

**City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2012**



City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to 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, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Expenditures of Federal Awards 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 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.

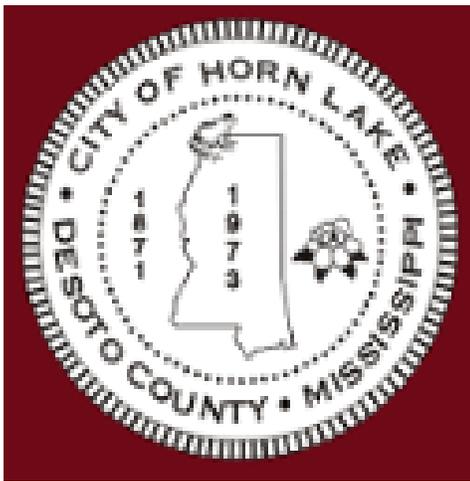
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Horn Lake, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds for City Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
October 25, 2013

CITY OF HORN LAKE

MISSISSIPPI



Management's Analysis and Discussion

FYE 2012

THE CITY OF HORN LAKE, MISSISSIPPI

CITY OFFICIALS

MAYOR

ALLEN B. LATIMER

ALDERMEN

DONNIE WHITE, ALDERMAN-AT-LARGE

AMY LAY, WARD 1

CHRIS SHELEY, WARD 2

TIM SMITH, WARD 3

CHARLIE ROBERTS, WARD 4

BRYAN PETTIGREW, WARD 5

JOHN E JONES, JR, WARD 6

CITY ADMINISTRATOR/CAO and CITY CLERK

ANDREA FREEZE, MPPA

CITY ATTORNEY

BILLY CAMPBELL

DEPARTMENT HEADS

POLICE CHIEF - DARRYL WHALEY

FIRE CHIEF - DAVID LINVILLE

DIRECTOR OF OPERATIONS - SPENCER SHIELDS

COURT CLERK – TARA WARREN

PARKS AND RECREATION – JOHN WILLOUGHBY

EMERGENCY MANAGEMENT – TOMMY BLEDSOE

COMMUNITY DEVELOPMENT / HUMAN RESOURCES - A.J. LINVILLE

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2012

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, 2012. 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 2012 were as follows:

Total net assets increased from \$10,619,096 to \$11,709,368
Total liabilities decreased from \$46,872,984 to \$43,693,440
Total assets of governmental activities decreased from \$39,706,474 to \$38,079,356
Total assets of business-type activities decreased from \$17,785,606 to \$17,323,452

Using This Annual Financial Report

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

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

Reporting on the City of Horn Lake as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2012

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services 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 and the City's Sanitation Fund. Collectively these are known as Proprietary Funds. The City of Horn Lake has no component units.

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

Fund Financial Statements

The analysis of the City's major funds begins on page 6. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Horn Lake, the City's major funds are the General, Debt Service, Utility, and Sanitation 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 and the Sanitation Fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on page 10. Operating revenues of the System are utilized to fund the operation and maintenance expenses and debt service.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2012

The City of Horn Lake as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2012 compared to 2011. Table 2 shows the changes in net assets for the 2012 year.

Table 1
Statement of Net Assets

	2012		2011	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Assets				
Current and other assets	\$ 8,198,149	\$ 3,981,073	\$ 10,257,388	\$ 3,799,341
Capital assets, net	<u>29,881,207</u>	<u>13,342,379</u>	<u>29,449,086</u>	<u>13,986,265</u>
Total Assets	<u>38,079,356</u>	<u>17,323,452</u>	<u>39,706,474</u>	<u>17,785,606</u>
Liabilities				
Current liabilities	9,100,464	1,320,828	11,019,396	1,630,903
Long-term liabilities	<u>20,349,939</u>	<u>12,922,209</u>	<u>20,739,756</u>	<u>13,482,929</u>
Total Liabilities	<u>29,450,403</u>	<u>14,243,037</u>	<u>31,759,152</u>	<u>15,113,832</u>
Net Assets				
Invested in capital assets, net of debt	8,955,295	364,510	7,561,436	458,305
Restricted	46,582	727,694	26,969	1,304,355
Unrestricted	<u>(372,924)</u>	<u>1,988,211</u>	<u>358,917</u>	<u>909,114</u>
Total Net Assets	<u>\$ 8,628,953</u>	<u>\$ 3,080,415</u>	<u>\$ 7,947,322</u>	<u>\$ 2,671,774</u>

Total assets decreased by \$2,089,272. Cash and cash equivalents decreased by \$804,383. The following table, Table 2, presents a summary of the changes in net assets for the fiscal year ended September 30, 2012.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2012

Table 2
Changes in Net Assets

	2012		2011	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Revenues				
Program Revenues:				
Charges for services	\$ 932,344	\$ 5,531,571	\$ 863,426	\$ 5,310,473
Operating grants and contributions	1,293,942	-	865,208	-
Capital grants and contributions	-	2,250	-	109,672
Total Program Revenues	<u>2,226,286</u>	<u>5,533,821</u>	<u>1,728,634</u>	<u>5,420,145</u>
General Revenues:				
Taxes	10,771,914	-	10,665,662	-
Other revenues	2,121,990	122,816	2,198,246	32,199
Transfers	745,073	(745,073)	602,643	(602,643)
Total General Revenues	<u>13,638,977</u>	<u>(622,257)</u>	<u>13,466,551</u>	<u>(570,444)</u>
Total Revenues	<u>15,865,263</u>	<u>4,911,564</u>	<u>15,195,185</u>	<u>4,849,701</u>
Expenses				
General government	\$2,372,317	-	\$2,357,347	-
Public safety	8,517,172	-	7,264,043	-
Public works	1,553,436	-	1,428,278	-
Cultural & recreational	1,417,053	-	1,311,742	-
Economic development	238,090	-	171,886	-
Interest	1,085,564	-	972,499	-
Utility department	-	3,355,601	-	3,238,510
Sanitation department	-	1,147,322	-	1,251,367
Total Expenses	<u>15,183,632</u>	<u>4,502,923</u>	<u>13,505,795</u>	<u>4,489,877</u>
Change in Net Assets	<u>\$ 681,631</u>	<u>\$ 408,641</u>	<u>\$ 1,689,390</u>	<u>\$ 359,824</u>

Governmental Activities

Several revenues fund the City's governmental activities. The largest funding source, property tax revenue, accounted for \$6,258,366, or 46% of general revenues; sales tax revenue accounted for \$3,957,790, or 29% of general revenues. Fines of \$1,066,021 accounted for 8% of general revenues, and franchise taxes of \$555,758 accounted for 4% of general revenues.

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2012

The remaining 13% of general revenues was comprised of miscellaneous revenue and transfers.

Total general revenues from governmental activities increased from \$13,466,551 in 2011 to \$13,638,977, or 1.3%. Major expense activities included public safety expenditures accounting for 56.1% of total program expenses, and general government expenses accounting for 15.6%.

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 assets by \$408,641. Revenues from the utility system fund and the sanitation fund totaled \$4,911,564 in 2012, an increase of 1.2% from 2011 revenues of \$4,849,701.

Expenses of the utility and sanitation funds remained fairly constant in 2012, totaling \$4,502,953 in 2012 and \$4,489,877 in 2011.

The City's Funds

Governmental Funds

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

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

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

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2012

The basic governmental funds financial statements can be found on pages 6 and 8 of this report. It is important to realize that all short-term notes issued by the City are recognized in the current period as short-term liabilities, and once bonded by the City they become long-term general obligation debt of the City.

Proprietary Funds

The net assets of the proprietary funds at the end of fiscal year 2012 totaled \$ 3,080,415 which represents a \$408,641 increase from 2011. Of this amount, net assets of the utility fund increased by \$ 325,052 while the sanitation fund increased by \$ 83,589.

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 2012, the City amended its general fund budget. All recommendations for a budget change come from the Department Heads to the City Administrator. The Board of Aldermen of the City does not allow budget changes that modify totals within departments without Board approval. With the General Fund supporting many of the City's major activities such as police, fire, ambulance, street and park departments, as well as legislative, judicial and executive activities, the General Fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments. For the general fund, original budgeted revenues were \$11,359,900; amended budget amounts were \$11,407,400, and actual revenue collections-budgetary basis were \$11,294,236.

Capital Assets and Long-Term Obligations

Table 3

Capital Assets (Net of Depreciation)

	2012		2011	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Land	\$ 3,668,471	\$ 28,225	\$ 3,632,643	\$ 28,225
Buildings & Improvements	9,047,315	218,548	8,805,218	218,548
Equipment & Vehicles	6,273,354	1,437,111	5,992,268	1,493,128
Construction in Progress	2,100,584	204,744	983,263	297,894
Infrastructure	26,710,865	19,318,868	26,295,429	19,155,845
Accumulated Depreciation	<u>(17,919,382)</u>	<u>(7,865,117)</u>	<u>(16,259,735)</u>	<u>(7,207,375)</u>
Total Capital Assets, net	<u>\$ 29,881,207</u>	<u>\$ 13,342,379</u>	<u>\$ 29,449,086</u>	<u>\$ 13,986,265</u>

In 2012, a sewer construction project was completed, resulting in an increase to the Infrastructure asset line, along with a corresponding decrease to the Construction in Progress asset line.

**City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2012**

Long-Term Obligations

Table 4

Outstanding Notes and Long-Term Obligations at Year End

	<u>2012</u>	<u>2011</u>
Governmental Activities:		
General obligation bonds	\$ 11,025,000	\$ 11,500,000
Special assessment bonds	10,400,000	10,740,000
Loans payable	-	-
Leases payable	215,558	192,227
Bond premium	146,242	165,318
Bond discount	(54,662)	(60,128)
Deferred loss	(312,222)	(354,848)
Compensated absences	252,880	227,276
Total	<u><u>\$ 21,672,796</u></u>	<u><u>\$ 22,409,845</u></u>
 Business-type Activities:		
Bonds and notes payable	\$ 10,985,000	\$ 11,320,000
Loans payable	2,103,173	2,262,189
Leases payable	-	72,697
Bond premium	328,829	346,445
Compensated absences	21,473	49,897
Total	<u><u>\$ 13,438,475</u></u>	<u><u>\$ 14,051,228</u></u>

At year-end, the City had \$35,111,271 in total long-term debt. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City Administrator or the Finance Director at 662-342-3496.

BASIC FINANCIAL STATEMENTS

City of Horn Lake, Mississippi
Statement of Net Assets
September 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 218,315	\$ 1,063,207	\$ 1,281,522
Investments	54,284	-	54,284
Accounts receivable, net	517,906	418,935	936,841
Intergovernmental receivable	575,167	-	575,167
Property tax receivable	7,299,124	-	7,299,124
Prepaid items	317,319	51,941	369,260
Inventories	-	2,195	2,195
Internal balances	(1,277,970)	1,277,970	-
Restricted assets			
Cash in bank	-	727,694	727,694
Bond issue costs, net	494,004	439,131	933,135
Capital assets:			
Land and construction in progress	5,769,055	232,969	6,002,024
Other capital assets, net	24,112,152	13,109,410	37,221,562
Total Assets	38,079,356	17,323,452	55,402,808
Liabilities			
Accounts payable	134,211	52,386	186,597
Intergovernmental payables	523	-	523
Accrued expenses	426,278	54,871	481,149
Customer deposits	-	512,233	512,233
Other deposits	113,014	-	113,014
Deferred revenue	6,759,515	-	6,759,515
Accrued interest	344,066	185,074	529,140
Long-term liabilities			
Due within one year:			
Capital debt	1,322,857	516,264	1,839,121
Due in more than one year:			
Capital debt	20,097,059	12,900,736	32,997,795
Non-capital debt	252,880	21,473	274,353
Total Liabilities	29,450,403	14,243,037	43,693,440
Net Assets			
Invested in capital assets, net of related debt	8,955,295	364,510	9,319,805
Restricted for:			
Culture and recreation	46,582	-	46,582
Debt service	-	727,694	727,694
Unrestricted	(372,924)	1,988,211	1,615,287
Total Net Assets	\$ 8,628,953	\$ 3,080,415	\$ 11,709,368

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

CITY OF HORN LAKE, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 206,416	\$ -	\$ 11,899	\$ 218,315
Investments	54,284	-	-	54,284
Due from other funds	-	-	166,562	166,562
Accounts receivable, net	517,906	-	-	517,906
Intergovernmental receivable	374,292	-	200,875	575,167
Prepaid items	-	75,892	-	75,892
Property tax receivable	4,305,336	2,305,267	148,912	6,759,515
Total Assets	<u>\$ 5,458,234</u>	<u>\$ 2,381,159</u>	<u>\$ 528,248</u>	<u>\$ 8,367,641</u>
Liabilities				
Accounts payable	\$ 111,523	\$ 2,660	\$ 20,028	\$ 134,211
Intergovernmental payables	523	-	-	523
Accrued expenses	426,280	-	-	426,280
Other deposits	113,014	-	-	113,014
Due to other funds	270,196	1,174,334	-	1,444,530
Deferred revenue	4,305,337	2,305,267	148,911	6,759,515
Total Liabilities	<u>5,226,873</u>	<u>3,482,261</u>	<u>168,939</u>	<u>8,878,073</u>
Fund Balances				
Nonspendable:				
Prepaid items	-	75,892	-	75,892
Restricted:				
Culture and recreation	-	-	46,582	46,582
Assigned:				
Capital projects	-	-	28,094	28,094
Public safety	-	-	116,009	116,009
Economic development	-	-	78,158	78,158
General government	-	-	90,466	90,466
Unassigned	231,361	(1,176,994)	-	(945,633)
Total Fund Balances	<u>231,361</u>	<u>(1,101,102)</u>	<u>359,309</u>	<u>(510,432)</u>
Total Liabilities and Fund Balances	<u>\$ 5,458,234</u>	<u>\$ 2,381,159</u>	<u>\$ 528,248</u>	<u>\$ 8,367,641</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 Assets
September 30, 2012

Total Fund Balance - Governmental Funds	\$ (510,432)
Amounts reported for governmental activities in the statement of net assets 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 \$17,919,382.	29,881,207
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. These assets consist of the following:	
Bond issue cost	494,004
Property tax receivable	539,609
Prepaid interest	241,427
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(21,672,796)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds	<u>(344,066)</u>
Net Assets of Governmental Activities	<u><u>\$ 8,628,953</u></u>

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

City of Horn Lake, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	3,929,430	\$ 2,189,955	138,981	\$ 6,258,366
Franchise taxes	555,758	-	-	555,758
Sales taxes	3,874,907	-	82,883	3,957,790
Penalty and interest	179,973	-	-	179,973
Licenses and permits	140,188	-	-	140,188
Intergovernmental	215,512	-	-	215,512
Charges for services	932,344	-	-	932,344
Fines	1,066,021	-	-	1,066,021
Interest	14,076	-	3,394	17,470
Miscellaneous	487,040	-	-	487,040
Total Revenues	11,395,249	2,189,955	225,258	13,810,462
Expenditures				
General government	2,216,292	-	-	2,216,292
Public safety	7,816,053	-	-	7,816,053
Public works	688,726	-	-	688,726
Culture and recreation	1,077,931	-	119,365	1,197,296
Economic development	155,998	-	66,945	222,943
Debt service				
Principal	-	1,841,457	-	1,841,457
Interest	-	1,325,108	2,777	1,327,885
Bond issue costs	-	249,060	-	249,060
Capital outlay	1,116,989	-	1,246,286	2,363,275
Total Expenditures	13,071,989	3,415,625	1,435,373	17,922,987
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,676,740)	(1,225,670)	(1,210,115)	(4,112,525)
Other Financing Sources (Uses)				
Long-term capital debt issued	321,276	-	-	321,276
Refunding bonds issued	-	8,580,000	-	8,580,000
Proceeds from short term debt	-	-	425,000	425,000
Grant revenue	643,584	-	650,358	1,293,942
Proceeds from sale of fixed assets	15,786	-	-	15,786
Loan proceeds	-	1,200,000	-	1,200,000
Loan payment	-	(1,200,000)	(425,000)	(1,625,000)
Payment to bond refunding escrow agent	-	(7,850,000)	-	(7,850,000)
Interfund transfers	793,518	(48,445)	-	745,073
Total Other Financing Sources (Uses)	1,774,164	681,555	650,358	3,106,077
Net Change in Fund Balances	97,424	(544,115)	(559,757)	(1,006,448)
Fund Balance - Beginning of Year	98,659	(556,987)	954,344	496,016
Equity transfers	35,278	-	(35,278)	-
Fund balance - as restated	133,937	(556,987)	919,066	496,016
Fund Balance - End of Year	\$ 231,361	\$ (1,101,102)	\$ 359,309	\$ (510,432)

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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (1,006,448)

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

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,197,527) exceeded depreciation (\$1,765,406) net of adjustments. 432,121

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments (\$11,317,945) exceeded debt proceeds of (\$10,526,276). 791,669

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 assets differs from the change in fund balances by a combination of the following items:

Accrued interest on debt	78,397
Prepaid interest	241,427
Compensated absences	(25,604)
Bond issues costs	249,060
Bond issue costs, premium and discount amortization	(78,991)

Change in Net Assets of Governmental Activities \$ 681,631

City of Horn Lake, Mississippi
Statement of Net Assets
Proprietary Funds
September 30, 2012

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 975,225	\$ 87,982	\$ 1,063,207
Accounts receivable, net	282,634	136,301	418,935
Inventory	2,195	-	2,195
Prepaid items	51,941	-	51,941
Due from other funds	994,530	283,440	1,277,970
Total Current Assets	<u>2,306,525</u>	<u>507,723</u>	<u>2,814,248</u>
Restricted assets:			
Cash	727,694	-	727,694
Total Restricted Assets	<u>727,694</u>	<u>-</u>	<u>727,694</u>
Other Assets			
Bond issue cost, net	439,131	-	439,131
Total Other Assets	<u>439,131</u>	<u>-</u>	<u>439,131</u>
Fixed Assets			
Land and construction in progress	232,969	-	232,969
Other capital assets, net	12,851,684	257,726	13,109,410
Total Fixed Assets	<u>13,084,653</u>	<u>257,726</u>	<u>13,342,379</u>
Total Assets	<u>\$ 16,558,003</u>	<u>\$ 765,449</u>	<u>\$ 17,323,452</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 40,120	\$ 12,266	\$ 52,386
Accrued expenses	26,090	28,781	54,871
Accrued interest payable	185,074	-	185,074
Total Current Liabilities	<u>251,284</u>	<u>41,047</u>	<u>292,331</u>
Current Liabilities Payable from Restricted Assets			
Customer deposits	274,348	237,885	512,233
Long-term liabilities due within one year:			
Capital debt	516,264	-	516,264
Total Current Liabilities Payable from Restricted Assets	<u>790,612</u>	<u>237,885</u>	<u>1,028,497</u>
Long-term liabilities due in more than one year:			
Capital debt	12,900,736	-	12,900,736
Non-capital debt	19,651	1,822	21,473
Total long-term liabilities	12,920,387	1,822	12,922,209
Total Liabilities	<u>13,962,283</u>	<u>280,754</u>	<u>14,243,037</u>
Net Assets			
Invested in capital assets, net of related debt	106,784	257,726	364,510
Restricted for:			
Debt service	727,694	-	727,694
Unrestricted	1,761,242	226,969	1,988,211
Total Net Assets	<u>2,595,720</u>	<u>484,695</u>	<u>3,080,415</u>
Total Liabilities and Net Assets	<u>\$ 16,558,003</u>	<u>\$ 765,449</u>	<u>\$ 17,323,452</u>

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

City of Horn Lake, Mississippi
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating Revenues			
Sales	\$ 4,158,616	\$ 1,372,955	\$ 5,531,571
Miscellaneous	111,373	5,472	116,845
Total Operating Revenues	<u>4,269,989</u>	<u>1,378,427</u>	<u>5,648,416</u>
Operating Expenses			
Personnel	716,643	875,748	1,592,391
Supplies	88,493	178,236	266,729
Depreciation and amortization	692,545	37,186	729,731
Maintenance and other	160,732	55,024	215,756
Water & sewer system management	1,075,916	-	1,075,916
Total Operating Expenses	<u>2,734,329</u>	<u>1,146,194</u>	<u>3,880,523</u>
Operating Income	<u>1,535,660</u>	<u>232,233</u>	<u>1,767,893</u>
Non-operating Revenues (Expenses)			
Interest revenue	5,845	126	5,971
Interest expense	(621,272)	(1,128)	(622,400)
Grant proceeds	2,250	-	2,250
Interfund transfers	(597,431)	(147,642)	(745,073)
Total Non-operating Revenues (Expenses)	<u>(1,210,608)</u>	<u>(148,644)</u>	<u>(1,359,252)</u>
Net Income	325,052	83,589	408,641
Net Assets - Beginning of Year	<u>2,270,668</u>	<u>401,106</u>	<u>2,671,774</u>
Net Assets - End of Year	<u>\$ 2,595,720</u>	<u>\$ 484,695</u>	<u>\$ 3,080,415</u>

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, 2012

	Utility Fund	Sanitation Fund	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 4,274,789	\$ 1,388,487	\$ 5,663,276
Cash payments for goods and services	(1,452,363)	(231,118)	(1,683,481)
Cash payments to employees	(712,754)	(908,061)	(1,620,815)
Net Cash Provided By (Used In) Operating Activities	<u>2,109,672</u>	<u>249,308</u>	<u>2,358,980</u>
Cash Flows from Non-capital Financing Activities			
Interfund transfers	(1,233,487)	(445,163)	(1,678,650)
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(1,233,487)</u>	<u>(445,163)</u>	<u>(1,678,650)</u>
Cash Flows from Capital and Related Financing Activities			
Payments for capital acquisitions	(69,873)	651	(69,222)
Customer deposits	(84,111)	(37,094)	(121,205)
Grant proceeds	2,250	-	2,250
Principal payments on debt	(507,825)	(58,890)	(566,715)
Interest payments on debt	(627,320)	(1,128)	(628,448)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(1,286,879)</u>	<u>(96,461)</u>	<u>(1,383,340)</u>
Cash Flows from Investing Activities			
Interest revenue	5,845	126	5,971
Net Increase (Decrease) in Cash and Cash Equivalents	(404,849)	(292,190)	(697,039)
Cash and Cash Equivalents-Beginning of Year	<u>2,107,768</u>	<u>380,172</u>	<u>2,487,940</u>
Cash and Cash Equivalents-End of Year	<u>\$ 1,702,919</u>	<u>\$ 87,982</u>	<u>\$ 1,790,901</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	<u>\$ 1,535,660</u>	<u>\$ 232,233</u>	<u>\$ 1,767,893</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation and amortization	692,545	37,186	729,731
(Increase) decrease in customer receivables	4,800	10,060	14,860
(Increase) decrease in prepaid expenses	5,706	-	5,706
Increase (decrease) in accounts payable	(129,241)	7,460	(121,781)
Increase (decrease) in accrued expenses	(3,687)	(5,318)	(9,005)
Increase (decrease) in compensated absences	3,889	(32,313)	(28,424)
Total adjustments	<u>574,012</u>	<u>17,075</u>	<u>591,087</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 2,109,672</u>	<u>\$ 249,308</u>	<u>\$ 2,358,980</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, 2012

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 Assets 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 Assets 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 Assets 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, 2012

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 City's Proprietary Funds apply all applicable GASB pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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.

Sanitation Fund:

The Sanitation Fund is used to account for the provision of sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the sanitation services, as

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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 sanitation debt. All costs are financed through charges to sanitation 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.

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 Assets, "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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Investments

The City's investments consist of shares of common stock, which is valued at fair market value using quoted prices in an actively traded market.

Inventories and Prepaid Items.

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

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

Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "Due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. 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	*	*

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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 Assets.

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 assets and displayed in three components:

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

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

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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

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

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

Property Tax Revenues

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

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

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

NOTE B - CASH AND CASH EQUIVALENTS

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

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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, 2012, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2012, the carrying amount of the City's deposits with financial institutions was \$2,009,216 and the bank balances totaled \$2,817,084. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

NOTE C - INVESTMENTS

The following is a summary of changes in investments:

<u>Investments</u>	<u>Fund</u>	<u>Balance at 9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2012</u>
Capital stock	General	\$ 45,680	\$ 8,604	\$ -	\$ 54,284
Total		<u>\$ 45,680</u>	<u>\$ 8,604</u>	<u>\$ -</u>	<u>\$ 54,284</u>

NOTE D - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of the following.

<u>Description</u>	<u>General Fund</u>	<u>Other Governmental</u>
Sales tax	\$ 296,143	\$ -
Grant proceeds	78,149	200,875
Totals	<u>\$ 374,292</u>	<u>\$ 200,875</u>

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE E - CAPITAL ASSETS

The following is a summary of changes in capital assets:

	Balance at 9/30/2011	Additions	Deletions	Balance at 9/30/2012
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,632,643	\$ 35,828	\$ -	\$ 3,668,471
Construction in progress	983,263	1,721,611	604,290	2,100,584
Total Capital Assets, Not Being Depreciated:	<u>4,615,906</u>	<u>1,757,439</u>	<u>604,290</u>	<u>5,769,055</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	8,805,218	242,097	-	9,047,315
Equipment and machinery	1,677,408	79,341	-	1,756,749
Infrastructure	26,295,429	415,436	-	26,710,865
Vehicles	4,314,860	319,255	117,510	4,516,605
Total Capital Assets, Being Depreciated:	<u>41,092,915</u>	<u>1,056,129</u>	<u>117,510</u>	<u>42,031,534</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,723,021)	(214,089)	-	(1,937,110)
Equipment and machinery	(2,014,070)	(116,806)	-	(2,130,876)
Infrastructure	(9,483,923)	(986,886)	-	(10,470,809)
Vehicles	(3,038,721)	(447,625)	(105,759)	(3,380,587)
Total Accumulated Depreciation	<u>(16,259,735)</u>	<u>(1,765,406)</u>	<u>(105,759)</u>	<u>(17,919,382)</u>
Total Capital Assets, Being Depreciated, Net	<u>24,833,180</u>	<u>(709,277)</u>	<u>11,751</u>	<u>24,112,152</u>
Governmental Activities Capital Assets, Net	<u>\$ 29,449,086</u>	<u>\$ 1,048,162</u>	<u>\$ 616,041</u>	<u>\$ 29,881,207</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 28,225	\$ -	\$ -	\$ 28,225
Construction in progress	297,894	52,933	146,083	204,744
Total Capital Assets, Not Being Depreciated:	<u>326,119</u>	<u>52,933</u>	<u>146,083</u>	<u>232,969</u>
Capital assets, being depreciated:				
Buildings and improvements	218,548	-	-	218,548
Equipment and machinery	938,317	5,500	-	943,817
Infrastructure	19,155,845	163,023	-	19,318,868
Vehicles	554,811	-	61,517	493,294
Total Capital Assets, Being Depreciated:	<u>20,867,521</u>	<u>168,523</u>	<u>61,517</u>	<u>20,974,527</u>
Less accumulated depreciation for:				
Buildings and improvements	(46,111)	(4,371)	-	(50,482)
Equipment and machinery	(353,507)	(42,727)	-	(396,234)
Infrastructure	(5,985,667)	(628,866)	-	(6,614,533)
Vehicles	(822,090)	(37,142)	(55,364)	(803,868)
Total Accumulated Depreciation	<u>(7,207,375)</u>	<u>(713,106)</u>	<u>(55,364)</u>	<u>(7,865,117)</u>
Total Capital Assets, Being Depreciated, Net	<u>13,660,146</u>	<u>(544,583)</u>	<u>6,153</u>	<u>13,109,410</u>
Business-type Activities Capital Assets, Net	<u>\$ 13,986,265</u>	<u>\$ (491,650)</u>	<u>\$ 152,236</u>	<u>\$ 13,342,379</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, 2012

Depreciation was charged to functions of the City as follows:

Governmental Activities	
General government	\$ 124,973
Public safety	597,316
Public works	824,658
Cultural and recreational	<u>218,459</u>
Total Depreciation Expense, Governmental Activities	<u><u>\$ 1,765,406</u></u>
Business-type Activities	
Water and sewer	\$ 675,920
Sanitation	<u>37,186</u>
Total Depreciation Expense, Business-type Activities	<u><u>\$ 713,106</u></u>

There are no commitments at September 30, 2012.

NOTE F - INTERFUND TRANSACTIONS

Interfund transactions are for the payment of monthly claims, and to provide funds for debt service and capital outlay. All transfers were routine and consistent with the activities of the fund, and all interfund balances are expected to be repaid within a year. The following is a summary of interfund transactions and balances as of September 30, 2012:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major		
General Fund	\$ 793,518	\$ -
Debt Service Fund	(48,445)	-
Major		
Utility Fund	-	597,431
Sanitation Fund	-	<u>147,642</u>
Total	<u><u>\$ 745,073</u></u>	<u><u>\$ 745,073</u></u>
	<u>Due From</u>	<u>Due To</u>
Major		
General Fund	\$ -	\$ 270,196
Debt Service Fund	-	1,174,334
Non Major		
Other Governmental Funds	166,560	-
Major		
Utility Fund	994,530	-
Sanitation Fund	<u>283,440</u>	
Total	<u><u>\$ 1,444,530</u></u>	<u><u>\$ 1,444,530</u></u>

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE G - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2012 was as follows:

	<u>Balance at 9/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2012</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds payable	\$ 11,500,000	\$ 3,395,000	\$ 3,870,000	\$ 11,025,000	\$ 665,000
Special assessment bonds payable	10,740,000	5,185,000	5,525,000	10,400,000	550,000
Loans payable	-	1,625,000	1,625,000	-	-
Leases payable	192,227	321,276	297,945	215,558	107,857
Bond premium	165,318	-	19,076	146,242	-
Bond discount	(60,128)	-	(5,466)	(54,662)	-
Deferred loss	(354,848)	-	(42,626)	(312,222)	-
Compensated absences	227,276	25,604	-	252,880	-
Total Governmental Activities	<u>\$ 22,409,845</u>	<u>\$ 10,551,880</u>	<u>\$ 11,288,929</u>	<u>\$ 21,672,796</u>	<u>\$ 1,322,857</u>
Business-type Activities:					
Revenue bonds payable	\$ 11,320,000	\$ -	\$ 335,000	\$ 10,985,000	\$ 350,000
Loans payable	2,262,189	-	159,016	2,103,173	166,264
Leases payable	72,697	-	72,697	-	-
Bond premium	346,445	-	17,616	328,829	-
Compensated absences	49,897	-	28,424	21,473	-
Total Business-type Activities	<u>\$ 14,051,228</u>	<u>\$ -</u>	<u>\$ 612,753</u>	<u>\$ 13,438,475</u>	<u>\$ 516,264</u>

Current Refunding – On December 15, 2011, the City issued \$3,395,000 in General Obligation Refunding Bonds, Series 2011, with a rate of 2.00-3.125% to refund \$3,200,000 of the following outstanding bond issue:

<u>Issue</u>	<u>Average Interest Rate</u>	<u>Outstanding Amount Refunded</u>
2004 General Obligation Bonds	3.70%-5.00%	3,395,000

The City refunded the above bonds to reduce its total debt service payments over the next 12 years by \$193,590 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$167,009.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Current Refunding – On March 28, 2012 the City issued \$5,185,000 in revenue refunding bonds with an average interest rate of 2.46% to refund \$4,650,000 of the following outstanding bond issue:

Issue	Average Interest Rate	Outstanding Amount Refunded
2001 Special Obligation Recreation Facilities Project	4.10% - 5.00%	\$ 4,650,000

The City refunded the above bonds to reduce its total debt service payments over the next nine years by \$153,358 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$386,448.

General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds outstanding as of September 30, 2012 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	3,645,000
2008	2.75% - 5.00%	11/1/2008	11/1/2028	4,500,000	4,050,000
2011	2.00% - 3.125%	12/15/2011	8/1/2024	3,395,000	3,330,000
Total General Obligation Bonds				<u>\$ 12,305,000</u>	<u>\$ 11,025,000</u>

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
2005 Special Assessment Refunding	2.75% - 5.00%	5/18/2005	4/15/2020	\$ 8,540,000	\$ 5,215,000
2012 Special Obligation Recreation Facility Refunding	2.00% - 3.00%	3/28/2012	10/1/2021	5,185,000	5,185,000
Total Special Assessment Bonds				<u>\$ 13,725,000</u>	<u>\$ 10,400,000</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	\$ 10,985,000
Total Revenue Bonds				<u>\$ 12,750,000</u>	<u>\$ 10,985,000</u>

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
Enterprise					
Drinking Water System					
Improvements Revolving Loan	4.00%	3/1/2001	11/1/2020	1,509,556	772,153
Drinking Water System					
Improvements Revolving Loan (Water Treatment Plant)	3.50%	11/13/2002	10/2/2023	773,901	498,521
Cap Loan (Water Treatment Plant)	2.00%	11/20/2002	10/2/2023	476,333	358,282
Cap Loan (Water Treatment Plant)	3.00%	2/1/2005	10/1/2027	587,905	474,217
Total Loans				<u>\$ 3,347,695</u>	<u>\$ 2,103,173</u>

The aggregate maturities of general obligation, special assessment bonds, revenue bonds and loans for the years subsequent to September 30, 2012 are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2013	665,000	429,166
2014	690,000	406,741
2015	715,000	382,970
2016	740,000	357,925
2017	780,000	331,326
2018-2022	4,335,000	1,189,002
2023-2027	2,455,000	373,606
2028-2032	645,000	30,994
Total	<u>\$ 11,025,000</u>	<u>\$ 3,501,730</u>

<u>Year Ending</u> <u>September 30</u>	<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2013	550,000	363,602
2014	575,000	341,425
2015	1,195,000	312,762
2016	1,235,000	276,712
2017	1,285,000	233,112
2018-2022	5,560,000	458,430
Total	<u>\$ 10,400,000</u>	<u>\$ 1,986,043</u>

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

Year Ending September 30	Revenue Bonds	
	Principal	Interest
2013	350,000	529,040
2014	370,000	511,040
2015	390,000	492,040
2016	410,000	472,040
2017	430,000	453,190
2018-2022	2,515,000	2,030,258
2023-2027	2,535,000	1,291,744
2028-2032	3,985,000	434,044
Total	\$ 10,985,000	\$ 6,213,396

Year Ending September 30	Loans	
	Principal	Interest
2013	166,264	67,098
2014	172,131	61,230
2015	178,215	55,147
2016	184,520	48,841
2017	191,058	42,302
2018-2022	851,339	111,991
2023-2027	356,388	20,984
2028-2032	3,258	8
Total	\$ 2,103,173	\$ 407,601

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2012 were as follows:

Year Ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2013	\$ 107,857	\$ 4,018	\$ 72,697	\$ 2,207
2014	107,701	2,020	-	-
Total	\$ 215,558	\$ 6,038	\$ 72,697	\$ 2,207

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 \$11,155,062 (the smaller of the two computed margins) as of September 30, 2012.

	15% Test	20% Test
Assessed value as of September 30, 2012:		
\$147,867,082 times applicable percentage	\$ 22,180,062	\$ 29,573,416
Less present debt subject to debt limits as of September 30, 2012:		
Total bonds outstanding (exclude proprietary)	(11,025,000)	(11,025,000)
Margin for additional debt	\$ 11,155,062	\$ 18,548,416

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

NOTE H - DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 9% of their annual covered salary and the City is required to contribute at an actuarially determined rate. At September 30, 2012, the current rate was 14.26% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ending September 30, 2012, 2011, and 2010 were \$1,014,884, \$931,295, and \$981,811 respectively, equal to the required contribution for each year.

NOTE I - 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 J - LITIGATION

The City is subject to various legal proceedings in various stages of litigation, the outcome of which is not determinable at this time. Management of the City and its legal counsel do not anticipate that there will be a material effect on the financial statements as a result of the cases presently in progress.

NOTE K - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Assets 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 Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the City of Horn Lake evaluated the activity of the city through October 25, 2013, 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.

In 2009 the City entered into a loan agreement with Mississippi Development Authority for a loan to fund the Newly Weds Rail Spur project after all grant sources had been applied for and received. Upon completion of the project, the loan amount was finalized on August 20, 2013 for \$313,568. This loan is interest free and has a term of 180 months. The City also entered into a Track Use Operation and Maintenance Agreement with Newly Weds Foods, Inc. dated September 16, 2010 whereby Newly Weds Foods, Inc. agreed to repay the City any Rail Loan funds.

On November 20, 2012 the City received a \$975,000 tax anticipation loan from Desoto County Bank at an interest rate of 1.45%. This loan was repaid on February 27, 2013.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2012

On March 20, 2013, the City received 5 parcels of tax-forfeited land in the Desoto Commons PUD. The property's appraised total value as listed by the Desoto County tax assessor is \$982,591. At September 30, 2012 the City had property taxes receivable related to these five parcels of \$539,609 on the statement of net assets.

In May of 2013, the City entered into a lease-purchase agreement in the amount of \$222,584 with Bancorpsouth to finance police department vehicles. The agreement calls for annual payments of \$76,568.70 at an interest rate of 1.58% for 3 years.

REQUIRED SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Taxes	\$ 8,639,000	\$ 8,676,600	\$ 8,507,751	\$ 37,600	\$ (168,849)
Licenses and permits	160,500	153,000	140,188	(7,500)	(12,812)
Intergovernmental	176,000	215,900	215,512	39,900	(388)
Charges for services	1,041,000	812,500	863,648	(228,500)	51,148
Fines	909,000	1,025,100	1,066,021	116,100	40,921
Interest	15,000	10,000	14,076	(5,000)	4,076
Miscellaneous	419,400	514,300	487,040	94,900	(27,260)
Total Revenues	11,359,900	11,407,400	11,294,236	47,500	(113,164)
Expenditures					
General government	2,157,245	2,838,359	2,813,083	(681,114)	25,276
Public safety	8,339,235	8,417,511	8,241,130	(78,276)	176,381
Public works	754,620	739,520	694,088	15,100	45,432
Culture & recreation	1,122,475	1,178,465	1,155,579	(55,990)	22,886
Economic development	138,500	137,200	135,783	1,300	1,417
Debt service	-	-	-	-	-
Total Expenditures	12,512,075	13,311,055	13,039,663	(798,980)	271,392
Excess (deficiency) of revenues over (under) expenditures	(1,152,175)	(1,903,655)	(1,745,427)	(751,480)	158,228
Other Financing Sources (Uses)					
Grant revenue	201,000	631,200	565,435	430,200	(65,765)
Lease proceeds	-	321,280	321,276	321,280	(4)
Interfund transfers	951,175	951,175	793,518	-	(157,657)
Sale of assets	-	-	15,786	-	15,786
Total Other Financing Sources (Uses)	1,152,175	1,903,655	1,696,015	751,480	(207,640)
Net Changes in Fund Balances	\$ -	\$ -	(49,412)	\$ -	\$ (49,412)
Fund Balance - Beginning of Year			98,659		
Equity transfer			35,278		
Fund Balance - End of Year			84,525		
Adjustments to Conform with GAAP:					
Revenues			179,162		
Expenditures			(32,326)		
Fund Balance - End of Year (GAAP Basis)			\$ 231,361		

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.

SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	2012 Federal Expenditures
US Department of Commerce			
Direct Award			
Investments for Public Works and Economic Development Facilities	11.300	04-79-06272	387,917
Total US Department of Commerce			<u>387,917</u>
Department of Housing and Urban Development			
Passed-through Mississippi Development Authority			
Community Development Block Grant State's Program	14.228	1126-09-396-ED-01	184,667
Community Development Block Grant State's Program	14.228	1128-11-396-PF-01	15,183
Total Department of Housing and Urban Development			<u>199,850</u>
US Department of Justice			
Direct Funding			
Bullet Proof Vest Partnership Program	16.607		2,063
Passed-through Mississippi Department of Public Safety			
Edward Byrne Memorial Justice Assistance Grant	16.738	10LB2181	5,199
Total US Department of Justice			<u>7,262</u>
US Department of Transportation			
Passed-through Mississippi Department of Public Safety			
Occupant Protection Incentive Grants	20.602	12-OP218-1	4,466
Alcohol Open Container Requirements	20.607	12-TA-218-1	127,834
Total US Department of Transportation			<u>132,300</u>
Department of Homeland Security			
Passed-through Mississippi Emergency Management Agency			
Hazard Mitigation Grant	97.039	HMGP 17940-00025	32,656
Total Department of Homeland Security			<u>32,656</u>
Delta Regional Authority			
Direct Award			
Delta Area Economic Development	90.201	MS-5458	61,091
Delta Area Economic Development	90.201	MS-5395	3,750
Total Delta Regional Authority			<u>64,841</u>
Total Expenditures of Federal Awards			<u>\$ 824,826</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.

City of Horn Lake, Mississippi
Schedule of Surety Bonds for Municipal Officials
For the Year Ended September 30, 2012

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount</u>
Nat Baker	Mayor	Fidelity	\$ 50,000
Andrea Freeze	Administrator/City Clerk	Fidelity	100,000
Tara Warran	Court Clerk	Fidelity	50,000
Frances Williams	Deputy City Clerk	Zurich	50,000
Darryl Whaley	Police Chief	Fidelity	50,000
Arianne Linville	Human Resources Director	Fidelity	50,000
Tonya Ann Gronke	Cash Control	Fidelity	50,000
Melinda Poag	Finance Director	Fidelity	50,000
Pamela Pyle	Accounts Payable	Fidelity	50,000
Leslie Chung	Concession Coordinator	Fidelity	50,000
	Aldermen (each)	Fidelity	50,000 *

* Aldermen are required to be bonded at \$100,000 each in accordance with MS Code Section 21-17-5. See the Report on Compliance with State Laws and Regulations.

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SPECIAL REPORTS



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

Mayor and Board of Aldermen
City of Horn Lake, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi ("the City"), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

We noted certain other matters that were reported to management of the City in a separate letter dated October 25, 2013.

This report is intended solely for the information and use of the Board of Aldermen, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
October 25, 2013



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and Board of Aldermen
City of Horn Lake, Mississippi

Compliance

We have audited City of Horn Lake, Mississippi's ("the City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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'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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of

deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Aldermen, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
October 25, 2013



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

Mayor and Board of Aldermen
City of Horn Lake, Mississippi

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi ("the City"), as of and for the year ended September 30, 2012, and have issued our report dated October 25, 2013. 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*.

We 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.

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:

1. Finding
Aldermen were not bonded at \$100,000 as required by the MS Code Section 21-17-5, but at \$50,000.

Response

We agree with this finding and as soon as we were aware of this issue surety bonds were increased to \$100,000 as required by MS Code Section 21-17-5.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
October 25, 2013

City of Horn Lake, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section 1: Summary of Auditor's Results

Financial Statements:

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

Governmental activities	Unqualified
General Fund	Unqualified
Debt Service Fund	Unqualified
Aggregate remaining fund information	Unqualified
Utility Fund	Unqualified
Sanitation Fund	Unqualified

(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

Federal Awards:

(4) Internal control over major programs:

(a) Material weakness identified?	No
(b) Significant deficiency identified that is not considered to be a material weakness?	None Reported

(5) Type of auditors' report issued on compliance for major federal programs

Unqualified

(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) Federal program identified as major program:

- (a) Investments for Public Works and Economic Development Facilities CFDA #11.300
- (b) Community Development Block Grant CFDA #14.228

(8) The dollar threshold used to distinguish between type A and B programs

\$300,000

City of Horn Lake, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

(9) Auditee qualified as a low risk auditee? _____ No _____

(10) Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? _____ No _____

Section 2: Financial Statements 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.