

**City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2010**



City of Horn Lake, Mississippi
Audited Financial Statements
For the Year Ended September 30, 2010

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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, 2010, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on 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 as of September 30, 2010, 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 November 17, 2011, 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 3 through 11 and 36 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 financial statements as a whole. 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. The schedule of surety bonds and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
November 17, 2011

CITY OF HORN LAKE

MISSISSIPPI



Management's Analysis and Discussion

FYE 2010

THE CITY OF HORN LAKE, MISSISSIPPI

CITY OFFICIALS

MAYOR

NATHAN "NAT" BAKER, JR

ALDERMEN

DONNIE WHITE, ALDERMAN-AT-LARGE

AMY LAY, WARD 1

CHRIS SHELEY, WARD 2

TIM SMITH, WARD 3

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. JENKINS

City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2010
Unaudited

This discussion and analysis of the City of Horn Lake's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2010. 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 2010 were as follows:

Total net assets decreased from \$ 11,355,875 to \$ 8,569,882
Total liabilities increased from \$ 50,545,360 to \$ 51,541,378
Total assets of governmental activities decreased from \$ 42,257,997 to \$ 42,082,114
Total assets of business-type activities decreased from \$ 19,643,238 to \$ 18,029,146

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 2010?" 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
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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 15. 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, Capital Projects, 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 19. 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, 2010
Unaudited

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 2010 compared to 2009. Table 2 shows the changes in net assets for the 2010 year.

Table 1
Statement of Net Assets

	2010		2009	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Assets				
Current and other assets	\$11,926,483	\$3,888,859	\$14,575,562	\$4,936,991
Capital assets, net	30,155,631	14,140,287	27,682,435	14,706,247
Total Assets	<u>42,082,114</u>	<u>18,029,146</u>	<u>42,257,997</u>	<u>19,643,238</u>
Liabilities				
Current liabilities	13,194,060	1,592,158	9,716,285	1,263,832
Long-term liabilities	22,630,122	14,125,038	24,963,651	14,601,592
Total Liabilities	<u>35,824,182</u>	<u>15,717,196</u>	<u>34,679,936</u>	<u>15,865,424</u>
Net Assets				
Invested in capital assets, net of debt	5,608,450	87,490	1,677,097	224,646
Restricted	488,251	1,357,230	5,957,582	117,512
Unrestricted	161,231	867,230	(56,618)	3,435,656
Total Net Assets	<u>\$6,257,932</u>	<u>\$2,311,950</u>	<u>\$7,578,061</u>	<u>\$3,777,814</u>

Total assets decreased by \$1,789,975. Equity in pooled cash and cash equivalents decreased by \$531,873.

City of Horn Lake, Mississippi
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The following table, Table 2, presents a summary of the changes in net assets for the fiscal year ended September 30, 2010.

Table 2
Changes in Net Assets

	2010		2009	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Revenues				
Program Revenues:				
Charges for services	\$880,122	\$5,238,446	\$1,107,032	\$4,482,599
Operating grants and contributions	883,135	-	186,244	-
Capital grants and contributions	-	33,392	-	-
Total Program Revenues	1,763,257	5,271,838	1,293,276	4,482,599
General Revenues:				
Taxes	11,154,792	-	11,290,588	-
Other revenues	1,996,264	69,041	1,594,878	37,490
Transfers	1,115,595	(1,115,595)	334,861	(334,861)
Total General Revenues	14,266,651	(1,046,554)	13,220,327	(297,371)
Total Revenues	16,029,908	4,225,284	14,513,603	4,185,228
Expenses				
General government	\$3,995,563	-	\$4,428,019	-
Public safety	8,618,025	-	7,373,784	-
Public works	1,592,509	-	1,895,465	-
Cultural & recreational	1,512,106	-	1,409,220	-
Economic development	267,715	-	447,203	-
Interest	1,364,119	-	1,256,018	-
Utility department	-	4,219,049	-	3,266,659
Sanitation department	-	1,472,099	-	1,247,635
Total Expenses	17,350,037	5,691,148	16,809,709	4,514,294
Change in Net Assets	(\$1,320,129)	(\$1,465,864)	(\$2,296,106)	(\$329,066)

Governmental Activities

Several revenues fund the City's governmental activities. The largest funding source, property tax revenue, accounted for \$6,808,165, or 47.7% of general revenues; sales tax revenue accounted for \$3,825,182 or 26.8% of general revenues. Fines of \$779,804 accounted for 5.5% of general revenues, and franchise taxes of \$521,445 accounted for 3.7% of general revenues.

The remaining 16.3% of general revenues was comprised of miscellaneous revenue and transfers.

City of Horn Lake, Mississippi
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Total general revenues from governmental activities increased from \$13,220,327 in 2009 to \$14,266,651 in 2010, a 7.9% increase. Major expense activities included public safety expenditures accounting for 49.7% of total program expenses, and general government expenses accounting for 23%. General government expenses decreased from \$4,428,019 in 2009 to \$3,995,563 in 2010, a 10.8% decrease. This decrease was due largely in part to a reduction in legal fees incurred from the previous year in connection with an annexation bid undertaken by the City.

Although the City has worked very hard on increasing its tax base by being proactive with new businesses and reducing cost department by department, we still strive to provide better service at a lower cost per man-hour. The ability of the City to continue to provide quality services without tax increases rests on the City management's ability to keep these costs in line.

Business-type Activities

Business-type activities decreased the City's net assets by \$1,465,864. Revenues from the utility system fund and the sanitation fund totaled \$4,191,892 in 2010, a minimal decrease of .15% from 2009 revenue of \$4,185,228.

Expenses of the utility and sanitation funds increased in 2010 to \$5,691,148, a 26.1% increase from 2009 total expenses of \$4,514,294. The City's formula for the allocation of general overhead expenses to the various departments was adjusted in 2010, causing additional operating expenses to be assigned to the utility and sanitation funds.

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 16 and 18, 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, 2010
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The basic governmental funds financial statements can be found on pages 15 and 17 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 2010 totaled \$2,311,950 which represents a \$1,465,864 decrease from 2009. Of this amount, net assets of the utility fund decreased by \$1,355,212 while the sanitation fund decreased by \$110,652.

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 2010, 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 \$11,167,690; amended budget amounts were \$11,031,065, and actual revenue collections-budgetary basis were \$10,716,918.

Capital Assets and Long-Term Obligations

Table 3

Capital Assets (Net of Depreciation)

	2010		2009	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Land	\$ 3,632,643	\$ 28,225	\$ 3,815,306	\$ 28,225
Buildings & Improvements	8,683,696	218,548	6,619,702	218,548
Equipment & Vehicles	5,924,502	1,387,085	4,980,923	1,289,112
Construction in Progress	1,556,607	56,494	319,808	-
Infrastructure	24,893,857	18,901,780	24,893,858	18,864,054
Accumulated Depreciation	<u>(14,535,674)</u>	<u>(6,451,845)</u>	<u>(12,947,162)</u>	<u>(5,693,692)</u>
Total Capital Assets, net	<u>\$ 30,155,631</u>	<u>\$ 14,140,287</u>	<u>\$ 27,682,435</u>	<u>\$ 14,706,247</u>

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

The primary increase occurred in Buildings & Improvements due to completion of the construction of a new fire station and an animal shelter building. This increase was offset by the sale of an office building, which was sold in connection with a lease purchase agreement entered into in 2009.

Long-Term Obligations

Table 4

Outstanding Notes and Long-Term Obligations at Year End

	2010	2009
Governmental Activities:		
General obligation bonds	\$ 12,090,000	\$ 13,955,000
Special assessment bonds	11,570,000	12,370,000
Loans Payable	1,050,244	-
Leases payable	446,798	355,483
Bond premium	184,394	203,470
Bond discount	(65,594)	(71,060)
Deferred loss	(397,474)	(440,100)
Compensated absences	476,590	416,949
	\$ 25,354,958	\$ 26,789,742
Business-type Activities:		
Bonds and notes payable	\$ 11,635,000	\$ 11,935,000
Loans payable	2,417,330	2,567,203
Leases payable	144,018	139,572
Bond premium	346,061	381,677
Compensated absences	106,118	75,341
	\$ 14,648,527	\$ 15,098,793

The City's general obligation bonds decreased from \$13,955,000 in 2009 to \$12,090,000 in 2010. The decrease was due largely as the result of an office building sold during 2010, which resulted in the retirement of a \$1,300,000 bond.

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, 2010

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 691,490	\$ 969,169	\$ 1,660,659
Investments	1,193,849	-	1,193,849
Accounts receivable, net	475,522	413,418	888,940
Intergovernmental receivable	290,237	-	290,237
Property tax receivable	7,564,118	-	7,564,118
Prepaid expense	131,616	63,361	194,977
Inventories	-	2,195	2,195
Internal balances	(406,488)	406,488	-
Restricted assets			
Cash in bank	1,654,952	892,478	2,547,430
Customer deposits	-	634,139	634,139
Bond issue costs, net	331,187	507,611	838,798
Capital assets, net	30,155,631	14,140,287	44,295,918
Total Assets	42,082,114	18,029,146	60,111,260
Liabilities			
Accounts payable	2,117,598	266,820	2,384,418
Accrued expenses	539,554	37,793	577,347
Customer deposits	-	549,535	549,535
Other deposits	198,142	-	198,142
Deferred revenue	7,024,509	-	7,024,509
Accrued interest	589,421	196,522	785,943
Long-term liabilities			
Due within one year:			
Capital debt	2,724,836	541,488	3,266,324
Due in more than one year:			
Capital debt	22,153,532	14,018,920	36,172,452
Non-capital debt	476,590	106,118	582,708
Total Liabilities	35,824,182	15,717,196	51,541,378
Net Assets			
Invested in capital assets, net of related debt	5,608,450	87,490	5,695,940
Restricted for:			
Debt service	329,662	1,293,869	1,623,531
Capital projects	26,973	-	26,973
Prepaid expenses	131,616	63,361	194,977
Unrestricted	161,231	867,230	1,028,461
Total Net Assets	\$ 6,257,932	\$ 2,311,950	\$ 8,569,882

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

CITY OF HORN LAKE, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2010

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 690,290	\$ -	\$ -	\$ 1,200	\$ 691,490
Investments	55,191	-	-	-	55,191
Due from other funds	154,542	-	351,239	37,525	543,306
Accounts receivable, net	463,079	-	1,658	10,785	475,522
Intergovernmental receivable	290,237	-	-	-	290,237
Property tax receivable	3,976,500	2,909,513	-	138,496	7,024,509
Restricted assets					
Cash in bank	168,079	(48,472)	388,353	1,146,992	1,654,952
Total Assets	<u>\$ 5,797,918</u>	<u>\$ 2,861,041</u>	<u>\$ 741,250</u>	<u>\$ 1,334,998</u>	<u>\$ 10,735,207</u>
Liabilities					
Accounts payable	\$ 778,711	\$ 22,681	\$ 619,379	\$ 696,823	\$ 2,117,594
Accrued expenses	539,554	-	-	-	539,554
Other deposits	198,142	-	-	-	198,142
Due to other funds	388,764	222,210	119,618	219,202	949,794
Deferred revenue	3,976,500	2,909,513	-	138,496	7,024,509
Total Liabilities	<u>5,881,671</u>	<u>3,154,404</u>	<u>738,997</u>	<u>1,054,521</u>	<u>10,829,593</u>
Fund Balances					
Reserved for:					
Capital projects	-	-	2,253	24,720	26,973
Debt service	594,500	(293,363)	-	28,525	329,662
Unreserved - undesignated, reported in:					
General	(678,253)	-	-	-	(678,253)
Special revenue	-	-	-	227,232	227,232
Total Fund Balances	<u>(83,753)</u>	<u>(293,363)</u>	<u>2,253</u>	<u>280,477</u>	<u>(94,386)</u>
Total Liabilities and Fund Balances	<u>\$ 5,797,918</u>	<u>\$ 2,861,041</u>	<u>\$ 741,250</u>	<u>\$ 1,334,998</u>	<u>\$ 10,735,207</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, 2010

Total Fund Balance - Governmental Funds \$ (94,386)

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	3,632,643	
Buildings and improvements	8,683,696	
Equipment and vehicles	5,924,502	
Infrastructure	24,893,858	
Construction in progress	1,556,607	
Accumulated depreciation	<u>(14,535,675)</u>	
		30,155,631

Current investments used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Investment in property	1,138,654
------------------------	-----------

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	331,187
Property tax receivable	539,609

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Leases payable	(446,798)	
General obligation and special assessment bonds	(23,660,000)	
Loans payable	(1,050,244)	
Accrued interest	(589,421)	
Bond premium	(184,394)	
Bond discount	65,594	
Deferred loss on refunding	397,474	
Prepaid expenses	131,616	
Compensated absences	<u>(476,590)</u>	
		<u>(25,812,763)</u>

Net Assets of Governmental Activities \$ 6,257,932

City of Horn Lake, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 8,425,987	\$ 2,196,820	\$ -	\$ 241,657	\$ 10,864,464
Licenses and permits	155,858	-	-	-	155,858
Intergovernmental	173,760	-	-	-	173,760
Charges for services	880,122	-	-	-	880,122
Fines	779,804	-	-	-	779,804
Interest	10,186	-	16,509	14	26,709
Miscellaneous	312,087	-	-	4,000	316,087
Total Revenues	10,737,804	2,196,820	16,509	245,671	13,196,804
Expenditures					
Administrative	2,778,842	-	-	-	2,778,842
Culture & recreation	1,241,071	-	-	140,413	1,381,484
Economic development	116,568	-	-	149,274	265,842
Public safety	8,022,101	-	-	-	8,022,101
Public works	825,336	-	-	6,412	831,748
Debt service					
Principal	249,756	1,579,764	-	-	1,829,520
Interest	24,820	1,233,702	-	-	1,258,522
Capital outlay	588,704	-	4,608,988	1,075,147	6,272,839
Total Expenditures	13,847,198	2,813,466	4,608,988	1,371,246	22,640,898
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,109,394)	(616,646)	(4,592,479)	(1,125,575)	(9,444,094)
Other Financing Sources (Uses)					
Grant revenue	292,431	-	481,957	108,747	883,135
Bond proceeds	-	-	-	-	-
Lease proceeds	615,579	-	-	-	615,579
Bond issue cost	-	-	-	-	-
Interfund transfers	1,342,620	-	(216,348)	(10,677)	1,115,595
Total Other Financing Sources (Uses)	2,250,630	-	265,609	98,070	2,614,309
Net Change in Fund Balances	(858,764)	(616,646)	(4,326,870)	(1,027,505)	(6,829,785)
Fund Balance - Beginning of Year	775,011	323,283	4,329,123	1,307,982	6,735,399
Fund Balance - End of Year	\$ (83,753)	\$ (293,363)	\$ 2,253	\$ 280,477	\$ (94,386)

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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (6,829,785)

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 (\$5,217,927) exceeded depreciation (\$1,717,103). 3,500,824

Governmental funds report investments held for sale as expenditures. However, in the statements of activities, the cost of those assets is reclassified to a current assets. 125,756

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$306,079) and amortization expense (\$65,284) in the current period were exceeded by repayments of \$1,829,520. 1,458,157

Some revenues (expenses) reported in the statement of activities do not require current financial uses (resources) and therefore are not reported as revenue (expenditures) in the governmental funds.

Property tax revenue not received	539,609
Prepaid expense	(40,313)
Compensated absences payable	(59,651)
Sale of assets	(14,726)
	<u>539,609</u>

Change in Net Assets of Governmental Activities \$ (1,320,129)

City of Horn Lake, Mississippi
Statement of Net Assets
Proprietary Funds
September 30, 2010

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 690,942	\$ 278,227	\$ 969,169
Accounts receivable, net	274,178	139,240	413,418
Inventory	2,195	-	2,195
Prepaid expenses	63,361	-	63,361
Due from other funds	406,488	20,018	426,506
Total Current Assets	<u>1,437,164</u>	<u>437,485</u>	<u>1,874,649</u>
Restricted assets:			
Cash	892,478	-	892,478
Customer deposits	418,726	215,413	634,139
Total Restricted Assets	<u>1,311,204</u>	<u>215,413</u>	<u>1,526,617</u>
Other Assets			
Bond issue cost, net	507,611	-	507,611
Total Other Assets	<u>507,611</u>	<u>-</u>	<u>507,611</u>
Fixed Assets			
Land	28,225	-	28,225
Buildings and improvements	151,001	67,547	218,548
Infrastructure	18,901,781	-	18,901,781
Machinery and equipment	147,387	699,886	847,273
Vehicles	41,122	498,689	539,811
Accumulated depreciation	(5,530,436)	(921,410)	(6,451,846)
Total Fixed Assets	<u>13,795,575</u>	<u>344,712</u>	<u>14,140,287</u>
Total Assets	<u>\$ 17,051,554</u>	<u>\$ 997,610</u>	<u>\$ 18,049,164</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 233,262	\$ 33,558	\$ 266,820
Accrued expenses	16,697	21,096	37,793
Accrued interest payable	196,522	-	196,522
Due to other funds	20,018	-	20,018
Total Current Liabilities	<u>466,499</u>	<u>54,654</u>	<u>521,153</u>
Current Liabilities Payable from Restricted Assets			
Customer deposits	318,796	230,739	549,535
Long-term liabilities due within one year:			
Capital debt	483,520	57,969	541,489
Total Current Liabilities Payable from Restricted Assets	<u>802,316</u>	<u>288,708</u>	<u>1,091,024</u>
Long-term liabilities due in more than one year:			
Capital debt	13,960,049	58,870	14,018,919
Non-capital debt	49,777	56,341	106,118
Total long-term liabilities	<u>14,009,826</u>	<u>115,211</u>	<u>14,125,037</u>
Total Liabilities	<u>15,278,641</u>	<u>458,573</u>	<u>15,737,214</u>
Net Assets			
Invested in capital assets, net of related debt	(140,383)	227,873	87,490
Restricted for:			
Debt service	1,293,869	-	1,293,869
Prepaid expenses	63,361	-	63,361
Unrestricted	556,066	311,164	867,230
Total Net Assets	<u>1,772,913</u>	<u>539,037</u>	<u>2,311,950</u>
Total Liabilities and Net Assets	<u>\$ 17,051,554</u>	<u>\$ 997,610</u>	<u>\$ 18,049,164</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, 2010

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating Revenues			
Sales	\$ 3,857,193	\$ 1,381,253	\$ 5,238,446
Miscellaneous	50,096	1,384	51,480
Total Operating Revenues	<u>3,907,289</u>	<u>1,382,637</u>	<u>5,289,926</u>
Operating Expenses			
Personnel	1,046,502	1,117,524	2,164,026
Supplies	89,941	244,680	334,621
Depreciation and amortization	686,941	87,837	774,778
Maintenance and other	590,931	21,270	612,201
Water & sewer system management	1,137,203	-	1,137,203
Total Operating Expenses	<u>3,551,518</u>	<u>1,471,311</u>	<u>5,022,829</u>
Operating Income	<u>355,771</u>	<u>(88,674)</u>	<u>267,097</u>
Non-operating Revenues (Expenses)			
Interest revenue	14,625	2,936	17,561
Interest expense	(667,531)	(788)	(668,319)
Grant proceeds	33,392	-	33,392
Interfund transfers	(1,091,469)	(24,126)	(1,115,595)
Total Non-operating Revenues (Expenses)	<u>(1,710,983)</u>	<u>(21,978)</u>	<u>(1,732,961)</u>
Net Income	<u>(1,355,212)</u>	<u>(110,652)</u>	<u>(1,465,864)</u>
Net Assets - Beginning of Year	<u>3,128,125</u>	<u>649,689</u>	<u>3,777,814</u>
Net Assets - End of Year	<u>\$ 1,772,913</u>	<u>\$ 539,037</u>	<u>\$ 2,311,950</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, 2010

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 3,865,203	\$ 1,380,373	\$ 5,245,576
Cash payments for goods and services	(1,576,253)	(203,167)	(1,779,420)
Cash payments to employees	<u>(1,021,952)</u>	<u>(1,111,297)</u>	<u>(2,133,249)</u>
Net Cash Provided By (Used In) Operating Activities	<u>1,266,998</u>	<u>65,909</u>	<u>1,332,907</u>
Cash Flows from Non-capital Financing Activities			
Interfund transfers	<u>(1,957,901)</u>	327,510	<u>(1,630,391)</u>
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>(1,957,901)</u>	<u>327,510</u>	<u>(1,630,391)</u>
Cash Flows from Capital and Related Financing Activities			
Payments for capital acquisitions	(140,420)	(51,774)	(192,194)
Customer deposits	(6,978)	43,085	36,107
Loan proceeds	-	51,932	51,932
Principal payments on debt	(463,817)	(33,542)	(497,359)
Interest payments on debt	<u>(670,053)</u>	<u>(788)</u>	<u>(670,841)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(1,247,876)</u>	8,913	<u>(1,238,963)</u>
Cash Flows from Investing Activities			
Interest revenue	<u>14,625</u>	<u>2,936</u>	<u>17,561</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,924,154)	405,268	(1,518,886)
Cash and Cash Equivalents-Beginning of Year	<u>3,926,300</u>	<u>88,372</u>	<u>4,014,672</u>
Cash and Cash Equivalents-End of Year	<u>\$ 2,002,146</u>	<u>\$ 493,640</u>	<u>\$ 2,495,786</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	<u>\$ 355,771</u>	<u>\$ (88,674)</u>	<u>\$ 267,097</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation and amortization	686,941	87,837	774,778
(Increase) decrease in customer receivables	(42,086)	(2,264)	(44,350)
(Increase) decrease in prepaid expenses	19,979	34,172	54,151
Increase (decrease) in accounts payable	224,913	30,268	255,181
Increase (decrease) in accrued expenses	(3,070)	(1,657)	(4,727)
Increase (decrease) in compensated absences	<u>24,550</u>	<u>6,227</u>	<u>30,777</u>
Total adjustments	<u>911,227</u>	<u>154,583</u>	<u>1,065,810</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 1,266,998</u>	<u>\$ 65,909</u>	<u>\$ 1,332,907</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, 2010

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 government-wide financial statements (Statement of Net Assets and the Statement of Activities) report information on all the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

The City segregates transactions related to certain functions or activities in to separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund:

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

Debt Service Fund:

This fund are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Fund:

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

Additionally, the City reports the following fund type:

Special Revenue Funds:

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

Proprietary Funds

All proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. Financial Accounting Standards Board ("FASB") pronouncements issued subsequent to November 30, 1989 that conflict with GASB pronouncements have not been followed, as permitted under GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. The City has presented 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 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditure are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water, sewer and sanitation services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they both become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recognized when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

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.

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. The City also holds real estate held as investment under a lease purchase agreement with America Contract Bridge League, Inc. American Contract Bridge League, Inc. exercised their option to purchase the real estate on December 10, 2010. The real estate is being held at historical cost, which approximates fair market value.

Prepaid Expenses

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid expenses in the governmental funds has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

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." Noncurrent portions of interfund receivables and payables are reported as "Advances to/from other funds." Advances between funds, when reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payable 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

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:

- Buildings - 20 to 50 years (capitalized if cost in excess of \$50,000)
- Improvements/infrastructure - 5 to 50 years (capitalized if cost in excess \$25,000)
- Equipment - 2 to 15 years (capitalized if cost in excess of \$5,000)

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

Inventories

Inventory is stated at cost. Inventory in the Utility System Fund consists of expendable supplies held for consumption.

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.

Net Assets

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

Nature and Purpose of Reservations and Designations of Fund Equity

The financial statements report reservations of fund balance for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose. Following are descriptions of fund reserves used by the City:

Reserved for Capital Projects – An account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than for the capital project for which it is restricted.

Reserved for Debt Service – An account that represents a portion of the fund balance which is legally restricted and not available for spending for any other purpose than the debt service for which it is restricted.

Reserved for Prepaid Expenses – An account that represents a portion of the fund balance which indicates that prepaid items do not represent available spendable resources even though they are a component of net assets.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

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").

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. As of September 30, 2010, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2010, the carrying amount of the City's deposits was \$4,842,228 and the bank balances totaled \$5,742,895. Of the bank balances, \$1,250,000 was insured by federal deposit insurance, \$4,492,895 was covered by pooled/or pledged collateral with the State Treasurer.

NOTE C - INVESTMENTS

The following is a summary of changes in investments:

<u>Investments</u>	<u>Balance at 9/30/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2010</u>
Capital stock	\$ 55,191	\$ -	\$ -	\$ 55,191
Real estate held for investment	1,012,902	125,756	-	1,138,658
Total	\$ 1,068,093	\$ 125,756	\$ -	\$ 1,193,849

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

NOTE D - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables consist of sales tax of \$290,237 in the General Fund.

NOTE E - CAPITAL ASSETS

The following is a summary of changes in capital assets:

	<u>Balance at 9/30/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2010</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,815,306	\$ -	\$ 182,663	\$ 3,632,643
Construction in progress	319,808	4,141,459	2,904,660	1,556,607
Total Capital Assets, Not Being Depreciated:	<u>4,135,114</u>	<u>4,141,459</u>	<u>3,087,323</u>	<u>5,189,250</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	6,619,702	2,911,177	847,183	8,683,696
Equipment and machinery	1,425,618	184,024	-	1,609,642
Infrastructure	24,893,857	-	-	24,893,857
Vehicles	3,555,305	885,927	126,372	4,314,860
Total Capital Assets, Being Depreciated:	<u>36,494,482</u>	<u>3,981,128</u>	<u>973,555</u>	<u>39,502,055</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,369,783)	(199,090)	(16,944)	(1,551,929)
Equipment and machinery	(902,887)	(922,622)	-	(1,825,509)
Infrastructure	(8,320,536)	(193,110)	-	(8,513,646)
Vehicles	(2,353,955)	(402,281)	(111,646)	(2,644,590)
Total Accumulated Depreciation	<u>(12,947,161)</u>	<u>(1,717,103)</u>	<u>(128,590)</u>	<u>(14,535,674)</u>
Total Capital Assets, Being Depreciated, Net	<u>23,547,321</u>	<u>2,264,025</u>	<u>844,965</u>	<u>24,966,381</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,682,435</u>	<u>\$ 6,405,484</u>	<u>\$ 3,932,288</u>	<u>\$ 30,155,631</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 28,225	\$ -	\$ -	\$ 28,225
Construction in progress	-	56,494	-	56,494
Total Capital Assets, Not Being Depreciated:	<u>28,225</u>	<u>56,494</u>	<u>-</u>	<u>84,719</u>
Capital assets, being depreciated:				
Buildings and improvements	218,548	-	-	218,548
Equipment and machinery	343,560	46,198	-	389,758
Infrastructure	18,864,052	37,728	-	18,901,780
Vehicles	945,553	51,774	-	997,327
Total Capital Assets, Being Depreciated:	<u>20,371,713</u>	<u>135,700</u>	<u>-</u>	<u>20,507,413</u>
Less accumulated depreciation for:				
Buildings and improvements	(37,369)	(4,371)	-	(41,740)
Equipment and machinery	(232,656)	(62,257)	-	(294,913)
Infrastructure	(4,745,760)	(615,598)	-	(5,361,358)
Vehicles	(677,906)	(75,928)	-	(753,834)
Total Accumulated Depreciation	<u>(5,693,691)</u>	<u>(758,154)</u>	<u>-</u>	<u>(6,451,845)</u>
Total Capital Assets, Being Depreciated, Net	<u>14,678,022</u>	<u>(622,454)</u>	<u>-</u>	<u>14,055,568</u>
Business-type Activities Capital Assets, Net	<u>\$ 14,706,247</u>	<u>\$ (565,960)</u>	<u>\$ -</u>	<u>\$ 14,140,287</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, 2010

Depreciation was charged to functions of the City as follows:

Governmental Activities

General government	\$ 198,019
Public safety	544,822
Public works	763,675
Cultural and recreational	<u>210,587</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 1,717,103</u>

Business-type Activities

Water and sewer	\$ 87,837
Sanitation	<u>670,317</u>
Total Depreciation Expense, Business-type Activities	<u>\$ 758,154</u>

Commitments under construction contracts at September 30, 2010 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Expressway Drive	\$ 724,691	\$ 71,968	Other Governmental
Safe Route to School	63,503	1,836	General
Tulane Overlay and Sidewalk	376,532	25,123	Capital Projects
Windchase and Goodman Signal	137,030	6,485	Capital Projects
Arbor Lakes Street Repairs	14,922	14,922	General
Animal Shelter Access	<u>90,364</u>	<u>90,364</u>	General
	<u>\$ 1,407,042</u>	<u>\$ 210,698</u>	

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, 2010:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major		
General Fund	\$ 1,342,620	\$ -
Debt Service Fund	-	-
Capital Projects Fund	-	216,348
Non Major		
Other Governmental Funds	-	10,677
Major		
Utility Fund	-	1,091,469
Sanitation Fund	-	24,126
Total	<u>\$ 1,342,620</u>	<u>\$ 1,342,620</u>

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

	<u>Due From</u>	<u>Due To</u>
Major		
General Fund	\$ 154,542	\$ 388,764
Debt Service Fund	-	222,210
Capital Projects Fund	351,239	119,618
Non Major		
Other Governmental Funds	37,525	219,202
Major		
Utility Fund	406,488	20,018
Sanitation Fund	20,018	-
Total	<u>\$ 969,812</u>	<u>\$ 969,812</u>

NOTE G - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2010 was as follows:

	<u>Balance at</u>		<u>Deletions</u>	<u>Balance at</u>	<u>Due Within</u>
	<u>9/30/2009</u>	<u>Additions</u>		<u>9/30/2010</u>	<u>One Year</u>
Governmental Activities:					
General obligation bonds payable	\$ 12,655,000	\$ -	\$ 565,000	\$ 12,090,000	\$ 590,000
Special assessment bonds payable	12,370,000	-	800,000	11,570,000	830,000
Loans payable	1,300,000		249,756	1,050,244	1,050,244
Leases payable	355,483	306,079	214,764	446,798	254,592
Bond premium	203,470	-	19,076	184,394	-
Bond discount	(71,060)	-	(5,466)	(65,594)	-
Deferred loss	(440,100)	-	(42,626)	(397,474)	-
Compensated absences	416,949	59,641	-	476,590	-
Total Governmental Activities	<u>\$ 26,789,742</u>	<u>\$ 365,720</u>	<u>\$ 1,800,504</u>	<u>\$ 25,354,958</u>	<u>\$ 2,724,836</u>
Business-type Activities:					
Revenue bonds payable	\$ 11,935,000	\$ -	\$ 300,000	\$ 11,635,000	\$ 315,000
Loans payable	2,567,203	-	149,873	2,417,330	155,141
Leases payable	139,572	51,932	47,486	144,018	71,348
Bond premium	381,677	-	35,616	346,061	-
Compensated absences	75,341	30,777	-	106,118	-
Total Business-type Activities	<u>\$ 15,098,793</u>	<u>\$ 82,709</u>	<u>\$ 532,975</u>	<u>\$ 14,648,527</u>	<u>\$ 541,489</u>

General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds outstanding as of September 30, 2010 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>
2004	3.70% - 5.00%	8/11/2004	8/1/2024	\$ 4,500,000	\$ 3,570,000
2008	3.25%- 4.63%	4/1/2008	4/1/2023	4,410,000	4,165,000
2008	2.75% - 5.00%	11/1/2008	11/1/2028	4,500,000	4,355,000
Total General Obligation Bonds				<u>\$ 13,410,000</u>	<u>\$ 12,090,000</u>

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

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	\$ 6,240,000
2001 Special Obligation Recreation Facilities Project	4.10% - 5.00%	10/1/2001	4/1/2022	7,000,000	5,330,000
Total Special Assessment Bonds				<u>\$ 15,540,000</u>	<u>\$ 11,570,000</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	\$ 11,635,000
Total Revenue Bonds				<u>\$ 12,750,000</u>	<u>\$ 11,635,000</u>

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Governmental					
Urban Renewal Note, Series 2009	2.00%	7/1/2009	7/1/2014	\$ 1,300,000	\$ 1,050,244
Enterprise					
Drinking Water System Improvements Revolving Loan	4.00%	3/1/2001	11/1/2020	1,509,556	925,870
Drinking Water System Improvements Revolving Loan (Water Treatment Plant)	3.50%	11/13/2002	10/2/2023	773,901	569,664
Cap Loan (Water Treatment Plant)	2.00%	11/20/2002	10/2/2023	476,333	396,681
Cap Loan (Water Treatment Plant)	3.00%	2/1/2005	10/1/2027	587,905	525,115
Total Loans				<u>\$ 4,647,695</u>	<u>\$ 3,467,574</u>

The Urban Renewal Note, Series 2009, was used to purchase a building that was leased for the year ended September 30, 2009. Rental revenue related to this lease totaled \$309,500. Subsequent to September 30, 2010, the building was sold to the lessee and the proceeds used to pay the Urban Renewal Note, Series 2009 in full. Accordingly, the entire outstanding balance on this note has been classified as currently due in these financial statements.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

The aggregate maturities of general obligation, special assessment bonds, revenue bonds and loans for the years subsequent to September 30, 2010 are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	590,000	526,775
2012	605,000	501,700
2013	635,000	475,100
2014	660,000	449,275
2015	690,000	422,534
2016-2020	3,955,000	1,644,480
2021-2025	3,715,000	699,257
2026-2030	1,240,000	120,889
Total	\$ 12,090,000	\$ 4,840,010

<u>Year Ending</u> <u>September 30</u>	<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	830,000	527,613
2012	875,000	495,463
2013	915,000	461,426
2014	960,000	425,194
2015	1,005,000	385,926
2016-2020	5,855,000	1,179,217
2021-2025	1,130,000	85,500
Total	\$ 11,570,000	\$ 3,560,339

<u>Year Ending</u> <u>September 30</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	315,000	562,415
2012	335,000	546,165
2013	350,000	529,040
2014	370,000	511,040
2015	390,000	492,040
2016-2020	1,770,000	2,183,719
2021-2025	2,785,000	1,647,694
2026-2030	2,810,000	793,388
2031-2035	2,510,000	56,475
Total	\$ 11,635,000	\$ 7,321,976

<u>Year Ending</u> <u>September 30</u>	<u>Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2011	1,205,385	97,957
2012	160,602	72,758
2013	166,264	67,098
2014	172,131	61,230
2015	178,215	55,147
2016-2020	990,432	176,374
2021-2025	481,545	44,684
2026-2030	113,000	3,068
Total	\$ 3,467,574	\$ 578,316

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2010 were as follows:

Year Ending September 30	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
2011	\$ 254,572	\$ 8,796	\$ 71,348	\$ 3,928
2012	190,113	4,993	72,670	2,208
2013	2,113	15	-	-
Total	\$ 446,798	\$ 13,804	\$ 144,018	\$ 6,136

Legal Debt Margin. The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests. Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$10,095,821 (the smaller of the two computed margins) as of September 30, 2010.

	<u>15% Test</u>	<u>20% Test</u>
Assessed value as of September 30, 2010:		
\$147,905,474 times applicable percentage	\$ 22,185,821	\$ 29,581,095
Less present debt subject to debt limits as of September 30, 2010:		
Total bonds outstanding (exclude proprietary)	<u>(12,090,000)</u>	<u>(12,090,000)</u>
Margin for additional debt	<u>\$ 10,095,821</u>	<u>\$ 17,491,095</u>

NOTE H - OPERATING LEASE

Refer to Note G for discussion of operating lease associated with the Urban Renewal Note, Series 2009.

NOTE I - 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, 2010, the current rate is 12% 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, 2010, 2009, and 2008 were \$981,811, \$907,066, and \$819,047 respectively, equal to the required contribution for each year.

NOTE J - 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.

City of Horn Lake, Mississippi
Notes to Financial Statements
For the Year Ended September 30, 2010

NOTE K - 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 L - SUBSEQUENT EVENTS

On July 1, 2009, the City of Horn Lake issued a \$1,300,000 Urban Renewal Note which was purchased by the American Contract Bridge League, Inc. The note was for 5 years bearing interest at 2% per annum. Proceeds were used to purchase and improve a building and 4.2 acres of DeSoto Commons PUD Phase 2, Lot 1, Parcel A-10. On the same date City of Horn Lake entered into a lease purchase agreement with American Contract Bridge League, Inc. with terms of semi-annual lease payments of \$154,749.57 due each December and June with the option to purchase the property on any payment date. American Contract Bridge League exercised this option on December 10, 2010 for the lease balance of \$1,200,690.

In January of 2011, the City issued a tax anticipation loan with BancorpSouth at an interest rate of 1.4%. The loan was repaid by March 2011.

In February 2011, a bid was approved for the Newly Wed Foods Rail Spur in the amount of \$1,241,633.

In June 2011, matching funds of \$403,679 were approved by the City for a CDBG grant for the Allen Subdivision Sanitary Sewer Project.

In September 2011 the City approved a bond resolution to issue 2011 G O Refunding Bonds to advance refund G O Series 2004 bonds with an original amount of \$4,500,000. Current balance of the 2004 bonds is \$3,200,000 with redemption of refunded bonds to be on August 1, 2012. The new bonds are not to exceed \$3,500,000, and should reflect a net present value savings of at least 2%.

In October 2011, a \$1.2 million tax anticipation loan was approved by the City with BankPlus at a rate of 1.8%.

Management has evaluated subsequent events through November 17, 2011, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Budgetary Comparison Schedule
General Fund
September 30, 2010

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
Revenues					
Taxes	\$ 8,542,990	\$ 8,400,565	\$ 8,403,227	\$ (142,425)	\$ 2,662
Licenses and permits	204,000	160,600	153,726	(43,400)	(6,874)
Intergovernmental	173,200	174,960	173,760	1,760	(1,200)
Charges for services	900,000	896,900	880,122	(3,100)	(16,778)
Fines	959,000	903,500	779,804	(55,500)	(123,696)
Interest	20,000	20,000	10,186	-	(9,814)
Miscellaneous	368,500	474,540	316,093	106,040	(158,447)
Total Revenues	11,167,690	11,031,065	10,716,918	(136,625)	(314,147)
Expenditures					
Administrative	2,189,694	2,435,799	2,228,742	(246,105)	207,057
Culture & recreation	975,766	1,173,326	1,241,071	(197,560)	(67,745)
Economic development	126,736	133,736	116,568	(7,000)	17,168
Public safety	8,322,377	7,797,877	8,022,101	524,500	(224,224)
Public works	786,479	783,214	825,336	3,265	(42,122)
Debt service	-	-	274,576	-	(274,576)
Capital outlay	370,500	338,125	588,704	32,375	(250,579)
Total Expenditures	12,771,552	12,662,077	13,297,098	109,475	(635,021)
Excess (deficiency) of revenues over (under) expenditures	(1,603,862)	(1,631,012)	(2,580,180)	(27,150)	(949,168)
Other Financing Sources (Uses)					
Grant revenue	222,000	249,150	190,460	27,150	(58,690)
Lease proceeds	-	-	615,579	-	615,579
Interfund transfers	1,381,862	1,381,862	1,342,620	-	(39,242)
Sale of assets	-	-	-	-	-
Total Other Financing Sources (Uses)	1,603,862	1,631,012	2,148,659	27,150	517,647
Net Changes in Fund Balances	\$ -	\$ -	(431,521)	\$ -	\$ (431,521)
Fund Balance - Beginning of Year			775,011		
Fund Balance - End of Year			343,490		
Adjustments to Conform with GAAP:					
Revenues			122,857		
Expenditures			(550,100)		
Fund Balance - End of Year (GAAP Basis)			\$ (83,753)		

SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Schedule of Expenditures of Federal Awards
September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
US Department of Transportation			
*Passed-through Mississippi Department of Transportation			
Highway Planning and Construction	20.205	105184401000	76,115
ARRA - Highway Planning and Construction	20.205	STP-0021-01(106)/105681-701000	130,545
Highway Planning and Construction	20.205	STP-9999-09(011)/105897-105	29,371
ARRA - Highway Planning and Construction	20.205	STP-0021-01(105)/105678-701000	351,409
Total Highway Planning and Construction Cluster			<u>587,440</u>
Passed-through Mississippi Department of Public Safety			
Alcohol Open Container Requirements	20.607	10-TA-218-1	<u>95,822</u>
Total US Department of Transportation			<u>683,262</u>
Delta Regional Authority			
Passed-through North Delta Planning and Development District			
Delta Area Economic Development	90.201	MS-5458	96,845
Delta Area Economic Development	90.201	MS-5394	5,380
Delta Area Economic Development	90.201	MS-5395	6,257
Total Delta Regional Authority			<u>108,482</u>
Total Expenditures of Federal Awards			<u>\$ 791,744</u>

* Major program

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on this schedule are reported on the modified accrual basis of accounting.

City of Horn Lake, Mississippi
Schedule of Surety Bonds for Municipal Officials
September 30, 2010

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount</u>
Nat Baker	Mayor	Zurich	\$ 50,000
Andrea Freeze	Administrator/City Clerk	Zurich	100,000
Tara Warran	Court Clerk	Zurich	50,000
Legail Lampkins	Deputy City Clerk	Zurich	50,000
Frances Williams	Deputy City Clerk	Zurich	50,000
Darryl Whaley	Police Chief	Zurich	50,000
William Beach	Finance Director	Zurich	50,000
Arianne Jenkins	Human Resources Director	Zurich	50,000
	Aldermen (each)	Zurich	50,000

SPECIAL REPORTS



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

Mayor and Board of Aldermen
City of Horn Lake, 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 10-01 and 10-02 to be material weaknesses.

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*.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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
November 17, 2011



**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 City's major federal programs for the year ended September 30, 2010. 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, 2010.

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 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.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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
November 17, 2011



**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, 2010, and have issued our report dated November 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental Auditing Standards*.

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

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

1. Finding- Section 21-35-17, Miss. Code Ann. (1972) requires that the governing authorities shall not approve any claim and the city clerk shall not issue any warrant for any expenditure in excess of said detailed budget appropriations as finally adopted, or as revised under the provisions of this chapter, except upon an order of a court of competent jurisdiction or for an emergency, as provided in this chapter. See the budgetary comparison schedule on page 36 for expenditures in excess of budgeted appropriations.

Recommendation- The governing authorities and City Clerk should ensure no expenditures exceed the final adopted budget as required in Section 21-35-17, Miss. Code Ann. (1972).

Response- The City's actual expenditures exceeded final adopted budgeted expenditures largely as the result of year-end audit adjustments made by our accounting firm. These overages were not discovered until the audit was completed. The City will be more proactive in ensuring that all expenditures are within the final amended budget amounts by generating and carefully reviewing monthly budget reports. With accurate information prepared on a timely basis, the City will be able to take the necessary steps to ensure that budgets are amended prior to budget overages occurring.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the finding in this report to ensure that corrective action has been taken.

The City's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for the information of the Board of Aldermen, 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
November 17, 2011

City of Horn Lake, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2010

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|---|---------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified that are not considered to be a material weaknesses? | None Reported |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | |
|---|---------------|
| 4. Type of auditor's report issued on compliance for major federal programs | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be a material weaknesses? | None Reported |
| 6. Any audit findings reported as required by OMB Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Highway Planning and Construction | |
| 8. The dollar threshold used to distinguish between types A and B programs | \$300,000 |
| 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

Material Weaknesses

- 10-01 Criteria: Effective internal control over financial reporting includes robust oversight and monitoring, proper documentation of transactions and adequate segregation of duties.

City of Horn Lake, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2010

Condition: Audit procedures identified lack of management oversight including insufficient monitoring, insufficient documentation, and improper segregation of duties. The following represent examples of lack of management oversight discovered through audit procedures performed:

- Cash accounts not reconciled timely
- No review of reconciliations
- No approval of journal entries
- Signature plate for checks should not be maintained by individual who has access to blank check stock
- No procedures in place to ensure capitalization of fixed assets
- Invoices paid during the first 60 days after fiscal year-end were not properly accrued as of September 30, 2010
- Material adjustments necessary to correct due to/due from and transfer accounts further identified adjustments necessary to the following:
 - Accounts receivable
 - Prepaids
 - Fixed assets
 - Accounts payable and accrued expenses
 - Debt

Effect: Because of the internal control deficiencies noted above, there is a more than remote likelihood that a material misstatement of the City's financial statements will not be prevented or detected.

Recommendation: Management should make significant changes to the City's internal control structure, primarily related to daily oversight and review of transactions and reconciliations.

Response: We have two new employees in the finance department which will provide us the ability to segregate duties and monitor processes and procedures more closely. Financial transactions will be monitored daily and reconciliations will be performed timely. We continue to seek assistance from our accounting firm to develop and implement policies in order to prevent, detect and correct any material misstatements.

10-02 Criteria: Effective internal control over financial report includes the ability to properly produce financial statements in accordance with generally accepted accounting principles. Management is responsible for ensuring that all items are correctly reported on the City's financial statements.

Condition: The City does not have the personnel or procedures in place to provide for the preparation and review of external financial statements and related disclosures in accordance with generally accepted accounting principles. Additionally, the City does not have the personnel or procedures in place to detect material misstatements in the external financial statements or disclosures.

Effect: The external auditors discovered and proposed material adjustments that were recorded by management.

City of Horn Lake, Mississippi
Schedule of Findings and Questioned Costs
September 30, 2010

Recommendation: The City should evaluate the costs and benefits of providing for the preparation of the external financial statements and related disclosures.

Response: The hiring of qualified employees in the finance department will provide us with the personnel to prepare and review external financial statements. Daily review of financial transactions will enable us to detect material misstatements in the external financial statements and disclosures.