of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Measurement Focus and Basis of Accounting.

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

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

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

The City reports the following major Governmental Funds:

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

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

The City reports the following major Proprietary Funds:

Utility Fund:

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

GOVERNMENTAL FUND TYPES

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

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

PROPRIETARY FUND TYPES

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

Budgets and Budgetary Accounting

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

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

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

At the September board meeting, the budget is legally enacted through passage of ordinance. The City Clerk is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.

The actual receipts and disbursements are accumulated each month and compared to the budgeted amounts and reviewed by the Mayor and Board of Aldermen. Any revisions on the budget during the year are approved by the Board of Aldermen.

Cash and Cash Equivalents

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

Investments

The City's investments consist of shares of common stock and property held for sale. The stock is valued at fair market value using quoted prices in an actively traded market.

Property Held for Sale

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 assessor.

Inventories and Prepaid Items.

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

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Interfund Transactions and Balances

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

Restricted Assets

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

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives and capitalization thresholds of the various classes of depreciable capital assets are as follows:

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

Deferred Outflows/Inflows 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 on refunding – For current refunding's and advance refunding's 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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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.

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.

Long-term Liabilities

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

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

Compensated Absences

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

Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Net Position Flow Assumption

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

Fund Financial Statements:

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

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

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

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

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

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

Fund Balance Flow Assumption

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

Property Tax Revenues

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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 of the original purchase occurs.

Intergovernmental Revenues in Governmental Funds

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

Changes in Accounting Standards

The City of Horn Lake, Mississippi adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pensions Transition for contributions Made Subsequent to the Measurement Date*. The provisions of this standard have been incorporated into the financial statements and notes.

NOTE B - PRIOR PERIOD ADJUSTMENT

A summary of significant fund equity adjustment is as follows:

Statement of Activities:

| <u>Explanation</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---------------------------|------------------------------------|-------------------------------------|
| Implementation of GASB 68 | <u>\$14,103,104</u> | <u>\$1,450,605</u> |

The

adjustment of \$1,450,605 is also relevant for the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund.

NOTE C - CASH AND CASH EQUIVALENTS

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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, 2015, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2015, the carrying amount of the City's deposits with financial institutions was \$2,981,099 and the bank balances totaled \$4,063,686. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

NOTE D - INVESTMENTS

The following is a summary of changes in investments:

| <u>Investments</u> | <u>Fund</u> | <u>Balance at 9/30/2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2015</u> |
|--------------------|-------------|---------------------------------|------------------|------------------|---------------------------------|
| Capital stock | General | \$ 107,601 | \$ - | \$ 12,211 | \$ 95,390 |
| Total | | <u>\$ 107,601</u> | <u>\$ -</u> | <u>\$ 12,211</u> | <u>\$ 95,390</u> |

The stock was donated and is carried at quoted market prices as of the balance sheet date. Cost basis is unknown.

NOTE E - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following:

| <u>Description</u> | <u>Governmental Activities</u> |
|--------------------|------------------------------------|
| Ad valorem | \$ 62,110 |
| Grant proceeds | 124,446 |
| Sales tax | 338,122 |
| Tourism tax | 23,423 |
| Totals | <u>\$ 548,101</u> |

NOTE F- 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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

NOTE G - CAPITAL ASSETS

The following is a summary of changes in capital assets:

| | Balance at 9/30/2014 | Additions | Deletions | Transfers/ Adjustments | Balance at 9/30/2015 |
|---|-------------------------|---------------------|-------------------|---------------------------|-------------------------|
| Governmental Activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 3,668,471 | \$ - | \$ - | \$ - | \$ 3,668,471 |
| Construction in progress | 70,820 | 229,219 | - | - | 300,039 |
| Total Capital Assets, Not Being Depreciated: | <u>3,739,291</u> | <u>229,219</u> | <u>-</u> | <u>-</u> | <u>3,968,510</u> |
| Capital Assets, Being Depreciated: | | | | | |
| Buildings and improvements | 10,990,997 | 28,980 | - | - | 11,019,977 |
| Equipment and machinery | 2,640,477 | 104,835 | - | - | 2,745,312 |
| Infrastructure | 27,414,029 | - | - | - | 27,414,029 |
| Vehicles | 4,943,378 | 47,650 | - | - | 4,991,028 |
| Total Capital Assets, Being Depreciated: | <u>45,988,881</u> | <u>181,465</u> | <u>-</u> | <u>-</u> | <u>46,170,346</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (2,562,262) | (284,874) | - | - | (2,847,136) |
| Equipment and machinery | (1,811,977) | (160,209) | - | - | (1,972,186) |
| Infrastructure | (12,693,626) | (750,056) | - | - | (13,443,682) |
| Vehicles | (4,117,430) | (127,475) | - | - | (4,244,905) |
| Total Accumulated Depreciation | <u>(21,185,295)</u> | <u>(1,322,614)</u> | <u>-</u> | <u>-</u> | <u>(22,507,909)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>24,803,586</u> | <u>(1,141,149)</u> | <u>-</u> | <u>-</u> | <u>23,662,437</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 28,542,877</u> | <u>\$ (911,930)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 27,630,947</u> |
| Business-type Activities: | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 28,225 | \$ - | \$ - | \$ - | \$ 28,225 |
| Construction in progress | 865,119 | 244,009 | 734,228 | - | 374,900 |
| Total Capital Assets, Not Being Depreciated: | <u>893,344</u> | <u>244,009</u> | <u>734,228</u> | <u>-</u> | <u>403,125</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 151,001 | - | - | - | 151,001 |
| Equipment and machinery | 321,435 | 11,572 | - | - | 333,007 |
| Infrastructure | 19,408,817 | 734,228 | - | (52) | 20,142,993 |
| Vehicles | 56,121 | - | - | - | 56,121 |
| Total Capital Assets, Being Depreciated: | <u>19,937,374</u> | <u>745,800</u> | <u>-</u> | <u>(52)</u> | <u>20,683,122</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (38,587) | (2,998) | - | - | (41,585) |
| Equipment and machinery | (307,158) | (2,291) | - | - | (309,449) |
| Infrastructure | (7,870,578) | (658,312) | - | - | (8,528,890) |
| Vehicles | (47,810) | (2,700) | - | - | (50,510) |
| Total Accumulated Depreciation | <u>(8,264,133)</u> | <u>(666,301)</u> | <u>-</u> | <u>-</u> | <u>(8,930,434)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>11,673,241</u> | <u>79,499</u> | <u>-</u> | <u>(52)</u> | <u>11,752,688</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 12,566,585</u> | <u>\$ 323,508</u> | <u>\$ 734,228</u> | <u>\$ (52)</u> | <u>\$ 12,155,813</u> |

No interest was capitalized during the year due to immateriality.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Depreciation was charged to functions of the City as follows:

| | |
|---|----------------------------|
| Governmental Activities | |
| General government | \$ 176,916 |
| Public safety | 301,811 |
| Public works | 634,310 |
| Cultural and recreational | <u>209,577</u> |
| Total Depreciation Expense, Governmental Activities | <u>\$ 1,322,614</u> |
| Business-type Activities | |
| Water and sewer | <u>\$ 666,301</u> |
| Total Depreciation Expense, Business-type Activities | <u>\$ 666,301</u> |

Commitments under construction contracts at September 30, 2015 are summarized as follows:

| <u>Project</u> | <u>Contract Amount</u> | <u>Remaining Balance</u> | <u>Fund</u> |
|-----------------------|----------------------------|------------------------------|-------------|
| Tulane Road Connector | <u>\$ 382,256</u> | <u>\$ 194,635</u> | General |
| | <u>\$ 382,256</u> | <u>\$ 194,635</u> | |

NOTE H – OPERATING LEASES

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

| <u>Year ended September 30</u> | <u>Amount</u> |
|--------------------------------|--------------------------|
| 2016 | \$ 20,904 |
| 2017 | 20,904 |
| 2018 | 20,904 |
| 2019 | 20,904 |
| 2020 | 20,904 |
| 2021-2025 | 104,520 |
| 2026-2030 | <u>59,235</u> |
| | <u>\$ 268,275</u> |

NOTE I - INTERFUND TRANSACTIONS

Interfund transactions are for the payment of monthly claims, and to provide funds for debt service and capital outlay. All transfers were routine and consistent with the activities of the fund. All interfund balances were repaid at year end. The following is a summary of interfund transactions and balances as of September 30, 2015:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|---------------------|----------------------|
| Major | | |
| General Fund | \$ 322,525 | \$ - |
| Debt Service Fund | - | - |
| Non Major | | |
| Other Governmental Funds | 77,475 | - |
| Major | | |
| Utility Fund | - | 400,000 |
| Total | <u>\$ 400,000</u> | <u>\$ 400,000</u> |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

NOTE J - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2015 was as follows:

| | <u>Balance at 9/30/2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 9/30/2015</u> | <u>Due Within One Year</u> |
|---------------------------------------|---------------------------------|---------------------|----------------------|---------------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds payable | \$ 9,670,000 | \$ 7,120,000 | \$ 3,870,000 | \$ 12,920,000 | \$ 1,375,000 |
| Special obligation bonds payable | 5,185,000 | - | 595,000 | 4,590,000 | 610,000 |
| Special assessment bonds payable | 4,090,000 | - | 4,090,000 | - | - |
| Loans payable | 1,589,179 | 1,500,000 | 1,322,647 | 1,766,532 | 1,520,904 |
| Leases payable | 811,357 | - | 237,340 | 574,017 | 245,396 |
| Bond premium | 108,090 | 73,963 | 19,076 | 162,977 | - |
| Bond discount | (43,730) | - | (5,466) | (38,264) | - |
| Deferred loss | (226,970) | (264,163) | (42,626) | (448,507) | - |
| Compensated absences | 293,545 | - | 3,932 | 289,613 | - |
| Total Governmental Activities | <u>\$ 21,476,471</u> | <u>\$ 8,429,800</u> | <u>\$ 10,089,903</u> | <u>\$ 19,816,368</u> | <u>\$ 3,751,300</u> |
| Business-type Activities: | | | | | |
| Special obligation bonds payable | \$ 11,060,000 | \$ - | \$ 390,000 | \$ 10,670,000 | \$ 410,000 |
| Loans payable | 2,114,345 | 68,432 | 192,421 | 1,990,356 | 199,404 |
| Leases payable | - | - | - | - | - |
| Bond premium | 224,116 | - | 13,921 | 210,195 | - |
| Deferred loss | (422,430) | - | (28,162) | (394,268) | - |
| Compensated absences | 42,830 | - | 6,713 | 36,117 | - |
| Total Business-type Activities | <u>\$ 13,018,861</u> | <u>\$ 68,432</u> | <u>\$ 574,893</u> | <u>\$ 12,512,400</u> | <u>\$ 609,404</u> |

\$5,185,000 special obligation bonds have been reclassified from special assessment bonds payable to general obligation bonds payable, as of the beginning of the year.

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, 2015 are as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|---------------------------------------|----------------|------------|---------------|----------------------|----------------------|
| | | | | Issued | Outstanding |
| 2008 | 3.25% - 4.63% | 4/1/2008 | 4/1/2023 | \$ 4,410,000 | \$ 2,805,000 |
| 2008 | 2.75% - 5.00% | 11/1/2008 | 11/1/2028 | 4,500,000 | 380,000 |
| 2011 | 2.00% - 3.125% | 12/15/2011 | 8/1/2024 | 3,395,000 | 2,615,000 |
| 2015 | 2.00% - 3.125% | 5/28/2015 | 11/1/2028 | 7,120,000 | 7,120,000 |
| Total General Obligation Bonds | | | | <u>\$ 19,425,000</u> | <u>\$ 12,920,000</u> |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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:

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|--|---------------|------------|---------------|---------------------|---------------------|
| | | | | Issued | Outstanding |
| 2012 Special Obligation Recreation Facility Refunding | 2.00% - 3.00% | 3/28/2012 | 10/1/2021 | \$ 5,185,000 | \$ 4,590,000 |
| Total Special Obligation Bonds | | | | <u>\$ 5,185,000</u> | <u>\$ 4,590,000</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:

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|--------------------------------------|---------------|------------|---------------|----------------------|----------------------|
| | | | | Issued | Outstanding |
| 2005 Special Obligation Refunding | 2.40% - 5.00% | 6/1/2006 | 12/1/2030 | \$ 12,750,000 | \$ 3,350,000 |
| 2014 Special Obligation Refunding | 2.00% - 3.50% | 7/9/2014 | 10/1/2027 | 7,320,000 | 7,320,000 |
| Total Revenue Bonds | | | | <u>\$ 20,070,000</u> | <u>\$ 10,670,000</u> |

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

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|-----------------------|---------------|------------|---------------|---------------------|---------------------|
| | | | | Issued | Outstanding |
| General | | | | | |
| MDA Railroad Spur | 0.00% | 8/1/2013 | 7/1/2028 | \$ 313,568 | \$ 266,532 |
| Tax Anticipation Loan | 1.15% | 9/23/2015 | 9/23/2016 | 1,500,000 | 1,500,000 |
| Total Loans | | | | <u>\$ 1,813,568</u> | <u>\$ 1,766,532</u> |

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|---|---------------|------------|---------------|---------------------|---------------------|
| | | | | Issued | Outstanding |
| Enterprise | | | | | |
| Drinking Water System Improvements Revolving Loan | 4.00% | 3/1/2001 | 11/1/2020 | \$ 1,509,556 | \$ 517,285 |
| Drinking Water System Improvements Revolving Loan (Water Treatment Plant) | 3.50% | 11/13/2002 | 10/2/2023 | 773,901 | 382,035 |
| Cap Loan (Water Treatment Plant) | 2.00% | 11/20/2002 | 10/2/2023 | 476,333 | 289,163 |
| Cap Loan (Water Treatment Plant) | 3.00% | 2/1/2005 | 10/1/2027 | 587,905 | 395,163 |
| Cap Loan (Allen Subdivision Sewer Improvement) | 2.00% | 6/12/2012 | 2/1/2035 | 367,350 | 356,059 |
| Cap Loan (Twin Lakes Sewer Improvement) | 2.00% | 2/1/2005 | 2/1/2035 | 50,651 | 50,651 |
| Total Loans | | | | <u>\$ 3,765,696</u> | <u>\$ 1,990,356</u> |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

The aggregate maturities of general obligation, special assessment bonds, revenue bonds and loans for the years subsequent to September 30, 2015 are as follows:

Governmental Activities:

| <u>Year Ending</u> <u>September 30</u> | <u>General Obligation Bonds</u> | | <u>Special Obligation Bonds</u> | |
|---|---------------------------------|---------------------|---------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2016 | \$ 740,000 | \$ 512,446 | \$ 610,000 | \$ 102,212 |
| 2017 | 1,395,000 | 416,494 | 625,000 | 89,862 |
| 2018 | 1,575,000 | 301,687 | 635,000 | 77,262 |
| 2019 | 1,625,000 | 261,757 | 650,000 | 64,412 |
| 2020 | 1,670,000 | 220,006 | 670,000 | 49,956 |
| 2021-2025 | 4,640,000 | 502,570 | 1,400,000 | 42,300 |
| 2026-2029 | 1,275,000 | 80,974 | - | - |
| Total | \$ 12,920,000 | \$ 2,295,934 | \$ 4,590,000 | \$ 426,004 |

| <u>Year Ending</u> <u>September 30</u> | <u>Loans</u> | |
|---|---------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2016 | \$ 1,520,904 | \$ - |
| 2017 | 20,904 | - |
| 2018 | 20,904 | - |
| 2019 | 20,904 | - |
| 2020 | 20,904 | - |
| 2021-2025 | 104,520 | - |
| 2026-2028 | 57,492 | - |
| Total | \$ 1,766,532 | \$ - |

Business Type Activities:

| <u>Year Ending</u> <u>September 30</u> | <u>Revenue Bonds</u> | | <u>Loans</u> | |
|---|----------------------|---------------------|---------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2016 | \$ 410,000 | \$ 360,019 | \$ 248,795 | \$ 55,661 |
| 2017 | 545,000 | 340,019 | 206,237 | 49,423 |
| 2018 | 550,000 | 322,019 | 213,318 | 42,343 |
| 2019 | 590,000 | 304,919 | 220,654 | 35,009 |
| 2020 | 600,000 | 290,069 | 228,255 | 27,406 |
| 2021-2025 | 3,255,000 | 1,200,607 | 566,997 | 70,124 |
| 2026-2030 | 3,840,000 | 607,629 | 213,610 | 18,683 |
| 2031-2035 | 880,000 | 19,800 | 92,490 | 4,143 |
| Total | \$ 10,670,000 | \$ 3,445,081 | \$ 1,990,356 | \$ 302,792 |

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2015 were as follows:

| <u>Year Ending</u> <u>September 30</u> | <u>Governmental Activities</u> | |
|---|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2016 | \$ 245,396 | \$ 11,996 |
| 2017 | 173,745 | 7,079 |
| 2018 | 76,622 | 3,298 |
| 2019 | 78,254 | 1,666 |
| Total | \$ 574,017 | \$ 24,039 |

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

Advance refunding – On May 28, 2015, the City issued \$7,120,000 in general obligation and special assessment combined refunding bonds with an average interest rate of 2.36% to advance refund \$6,645,000 of the following outstanding bond issues:

| <u>Issue</u> | <u>Average Interest rate</u> | <u>Outstanding Amount Refunded</u> |
|---|----------------------------------|--|
| 2005 Special Assessment Refunding Bonds | 5.00% | \$3,490,000 |
| 2008 General Obligation Bonds | 4.75% - 5.00% | \$3,155,000 |

The bonds had a total outstanding balance of \$7,025,000 at the time of refunding, but only \$3,490,000 of the 2005 bonds was refunded on July 1, 2016 and \$3,155,000 of the 2005 bonds was refunded on November 1, 2016.

The net proceeds of \$6,909,032 (after premium of \$73,963 and payment of \$284,800 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 14 years by almost \$281,360 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$315,389.

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 \$10,686,838 (the smaller of the two computed margins) as of September 30, 2015.

| | <u>15% Test</u> | <u>20% Test</u> |
|---|----------------------|----------------------|
| Assessed value as of September 30, 2015: \$157,378,918 times applicable percentage | \$ 23,606,838 | \$ 31,475,784 |
| Less present debt subject to debt limits as of September 30, 2015: Total bonds outstanding (exclude proprietary) | <u>(12,920,000)</u> | <u>(12,920,000)</u> |
| Margin for additional debt | <u>\$ 10,686,838</u> | <u>\$ 18,555,784</u> |

NOTE K - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description. The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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, 2015, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2015 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, 2015, 2014 and 2013 were \$1,237,471, \$1,256,451 and \$1,148,550, 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, 2015, the City reported a liability of \$19,554,406 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 of 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, 2015, the City's proportion was .1265 percent, which was a decrease of .0004 from its proportion measured as of June 30, 2014.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

For the year ended September 30, 2015, the City recognized pension expense of \$1,938,216. At September 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of</u> | <u>Deferred Inflows of</u> |
|--|-----------------------------|----------------------------|
| Differences between expected and actual experience | \$ 300,932 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 1,144,142 | - |
| Changes of assumptions | 1,684,546 | - |
| Changes in the City's proportion and differences between the City's contributions and proportionate share of contributions | - | 1,067,139 |
| City contributions subsequent to the measurement date | 279,841 | - |
| Total | <u>\$ 3,409,461</u> | <u>\$ 1,067,139</u> |

\$279,841 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Years ending September 30</u> | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> | <u>Total</u> |
|----------------------------------|--------------------------|-------------------------|---------------------|
| 2016 | \$ 1,015,990 | \$ (392,331) | \$ 623,659 |
| 2017 | 1,015,990 | (392,331) | 623,659 |
| 2018 | 811,603 | (282,477) | 529,126 |
| 2019 | 286,037 | | 286,037 |
| Totals | <u>\$ 3,129,620</u> | <u>\$ (1,067,139)</u> | <u>\$ 2,062,481</u> |

Actuarial Assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

| | |
|---------------------------|---|
| Inflation | 3.00 percent |
| Salary increases | 3.75 – 19.00 percent, including inflation |
| Investment rate of return | 7.75 percent, 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 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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
For the Year Ended September 30, 2015

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015, are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|---|
| U.S. Broad | 34% | 5.20% |
| International Equity | 19% | 5.00% |
| Emerging Markets Equity | 8% | 5.45% |
| Fixed Income | 20% | 0.25% |
| Real Assets | 10% | 4.00% |
| Private Equity | 8% | 6.15% |
| Cash | 1% | -0.50% |
| Total | <u>100%</u> | |

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 to 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:

| | <u>1% Decrease (6.75%)</u> | <u>Current Discount Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|---|----------------------------|--------------------------------------|----------------------------|
| City's proportionate share of the net pension liability | \$ 25,774,498 | \$ 19,554,406 | \$ 14,392,892 |

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 L - RISK MANAGEMENT

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

NOTE M – 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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2015

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. The city has a possible loss contingency of \$479,403 relating to a 2008 tax sale.

NOTE N - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Horn Lake evaluated the activity of the city through December 19, 2016, the date the financial statements were available to be issued, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

On October 29, 2015 the city issued \$2,695,000 Water and Sewer System Revenue Refunding Bonds, Series 2015 to redeem \$2,510,000 of the city's promissory note to the Mississippi Development Bank dated December 1, 2005 and to pay the cost of issuance of the Series 2015 Refunding Bonds.

On May 23, 2016 the city approved a lease purchase agreement to finance equipment with Trustmark National Bank for \$310,617 at 2% for 48 months.

On December 13, 2016 the city borrowed \$787,795 from First Commercial Bank to purchase a fire truck and to be repaid over 8 years at a rate of 2.29%,

REQUIRED SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2015

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variances Positive (Negative) | |
|--|-------------------------|-------------------|---|--|------------------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenues | | | | | |
| Taxes | \$ 9,970,000 | \$ 10,075,000 | \$ 9,800,696 | \$ 105,000 | \$ (274,304) |
| Licenses and permits | 158,100 | 189,100 | 225,341 | 31,000 | 36,241 |
| Intergovernmental | 467,500 | 486,050 | 801,407 | 18,550 | 315,357 |
| Charges for services | 2,205,000 | 2,205,000 | 2,042,596 | - | (162,404) |
| Fines | 1,170,000 | 1,170,000 | 1,184,370 | - | 14,370 |
| Interest | 3,000 | 3,000 | 4,556 | - | 1,556 |
| Miscellaneous | 353,805 | 353,805 | 375,156 | - | 21,351 |
| Total Revenues | 14,327,405 | 14,481,955 | 14,434,122 | 154,550 | (47,833) |
| Expenditures | | | | | |
| General government | 2,693,875 | 2,780,132 | 2,690,694 | (86,257) | 89,438 |
| Public safety | 8,764,400 | 8,782,950 | 8,501,215 | (18,550) | 281,735 |
| Public works | 2,191,800 | 2,239,800 | 2,362,415 | (48,000) | (122,615) |
| Culture & recreation | 1,041,500 | 1,041,500 | 851,993 | - | 189,507 |
| Economic development | 200,500 | 200,500 | 206,142 | - | (5,642) |
| Debt service | 290,330 | 292,073 | 280,040 | (1,743) | 12,033 |
| Total Expenditures | 15,182,405 | 15,336,955 | 14,892,499 | (154,550) | 444,456 |
| Excess (deficiency) of revenues over (under) expenditures | (855,000) | (855,000) | (458,377) | - | 396,623 |
| Other Financing Sources (Uses) | | | | | |
| Interfund transfers | 840,000 | 840,000 | 322,525 | - | (517,475) |
| Sale of assets | 15,000 | 15,000 | 20 | - | (14,980) |
| Total Other Financing Sources (Uses) | 855,000 | 855,000 | 322,545 | - | (532,455) |
| Net Changes in Fund Balances | \$ - | \$ - | (135,832) | \$ - | \$ (135,832) |
| Fund Balance - Beginning of Year | | | 595,939 | | |
| Fund Balance - End of Year | | | 460,107 | | |
| Adjustments to Conform with GAAP: | | | | | |
| Revenues | | | (25,036) | | |
| Expenditures | | | - | | |
| Fund Balance - End of Year (GAAP Basis) | | | \$ 435,071 | | |

Notes to the Required Supplementary Information

Basis of Presentation

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

City of Horn Lake, Mississippi
Schedule of City's Proportionate Share of Net Pension Liability
For the Year Ended September 30, 2015

| Last 10 Fiscal Years* | <u>2015</u> |
|--|--------------------|
| City's proportion of the net pension liability | 0.1265% |
| City's proportionate share of the net pension liability | \$ 19,554,406 |
| City's covered-employee payroll | \$ 7,902,200 |
| City's proportionate share of the net pension liability | 247.46% |
| Plan Fiduciary net position as a percentage of the total | 61.70% |

The notes to the required supplementary information are an integral part of this schedule.

*The amounts presented for each year were determined as of June 30th of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB No. 68 was implemented in the fiscal year ended September 30, 2015, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

**City of Horn Lake, Mississippi
Schedule of City's Contribution
For the Year Ended September 30, 2015**

| Last 10 Fiscal Years* | <u>2015</u> |
|---|---------------------|
| Contractually required contribution | \$ 1,237,471 |
| Contributions in relation to the contractually required | <u>\$ 1,235,977</u> |
| Contribution deficiency (excess) | <u>\$ 1,494</u> |
| City's covered-employee payroll | \$ 7,856,961 |
| Contributions as a percentage of covered-employee | 15.75% |

The notes to the required supplementary information are an integral part of this schedule.

*This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB No. 68 was implemented in the fiscal year ended September 30, 2015, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

City of Horn Lake, Mississippi
Notes to the Required Supplementary Information
For the Year Ended September 30, 2015

Pension Schedules

- 1) Change of benefit terms – there were no changes of benefit terms in 2015.
- 2) Change of assumptions – the following assumptions changed from 2014 to 2015.
 - a. Inflation rate decreased .5% to 3.00%
 - b. Salary increases decreased by .5% to 3.75% - 19.00%, average, including inflation
 - c. Investment rate of return decreased .25% to 7.75%, net of pension plan investment expense, including inflation

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SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2015

| <u>Federal Grantor/ Pass-through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|--------------------------------|---------------------------------|
| Department of Housing and Urban Development | | | |
| Passed-through Mississippi Development Authority Community Development Block Grant State's Program | 14.228 | 1128-11-396-PF-01 | \$ 189,148 |
| Total Department of Housing and Urban Development | | | <u>189,148</u> |
| US Department of Transportation | | | |
| Passed through Mississippi Department of Public Safety Occupant Protection Incentive Grants | 20.602 | 15PT-218-1 | 31,146 |
| Alcohol Open Container Requirements | 20.607 | 15-ST-218-1 | 161,137 |
| Passed through Mississippi Department of Transportation Highway Planning and Construction | 20.205 | STP-0017-00(037) | <u>253,358</u> |
| Total US Department of Transportation | | | <u>445,641</u> |
| Environmental Protection Agency | | | |
| Passed through Mississippi Department of Health Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | DWI-L170022-03-0 | 50,650 |
| Total Environmental Protection Agency | | | <u>50,650</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 685,439</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

OTHER INFORMATION

City of Horn Lake, Mississippi
Schedule of Surety Bonds for Municipal Officials
For the Year Ended September 30, 2015

| <u>Name</u> | <u>Position</u> | <u>Company</u> | <u>Amount</u> |
|------------------|--------------------------|----------------|---------------|
| Allen Latimer | Mayor | Fidelity | \$ 75,000 |
| Jim Robinson | City Clerk | Fidelity | 50,000 |
| Tara Warran | Court Clerk | Fidelity | 50,000 |
| Darryl Whaley | Police Chief | Fidelity | 50,000 |
| Arianne Linville | Human Resources Director | Fidelity | 50,000 |
| Danny Smith | Animal Shelter Director | Fidelity | 50,000 |
| Leslie Chung | Concession Coordinator | Fidelity | 50,000 |
| Julie Valsamis | Accounting Clerk | Traveler's | 50,000 |
| | Aldermen (each) | Fidelity | 100,000 |

SPECIAL REPORTS

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DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

2042 MCINGVALE ROAD, SUITE A
HERNANDO, MISSISSIPPI 38632
662-429-4436
662-429-4438 FAX

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

To the Mayor and Board of Aldermen
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, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Horn Lake, Mississippi's basic financial statements and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Horn Lake, Mississippi'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 of Horn Lake, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Horn Lake, Mississippi's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist and not be identify.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Horn Lake, Mississippi'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*.

Purpose of this Report

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

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC
Horn Lake, Mississippi
December 19, 2016



DANNY L. WILLIAMS | 2042 MCINGVALE ROAD, SUITE A
JERRY W. PITTS | HERNANDO, MISSISSIPPI 38632
REBECCA A. BEARD | 662-429-4436
KRISTOPHER A. WHITTEN | 662-429-4438 FAX

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Horn Lake, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Horn Lake, Mississippi's major federal programs for the year ended September 30, 2015. City of Horn Lake, Mississippi's major federal programs are 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 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 each of the City of Horn Lake, Mississippi's major federal programs 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Horn Lake, Mississippi'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 of Horn Lake, Mississippi's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Horn Lake, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of the City of Horn Lake, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Horn Lake, Mississippi'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 of Horn Lake, Mississippi'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.

Williams, Pitts & Beard, PLLC

Williams, Pitts and Beard, PLLC
Horn Lake, Mississippi
December 19, 2016



DANNY L. WILLIAMS
JERRY W. PITTS
REBECCA A. BEARD
KRISTOPHER A. WHITTEN

2042 McINGVALE ROAD, SUITE A
HERNANDO, MISSISSIPPI 38632
662-429-4436
662-429-4438 FAX

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

Mayor and Board of Aldermen
City of Horn Lake, Mississippi

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi ("the City"), as of and for the year ended September 30, 2015, and have issued our report dated December 19, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental Auditing Standards*.

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

The results of those procedures and our audit of the general purpose financial statements disclosed the following instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

Finding

MS Code Section 21-35-17 requires the board to avoid approving claims and the city clerk not to issue any warrants which would be in excess of budgeted amounts, except for court-ordered or emergency expenditures. The city exceeded capital outlay related to public works budgeted amounts by \$122,615.

Recommendation

The City should ensure the budget is amended before an expenditure is made that exceeds the budget.

Response

These expenditures were Grant reimbursement Project related. This oversight in the exceeding budget of \$122,615.00 was offset by the grant revenue received that also exceeded budget by \$253,358.00. The \$253,358.00 received in grant reimbursement covered the expense of \$122,615.00 leaving \$130,743.00 in grant revenue for the year.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
December 19, 2016

**City of Horn Lake, Mississippi
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2015**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|---------------|
| (1) Type of auditor's report issued on the financial statements: | Unmodified |
| (2) Internal Control over financial reporting: | |
| (a) Material weaknesses identified? | No |
| (b) Significant deficiency identified that are not considered to be a material weaknesses? | None Reported |
| (3) Noncompliance material to the financial statements noted: | No |
| (4) Internal control over major federal Programs: | |
| (a) Material weakness(es) identified? | No |
| (b) Significant deficiency(ies) identified? | None Reported |
| (5) Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| (6) Any audit finding(s) disclosed that are required to be reported in accordance With Section_510(a) of OMB Circular A-133? | No |
| (7) Identification of major federal programs: | |
| (a) 20.205 Highway Planning and Construction | |
| (b) 14.228 Community Development Block grant/State's programs | |
| (8) Dollar threshold used to distinguish between type A and type B programs: | \$300.000 |
| (9) Auditee qualified as low-risk auditee: | No |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.