

CITY OF HORN LAKE, MISSISSIPPI

Audited Financial Statements
For the Fiscal Year Ended September 30, 2020

Fortenberry & Ballard, PC
Certified Public Accountants

City of Horn Lake, Mississippi
September 30, 2020
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION**

Members of the Board of Aldermen
City of Horn Lake, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Horn Lake, Mississippi, (the City) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Qualified Opinion on Governmental Activities

As discussed in Note 1(N) to the financial statements, the City has not recorded a liability for other postemployment benefits in the governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of City of Horn Lake, Mississippi, as of September 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of City of Horn Lake, Mississippi, as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, the Budgetary Comparison Schedule and corresponding notes, the Schedule of Funding Progress – Other Postemployment Benefits, the Schedule of the City’s Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions 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.

Omission of Required Supplementary Information

City of Horn Lake, Mississippi, has omitted the Schedule of Changes in the Total OPEB Liability and Related Ratios that accounting principles generally accepted in the United States of America require to be

presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Horn Lake, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Surety Bonds for City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2022 on our consideration of City of Horn Lake, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Horn Lake, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Horn Lake, Mississippi's internal control over financial reporting and compliance.

FORTENBERRY & BALLARD, PC

Fortenberry and Ballard, PC
October 19, 2022

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HORN LAKE, MISSISSIPPI Management's Discussion and Analysis For the Year Ended September 30, 2020

As management of the City of Horn Lake (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

This discussion complies with the "Required Supplementary Information" specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis (MD&A) for State and Local Governments issued in June 1999 to provide the reader a clear understanding of the financial activities that occurred during the fiscal year.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflow of resources at the close of the fiscal year by \$2,803,394 (total net position).
- The government's total net position increased by \$1,848,168 due to general increases in both governmental and business type activities net position inclusive of prior period adjustment of \$163,250. Revenues appear greater than originally anticipated and there were no unusual or large purchases in the current year. Operational expenditures/expenses were consistent with the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported combined ending net position of (\$27,904) an increase of \$1,180,696 in comparison with the prior year inclusive of prior period adjustment \$163,250.
- At the end of the current fiscal year, **unassigned fund balance** for the General Fund was \$6,045,388, or 39.4 percent of total general fund expenditures for the fiscal year.
- The City's total debt decreased by \$3,767,017 (13.4%) during the current fiscal year due to principal payments made on existing debt issues.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains required supplementary information, and other information that will enhance the reader's understanding of the financial condition of the City.

Basic Financial Statements

The first two statements (Pages 21 and 22) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Pages 23 and 27) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements.

CITY OF HORN LAKE, MISSISSIPPI

Management's Discussion and Analysis

For the Year Ended September 30, 2020

Required Supplementary Information

After the notes, required supplementary information is provided to show budgetary information required by Governmental Accounting Standards Board for the General Fund. Additionally, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of the City's Contributions are included in this section.

Other Information

Additionally, a Schedule of Surety Bonds for City Officials can be found in this section of the report.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets, deferred outflows of resources, total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property tax and sales tax finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer and sanitation services offered by the City.

The government-wide financial statements are on pages 21 and 22 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Mississippi, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements. All of the funds of City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020

The City adopts an annual budget for its General Fund. The budget is a legally adopted document that incorporates input from the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The City has one type of proprietary fund.

Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its utility operations. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 31 of this report.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020

Government-Wide Financial Analysis

The City of Horn Lake's Condensed Statement of Net Position

Figure 1

	<u>09/30/20</u>	<u>09/30/19</u>	<u>% Change</u>
GOVERNMENTAL ACTIVITIES			
Assets:			
Current assets	\$ 20,634,588	\$ 19,287,279	6.99%
Capital assets, net	<u>23,655,235</u>	<u>24,548,213</u>	-3.64%
Total Assets	<u>44,289,823</u>	<u>43,835,492</u>	1.04%
Deferred outflows of resources	<u>2,407,114</u>	<u>1,859,346</u>	29.46%
Liabilities:			
Current liabilities	4,511,020	4,002,474	12.71%
Long-term debt outstanding	10,858,581	13,768,757	-21.14%
Net pension liability	<u>21,614,060</u>	<u>19,892,612</u>	8.65%
Total Liabilities	<u>36,983,661</u>	<u>37,663,843</u>	1.81%
Deferred inflows of resources	<u>9,741,180</u>	<u>9,239,595</u>	5.43%
Net Position:			
Net investment in capital assets	10,627,892	8,819,123	20.51%
Restricted	3,790,552	6,166,044	-38.53%
Unrestricted	<u>(14,446,348)</u>	<u>(16,193,767)</u>	-10.79%
Total Net Position	<u>\$ (27,904)</u>	<u>\$ (1,208,600)</u>	-97.69%

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020

	<u>09/30/20</u>	<u>09/30/19</u>	<u>% Change</u>
BUSINESS-TYPE ACTIVITIES			
Assets:			
Current assets	\$ 5,155,964	\$ 4,763,118	8.25%
Capital assets, net	10,706,166	11,432,099	-6.35%
Total Assets	<u>15,862,130</u>	<u>16,195,217</u>	<u>-2.06%</u>
Deferred outflows of resources	<u>474,065</u>	<u>448,368</u>	<u>5.73%</u>
Liabilities:			
Current liabilities	1,600,898	1,861,835	-14.02%
Long-term debt outstanding	9,658,580	10,503,046	-8.04%
Net pension liability	2,165,562	2,009,570	7.76%
Total Liabilities	<u>13,425,040</u>	<u>14,374,451</u>	<u>6.60%</u>
Deferred inflows of resources	<u>79,857</u>	<u>105,308</u>	<u>-24.17%</u>
Net Position:			
Net investment in capital assets	475,888	310,158	53.43%
Restricted	841,208	910,757	-7.64%
Unrestricted	1,514,202	942,911	60.59%
Total Net Position	<u>\$ 2,831,298</u>	<u>\$ 2,163,826</u>	<u>30.85%</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the City of Horn Lake exceeded liabilities and deferred inflows of resources by \$2,803,394, as of September 30, 2020.

The largest portion of net position, \$11,103,780 is reflected in the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

There is a deficit of \$12,932,146 in unrestricted net position due to recording of unfunded pension liabilities under GASB 68. Please refer to Note 12.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020

City of Horn Lake's Condensed Statement of Activities

Figure 2

	<u>09/30/20</u>	<u>09/30/19</u>	<u>% Change</u>
GOVERNMENTAL ACTIVITIES			
Revenues:			
Program revenues:			
Charges for services	\$ 3,478,444	\$ 3,482,250	-0.11%
Operating and capital grants	2,543,503	558,785	355.18%
General revenues:			
Property taxes	8,530,664	8,142,450	4.77%
Sales taxes	6,014,896	6,001,624	0.22%
Intergovernmental	326,043	216,940	50.29%
Other	<u>1,573,659</u>	<u>1,017,990</u>	<u>54.58%</u>
Total Revenues	<u>22,467,209</u>	<u>19,420,039</u>	<u>15.69%</u>
Expenses:			
General government	2,403,849	2,286,839	5.12%
Police	4,894,873	5,179,183	-5.49%
Fire and emergency medical services	3,366,521	3,230,723	4.20%
Streets and sanitation	6,593,373	2,885,608	128.49%
Animal control	241,532	168,879	43.02%
Parks and recreation	1,163,828	1,119,001	4.01%
Economic development	202,449	193,653	4.54%
Pension expense	2,160,049	1,467,159	47.23%
Debt issuance costs and interest on long-term debt	<u>423,289</u>	<u>582,500</u>	<u>-27.33%</u>
Total Liabilities	<u>21,449,763</u>	<u>17,113,545</u>	<u>-25.34%</u>
Changes in Net Position	<u>1,017,446</u>	<u>2,306,494</u>	<u>-55.89%</u>
Net Position - Beginning of Year	(1,208,600)	(3,512,421)	
Prior period adjustment(s)	<u>163,250</u>	<u>(2,673)</u>	
Net Position - Beginning of Year - Restated	(1,045,350)	(3,515,094)	
Net Position - End of Year	<u>\$ (27,904)</u>	<u>\$ (1,208,600)</u>	

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020

	Fiscal Year Ended <u>09/30/20</u>	Fiscal Year Ended <u>09/30/19</u>	<u>% Change</u>
BUSINESS-TYPE ACTIVITIES			
Revenues:			
Program revenues:			
Charges for services	\$ 4,872,959	\$ 4,661,620	4.53%
General revenues:			
Interest income	5,742	8,478	-32.27%
Other	10,202	-	
Total Revenues	<u>4,888,903</u>	<u>4,670,098</u>	<u>4.69%</u>
Expenses:			
Water and sewer	3,725,473	3,692,904	0.88%
Pension expense	195,735	127,149	53.94%
Interest on long-term debt	300,223	379,391	-20.86%
Total Liabilities	<u>4,221,431</u>	<u>4,199,444</u>	<u>-0.52%</u>
Changes in Net Position	<u>667,472</u>	<u>470,654</u>	<u>41.80%</u>
Net Position - Beginning of Year	2,163,826	1,690,746	
Prior period adjustment	-	2,426	
Net Position - Beginning of Year, Restated	<u>2,163,826</u>	<u>1,693,172</u>	
Net Position - End of Year	<u>\$ 2,831,298</u>	<u>\$ 2,163,826</u>	

Governmental activities. Governmental activities increased the City's net position by \$1,180,696 not including a prior period adjustment of \$163,250. Key elements of this increase are as follows:

- Various expense categories showed decreases in pension expense due to offsets correcting the net pension liability and deferred outflows / inflows.
- All other key activities listed on previous pages.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020

Governmental Activities Expenditures

	2020	2020	2019	2019
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
<u>Governmental Activities:</u>				
General government	\$ 2,403,849	\$ (1,099,419)	\$ 2,286,839	\$ (1,230,349)
Police*	4,894,873	(4,551,552)	5,179,183	(4,839,704)
Fire and emergency services*	3,366,521	(2,679,052)	3,230,723	(2,700,747)
Streets and sanitation**	6,593,373	(3,011,354)	2,885,608	(976,482)
Animal control**	241,532	(231,678)	168,879	(159,990)
Parks and recreation	1,163,828	(1,068,974)	1,119,001	(921,926)
Economic development and assistance	202,449	(202,449)	193,653	(193,653)
Pension expense	2,160,049	(2,160,049)	1,467,159	(1,467,159)
Interest and bond issuance costs	423,289	(423,289)	582,500	(582,500)
Total Expenses	<u>\$ 21,449,763</u>	<u>\$ (15,427,816)</u>	<u>\$ 17,113,545</u>	<u>\$ (13,072,510)</u>

*for fiscal year 2019, the Public Safety departmental grouping has been separated into the following activities: 1) Police and 2) Fire and Emergency Services.

**for fiscal year 2020, the Public Works departmental grouping has been separated into the following activities: 1) Streets and Sanitation and 2) Animal Control.

Business-type activities: Business-type activities increased the City's net position by \$667,472. Key elements of this net increase are as follows:

- Charges for services remained virtually unchanged in the Utility Fund. However, collections exceeded expenses by the amount listed.
- Utility expenses increased nearly \$250,000 in the Utility Fund.

Business-type Activities Expenses

	2020	2020	2019	2019
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
<u>Business-type Activities:</u>				
Utility Services	\$ 3,725,473	\$ 1,147,486	\$ 3,692,904	\$ 968,716
Interest on long-term debt	300,223	(300,223)	379,391	(379,391)
Pension expense	195,735	(195,735)	127,149	(127,149)
Total Expenses	<u>\$ 4,221,431</u>	<u>\$ 651,528</u>	<u>\$ 4,199,444</u>	<u>\$ 462,176</u>

For fiscal year 2020, the City has separated pension expense and interest on long-term debt from overall utility services expenses.

CITY OF HORN LAKE, MISSISSIPPI Management's Discussion and Analysis For the Year Ended September 30, 2020

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,045,388. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 39.4 percent of total General Fund expenditures.

At September 30, 2020, the governmental funds of the City reported a combined fund balance of \$9,216,347, a 1.1 percent increase over last year.

The General Fund's increase was mainly due to overall increase in revenue collections offset by expenditures consistent with the prior fiscal year. COVID-19 funding was received in various forms this fiscal year with some funding not spent at year-end. Ad valorem and sales tax received increased approximately \$1 million from the prior period. Charges for services also increased by approximately \$400,000 from the prior period.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on three occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts primarily because property tax and sales tax revenues received were greater than originally anticipated. Expenditures remained consistent with the prior period spending level.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year is \$1,514,202. The total growth in net position for the Utility fund was \$667,472. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital assets. The City's capital assets for its governmental and business-type activities as of September 30, 2020, totals \$34,361,401 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, water works system, and vehicles.

CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020

The City of Horn Lake's Capital Assets

Figure 3

Governmental Activities:

	<u>30-Sep-20</u>	<u>30-Sep-19</u>
Land	\$ 3,729,631	\$ 3,729,631
Buildings and improvements	11,019,977	11,019,977
Equipment and machinery	3,278,200	3,235,085
Infrastructure	28,049,349	28,049,349
Vehicles	6,084,252	5,708,573
Accumulated depreciation	<u>(28,506,174)</u>	<u>(27,194,402)</u>
Total Capital Assets, net	<u>\$ 23,655,235</u>	<u>\$ 24,548,213</u>

Business-type Activities:

	<u>30-Sep-20</u>	<u>30-Sep-19</u>
Land	\$ 28,225	\$ 28,225
Buildings and improvements	151,000	151,000
Equipment and machinery	297,891	318,860
Infrastructure	22,549,765	22,541,985
Vehicles	227,585	176,122
Accumulated depreciation	<u>(12,548,300)</u>	<u>(11,784,093)</u>
Total Capital Assets, net	<u>\$ 10,706,166</u>	<u>\$ 11,432,099</u>

Additional information on the City's capital assets can be found in Note 6 of the Basic Financial Statements.

Long-term Debt. As of September 30, 2020, the City had total debt outstanding of \$24,267,325. Included here is bonded debt totaling \$5,937,000 backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds), notes payable, and a settlement payable.

**CITY OF HORN LAKE, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2020**

City of Horn Lake's Outstanding Debt

Figure 4

Governmental Activities:

	<u>30-Sep-20</u>	<u>30-Sep-19</u>	<u>Change</u>
General obligation bonds	\$ 5,937,000	\$ 7,623,000	-22.12%
Add: Bond premium	47,551	65,541	-27.45%
Less: Bond discount	(10,928)	(16,400)	-33.37%
Special assessment bonds	6,553,000	7,473,000	-12.31%
Other loans	671,243	787,174	-14.73%
Settlement payable	239,701	359,552	-33.33%
Compensated absences	329,970	328,672	0.39%
Total Long-Term Debt	<u>\$ 13,767,537</u>	<u>\$ 16,620,539</u>	<u>-17.17%</u>

Business-type Activities:

	<u>30-Sep-20</u>	<u>30-Sep-19</u>	<u>Change</u>
Special assessment bonds	\$ 8,090,000	\$ 8,700,000	-7.01%
Add: Bond premium	70,197	77,997	-10.00%
Other loans	2,310,788	2,611,555	-11.52%
Compensated absences	28,803	24,251	18.77%
Total Long-Term Debt	<u>\$ 10,499,788</u>	<u>\$ 11,413,803</u>	<u>-8.01%</u>

The City's total debt decreased by \$3,772,867 (13.4%) throughout the fiscal year. Principal payments made on existing debt instruments accounts for the decrease solely.

Mississippi general statutes limit the amount of general obligation debt that a unit of government can issue to 15 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for additional debt for the City is \$26,914,656. The DeSoto County Tax Assessor places a total assessed valuation of 179,431,041 on the City's taxable property for tax year 2019 covering fiscal year 2020.

Additional information regarding the City's long-term debt can be found in Note 10 on page 46 of this report.

CITY OF HORN LAKE, MISSISSIPPI

Management's Discussion and Analysis

For the Year Ended September 30, 2020

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

- The City's unemployment rate of 7.4%, as of September 30, 2020, is below the National and State averages of 7.9% and 9.8%. The percentage nearly doubled from the previous year percentage of 3.9% due to the national shutdown caused by the COVID-19 pandemic. Subsequent time periods will show the percentage fall back to 3.6% at September 30, 2021 due to the easing of COVID-19 restrictions locally and nationally.
- In 2020, Horn Lake's population estimated, according to the United States Census most recent numbers, to be 26,772.

Budget Highlights for the Fiscal Year Ending September 30, 2020

Governmental Activities: Property taxes (benefiting from the economic growth) are expected to increase as the assessment increased in the current year. Ad valorem taxes were increased for the first time in several years in order to augment public safety and public works functions provided by the City. The City of Horn Lake is generally conservative when budgeting revenues due to unknown economic factors.

Budgeted expenditures in the General Fund expected to be relatively similar to the current year. The City doesn't anticipate any significant increases in expenditures through the general fund.

Business-type Activities: The Utility rates in the City will remain static. General operating expenses should remain static with no anticipation of any large expenses in the new fiscal year. The City did not anticipate issuing any more debt in fiscal year 2021.

Requests for Information

This report designed to provide an overview of the City of Horn Lake's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information directed to the Jim Robinson, City Administrator/City Clerk at 662-342-3488.

FINANCIAL STATEMENTS

CITY OF HORN LAKE, MISSISSIPPI
Statement of Net Position
September 30, 2020

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 8,787,742	\$ 4,800,197	\$ 13,587,939
Property tax receivable	8,972,601		8,972,601
Accounts receivable (net of allowance for uncollectibles of \$6,175,554)	603,938	347,997	951,935
Intergovernmental receivables	1,125,855		1,125,855
Franchise tax receivable	157,172		157,172
Other receivables	4,689		4,689
Restricted assets - property held for sale	982,591		982,591
Prepaid items	-	7,770	7,770
Capital assets:			
Land and construction in progress	3,729,631	28,225	3,757,856
Other capital assets, net of depreciation	19,925,604	10,677,941	30,603,545
Total Assets	<u>44,289,823</u>	<u>15,862,130</u>	<u>60,151,953</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	2,236,591	233,358	2,469,949
Deferred amounts on refunding	170,523	240,707	411,230
Total Deferred Outflows of Resources	<u>2,407,114</u>	<u>474,065</u>	<u>2,881,179</u>
LIABILITIES			
Accounts payable	608,761	252,080	860,841
Amounts held in custody for others	208,111		208,111
Accrued interest payable	139,015	112,534	251,549
Accrued liabilities	304,137		304,137
Customer deposits	342,040	395,076	737,116
Long-term liabilities			
Due within one year:			
Capital debt	2,789,105	841,208	3,630,313
Non-capital debt	119,851		119,851
Due in more than one year:			
Capital debt	10,408,761	9,629,777	20,038,538
Non-capital debt	449,820	28,803	478,623
Net pension liability	21,614,060	2,165,562	23,779,622
Total Liabilities	<u>36,983,661</u>	<u>13,425,040</u>	<u>50,408,701</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenues - property taxes	8,972,601		8,972,601
Deferred inflows related to pension	768,579	79,857	848,436
Total Deferred Inflows of Resources	<u>9,741,180</u>	<u>79,857</u>	<u>9,821,037</u>
NET POSITION			
Net investment in capital assets	10,627,892	475,888	11,103,780
Restricted for:			
Capital projects	2,953,441		2,953,441
Debt service		841,208	841,208
Culture and recreation	124,195		124,195
Economic development and assistance	712,916		712,916
Unrestricted	(14,446,348)	1,514,202	(12,932,146)
Total Net Position	<u>\$ (27,904)</u>	<u>\$ 2,831,298</u>	<u>\$ 2,803,394</u>

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

CITY OF HORN LAKE, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2020

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
Governmental activities:						
General government	\$ 2,403,849	\$ 976,129	\$ 328,301	\$ (1,099,419)	\$ -	\$ (1,099,419)
Police	4,894,873		343,321	(4,551,552)		(4,551,552)
Fire and emergency services	3,366,521	421,023	266,446	(2,679,052)		(2,679,052)
Streets and sanitation	6,593,373	1,976,584	1,605,435	(3,011,354)		(3,011,354)
Animal control	241,532	9,854		(231,678)		(231,678)
Parks and recreation	1,163,828	94,854		(1,068,974)		(1,068,974)
Economic development and assistance	202,449			(202,449)		(202,449)
Pension expense	2,160,049			(2,160,049)		(2,160,049)
Interest	423,289			(423,289)		(423,289)
Total Governmental Activities	<u>21,449,763</u>	<u>3,478,444</u>	<u>2,543,503</u>	<u>(15,427,816)</u>		<u>(15,427,816)</u>
Business-type activities:						
Utility services	3,725,473	4,872,959			1,147,486	1,147,486
Interest on long-term debt	300,223				(300,223)	(300,223)
Pension expense	195,735				(195,735)	(195,735)
Total Business-type Activities	<u>4,221,431</u>	<u>4,872,959</u>	<u>-</u>	<u>-</u>	<u>651,528</u>	<u>651,528</u>
Total Primary Government	<u>\$ 25,671,194</u>	<u>\$ 8,351,403</u>	<u>\$ 2,543,503</u>	<u>\$ (15,427,816)</u>	<u>\$ 651,528</u>	<u>\$ (14,776,288)</u>
General revenues:						
Property taxes				8,530,664		8,530,664
Grants and contributions not restricted to specific programs				326,043		326,043
Sales taxes				6,014,896		6,014,896
Franchise taxes				636,060		636,060
Tourism taxes				275,803		275,803
Special assessments				68,519		68,519
Unrestricted interest income				-	5,742	5,742
Miscellaneous				593,277	10,202	603,479
Total General Revenues				<u>16,445,262</u>	<u>15,944</u>	<u>16,461,206</u>
Change in Net Position				<u>1,017,446</u>	<u>667,472</u>	<u>1,684,918</u>
Net Position - Beginning, as previously reported				(1,208,600)	2,163,826	955,226
Prior period adjustment(s)				163,250		163,250
Net Position - Beginning, as restated				<u>(1,045,350)</u>	<u>2,163,826</u>	<u>1,118,476</u>
Net Position - Ending				<u>\$ (27,904)</u>	<u>\$ 2,831,298</u>	<u>\$ 2,803,394</u>

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

CITY OF HORN LAKE, MISSISSIPPI
 Balance Sheet - Governmental Funds
 September 30, 2020

Exhibit 3

	Major Funds				Total Governmental Funds
	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
ASSETS					
Cash	\$ 5,514,197	\$ 2,333,848	\$ 68,023	\$ 790,530	\$ 8,706,598
Investments	81,144				81,144
Property tax receivable	6,185,974	2,607,175		179,452	8,972,601
Intergovernmental receivables	1,076,571			49,284	1,125,855
Accounts receivable, net allowance for uncollectible accounts of \$6,034,568	603,938				603,938
Franchise tax receivable	157,172				157,172
Other receivable	4,689				4,689
Total Assets	<u>\$ 13,623,685</u>	<u>\$ 4,941,023</u>	<u>\$ 68,023</u>	<u>\$ 1,019,266</u>	<u>\$ 19,651,997</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 538,035	\$	\$ 68,023	\$ 2,703	\$ 608,761
Accrued expenses	304,137				304,137
Customer deposits	342,040				342,040
Amounts held in custody for others	208,111				208,111
Total Liabilities	<u>1,392,323</u>	<u>-</u>	<u>68,023</u>	<u>2,703</u>	<u>1,463,049</u>
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	<u>6,185,974</u>	<u>2,607,175</u>	<u>-</u>	<u>179,452</u>	<u>8,972,601</u>
Fund Balances:					
Restricted					
Capital projects		2,953,441			2,953,441
Culture and recreation				124,195	124,195
Economic development and assistance				712,916	712,916
Unassigned	6,045,388	(619,593)			5,425,795
Total Fund Balances	<u>6,045,388</u>	<u>2,333,848</u>	<u>-</u>	<u>837,111</u>	<u>9,216,347</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 13,623,685</u>	<u>\$ 4,941,023</u>	<u>\$ 68,023</u>	<u>\$ 1,019,266</u>	<u>\$ 19,651,997</u>

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

CITY OF HORN LAKE, MISSISSIPPI**Exhibit 3-1**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2020

Total fund balances for governmental funds	\$ 9,216,347
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$28,506,174.	23,655,235
Other long-term assets are not available to pay current period expenditures and therefore are unavailable in the funds:	
Tax forfeited property	982,591
Long-term debt not available to pay current period expenditures and therefore not reported in the funds.	(13,767,537)
Deferred amount on refunding of debt issuances	170,523
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(139,015)
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.	2,236,591
Deferred inflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.	(768,579)
Net pension liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(21,614,060)</u>
Net position of governmental activities	<u>\$ (27,904)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORN LAKE, MISSISSIPPI

Exhibit 4

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended September 30, 2020

	Major Funds			Other Governmental Funds	Total
	General Fund	Debt Service Fund	Capital Projects Fund		
REVENUES					
Property taxes	\$ 5,849,569	\$ 2,519,745	\$ -	\$ 161,350	\$ 8,530,664
Sales taxes	6,014,896				6,014,896
Franchise taxes	636,060				636,060
Tourism tax				275,803	275,803
Licenses and permits	471,182				471,182
Intergovernmental revenues	1,655,200		1,214,346		2,869,546
Special assessments		68,519			68,519
Fines and forfeitures	596,802				596,802
Charges for services	2,410,460				2,410,460
Miscellaneous revenues	593,277				593,277
Total Revenues	<u>18,227,446</u>	<u>2,588,264</u>	<u>1,214,346</u>	<u>437,153</u>	<u>22,467,209</u>
EXPENDITURES					
Current:					
General government	2,419,285				2,419,285
Police	5,306,616				5,306,616
Fire	3,937,489				3,937,489
Streets and sanitation	2,321,701		3,663,905		5,985,606
Animal control	228,756				228,756
Parks and recreation	867,987			160,637	1,028,624
Economic development				202,449	202,449
Debt service:					
Principal	235,782	2,606,000			2,841,782
Interest and bond agent fees	14,030	405,400			419,430
Total Expenditures	<u>15,331,646</u>	<u>3,011,400</u>	<u>3,663,905</u>	<u>363,086</u>	<u>22,370,037</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>2,895,800</u>	<u>(423,136)</u>	<u>(2,449,559)</u>	<u>74,067</u>	<u>97,172</u>
OTHER FINANCING SOURCES (USES)					
Transfers in			2,449,559		2,449,559
Transfers out		(2,449,559)			(2,449,559)
Total Other Financing Sources (Uses)	-	(2,449,559)	2,449,559	-	-
Net Change in Fund Balances	<u>2,895,800</u>	<u>(2,872,695)</u>	<u>-</u>	<u>74,067</u>	<u>97,172</u>
Fund Balances - Beginning	<u>3,149,588</u>	<u>5,206,543</u>	<u>-</u>	<u>763,044</u>	<u>9,119,175</u>
Fund Balances - Ending	<u>\$ 6,045,388</u>	<u>\$ 2,333,848</u>	<u>\$ -</u>	<u>\$ 837,111</u>	<u>\$ 9,216,347</u>

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

CITY OF HORN LAKE, MISSISSIPPI**Exhibit 4-1**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2020

Net change in fund balances - total governmental funds	\$ 97,172
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that depreciation expense of \$1,355,022 exceeded capital outlays of \$298,794.	(1,056,228)
Debt proceeds provide current financial resources to Governmental Funds, but issuing long-term debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayments of \$2,841,782 exceeded proceeds of \$0.	2,841,782
Some items reported in the statement of activities related to the implementation of GASB 68 are not reported as revenues/expenditures in the Governmental Funds. These activities include	
Recording pension expense for the current period	(2,160,049)
Recording of contributions made during the current period	1,324,962
Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:	
Increase / (decrease) in deferred refunding of issuance	(32,702)
Increase / (decrease) in bond premium amortization	(17,990)
(Increase) / decrease in bond discount amortization	5,472
(Increase) / decrease in compensated absences	(1,298)
(Increase) / decrease in accrued interest payable	<u>16,325</u>
Change in net position of governmental activities	\$ <u><u>1,017,446</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORN LAKE, MISSISSIPPI
Proprietary Fund
Statement of Net Position
September 30, 2020

Exhibit 5

	Business-type Activity - Enterprise Fund
	<u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 4,800,197
Accounts receivable (net allowance for doubtful accounts of \$140,985)	347,997
Prepaid items	7,770
Total Current Assets	<u>5,155,964</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	28,225
Other capital assets, net	<u>10,677,941</u>
Total Noncurrent Assets	<u>10,706,166</u>
Total Assets	<u>15,862,130</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding items	240,707
Deferred outflows related to pensions	<u>233,358</u>
Total Deferred Outflows of Resources	<u>474,065</u>
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	252,080
Accrued interest payable	112,534
Customer deposits	395,076
Capital debt	841,208
Total Current Liabilities	<u>1,600,898</u>
Noncurrent liabilities:	
Capital debt	9,629,777
Non-capital debt	28,803
Net pension liability	<u>2,165,562</u>
Total Noncurrent Liabilities	<u>11,824,142</u>
Total Liabilities	<u>13,425,040</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>79,857</u>
NET POSITION	
Net investment in capital assets	475,888
Restricted:	
Debt service	841,208
Unrestricted	<u>1,514,202</u>
Total Net Position	<u>\$ 2,831,298</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORN LAKE, MISSISSIPPI**Exhibit 6**

Proprietary Fund

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended September 30, 2020

	Business-type Activities - Enterprise Fund
	<u>Utility Fund</u>
OPERATING REVENUES	
Charges for services	\$ <u>4,872,959</u>
	<u>4,872,959</u>
OPERATING EXPENSES	
Contractual services and supplies	2,094,152
Personnel services	835,681
Pension expense	195,735
Depreciation expense	<u>795,640</u>
Total Operating Expenses	<u>3,921,208</u>
Operating Income (Loss)	<u>951,751</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	5,742
Sale of surplus assets	10,202
Interest expense	<u>(300,223)</u>
Total Nonoperating Revenues	<u>(284,279)</u>
Changes in Net Position	<u>667,472</u>
Net Position - Beginning	<u>2,163,826</u>
Net Position - Ending	\$ <u><u>2,831,298</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HORN LAKE, MISSISSIPPI
Proprietary Fund
Statement of Cash Flows
For the Year Ended September 30, 2020

Exhibit 7

	Business-type Activities - Enterprise Fund
	Utility Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 4,862,239
Payments to suppliers for goods and services	(2,108,905)
Payments to employees for services	(953,331)
Net Cash Provided by (Used for) Operating Activities	<u>1,800,003</u>
Cash Flows From Noncapital Financing Activities	
Miscellaneous revenues	10,201
Other expenses	(66,974)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(56,773)</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(59,243)
Principal paid on long-term debt	(918,567)
Interest paid on long-term debt	(314,479)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,292,289)</u>
Cash Flows From Investing Activities	
Interest income	5,742
Net Cash Provided by (Used for) Investment Activities	<u>5,742</u>
Net Change in Cash and Cash Equivalents	456,683
Cash and Cash Equivalents - Beginning	4,343,514
Cash and Cash Equivalents - Ending	<u>\$ 4,800,197</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating income (loss)	\$ <u>951,751</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	795,640
Change in assets and liabilities:	
Increase (decrease) in accounts receivable	(29,380)
Increase (decrease) in deferred outflows related to pensions	52,601
Increase (decrease) in deferred amount on refunding items	(26,904)
(Increase) decrease in accounts payable	207,121
(Increase) decrease in accrued interest payable	6,100
(Increase) decrease in deferred inflows related to pensions	25,451
(Increase) decrease in net pension liability	(155,992)
(Increase) decrease in customer deposits	(21,833)
(Increase) decrease in compensated absences liability	(4,552)
Total adjustments	<u>848,252</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,800,003</u>

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

City of Horn Lake, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2020

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Horn Lake, Mississippi (the City) is a political subdivision of the State of Mississippi incorporated in 1973. The City operates under the Board of Aldermen-Mayor form of government and provides the following services: public safety (police and fire), public works (streets and sanitation), culture and recreation, public improvements, planning and zoning, and general administrative services.

Accounting principles generally accepted in the United States of America require the City of Horn Lake to present these financial statements on the primary government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. These financial statements present all the accounts of the City. There are no outside organizations that should be included as component units of the City's reporting entity.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

Governmental Funds.

C. Measurement Focus and Basis of Accounting.

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

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

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

The City reports the following major Governmental Funds:

General Fund - This fund accounts for and report all financial resources not accounted for and reported in another fund.

Debt Service Fund - This fund accounts for resources accumulated and used for the payment of long-term debt principal, interest, and related costs of borrowing used for major projects.

Capital Projects Fund – This fund accounts for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The City reports the following major Enterprise Fund:

Utility Fund - This fund accounts for the provision of water and sewer services to City residents.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

Capital Projects Fund – This fund accounts for the expenditures of proceeds derived from the Series 2019 Bonds – Paving Roads.

PROPRIETARY FUND TYPE

Enterprise Fund - This fund accounts for those operations financed and operated in a manner similar to private business enterprises or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

D. 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 at the twelve-month period beginning October 1. The departments submit to the City Clerk a budget of estimated expenditures for the ensuing fiscal year after which the City Clerk submits a budget of estimated expenditures and revenues to the Mayor and Board of Aldermen 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.

E. Account Classifications.

The account classifications used in the financial statements conform to the board classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

F. Deposits and Investments.

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any City, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in stock are stated at fair value.

G. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

H. Interfund Transactions and Balances.

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

I. Prepaid Items.

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

J. 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 nonrestricted assets are available for use, the policy is to use restricted assets first.

K. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the (applicable) governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the City's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years

L. Deferred Outflows/Inflows of Resources:

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

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

Deferred outflows related to pensions – This amount represents the City’s proportionate share of the deferred outflows of resources reported by the pension plan in which the City participates. See Note 12 for additional details.

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

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

Deferred inflows related to pensions – This amount represents the City’s proportionate share of the deferred inflows of resources reported by the pension plan in which the City participates. See Note 12 for additional details.

M. Pensions.

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

N. Other Postemployment Benefits.

Plan Description

The City of Horn Lake Board of Aldermen administers the City's health insurance plan, which is authorized by Sections 25-15-101 et seq., Mississippi Code Ann. (1972). The City's health insurance plan may be amended by the City of Horn Lake Board of Aldermen. The City purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the City's health insurance plan (the Plan). Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the City has a postemployment healthcare benefit reportable under GASB Statement 75 as a single employer defined benefit health care plan. The City does not issue a publicly available financial report for the Plan. However, the City has not recorded a liability for other postemployment benefits nor has the City reported the note disclosures which are required by accounting principles generally accepted in the United States of America.

O. 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 applicable governmental activities, business-type activities or Proprietary Funds-Statement of Net Position.

P. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

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

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

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

Net Position Flow Assumption:

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

Fund Financial Statements:

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2020

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

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

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

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

Fund Balance Flow Assumption:

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

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

R. Intergovernmental Revenues in Governmental Funds.

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

S. 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 Funds 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.

T. Changes in Accounting Standards.

The Governmental Accounting Standards Board issued GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* in May 2020. The objective of this Statement was to provide temporary relief to governments in light of the COVID-19 pandemic by postponing effective dates of certain Statements and Implementation Guides. The effective dates of GASB 83-84, GASB 88-93, and Implementation Guides No. 2017-3, 2018-1, 2019-1, and 2019-2 were postponed one year. The effective dates of GASB 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, were postponed eighteen months.

(2) Prior Period Adjustments.

A summary of the significant net position adjustment(s) is as follows:

Exhibit 2 – Statement of Activities – Governmental Activities.

Explanation	Amount
To correct capital assets	\$ 163,250

(3) Deposits and Investments.

The carrying amount of the City's total deposits with financial institutions at September 30, 2020, was \$13,506,795, and the bank balance was \$13,763,520. The collateral for public entities' deposits in financial institutions is 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 - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. 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). Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

The City invests in common stock. The valuation methodology used measures assets at fair value. No methodology changes were noted as of September 30, 2020.

For the year ended September 30, 2020, investments held in governmental funds totaled \$81,144 and were valued

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

using Level 1 inputs.

(4) Properties Held for Sale – Restricted Asset.

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

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2020, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Sales tax	\$ 1,053,032
Various police department grants	23,539
Tourism tax	<u>49,284</u>
Total Governmental Activities	\$ <u>1,125,855</u>

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2020:

Governmental activities:

	Balance Oct. 1, 2019	Additions	Adjustments*	Balance Sept. 30, 2020
<u>Non-depreciable capital assets:</u>				
Land	\$ 3,729,631			3,729,631
<u>Depreciable capital assets:</u>				
Buildings and improvements	11,019,977			11,019,977
Machine and equipment	3,235,085	43,115		3,278,200
Infrastructure	28,049,349			28,049,349
Vehicles	5,708,573	255,679	120,000	6,084,252
Total depreciable capital assets	48,012,984	298,794	120,000	48,431,778
<u>Less accumulated depreciated for:</u>				
Buildings and improvements	3,986,631	284,874		4,271,505
Machine and equipment	2,261,046	158,270		2,419,316
Infrastructure	16,511,790	781,822		17,293,612
Vehicles	4,434,935	130,056	(43,250)	4,521,741
Total accumulated depreciation	27,194,402	1,355,022	(43,250)	28,506,174
Total depreciable capital assets, net	20,818,582	(1,056,228)	163,250	19,925,604
Governmental activities capital assets, net	\$ 24,548,213	(1,056,228)	163,250	23,655,235

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

Business-type activities:

	Balance Oct. 1, 2019	Additions	Deletions	Balance Sept. 30, 2020
<u>Non-depreciable capital assets:</u>				
Land	\$ 28,225			28,225
<u>Depreciable capital assets:</u>				
Buildings and improvements	151,000			151,000
Machine and equipment	318,860	13,956	34,925	297,891
Infrastructure	22,541,985	7,780		22,549,765
Vehicles	176,122	51,463		227,585
Total depreciable capital assets	23,187,967	73,199	34,925	23,226,241
<u>Less accumulated depreciated for:</u>				
Buildings and improvements	52,985	2,850		55,835
Machine and equipment	284,520	8,518	31,432	261,606
Infrastructure	11,374,478	753,409	1	12,127,886
Vehicles	72,110	30,863		102,973
Total accumulated depreciation	11,784,093	795,640	31,433	12,548,300
Total depreciable capital assets, net	11,403,874	(722,441)	3,492	10,677,941
Business-type activities capital assets, net	\$ 11,432,099	(722,441)	3,492	10,706,166

* Adjustments made to capital assets to match immaterial differences to records provided.

Depreciation expense was charged to the following functions:

	Amount
Governmental activities:	
General government	\$ 128,088
Police	124,702
Fire and emergency services	175,990
Streets and sanitation	703,145
Animal control	12,776
Parks and recreation	210,321
Total governmental activities depreciation expense	\$ 1,355,022
Business-type activities:	
Utilities	\$ 795,640

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

(7) Claims and Judgments.

The City has exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Purchased commercial insurance covers this exposure.

(8) Operating Leases.

As Lessor:

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

Year ending September 30	Amount
2021	\$ 20,204
2022	20,204
2023	20,204
2024	20,204
2025	20,204
2026-2028	64,128
 Total	 \$ 165,148

(9) Defined Benefit Pension Plan.

General Information about the Pension Plan

Plan Description. City of Horn Lake, Mississippi 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. Plan provisions and the Board of Trustees’ authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees’ Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2020

creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2020, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2020 was 17.40% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2020, 2019 and 2018 were \$1,417,721, \$1,332,619 and \$1,247,177 respectively, equal to the required contributions for each year.

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

At September 30, 2020, the City reported a liability of \$23,779,622 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The City's proportionate share used to calculate the September 30, 2020 net pension liability was .122836 percent, which was based on a measurement date of June 30, 2020. This was a decrease of .001665 percent from its proportionate share used to calculate the September 30, 2019 net pension liability, which was based on a measurement date of June 30, 2019.

For the year ended September 30, 2020, the City recognized pension expense of \$2,355,784. At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 206,520	\$
Net difference between projected and actual earnings on pension plan investments	986,221	
Changes of assumptions	134,826	
Changes in the proportion and differences between the City's contributions and proportionate share of contributions	759,385	848,436
City contributions subsequent to the measurement date	382,997	
Total	\$ 2,469,949	848,436

\$382,997 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30,

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30	Amount
2021	\$ 166,803
2022	348,249
2023	408,717
2024	314,747
Total	\$ 1,238,516

Actuarial Assumptions. The total pension liability in the June 30, 2020 actuarial valuation was determined by an actuarial valuation prepared as of June 30, 2019 using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.75 percent
Salary increases	3.00 – 18.25 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2014 to June 30, 2018. The experience report is dated April 2, 2019.

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	27.00 %	4.90 %
International Equity	22.00	4.75
Global Equity	12.00	5.00
Fixed Income	20.00	0.50
Real Estate	10.00	4.00
Private Equity	8.00	6.25
Cash	<u>1.00</u>	
Total	<u>100.00 %</u>	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (17.4%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability	\$ 30,779,799	23,779,622	18,001,664

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

(10) Long-term Debt.

Debt outstanding as of September 30, 2020, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General Obligation Bonds:			
Series 2011 Refunding Bonds	\$ 1,265,000	2.00-3.125%	08/2024
Series 2015 Refunding Bonds	3,490,000	2.00-3.125%	11/2028
Series 2018 Refunding Bonds	<u>1,182,000</u>	2.20-2.60%	04/2023
Total General Obligation Bonds	<u>\$ 5,937,000</u>		
B. Special Obligation Bonds:			
Series 2012 Bonds - Recreational Facilities	\$ 1,400,000	2.00-3.00%	10/2021
Series 2019 Bonds - Paving Roads	<u>5,153,000</u>	2.80%	06/2029
Total Special Obligation Bonds	<u>\$ 6,553,000</u>		
C. Other Loans:			
MDA Railroad Spur	\$ 162,012	0.00%	07/2028
Fire Pumper Truck	<u>509,231</u>	2.29%	12/2024
Total Other Loans	<u>\$ 671,243</u>		
D. Settlement Payable:			
2008 Tax Sale Voided By Court Order	<u>\$ 239,701</u>	0.00%	02/2022

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Business-type Activities:			
A. Special Obligation Bonds:			
Series 2014 Water and Sewer Refunding Bonds	\$ 5,465,000	2.00-3.50%	10/2027
Series 2015 Water and Sewer Refunding Bonds	<u>2,625,000</u>	3.00-3.25%	12/2030
 Total Special Obligation Bonds	 \$ <u>8,090,000</u>		
B. Other Loans:			
Drinking Water Systems Improvement - Water Tower	\$ 18,405	4.00%	11/2020
Drinking Water Systems Improvement - Water Treatment	158,578	3.50%	10/2023
CAP Loan - Water Treatment Plant	276,581	2.00%	10/2026
CAP Loan - Water Treatment Plant	163,349	3.00%	10/2027
CAP Loan - Water Treatment Plant	252,289	2.00%	02/2035
Drinking Water Systems Improvement - Twin Lakes	<u>1,441,586</u>	2.00%	02/2035
 Total Other Loans	 \$ <u>2,310,788</u>		

Governmental Activities:

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Special Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,730,000	149,264	941,000	175,934
2022	982,000	114,549	1,265,000	147,906
2023	1,020,000	88,324	571,000	121,716
2024	630,000	60,732	587,000	105,728
2025	300,000	42,638	603,000	89,292
2026 - 2029	<u>1,275,000</u>	<u>80,976</u>	<u>2,586,000</u>	<u>183,540</u>
 Total	 \$ <u>5,937,000</u>	 <u>536,483</u>	 <u>6,553,000</u>	 <u>824,116</u>

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 118,105	11,856
2022	120,394	9,567
2023	122,704	7,257
2024	125,068	4,893
2025	127,480	2,480
2026 - 2029	<u>57,492</u>	<u></u>
Total	\$ <u>671,243</u>	<u>36,053</u>

Business-type Activities:

<u>Year Ending September 30</u>	<u>Special Obligation Bonds</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 625,000	245,744	216,168	47,775
2022	640,000	229,844	202,802	43,252
2023	660,000	208,719	207,981	38,073
2024	685,000	186,919	162,763	33,487
2025	705,000	165,206	161,757	29,966
2026 - 2030	3,905,000	457,178	634,653	101,772
2031 - 2035	870,000	14,138	558,552	45,121
2036 - 2039	<u></u>	<u></u>	<u>166,112</u>	<u>2,835</u>
Total	\$ <u>8,090,000</u>	<u>1,507,748</u>	<u>2,310,788</u>	<u>342,281</u>

On July 17, 2018, the City entered into an agreement to repay DeSoto County (“the County”), Mississippi related to the settlement of a 2008 tax sale voided by DeSoto County Chancery Court order affirmed by the Mississippi Supreme Court. The City has agreed to pay \$479,403 to the County in four annual installments of \$119,851 starting February 28, 2019 concluding on the same day in 2022.

Legal Debt Margin - The amount of debt, excluding specific exempted debt incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. As of September 30, 2020, the amount of outstanding debt was equal to 3.3% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2020:

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

	Balance			Balance	Amount due
	Oct. 1, 2019	Additions	Reductions	Sept. 30, 2020	within one
					year
Governmental Activities:					
Compensated absences	\$ 328,672	1,298		329,970	
General obligation bonds	7,623,000		1,686,000	5,937,000	1,730,000
Add:					
Premiums	65,541		17,990	47,551	
Less:					
Discounts	(16,400)		(5,472)	(10,928)	
Special obligation bonds	7,473,000		920,000	6,553,000	941,000
Settlement payable	359,552		119,851	239,701	119,851
Other loans	787,174	-	115,931	671,243	118,105
	<u>16,620,539</u>	<u>1,298</u>	<u>2,854,300</u>	<u>13,767,537</u>	<u>2,908,956</u>
Total	\$ <u>16,620,539</u>	<u>1,298</u>	<u>2,854,300</u>	<u>13,767,537</u>	<u>2,908,956</u>

	Balance			Balance	Amount due
	Oct. 1, 2019	Additions	Reductions	Sept. 30, 2020	within one
					year
Business-type Activities:					
Compensated absences	\$ 24,251	4,552		28,803	
Special obligation bonds	8,700,000		610,000	8,090,000	625,000
Add:					
Premiums	77,997		7,800	70,197	
Other loans	2,611,555		300,767	2,310,788	216,208
	<u>11,413,803</u>	<u>4,552</u>	<u>918,567</u>	<u>10,499,788</u>	<u>841,208</u>
Total	\$ <u>11,413,803</u>	<u>4,552</u>	<u>918,567</u>	<u>10,499,788</u>	<u>841,208</u>

Compensated absences will be paid from the fund from which the employees' salaries were paid, which are the General Fund and the Utility Fund.

The City has pledged special assessment taxes levied against certain properties to service a portion of the \$7,120,000 Series 2015 General Obligation Bonds. This levy will continue through tax year 2019 (fiscal year 2020) and expects to generate approximately \$67,500 in taxes annually.

Special obligation bonds are issued by the Mississippi Development Bank under the Mississippi Development Bank Act, the proceeds of which are used to loan funds to the City pursuant to a loan agreement between the City and the Bank (or its assignee) and secured by a promissory note. The note does not constitute a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged. A tax intercept agreement secures the note payments.

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements For the Year Ended September 30, 2020

(11) Contingencies.

Federal Grants - The City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City's financial statements.

Litigation - The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

(12) Effect of Deferred Amounts on Net Position

The governmental and business-type activities net investments in capital assets net position amount of \$11,103,780 includes the effect of deferring the recognition of expenses resulting from a deferred outflow from advance funding of the City's debt. The \$411,230 balance of the deferred outflow of resources at September 30, 2020 will be recognized as an expense and decrease the net investment in capital assets net position.

The governmental activities unrestricted net position amount of (\$14,446,348) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$351,175 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. The \$1,885,416 balance of the deferred outflow of resources related to pensions at September 30, 2020, will be recognized in pension expense over the next four years.

The business-type activities' unrestricted net position amount of \$1,514,202 includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$31,822 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. The \$201,536 balance of the deferred outflow of resources related to pensions at September 30, 2020, will be recognized in pension expense over the next two years.

(13) Tax Abatements.

For the year beginning October 1, 2016, the Governmental Accounting Standards Board (GASB) implemented Statement 77, Tax Abatement Disclosures. This statement requires governmental entities to disclose the reduction in tax revenues resulting from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The City of Horn Lake Board of Aldermen negotiates property tax abatements on an individual basis. All abatements are for ten years and are for economic development purposes. The City had fourteen (14) tax abatement agreements with nine (9) entities as of September 30, 2020.

The City had one type of abatement, none of which provide for the abatement of school or state tax levies. These taxes are not included in the amounts listed since DeSoto County, Mississippi collects the ad valorem taxes and forwards the City of Horn Lake their levied portion of those collections:

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements
For the Year Ended September 30, 2020

Section 27-31-105, Miss. Code (Ann.) 1972

All allowable property tax levies

All allowable property tax levies except for countywide road and bridge levy

All seven companies have tax abatements listed under this statute.

These economic development projects, collectively, had \$134,613 in taxes abated in fiscal year 2020 accounting for 65% of taxes abated of potential collections without abatements present.

(14) Subsequent Events.

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of City of Horn Lake, Mississippi evaluated the activity of the City through the date the financial statements were available to be issued and determined that no subsequent event has occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HORN LAKE, MISSISSIPPI

Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2020
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 6,044,000	\$ 6,044,000	\$ 5,849,569	\$ (194,431)
Local taxes	6,120,000	6,120,000	6,799,537	679,537
Licenses and permits	355,300	355,300	471,182	115,882
Fines	560,000	560,000	489,700	(70,300)
Special assessments	100,000	100,000	34,026	(65,974)
Intergovernmental revenues:	695,900	695,900	668,994	(26,906)
Charges for services	2,492,200	2,492,200	2,469,906	(22,295)
Interest income	2,000	2,000	153,609	151,609
Miscellaneous revenues	445,905	445,905	989,347	543,442
Total Revenues	<u>16,815,305</u>	<u>16,815,305</u>	<u>17,925,870</u>	<u>1,110,565</u>
EXPENDITURES				
Current:				
General government	2,721,565	2,721,565	2,444,609	276,956
Police	6,335,835	6,335,835	5,284,435	1,051,400
Fire and emergency services:	4,114,500	4,114,500	3,910,534	203,966
Streets and sanitation	2,409,600	2,409,600	2,088,784	320,816
Animal control	204,500	204,500	229,037	(24,537)
Parks and recreation	995,800	995,800	862,883	132,917
Capital outlay	585,700	585,700	228,659	357,041
Debt service	257,905	257,905	254,565	3,340
Total Expenditures	<u>17,625,405</u>	<u>17,625,405</u>	<u>15,303,506</u>	<u>2,321,899</u>
Excess of Revenues over (under) Expenditures	<u>(810,100)</u>	<u>(810,100)</u>	<u>2,622,364</u>	<u>3,432,464</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	10,000	10,000	16,658	6,658
Transfers in	800,000	800,000	0	(800,000)
Total Other Financing Sources and Uses	<u>810,000</u>	<u>810,000</u>	<u>16,658</u>	<u>(793,342)</u>
Net Change in Fund Balance			2,639,022	
Fund Balances - Beginning - Cash Basis			<u>3,149,588</u>	
Fund Balances - Ending - Cash Basis			5,788,610	
Adjustments to conform with GAAP:				
Revenues			1,412,141	
Expenditures			<u>(1,155,371)</u>	
Net Change in Fund Balance - GAAP Basis			<u>\$ 6,045,380</u>	

CITY OF HORN LAKE, MISSISSIPPI

Schedule of the City's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years*

For the Year Ended September 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.1228%	0.1245%	0.1251%	0.1201%	0.1200%	0.1265%
City's proportionate share of the net pension liability (asset)	\$ 23,779,622	\$ 21,902,182	\$ 20,801,859	\$ 19,965,694	\$ 21,434,996	\$ 19,554,406
City's covered payroll	\$ 8,147,822	\$ 8,461,073	\$ 7,918,573	\$ 7,895,302	\$ 7,881,829	\$ 7,902,200
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	291.85%	286.29%	262.70%	252.88%	271.95%	247.46%
Plan fiduciary net position as a percentage of the total pension liability	58.97%	61.59%	62.54%	61.49%	57.47%	61.70%

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

* The amounts presented for each fiscal year were determined as of the twelve months ended at the measurement date of June 30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until a full 10 year trend is compiled, the City has only presented information for the years in which information is available.

CITY OF HORN LAKE, MISSISSIPPI

Schedule of City Contributions

Last 10 Fiscal Years*

For the Year Ended September 30, 2020

	<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>
Contractually required contribution	\$ 1,417,721	\$	1,332,619	\$	1,247,177	\$	1,243,512	\$	1,241,338	\$	1,237,471
Contributions in relation to the contractually required contribution	<u>1,417,721</u>		<u>1,332,619</u>		<u>1,247,177</u>		<u>1,243,512</u>		<u>1,241,338</u>		<u>1,235,977</u>
Contribution deficiency (excess)	<u>\$ -</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>1,494</u>
City's covered payroll	\$ 8,147,822	\$	8,461,073	\$	7,918,573	\$	7,895,302	\$	7,881,829	\$	7,856,961
Contributions as a percentage of covered payroll	17.40%		16.1625%		15.75%		15.75%		15.75%		15.75%

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to the Required Supplementary Information For the Year Ended September 30, 2020

A. Budgetary Information.

All funds of the City of Horn Lake, Mississippi, governmental and business-type are budgeted. For comparison purposes, the final amended budget utilized and presented on a modified cash basis of accounting as required by the State of Mississippi, which is not consistent with generally accepted accounting principles. Although all capital projects have a proposed budget approved for the project length, they have budgets approved on an annual basis. All budgetary appropriations lapse at year-end.

B. Basis of Presentation.

The budget adopted by the Board of Aldermen / Alderwomen may be amended. A budgetary comparison is presented for the general fund on a modified cash basis of accounting.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Pension Schedules

A. Changes of assumptions.

2015

The expectation of retired life mortality changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, used prior to 2015.

The expectation of disabled mortality changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, used prior to 2015.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates adjusted to reflect actual experience.

Assumed rates of salary increase adjusted reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016

The assumed rate of interest credited to employee contributions changed from 3.50% to 2.00%.

2017

The expectation of retired life mortality changed to the RP-2014 Health Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments made to the Mortality Table for disabled lives.

The wage inflation assumption reduced from 3.75% to 3.25%.

CITY OF HORN LAKE, MISSISSIPPI

Notes to the Required Supplementary Information For the Year Ended September 30, 2020

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates adjusted to reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty increased from 6% to 7%.

2019

The expectation of retired life mortality changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.

For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119.

Projection scale MP-2018 used to project future improvements in life expectancy generationally.

The expectation of disabled mortality changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:

For males, 137% of male rates at all ages.

For females, 115% of female rates at all ages.

Projection scale MP-2018 used to project future improvements in life expectancy generationally.

The price inflation assumption reduced from 3.00% to 2.75%.

The wage inflation assumption reduced from 3.25% to 3.00%.

Withdrawal rates, pre-retirement mortality rates, and service retirement rates adjusted to reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty increased from 7% to 9%.

B. Changes in benefit provisions.

2016

Effective July 1, 2016, the interest rate on employee contributions calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

C. Methods and assumptions used in calculation of actuarially determined contributions.

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2018 valuation for the June 30, 2020 fiscal year end).

The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in this schedule.

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30.9 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.25 percent to 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

SUPPLEMENTARY INFORMATION

City of Horn Lake, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed-through Mississippi Department of Transportation:			
<i>Highway Planning and Construction</i>	20.205	STP-7866-00(002)LPA107707-701000	\$ 1,485,708
Total passed-through Mississippi Department of Transportation			<u>1,485,708</u>
Passed-through Mississippi Department of Public Safety:			
<i>State and Community Highway Safety</i>	20.600	PT-2020-PT-21-81	19,387
<i>Alcohol Open Container Requirements</i>	20.607	MSX-2017-MD34-41	<u>120,359</u>
Total passed-through Mississippi Department of Public Safety			<u>139,746</u>
Total U.S. Department of Transportation			<u>1,625,454</u>
U.S. Department of Treasury			
Passed-through Mississippi Emergency Management Agency:			
<i>COVID - Coronavirus Relief Fund</i>	21.019	N/A	<u>31,296</u>
Total U.S. Department of Treasury			<u>31,296</u>
Total Expenditures of Federal Awards			\$ <u><u>1,656,750</u></u>

NOTES TO SCHEDULE:

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The City did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER INFORMATION

CITY OF HORN LAKE, MISSISSIPPI
Schedule of Surety Bonds for City Officials
For the Year Ended September 30, 2020
UNAUDITED

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Allen B. Latimer	Mayor	Fidelity & Deposit	\$ 75,000
Michael Guice	Alderman, Ward 1	Fidelity & Deposit	\$ 100,000
Tommy Bledsoe	Alderman, Ward 2	Fidelity & Deposit	\$ 100,000
Jackie Bostick	Alderman, Ward 3	Fidelity & Deposit	\$ 100,000
Charlie Roberts	Alderman, Ward 4	Fidelity & Deposit	\$ 100,000
LaShonda Johnson	Alderman, Ward 5	Fidelity & Deposit	\$ 100,000
John E. Jones, Jr.	Alderman, Ward 6	Fidelity & Deposit	\$ 100,000
Donnie "Chigger" White	Alderman, At-Large	Fidelity & Deposit	\$ 100,000
James Robinson	CAO / City Clerk	Fidelity & Deposit	\$ 100,000
Willis Charles Dixon	Finance Officer	Fidelity & Deposit	\$ 50,000
John Mark Owston	IT / Deputy City Clerk	Travelers Casualty & Surety Company	\$ 50,000
Tara Warren	Court Clerk	Fidelity & Deposit	\$ 50,000
Cindy R. White	Deputy Court Clerk	Fidelity & Deposit	\$ 50,000
Arianne Linville	HR Director	Fidelity & Deposit	\$ 50,000
Willie Dell Davidson, Jr.	Planning Director	Fidelity & Deposit	\$ 50,000
Felecia Topp Peters	Parks / Concessions	Fidelity & Deposit	\$ 50,000
Julie Valsamis	Accounts Payable / Deputy City Clerk	Travelers Casualty & Surety Company	\$ 50,000
Rodney Nash	Utility Manager	Travelers Casualty & Surety Company	\$ 50,000
Amy Louise Ray	Deputy Court Clerk	Fidelity & Deposit	\$ 50,000
Kelsey N. Bishop	Utility Clerk / Deputy City Clerk	Fidelity & Deposit	\$ 50,000
Debra McBride	Utility Lead Clerk	Fidelity & Deposit	\$ 50,000
Troy Rowell	Police Chief	Fidelity & Deposit	\$ 50,000
Denise D. Kovatch	Police - Seized Property	Fidelity & Deposit	\$ 50,000
Jeny Black Price	Police Department	Fidelity & Deposit	\$ 50,000
David Carl Linville	Fire Chief	Fidelity & Deposit	\$ 50,000
Ronald L. White, Jr.	Deputy Fire Marshall	Fidelity & Deposit	\$ 50,000

SPECIAL REPORTS

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Aldermen
City of Horn Lake, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Horn Lake, Mississippi, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Horn Lake's basic financial statements, and have issued our report thereon dated October 19, 2022. The report is modified on the governmental activities because the City did not record a liability or current year expense for other postemployment benefits as required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Horn Lake, Mississippi's ("the City") internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2020-001 that we consider to be a material weakness.

1048 GLUCKSTADT ROAD, SUITE B
MADISON, MISSISSIPPI 39110
TELEPHONE 601-992-5292 FAX 601-992-2033

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Horn Lake, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Horn Lake's Response to Finding

The City of Horn Lake, Mississippi's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The City of Horn Lake's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
October 19, 2022

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Aldermen
City of Horn Lake, Mississippi

Report on Compliance for the Major Federal Program

We have audited City of Horn Lake, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Horn Lake, Mississippi's major federal program for the year ended September 30, 2020. City of Horn Lake, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, City of Horn Lake, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2020.

1048 GLUCKSTADT ROAD, SUITE B
MADISON, MISSISSIPPI 39110
TELEPHONE 601-992-5292 FAX 601-992-2033

Report on Internal Control Over Compliance

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

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

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

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

Fortenberry & Ballard, PC

Fortenberry and Ballard, PC
October 19, 2022

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

Members of the Board of Aldermen
City of Horn Lake, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi as of and for the year ended September 30, 2020, which collectively comprise the City of Horn Lake's basic financial statements and have issued our report dated October 19, 2022. We conducted our audit in accordance with generally accepted 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.

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 all state laws and regulations was not an objective of our audit and, accordingly, we do not express an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
October 19, 2022

Certified Public Accountants

1048 Gluckstadt Road, Suite B
Madison, Mississippi 39110
Telephone 601-992-5292 Fax 601-992-2033

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Horn Lake, Mississippi

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|---|--|---------------|
| 1 | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Modified |
| | Business-type activities | Unmodified |
| | General Fund | Unmodified |
| | Debt Service Fund | Unmodified |
| | Utility Fund | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| 2 | Internal control over financial reporting: | |
| | a. Material weakness identified? | Yes |
| | b. Significant deficiency identified? | None reported |
| 3 | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|-----|---|---------------|
| 4. | Internal control over major federal programs: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with 2CFR 200.516(a)? | No |
| 7. | Identification of major federal program: | |
| | a. 20.205 - Highway Planning and Construction | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. | Auditee qualified as low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.516(b)? | Yes |

City of Horn Lake, Mississippi

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section 2: Financial Statement Finding

Board of Aldermen.

Material Weakness

2020-001. Liability for postemployment benefits not recorded/note disclosures for postemployment benefits not reported.

Repeat Finding Yes

Criteria City of Horn Lake purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage to active employees and retirees through the City's health insurance plan. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the City has a postemployment healthcare benefit reportable under GASB Statement No. 78 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions as a single employer defined health benefit care plan. GASB Statement No. 78 requires the City to report on an accrual basis the liability associated with other postemployment benefits.

Condition The City does not issue a publicly available financial report for its health insurance plan. The City has not recorded a liability for other postemployment benefits nor has the City reported the note disclosures which are required by accounting principles generally accepted in the United States of America. Since 2011, the City has offered retirees insurance benefit coverage.

Cause Noncompliance with GASB Statement No. 78.

Effect Failure to properly follow generally accepted accounting principles resulted in a modified opinion on the governmental activities opinion unit.

Recommendation The Board of Aldermen should have an actuarial valuation performed annually so a liability for other postemployment benefits can be recorded and the appropriate note disclosures can be made in accordance with accounting principles generally accepted in the United States of America.



City of Horn Lake

Jim Robinson, City Administrator/City Clerk

3101 Goodman Road West, Horn Lake, MS 38637

Re: Corrective Action Plan City of Horn Lake Board of Aldermen

CORRECTIVE ACTION PLAN 2020-001:

The other than unmodified opinion units noted in the Schedule of Findings and Questioned Costs will remain for the next fiscal year audited. The issues remarked upon in this response noted below are the current responsibility of the Board of Aldermen.

RESPONSE OF JIM ROBINSON, CITY ADMINISTRATOR/CITY CLERK:

The Board has chosen to accept this finding with no corrective action at this time. The Board weighed the cost and benefit of contracting an actuary for providing financial statement figures for a provided benefit no former employees currently benefit.

ANTICIPATED DATE OF COMPLETION FOR CORRECTIVE ACTION:

No date provided

NAME OF PERSON(S) RESPONSIBLE FOR CORRECTIVE ACTION:

Jim Robinson, City Administrator/City Clerk (662) 342-3488



City of Horn Lake

Jim Robinson, City Administrator/City Clerk

3101 Goodman Road West, Horn Lake, MS 38637

SUMMARY OF PRIOR AUDIT FINDINGS

As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards (UG), the City of Horn Lake has prepared and hereby submits the following summary of prior audit finding follow up as of September 30, 2020:

<u>Finding</u>	<u>Status</u>
2019-001	Not corrected.