

**CITY OF HORN LAKE, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2009**



CITY OF HORN LAKE, MISSISSIPPI
Audited Financial Statements
For the Year Ended September 30, 2009

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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, 2009, 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, 2009, 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 August 23, 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 schedule of surety bonds is the responsibility of management and was derived from and relates 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
August 23, 2011

CITY OF HORN LAKE

MISSISSIPPI



Management's Discussion and Analysis

FYE 2009

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
September 30, 2009

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, 2009. 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 2009 were as follows:

Total net assets decreased from \$ 13,981,047 to \$ 11,355,875
Total liabilities increased from \$ 45,233,779 to \$ 50,545,360
Total assets of governmental activities increased from \$ 38,883,132 to \$ 42,257,997
Total assets of business-type activities decreased from \$ 20,331,694 to \$19,643,238

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 2009?" 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
September 30, 2009

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.

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.

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 2009 compared to 2008. Table 2 shows the changes in net assets for the 2009 year.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2009

Table 1
Statement of Net Assets

	2009		2008	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Assets				
Current and other assets	\$ 14,575,562	\$ 4,936,991	\$ 11,777,160	\$ 5,440,658
Capital assets, net	27,682,435	14,706,247	27,105,972	14,891,036
Total Assets	42,257,997	19,643,238	38,883,132	20,331,694
Liabilities				
Current liabilities	9,716,285	1,263,832	8,697,690	1,279,293
Long-term liabilities	24,963,651	14,601,592	20,311,275	14,945,521
Total Liabilities	34,679,936	15,865,424	29,008,965	16,224,814
Net Assets				
Invested in capital assets, net of debt	1,677,097	224,646	5,811,275	223,021
Restricted	5,957,582	117,512	1,739,934	-
Unrestricted	(56,618)	3,435,656	2,322,958	3,883,859
Total Net Assets	\$ 7,578,061	\$ 3,777,814	\$ 9,874,167	\$ 4,106,880

Total assets increased by \$2,686,409. Equity in pooled cash and cash equivalents increased by \$391,674. The following table, Table 2, presents a summary of the changes in net assets for the fiscal year ended September 30, 2009.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2009

Table 2
Changes in Net Assets

	2009		2008	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Revenues				
Program Revenues:				
Charges for services	\$ 1,107,032	\$ 4,482,599	\$ 825,391	\$ 4,913,425
Operating grants and contributions	186,244	-	144,282	-
Capital grants and contributions	-	-	-	238,767
Total Program Revenues	1,293,276	4,482,599	969,673	5,152,192
General Revenues:				
Taxes	7,087,391	-	6,824,901	-
Other revenues	5,798,075	37,490	5,707,296	94,450
Transfers	334,861	(334,861)	(429,299)	429,299
Total General Revenues	13,220,327	(297,371)	12,102,898	523,749
Total Revenues	14,513,603	4,185,228	13,072,571	5,675,941
Expenses				
General government	\$4,428,019	-	\$2,668,563	-
Public safety	7,373,784	-	6,789,700	-
Public works	1,895,465	-	1,156,501	-
Cultural & recreational	1,409,220	-	829,826	-
Economic development	447,203	-	493,971	-
Interest	1,256,018	-	1,040,006	-
Utility department	-	3,266,659	-	3,582,568
Sanitation department	-	1,247,635	-	1,198,961
Total Expenses	16,809,709	4,514,294	12,978,567	4,781,529
Change in Net Assets	\$ (2,296,106)	\$ (329,066)	\$ 94,004	\$ 894,412

Governmental Activities

Several revenues fund the City's governmental activities. The largest funding source, property tax revenue, accounted for \$7,087,391, or 53.6% of gross revenue; sales tax revenue accounted for \$3,688,490 or 27.9% of gross revenue. Fines of \$721,029 accounted for 5.5% of gross revenues, and franchise taxes of \$573,553, accounted for 3.9% of gross revenues. The remaining 9.1% of gross revenues was comprised of miscellaneous revenue and transfers.

Total revenues from governmental activities increased from \$12,102,898 in 2008 to \$13,220,327 in 2009, a 9.2% increase.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2009

Major expense activities included public safety expenditures accounting for 43.87 % of total program expenses, and general government expenses accounting for 26.34%. General government expenses increased from \$2,668,563 in 2008 to \$4,428,019 in 2009, a 65.9% increase. This increase was due largely in part to substantial legal fees incurred in connection with an annexation bid undertaken by the City. Additionally, the implantation of a new software system in 2009 resulted in increased expenditures.

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 \$329,066. Revenues from the utility system fund and the sanitation fund totaled \$4,185,228 in 2009, a decrease of 35.6% from 2008 revenue of \$5,675,941. Effects from the national recession continued to affect our City in 2009, which contributed to decreased revenues.

Expenses of the utility and sanitation funds also decreased. 2009 expenses totaled \$4,514,294, a 5.6% decrease from 2008 total expenses of \$4,781,529.

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
September 30, 2009

The basic governmental funds financial statements can be found on pages 15 and 17 of this report. The most significant change in the City's governmental funds was due to the issuance of \$5.8 million in notes payable for the construction of a new fire station, and for the purchase of an office building. 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 2009 totaled \$3,777,814, which represents a \$329,066 decrease. Of this amount, net assets of the utility fund decreased by \$246,545 while the sanitation fund decreased by \$82,521.

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 2009, 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 \$13,011,325; amended budget amounts were \$12,852,577 and actual revenue collections were \$13,220,327.

Capital Assets and Long-Term Obligations

Capital Assets

Table 3
Capital Assets (Net of Depreciation) at September 30, 2009

	2009		2008	
	Government Activities	Business-type Activities	Government Activities	Business-type Activities
Land	\$ 3,815,306	\$ 28,225	\$ 3,632,643	\$ 28,225
Buildings & Improvements	6,619,702	218,548	5,719,041	218,548
Equipment & Vehicles	4,980,923	1,289,112	4,559,402	1,089,966
Construction in Progress	319,808	-	377,215	513,666
Infrastructure	24,893,858	18,864,054	24,420,317	18,026,027
Accumulated Depreciation	<u>(12,947,162)</u>	<u>(5,693,692)</u>	<u>(11,602,646)</u>	<u>(4,985,396)</u>
Total Capital Assets, net	<u>\$ 27,682,435</u>	<u>\$ 14,706,247</u>	<u>\$ 27,105,972</u>	<u>\$ 14,891,036</u>

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2009

The primary increase occurred in Buildings & Improvements due to the purchase of an office building. The City entered into a lease purchase agreement with the tenant, and subsequently sold the building in 2010. Construction in process on a road improvement project was finished during 2009. Upon completion of the construction, the total construction costs were added to the Infrastructure Asset line. Additionally, construction in progress includes costs incurred in the construction of a new fire station, and an animal shelter building, both of which are expected to be completed in 2010.

Long-Term Obligations

Table 4
Outstanding Notes and Long-Term Obligations at Year End

	<u>2009</u>	<u>2008</u>
Governmental Activities:		
General obligation bonds	\$ 13,955,000	\$ 7,960,200
Special assessment bonds	12,370,000	13,135,000
Leases payable	355,483	352,469
Bond premium	203,470	222,546
Bond discount	(71,060)	-
Deferred loss	(440,100)	(242,252)
Compensated absences	<u>416,949</u>	<u>391,330</u>
Total	<u>\$ 26,789,742</u>	<u>\$ 21,819,293</u>
Business-type Activities:		
Bonds and notes payable	\$ 11,935,000	\$ 12,220,000
Loans payable	2,567,203	2,717,146
Leases payable	139,572	-
Bond premium	381,677	399,293
Compensated absences	<u>75,341</u>	<u>38,875</u>
Total	<u>\$ 15,098,793</u>	<u>\$ 15,375,314</u>

The City's general obligation bonds increased from \$7,960,200 in 2008 to \$13,955,000 in 2009. As mentioned previously, \$5.8 million of general obligation debt was incurred in connection with the construction of a new fire station and the purchase of an office building. Leases payable in the sanitation fund increased largely in part to the purchase of a new sanitation truck.

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, 2009

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 329,075	\$ 1,252,237	\$ 1,581,312
Investments	55,191	-	55,191
Accounts receivable, net	890,331	369,068	1,259,399
Intergovernmental receivable	290,237	-	290,237
Property tax receivable	6,172,096	-	6,172,096
Prepaid expense	617,329	117,512	734,841
Inventories	-	2,195	2,195
Internal balances	108,307	(108,307)	-
Restricted assets			
Cash in bank	5,577,003	2,249,007	7,826,010
Customer deposits	-	513,428	513,428
Other deposits	168,538	-	168,538
Bond issue costs, net	367,455	541,851	909,306
Capital assets, net	27,682,435	14,706,247	42,388,682
Total Assets	42,257,997	19,643,238	61,901,235
Liabilities			
Accounts payable	480,480	11,639	492,119
Accrued expenses	479,659	42,520	522,179
Customer deposits	-	513,428	513,428
Other deposits	168,538	-	168,538
Deferred revenue	6,172,096	-	6,172,096
Accrued interest	589,421	199,044	788,465
Long-term liabilities			
Due within one year:			
Capital debt	1,826,091	497,201	2,323,292
Due in more than one year:			
Capital debt	24,546,702	14,526,251	39,072,953
Non-capital debt	416,949	75,341	492,290
Total Liabilities	34,679,936	15,865,424	50,545,360
Net Assets			
Invested in capital assets, net of related debt	1,677,097	224,646	1,901,743
Restricted for:			
Capital projects	5,340,253	-	5,340,253
Prepaid expenses	617,329	117,512	734,841
Unrestricted	(56,618)	3,435,656	3,379,038
Total Net Assets	\$ 7,578,061	\$ 3,777,814	\$ 11,355,875

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

CITY OF HORN LAKE, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2009

	<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	\$ 342,911	\$ -	\$ -	\$ -	\$ 342,911
Investments	55,191	-	-	-	55,191
Due from other funds	-	-	228,125	21,927	250,052
Accounts receivable, net	890,331	-	-	-	890,331
Intergovernmental receivable	290,237	-	-	-	290,237
Property tax receivable	3,789,794	2,241,917	-	140,385	6,172,096
Prepaid expenses	-	445,400	-	-	445,400
Restricted assets					
Cash in bank	141,764	-	4,129,313	1,305,926	5,577,003
Other deposit	138,538	-	30,000	-	168,538
Total Assets	<u>\$ 5,648,766</u>	<u>\$ 2,687,317</u>	<u>\$ 4,387,438</u>	<u>\$ 1,468,238</u>	<u>\$ 14,191,759</u>
Liabilities					
Accounts payable	\$ 446,136	\$ -	\$ 28,315	\$ 19,871	\$ 494,322
Accrued expenses	479,659	-	-	-	479,659
Other deposits	138,538	-	30,000	-	168,538
Due to other funds	19,628	122,117	-	-	141,745
Deferred revenue	3,789,794	2,241,917	-	140,385	6,172,096
Total Liabilities	<u>4,873,755</u>	<u>2,364,034</u>	<u>58,315</u>	<u>160,256</u>	<u>7,456,360</u>
Fund Balances					
Reserved for:					
Capital projects	-	-	4,329,123	1,011,130	5,340,253
Debt service	-	(122,117)	-	28,525	(93,592)
Prepaid expenses	-	445,400	-	-	445,400
Unreserved - undesignated, reported in:					
General	775,011	-	-	-	775,011
Special revenue	-	-	-	268,327	268,327
Total Fund Balances	<u>775,011</u>	<u>323,283</u>	<u>4,329,123</u>	<u>1,307,982</u>	<u>6,735,399</u>
Total Liabilities and Fund Balances	<u>\$ 5,648,766</u>	<u>\$ 2,687,317</u>	<u>\$ 4,387,438</u>	<u>\$ 1,468,238</u>	<u>\$ 14,191,759</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, 2009

Total Fund Balance - Governmental Funds \$ 6,735,399

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	3,815,306	
Buildings and improvements	6,619,702	
Equipment and vehicles	4,980,923	
Infrastructure	24,893,858	
Construction in progress	319,808	
Accumulated depreciation	<u>(12,947,162)</u>	
		27,682,435

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		367,455
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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	(355,483)	
General obligation and special assessment bonds	(26,325,000)	
Accrued interest	(589,421)	
Bond premium	(203,464)	
Bond discount	71,060	
Deferred loss on refunding	440,100	
Prepaid expenses	171,929	
Compensated absences	<u>(416,949)</u>	
		<u>(27,207,228)</u>

Net Assets of Governmental Activities \$ 7,578,061

CITY OF HORN LAKE, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2009

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 8,737,366	\$ 2,380,544	\$ -	\$ 253,771	\$ 11,371,681
Licenses and permits	178,059	-	-	-	178,059
Intergovernmental	164,542	-	-	-	164,542
Charges for services	1,107,022	-	-	10	1,107,032
Fines	721,029	-	-	-	721,029
Interest	8,714	1,148	13,216	10,724	33,802
Miscellaneous	429,710	-	-	25,122	454,832
Total Revenues	11,346,442	2,381,692	13,216	289,627	14,030,977
Expenditures					
Administrative	4,190,010	-	-	-	4,190,010
Culture & recreation	1,066,672	-	-	148,098	1,214,770
Economic development	308,213	-	-	135,130	443,343
Public safety	6,953,497	-	-	45	6,953,542
Public works	1,071,501	-	66,443	18,290	1,156,234
Debt service					
Principal	64,116	1,297,212	-	-	1,361,328
Interest	15,234	1,027,141	-	-	1,042,375
Capital outlay	909,604	-	1,308,137	154,072	2,371,813
Total Expenditures	14,578,847	2,324,353	1,374,580	455,635	18,733,415
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,232,405)	57,339	(1,361,364)	(166,008)	(4,702,438)
Other Financing Sources (Uses)					
Grant revenue	186,244	-	-	-	186,244
Bond proceeds	-	-	5,800,000	-	5,800,000
Lease proceeds	379,142	-	-	-	379,142
Bond issue cost	-	-	(162,106)	-	(162,106)
Interfund transfers	282,268	-	52,593	-	334,861
Total Other Financing Sources (Uses)	847,654	-	5,690,487	-	6,538,141
Net Change in Fund Balances	(2,384,751)	57,339	4,329,123	(166,008)	1,835,703
Fund Balance - Beginning of Year	3,159,762	265,944	-	1,473,990	4,899,696
Fund Balance - End of Year	\$ 775,011	\$ 323,283	\$ 4,329,123	\$ 1,307,982	\$ 6,735,399

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, 2009

Net Change in Fund Balances - Total Governmental Funds \$ 1,835,703

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

Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,170,331) exceeded depreciation (\$1,555,379). 614,952

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 (\$6,179,142) and amortization expense (\$54,727) in the current period exceed repayments of \$1,361,328 and bond issue costs of \$162,106 in the current period. (4,710,435)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Accrued interest payable	(144,147)
Compensated absences payable	(25,619)
Prepaid expenses	171,929
Sale of assets	(38,489)

Change in Net Assets of Governmental Activities \$ (2,296,106)

CITY OF HORN LAKE, MISSISSIPPI
Statement of Net Assets
Proprietary Funds
September 30, 2009

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,849,621	\$ -	\$ 1,849,621
Accounts receivable, net	232,092	136,976	369,068
Inventory	2,195	-	2,195
Prepaid expenses	83,340	34,172	117,512
Due from other funds	-	371,655	371,655
Total Current Assets	<u>2,167,248</u>	<u>542,803</u>	<u>2,710,051</u>
Restricted assets:			
Cash	1,750,905	-	1,750,905
Customer deposits	325,774	187,654	513,428
Total Restricted Assets	<u>2,076,679</u>	<u>187,654</u>	<u>2,264,333</u>
Other Assets			
Bond issue cost, net	541,851	-	541,851
Total Other Assets	<u>541,851</u>	<u>-</u>	<u>541,851</u>
Fixed Assets			
Land	28,225	-	28,225
Buildings and improvements	151,001	67,547	218,548
Infrastructure	18,864,054	-	18,864,054
Machinery and equipment	101,189	699,886	801,075
Vehicles	41,122	446,915	488,037
Accumulated depreciation	(4,860,119)	(833,573)	(5,693,692)
Total Fixed Assets	<u>14,325,472</u>	<u>380,775</u>	<u>14,706,247</u>
Total Assets	<u>\$ 19,111,250</u>	<u>\$ 1,111,232</u>	<u>\$ 20,222,482</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 8,349	\$ 102,572	\$ 110,921
Accrued expenses	19,767	22,753	42,520
Accrued interest payable	199,044	-	199,044
Due to other funds	479,962	-	479,962
Total Current Liabilities	<u>707,122</u>	<u>125,325</u>	<u>832,447</u>
Current Liabilities Payable from Restricted Assets			
Customer deposits	325,774	187,654	513,428
Long-term liabilities due within one year:			
Capital debt	463,817	33,384	497,201
Total Current Liabilities Payable from Restricted Assets	<u>789,591</u>	<u>221,038</u>	<u>1,010,629</u>
Long-term liabilities due in more than one year:			
Capital debt	14,461,185	65,066	14,526,251
Non-capital debt	25,227	50,114	75,341
Total long-term liabilities	<u>14,486,412</u>	<u>115,180</u>	<u>14,601,592</u>
Total Liabilities	<u>15,983,125</u>	<u>461,543</u>	<u>16,444,668</u>
Net Assets			
Invested in capital assets, net of related debt	(57,679)	282,325	224,646
Unrestricted	3,185,804	367,364	3,553,168
Total Net Assets	<u>3,128,125</u>	<u>649,689</u>	<u>3,777,814</u>
Total Liabilities and Net Assets	<u>\$ 19,111,250</u>	<u>\$ 1,111,232</u>	<u>\$ 20,222,482</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, 2009

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating Revenues			
Sales	\$ 3,134,788	\$ 1,347,811	\$ 4,482,599
Miscellaneous	30,953	2,303	33,256
Total Operating Revenues	<u>3,165,741</u>	<u>1,350,114</u>	<u>4,515,855</u>
Operating Expenses			
Personnel	568,686	883,784	1,452,470
Supplies	96,003	207,408	303,411
Depreciation and amortization	685,810	39,110	724,920
Maintenance and other	317,586	117,333	434,919
Water & sewer system management	890,427	-	890,427
Total Operating Expenses	<u>2,558,512</u>	<u>1,247,635</u>	<u>3,806,147</u>
Operating Income	<u>607,229</u>	<u>102,479</u>	<u>709,708</u>
Non-operating Revenues (Expenses)			
Interest revenue	4,234	-	4,234
Interest expense	(708,147)	-	(708,147)
Interfund transfers	(149,861)	(185,000)	(334,861)
Total Non-operating Revenues (Expenses)	<u>(853,774)</u>	<u>(185,000)</u>	<u>(1,038,774)</u>
Net Income	(246,545)	(82,521)	(329,066)
Net Assets - Beginning of Year	<u>3,374,670</u>	<u>732,210</u>	<u>4,106,880</u>
Net Assets - End of Year	<u>\$ 3,128,125</u>	<u>\$ 649,689</u>	<u>\$ 3,777,814</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, 2009

	<u>Utility Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 3,405,587	\$ 1,325,540	\$ 4,731,127
Cash payments for goods and services	(1,451,491)	(271,040)	(1,722,531)
Cash payments to employees	(561,119)	(854,885)	(1,416,004)
Net Cash Provided By (Used In) Operating Activities	<u>1,392,977</u>	<u>199,615</u>	<u>1,592,592</u>
Cash Flows from Non-capital Financing Activities			
Interfund transfers	640,504	(685,075)	(44,571)
Net Cash Provided By (Used In) Non-Capital Financing Activities	<u>640,504</u>	<u>(685,075)</u>	<u>(44,571)</u>
Cash Flows from Capital and Related Financing Activities			
Payments for capital acquisitions	(459,298)	(98,449)	(557,747)
Customer deposits	35,006	36,775	71,781
Loan proceeds	41,122	98,450	139,572
Principal payments and bond issue cost on debt	(308,370)	-	(308,370)
Interest payments on debt	(712,481)	-	(712,481)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(1,404,021)</u>	<u>36,776</u>	<u>(1,367,245)</u>
Cash Flows from Investing Activities			
Interest revenue	4,234	-	4,234
Net Increase (Decrease) in Cash and Cash Equivalents	633,694	(448,684)	185,010
Cash and Cash Equivalents-Beginning of Year	<u>3,292,606</u>	<u>636,338</u>	<u>3,928,944</u>
Cash and Cash Equivalents-End of Year	<u>\$ 3,926,300</u>	<u>\$ 187,654</u>	<u>\$ 4,113,954</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 607,229	\$ 102,479	\$ 709,708
Adjustments to reconcile operating income to net cash provided by (used in) operating activities			
Depreciation and amortization	685,810	39,110	724,920
(Increase) decrease in customer receivables	239,846	(24,574)	215,272
(Increase) decrease in prepaid expenses	(8,567)	(34,172)	(42,739)
Increase (decrease) in accounts payable	(145,857)	80,062	(65,795)
Increase (decrease) in accrued expenses	6,949	7,811	14,760
Increase (decrease) in compensated absences	7,567	28,899	36,466
Total adjustments	<u>785,748</u>	<u>97,136</u>	<u>882,884</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 1,392,977</u>	<u>\$ 199,615</u>	<u>\$ 1,592,592</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, 2009

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, 2009

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, 2009

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, 2009

Cash and Cash Equivalents and Investments

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.

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.

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, 2009

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, 2009

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, 2009, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2009, the carrying amount of the City's deposits was \$10,089,288 and the bank balances totaled \$11,150,329. Of the bank balances, \$1,250,000 was insured by federal deposit insurance, \$9,851,889 was covered by pooled/or pledged collateral and \$48,440 was exposed to custodial credit risk because it was uninsured and uncollateralized with the State Treasurer.

NOTE C - INTERGOVERNMENTAL RECEIVABLES

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

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2009

NOTE D – CAPITAL ASSETS

The following is a summary of changes in capital assets:

	<u>Balance at 9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 9/30/2009</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,632,643	\$ 182,663	\$ -	\$ 3,815,306
Construction in progress	377,215	402,941	460,348	319,808
Total Capital Assets, Not Being Depreciated:	<u>4,009,858</u>	<u>585,604</u>	<u>460,348</u>	<u>4,135,114</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	5,719,041	900,661	-	6,619,702
Equipment and machinery	1,142,558	288,546	5,486	1,425,618
Infrastructure	24,420,317	473,540	-	24,893,857
Vehicles	3,416,844	382,328	243,867	3,555,305
Total Capital Assets, Being Depreciated:	<u>34,698,760</u>	<u>2,045,075</u>	<u>249,353</u>	<u>36,494,482</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,214,045)	(155,738)	-	(1,369,783)
Equipment and machinery	(719,072)	(189,246)	(5,431)	(902,887)
Infrastructure	(7,399,313)	(921,223)	-	(8,320,536)
Vehicles	(2,270,216)	(289,172)	(205,433)	(2,353,955)
Total Accumulated Depreciation	<u>(11,602,646)</u>	<u>(1,555,379)</u>	<u>(210,864)</u>	<u>(12,947,161)</u>
Total Capital Assets, Being Depreciated, Net	<u>23,096,114</u>	<u>489,696</u>	<u>38,489</u>	<u>23,547,321</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,105,972</u>	<u>\$ 1,075,300</u>	<u>\$ 498,837</u>	<u>\$ 27,682,435</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 28,225	\$ -	\$ -	\$ 28,225
Construction in progress	513,666	50,739	564,405	-
Total Capital Assets, Not Being Depreciated:	<u>541,891</u>	<u>50,739</u>	<u>564,405</u>	<u>28,225</u>
Capital assets, being depreciated:				
Buildings and improvements	218,548	-	-	218,548
Equipment and machinery	283,985	59,575	-	343,560
Infrastructure	18,026,027	838,025	-	18,864,052
Vehicles	805,981	139,572	-	945,553
Total Capital Assets, Being Depreciated:	<u>19,334,541</u>	<u>1,037,172</u>	<u>-</u>	<u>20,371,713</u>
Less accumulated depreciation for:				
Buildings and improvements	(28,628)	(8,741)	-	(37,369)
Equipment and machinery	(205,294)	(27,362)	-	(232,656)
Infrastructure	(4,111,909)	(633,851)	-	(4,745,760)
Vehicles	(639,565)	(38,341)	-	(677,906)
Total Accumulated Depreciation	<u>(4,985,396)</u>	<u>(708,295)</u>	<u>-</u>	<u>(5,693,691)</u>
Total Capital Assets, Being Depreciated, Net	<u>14,349,145</u>	<u>328,877</u>	<u>-</u>	<u>14,678,022</u>
Business-type Activities Capital Assets, Net	<u>\$ 14,891,036</u>	<u>\$ 379,616</u>	<u>\$ 564,405</u>	<u>\$ 14,706,247</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, 2009

Depreciation was charged to functions of the City as follows:

Governmental Activities	
General government	\$ 214,766
Public safety	362,666
Public works	774,320
Cultural and recreational	<u>203,627</u>
Total Depreciation Expense, Governmental Activities	<u><u>\$ 1,555,379</u></u>
Business-type Activities	
Water and sewer	\$ 669,186
Sanitation	<u>39,109</u>
Total Depreciation Expense, Business-type Activities	<u><u>\$ 708,295</u></u>

Commitments under construction contracts at September 30, 2009 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Expressway Drive	\$ 707,295	\$ 707,295	General
Fire Station #3	<u>2,465,396</u>	<u>2,465,396</u>	General
	<u><u>\$ 3,172,691</u></u>	<u><u>\$ 3,172,691</u></u>	

NOTE E - 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, 2009:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 282,268	\$ -
Debt Service Fund	-	-
Capital Projects Fund	52,593	-
Other Governmental Funds	-	-
Utility Fund	-	149,861
Sanitation Fund	<u>-</u>	<u>185,000</u>
Total	<u><u>\$ 334,861</u></u>	<u><u>\$ 334,861</u></u>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2009

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 19,628
Debt Service Fund	-	122,117
Capital Projects Fund	228,125	-
Other Governmental Funds	21,927	-
Utility Fund	-	479,962
Sanitation Fund	371,655	-
Total	<u>\$ 621,707</u>	<u>\$ 621,707</u>

NOTE F - LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2009 was as follows:

	<u>Balance at</u>				<u>Balance at</u>		<u>Amounts</u>
	<u>9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>9/30/2009</u>	<u>One Year</u>	<u>Due Within</u>
Governmental Activities:							
General obligation bonds payable	\$ 7,960,200	\$ 5,800,000	\$ 220,200	\$ 415,000	\$ 13,955,000	\$ 814,756	
Special assessment bonds payable	13,135,000	-	765,000	-	12,370,000	800,000	
Leases payable	352,469	379,142	376,128	-	355,483	211,335	
Bond premium	222,546	-	19,076	-	203,470	-	
Bond discount	-	-	(5,466)	(76,526)	(71,060)	-	
Deferred loss	(242,252)	-	(42,626)	(240,474)	(440,100)	-	
Compensated absences	391,330	25,619	-	-	416,949	-	
Total Governmental Activities	<u>\$ 21,819,293</u>	<u>\$ 6,204,761</u>	<u>\$ 1,332,312</u>	<u>\$ 98,000</u>	<u>\$ 26,789,742</u>	<u>\$ 1,826,091</u>	
Business-type Activities:							
Revenue bonds payable	\$ 12,220,000	\$ -	\$ 285,000	\$ -	\$ 11,935,000	\$ 300,000	
Loans payable	2,717,146	-	149,943	-	2,567,203	149,873	
Leases payable	-	139,572	-	-	139,572	47,328	
Bond premium	399,293	-	17,616	-	381,677	-	
Compensated absences	38,875	36,466	-	-	75,341	-	
Total Business-type Activities	<u>\$ 15,375,314</u>	<u>\$ 176,038</u>	<u>\$ 452,559</u>	<u>\$ -</u>	<u>\$ 15,098,793</u>	<u>\$ 497,201</u>	

Advance Refunding. On April 23, 2008, the City issued \$4,410,000 in Mississippi Development Bank Special Obligation Bonds, Series 2008, with an average interest rate of 4.24% to advance refund \$3,995,000 of outstanding General Obligation Bonds, Series 1998, with an average interest rate of 4.73%. The net proceeds of \$4,235,474 (after payments of \$76,526 for bond discounts and \$98,000 for bond issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the General Obligation Bonds, Series 1998, until these bonds are called on December 1, 2009.

As a result, the General Obligation Bonds, Series 1998, are considered to be defeased and the liability for these bonds has been removed from long-term liabilities.

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2009

The City advance refunded the General Obligation Bonds, Series 1998, to increase the term from 11 years to 15 years, thereby increasing its total debt service payments by \$933,991 and realizing an economic loss of \$230,245.

This transaction is reflected in the adjustment column in the long-term debt schedule above.

General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds outstanding as of September 30, 2009 are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
2004	3.70% - 5.00%	8/11/2004	8/1/2024	\$ 4,500,000	\$ 3,745,000
2008	3.25% - 4.63%	4/1/2008	4/1/2023	4,410,000	4,410,000
ACBL	2.00%	7/1/2009	7/1/2014	1,300,000	1,300,000
2008	2.75% - 5.00%	11/1/2008	11/1/2028	4,500,000	4,500,000
Total General Obligation Bonds				<u>\$ 14,710,000</u>	<u>\$ 13,955,000</u>

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
2005 Special Assessment Refunding	2.75% - 5.00%	5/18/2005	4/15/2020	\$ 8,540,000	\$ 6,725,000
2001 Special Obligation Recreation Facilities Project	4.10% - 5.00%	10/1/2001	4/1/2022	7,000,000	5,645,000
Total Special Assessment Bonds				<u>\$ 15,540,000</u>	<u>\$ 12,370,000</u>

The City also 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	\$ 11,935,000
Total Revenue Bonds				<u>\$ 12,750,000</u>	<u>\$ 11,935,000</u>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2009

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
Drinking Water System Improvements Revolving Loan	4.00%	3/1/2001	11/1/2020	\$ 1,509,556	\$ 998,245
Drinking Water System Improvements Revolving Loan (Water Treatment Plant)	3.50%	11/13/2002	10/2/2023	773,901	603,414
Cap Loan (Water Treatment Plant)	2.00%	11/20/2002	10/2/2023	476,333	417,355
Cap Loan (Water Treatment Plant)	3.00%	2/1/2005	10/1/2027	587,905	548,189
Total Loans				<u>\$ 3,347,695</u>	<u>\$ 2,567,203</u>

The aggregate maturities of general obligation, special assessment bonds, revenue bonds and loans for the years subsequent to September 30, 2009 are as follows:

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 814,756	\$ 684,975
2011	844,776	546,512
2012	864,897	516,316
2013	900,121	484,492
2014	930,450	453,339
2015-2019	3,785,000	1,806,951
2020-2024	4,300,000	893,889
2025-2029	1,515,000	186,319
Total	<u>\$ 13,955,000</u>	<u>\$ 5,572,793</u>

<u>Year Ending September 30</u>	<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 800,000	\$ 556,520
2011	830,000	527,613
2012	875,000	495,463
2013	915,000	461,426
2014	960,000	425,194
2015-2019	5,560,000	1,444,168
2020-2024	2,430,000	206,475
Total	<u>\$ 12,370,000</u>	<u>\$ 4,116,859</u>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2009

Year Ending	Revenue Bonds	
	Principal	Interest
September 30		
2010	\$ 300,000	\$ 576,290
2011	315,000	562,415
2012	335,000	546,165
2013	350,000	529,040
2014	370,000	511,040
2015-2019	2,160,000	2,269,071
2020-2024	2,785,000	1,793,907
2025-2029	2,810,000	940,913
2030-2034	2,510,000	169,425
Total	\$ 11,935,000	\$ 7,898,266

Year Ending	Loans	
	Principal	Interest
September 30		
2010	\$ 149,873	\$ 83,487
2011	155,141	78,220
2012	160,602	72,758
2013	166,264	67,098
2014	172,131	61,230
2015-2019	956,495	210,311
2020-2024	629,629	61,920
2025-2029	177,067	7,042
Total	\$ 2,567,202	\$ 642,066

Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2009 were as follows:

Year Ending	Governmental Fund		Enterprise Fund	
	Principal	Interest	Principal	Interest
September 30				
2010	\$ 211,335	\$ 6,066	\$ 47,328	\$ 1,144
2011	105,176	3,200	45,409	3,065
2012	38,972	1,296	46,835	1,558
Total	\$ 355,483	\$ 10,562	\$ 139,572	\$ 5,767

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 \$8,504,992 (the smaller of the two computed margins) as of September 30, 2009.

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2009

	15% Test	20% Test
Assessed value as of September 30, 2009:		
\$149,733,282 times applicable percentage	\$ 22,459,992	\$ 29,946,656
Less present debt subject to debt limits as of September 30, 2009:		
Total bonds outstanding (exclude proprietary)	(13,955,000)	(13,955,000)
Margin for additional debt	\$ 8,504,992	\$ 15,991,656

NOTE G - 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 7.25% of their annual covered salary and the City of Horn Lake is required to contribute at an actuarially determined rate. At September 30, 2009, 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 of Horn Lake's contributions to PERS for the years ending September 30, 2009, 2008, and 2007 were \$907,066, \$819,047, and \$711,955 respectively, equal to the required contribution for each year.

NOTE H - RISK MANAGEMENT

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

NOTE I - 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 J – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 23, 2011, which is the date the financial statements were available to be issued.

In December of 2009, the City leased 10 vehicles for \$330,000 with financing from First Tennessee at an interest rate of 2.3%.

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HORN LAKE, MISSISSIPPI
Budgetary Comparison Schedule
General Fund
September 30, 2009

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Taxes	\$ 9,364,825	\$ 8,951,425	\$ 8,737,366	\$ (413,400)	\$ (214,059)
Licenses and permits	320,000	207,000	178,059	(113,000)	(28,941)
Intergovernmental	159,000	164,000	164,542	5,000	542
Charges for services	535,000	577,000	628,446	42,000	51,446
Fines	903,000	978,000	721,029	75,000	(256,971)
Interest	30,000	30,000	6,745	-	(23,255)
Miscellaneous	421,500	418,000	429,754	(3,500)	11,754
Total Revenues	11,733,325	11,325,425	10,865,941	(407,900)	(459,484)
Expenditures					
Administrative	2,307,867	2,579,514	2,369,137	(271,647)	210,377
Culture & recreation	836,235	1,045,320	1,066,672	(209,085)	(21,352)
Economic development	94,040	88,690	308,213	5,350	(219,523)
Public safety	7,836,974	7,280,614	6,953,497	556,360	327,117
Public works	1,180,559	1,165,579	1,071,502	14,980	94,077
Debt service	-	-	79,350	-	(79,350)
Capital outlay	755,650	692,860	909,604	62,790	(216,744)
Total Expenditures	13,011,325	12,852,577	12,757,975	158,748	94,602
Excess (deficiency) of revenues over (under) expenditures	(1,278,000)	(1,527,152)	(1,892,034)	(249,152)	(364,882)
Other Financing Sources (Uses)					
Grant revenue	365,000	268,000	186,244	(97,000)	(81,756)
Lease proceeds	-	-	379,142	-	379,142
Interfund transfers	(838,000)	(1,034,152)	282,268	(196,152)	1,316,420
Sale of assets	15,000	15,000	-	-	(15,000)
Total Other Financing Sources (Uses)	(458,000)	(751,152)	847,654	(293,152)	1,598,806
Net Changes in Fund Balances	\$ (1,736,000)	\$ (2,278,304)	(1,044,380)	\$ (542,304)	\$ 1,233,924
Fund Balance - Beginning of Year			3,159,762		
Fund Balance - End of Year			2,115,382		
Adjustments to Conform with GAAP:					
Revenues			480,501		
Expenditures			(1,820,872)		
Fund Balance - End of Year (GAAP Basis)			\$ 775,011		

SUPPLEMENTARY INFORMATION

CITY OF HORN LAKE, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2009

<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



**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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 23, 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 Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 09-01 and 09-02 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 Responses. 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
August 23, 2011



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

Mayor and Board of Aldermen
City of Horn Lake, Mississippi

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi (the "City"), as of and for the year ended September 30, 2009, and have issued our report dated August 23, 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 financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

1. Finding – Section 27-105-5, Miss. Code Ann. (1972) requires that a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year-end. As of September 30, 2009, \$48,440 of the City's \$11,150,329 bank balance was not reported to the State Treasurer, thus exposing the funds to custodial credit risk.

Recommendation – The City should review the Collateral Sufficiency Report provided by the State Treasurer's office to ensure accuracy of the accounts listed.

Response – We agree with the auditors' comments, however, under the circumstances in which these balances are reported to the State we have no way of knowing in advance if the correct balances and accounts are being reported by our banks. We do in fact review each collateral report provided to the City, however, the bank account holding the \$48,440 was overlooked when calculating the balance reported by the State Treasurer's office. We have taken the necessary steps to ensure that this account has been added to our list of other accounts.

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 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
August 23, 2011

CITY OF HORN LAKE, MISSISSIPPI
Schedule of Findings and Responses
September 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|---|----------------------|
| 1. Type of auditor's report issued on the financial statements: | <u>Unqualified</u> |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | <u> Yes</u> |
| b. Significant deficiencies identified that are not considered to be a material weaknesses? | <u> No</u> |
| 3. Noncompliance material to the financial statements noted? | <u> No</u> |

Section 2: Financial Statements Findings

Material Weaknesses

09-01 Criteria: Effective internal control over financial reporting includes robust oversight and monitoring, proper documentation of transactions and adequate segregation of duties.

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, 2009
- Investments not recorded
- 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 agree with the auditors' comments and through the implementation and clean up of our new financial software and several qualified staff additions and changes, we will now have the capability to segregate duties and monitor processes and procedures closely. We have been fortunate enough to have the assistance of our accounting firm help us develop better controls and policies. We will continue to seek their help to further develop and implement these policies in order to prevent, detect and correct any misstatements as well as ensure staff has been properly trained to understand and follow generally accepted accounting principles.

09-02 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.

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

Response: We agree with the auditors' comments and through the re-organizing of current staff and the hiring of several qualified employees; we will now have the personnel in place to provide for the preparation and review of external financial statements and related disclosures in accordance with generally accepted accounting principles. We have hired appropriate personnel and are developing procedures in order to detect material misstatements in the external financial statements or disclosures.