

# CITY OF HORN LAKE, MISSISSIPPI

## FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2018



**CITY OF HORN LAKE, MISSISSIPPI  
TABLE OF CONTENTS**

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	Page
<b><u>INTRODUCTORY SECTION (UNAUDITED)</u></b>	
City Officials	1
<b><u>FINANCIAL SECTION</u></b>	
<b>INDEPENDENT AUDITOR’S REPORT</b>	2
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position	11
Statement of Activities	12
<b>Fund Financial Statements:</b>	
<b>Governmental Fund Financial Statements:</b>	
Balance Sheet	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
<b>Proprietary Fund Financial Statements</b>	
Statement of Net Position	17
Statement of Revenues, Expenses, and Changes in Net Position	18
Statement of Cash Flows	19
<b>Notes to Financial Statements</b>	20
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule – General Fund	38
Schedule of the City’s Proportionate Share of Net Pension Liability	41
Schedule of City’s Contributions	42
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Expenditures of Federal Awards	43
<b>OTHER INFORMATION (UNAUDITED)</b>	
Schedule of Surety Bonds for Municipal Officials	44
<b><u>GOVERNMENT AUDITING STANDARDS SECTION</u></b>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45
Independent Auditor’s Report on the Compliance with State Laws and Regulations	47
Schedule of Findings and Responses	48
Summary of Prior Year Audit Findings	51

**INTRODUCTORY SECTION (UNAUDITED)**

**MAYOR**

Allen B. Latimer

**ALDERMEN**

Donnie White, Alderman – At – Large  
Michael Guice, Alderman Ward One  
Tommy Bledsoe, Alderman Ward Two  
Tim Smith, Alderman Ward Three  
Charles T. Roberts, Alderman Ward Four  
LaShonda Johnson, Alderman Ward Five  
John E. Jones, Jr., Alderman Ward Six

**CITY CLERK**

Jim Robinson

**CITY ATTORNEY**

Billy Campbell, Hunt, Ross & Allen

**DEPARTMENT HEADS**

Police Chief – Troy Rowell  
Fire Chief – David Linville  
Director of Operations – Spencer Shields  
Court Clerk – Tara Warren  
Parks and Recreation – Keith Calvert  
Community Development/Human Resources – A.J. Linville

**CITY ENGINEER**

Vince Malavasi, Neel-Schaffer

**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi, (the "City") as of and for the year ended September 30, 2018, 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.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi, as of September 30, 2018, 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 and required supplementary information as listed in the table of contents 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.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Horn Lake's basic financial statements. The introductory section and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis 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 (Uniform Guidance)*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and other information have 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 them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2019, on our consideration of the City of Horn Lake'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 the City of Horn Lake'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 the City of Horn Lake's internal control over financial reporting and compliance.



Memphis, Tennessee  
September 16, 2019

**CITY OF HORN LAKE, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2018

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This discussion and analysis of the City of Horn Lake's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2018 as compared 2017 were as follows:

- Total net position increased from \$(4,271,921) to \$(1,821,675).
- Total liabilities and deferred inflows decreased from \$60,525,868 to \$57,532,395.
- Total assets and deferred outflows of governmental activities decreased from \$39,002,463 to \$38,998,937.
- Total assets and deferred outflows of business-type activities decreased from \$16,854,451 to \$16,708,257.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Horn Lake'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. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The government-wide financial statements are:

- **Statement of Net Position** -- presents information on all of the City's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial net position of the City is improving or deteriorating.
- **Statement of Activities** -- presents information showing how the City's net position changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) and other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public works, public safety, parks and recreation, and economic development. The business-type activities of the City include the operations of the water and sewer facilities.

The government-wide financial statements can be found on pages 11-12 of this report.

**CITY OF HORN LAKE, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
For the Year Ended September 30, 2018

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

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

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

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

The basic proprietary fund financial statements can be found on page 17-19 of this report.

**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 can be found on pages 20-37 of this report.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information as well as other supporting schedules included as suggested by the State of Mississippi or included by management for continuing bond disclosures.

**CITY OF HORN LAKE, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
For the Year Ended September 30, 2018

**Government-Wide Financial Analysis**

**Net Position:** Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred outflows by (\$1,821,675) at the close of the most recent fiscal year, an increase of \$2,450,246 from last year.

The following provides a summary of the City's net position for the years ended September 30, 2018 and 2017.

	<b>Condensed Statement of Net Position</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 12,733,058	\$ 11,200,275	4,242,234	\$ 3,737,706	\$ 16,975,292	\$ 14,937,981
Capital assets, net	25,319,429	26,606,927	12,093,127	12,660,997	37,412,556	39,267,924
<b>Total Assets</b>	<b>38,052,487</b>	<b>37,807,202</b>	<b>16,335,361</b>	<b>16,398,703</b>	<b>54,387,848</b>	<b>54,205,905</b>
<b>Deferred Outflows of Resources</b>	949,976	1,592,294	372,896	455,748	1,322,872	2,048,042
Long-term liabilities outstanding	32,708,138	34,301,500	13,349,108	13,968,775	46,057,246	48,270,275
Other liabilities	1,100,231	1,685,926	1,591,559	1,370,551	2,691,790	3,056,477
<b>Total Liabilities</b>	<b>33,808,369</b>	<b>35,987,426</b>	<b>14,940,667</b>	<b>15,339,326</b>	<b>48,749,036</b>	<b>51,326,752</b>
<b>Deferred Inflows of Resources</b>	8,706,515	9,065,540	76,844	133,576	8,783,359	9,199,116
<b>Net Asset</b>						
Invested in capital assets	12,514,210	11,512,453	98,536	97,800	12,612,746	11,610,253
Restricted		-	690,351	658,653	690,351	658,653
Unrestricted	(16,026,631)	(17,165,923)	901,859	625,096	(15,124,772)	(16,540,827)
<b>Total Net Position</b>	<b>\$ (3,512,421)</b>	<b>\$ (5,653,470)</b>	<b>\$ 1,690,746</b>	<b>\$ 1,381,549</b>	<b>\$ (1,821,675)</b>	<b>\$ (4,271,921)</b>

**Changes in Net Position:** Governmental activities increased the City's net position by \$2,141,049 while Business-type activities increased the City's net position by \$309,197 resulting in a net increase of \$2,450,246. Key elements of the changes are as follows:

- Additions to net position were provided primarily by increases in invested in capital assets for governmental activities of \$1,001,757 and program revenues exceeding water and sewer expenses for business-type activities of \$309,197. Further, increases in capital assets were offset by increases in cash and decreases in accounts payable.

**CITY OF HORN LAKE, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended September 30, 2018

The following provides a summary of activities for the City for the years ended September 30, 2018 and 2017:

	<b>Condensed Statement of Activities</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for services	\$ 2,197,480	\$ 2,152,829	\$ 4,598,404	\$ 4,506,403	\$ 6,795,884	\$ 6,659,232
Operating grants and contributions	215,391	360,429	-	-	215,391	360,429
General Revenues:						
Property taxes	8,158,716	7,289,946	-	-	8,158,716	7,289,946
Local taxes	5,988,536	5,820,114	-	-	5,988,536	5,820,114
Intergovernmental	331,294	757,096	-	-	331,294	757,096
Interest on investments	1,962	4,728	268	234	2,230	4,962
Other revenue	1,623,070	1,572,092	11,564	65,063	1,634,634	1,637,155
Loss on disposal of capital assets	(1,255)	(148,092)	-	-	(1,255)	(148,092)
<b>Total Revenues</b>	<b>18,515,194</b>	<b>17,809,142</b>	<b>4,610,236</b>	<b>4,571,700</b>	<b>23,125,430</b>	<b>22,380,842</b>
Expenses:						
General government	\$ 1,790,786	\$ 1,721,182	\$ -	\$ -	\$ 1,790,786	\$ 1,721,182
Public safety	9,223,527	10,405,519	-	-	9,223,527	10,405,519
Public works	3,799,372	3,473,863	-	-	3,799,372	3,473,863
Parks and recreation	1,190,291	1,267,567	-	-	1,190,291	1,267,567
Economic development	267,219	476,376	-	-	267,219	476,376
Tax sale settlement	-	479,403	-	-	-	479,403
Interest and fiscal charges	439,911	496,269	-	-	439,911	496,269
Debt Issuance	63,039	-	-	-	63,039	-
Water and sewer	-	-	3,901,039	3,672,408	3,901,039	3,672,408
<b>Total Expenses</b>	<b>16,774,145</b>	<b>18,320,179</b>	<b>3,901,039</b>	<b>3,672,408</b>	<b>20,675,184</b>	<b>21,992,587</b>
Increase/(Decrease) in net position before transfers	1,741,049	(511,037)	709,197	899,292	2,450,246	388,255
Transfers	400,000	400,000	(400,000)	(400,000)	-	-
Increase/(Decrease) in net position	2,141,049	(111,037)	309,197	499,292	2,450,246	388,255
Net position, September 30, 2017	(5,653,470)	(5,542,433)	1,381,549	882,257	(4,271,921)	(4,660,176)
Net position, September 30, 2018	<b>\$ (3,512,421)</b>	<b>\$ (5,653,470)</b>	<b>\$ 1,690,746</b>	<b>\$ 1,381,549</b>	<b>\$ (1,821,675)</b>	<b>\$ (4,271,921)</b>

**Governmental Activities:** Several revenues fund the City's governmental activities. The largest funding source, property tax revenue, accounted for \$8,158,716, or 43.8% of general revenues; sales tax revenue accounted for \$5,176,073, or 27.8% of general revenues. Fines of \$1,024,886 accounted for 5.5% of general revenues, and franchise taxes of \$721,793 accounted for 3.90% of general revenues.

The remaining 19% of general revenues was comprised of miscellaneous revenues and transfers.

Total general revenues from governmental activities increased from \$14,816,481 in 2017 to \$16,102,323, or 8.67%. Major expense activities included public safety expenditures accounting for 54.9% of total program expenses, and public works expenses accounting for 22.6% of total program expenses. Although the City has worked very hard on increasing its tax base by being proactive with new businesses and reducing costs department by department, we still strive to provide better service at a lower cost per man-hour. The ability of the City to continue to provide quality services without tax increases rests on the City management's ability to keep these costs in line.

**Business-type activities:** Business-type activities increased the City's net position by \$309,197. Operating revenues from the utility system fund totaled \$4,598,404 in 2018, an increase of 2.04% from 2017 operating revenues of \$4,506,403. Expenses of the utility fund increased by 6.2% in 2018, totaling \$3,901,039 in 2018 and \$3,672,408 in 2017.

**CITY OF HORN LAKE, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended September 30, 2018

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**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to help control and manage money for particular purposes or to ensure and demonstrate compliance with finance-related legal requirements. The following provides a more detailed analysis of the City's funds.

**Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 14 and 16, respectively.

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

The basic governmental funds financial statements can be found on pages 13 and 15 of this report. It is important to realize that all short-term notes issued by the City are recognized in the current period as short-term liabilities, and once bonded by the City they become long-term general obligation debt of the City.

**Proprietary Funds**

The net position of the proprietary funds at the end of fiscal year 2018 totaled \$1,690,746 which represents a \$309,197 increase from 2017.

**General Fund Budgeting Highlights**

The City's budget is prepared according to Mississippi Law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2018, the City amended its general fund budget. All recommendations for a budget change come from the Department Heads to the City Clerk. The Board of Aldermen of the City does not allow budget changes that modify totals within departments without Board approval. With the General Fund supporting many of the City's major activities such as police, fire, ambulance, street and park departments, as well as legislative, judicial and executive activities, the General Fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments. For the general fund, original budgeted revenues and other financing sources were \$15,782,355; amended budget amounts were \$15,853,482 and actual revenue collections-budgetary basis and other financing sources were \$15,640,672.

**CITY OF HORN LAKE, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended September 30, 2018

**Capital Asset and Debt Administration**

**Capital assets:** The City's investment in capital assets for its governmental and business type activities as of September 30, 2018 amounts to \$37,412,556 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure including streets. Depreciation expense for the year was \$2,168,417 mostly from depreciation of infrastructure.

**Condensed Statement of Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 3,729,631	\$ 3,729,631	\$ 28,225	\$ 28,225	\$ 3,757,856	\$ 3,757,856
Buildings and improvements	11,019,977	11,019,977	151,001	151,001	11,170,978	11,170,978
Equipment & machinery	3,235,084	3,205,281	319,746	297,064	3,554,830	3,502,345
Construction in progress	-	-	-	342,189	-	342,189
Infrastructure	28,049,349	28,049,349	22,541,984	22,014,167	50,591,333	50,063,516
Vehicles	5,044,200	5,022,265	56,121	56,121	5,100,321	5,078,386
Accumulated depreciation	(25,758,812)	(24,419,576)	(11,003,950)	(10,227,770)	(36,762,762)	(34,647,346)
Total capital assets, net	\$ 25,319,429	\$ 26,606,927	\$ 12,093,127	\$ 12,660,997	\$ 37,412,556	\$ 39,267,924

**Long-term debt:** At the end of the current fiscal year, the City had total debt outstanding of \$25,838,453. Of this amount \$21,464,831 comprises debt backed by the full faith and credit of the government and \$4,373,622 represents notes secured primarily by a specified revenue source with a full faith and credit pledge.

**Condensed Statement of Outstanding Debt**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 9,291,000	\$ 10,785,000	\$ -	\$ -	\$ 9,291,000	\$ 10,785,000
Special assessment bonds	2,720,000	3,355,000	9,300,000	9,860,000	12,020,000	13,215,000
Loans payable	900,949	1,012,519	2,903,313	2,912,002	3,804,262	3,924,521
Leases payable	89,957	181,245	-	-	89,957	181,245
Settlement liability	479,403	479,403	-	-	479,403	479,403
Bond premium	89,900	114,259	85,797	93,597	175,697	207,856
Bond discount	(21,866)	(27,332)	-	-	(21,866)	(27,332)
Total debt	\$ 13,549,343	\$ 15,900,094	\$ 12,289,110	\$ 12,865,599	\$ 25,838,453	\$ 28,765,693

The City's total debt decreased by a net \$2,927,240 or 10% during the current fiscal year due to increased borrowing of \$4,181,874 less debt retirements of \$7,109,114 within the governmental and business-type activities.

Additional information on the City's long-term debt can be found in note 3(G) of this report.

**Economic Factors and Next Year's Budgets and Rates**

The City of Horn Lake is experiencing new development, new business, and expansion in the new fiscal budget year. First with new developments is the Real Estate International group out of Destin Florida. This year Circle G is scheduled to announce the restructure on the Plat and the beginning develops of the retail portion of the development. This project is underway with a \$3.2 million cost for first phase of the old Elvis Presley Circle G Ranch, which is located at the corner of Hwy 301 and Hwy 302. Project leaders that have worked on former Disney projects anticipate 160,000 visitors annually will visit the development after completion of the first phase and up to 400,000 annually will visit after additional phases are added. The Circle G Ranch will place Horn Lake on the map internationally with the restoration of the Elvis Honeymoon cottage, Stables/Equestrian programs, wedding chapel, shopping, hotels, housing, senior living, and other amenities with outdoor music around a lake that would come first. The second new business development is the CORE5 group out of Atlanta Georgia is underway with Horn Lake Business Center. The new Business Center will consist of 5 warehouse/manufacturing buildings totaling 2.7 million square feet. A new development with the Hamilton Group, LLC

**CITY OF HORN LAKE, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended September 30, 2018

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will begin construction in 2019 and be completed in 2021. This 55 year old residential living center will be a \$32 million dollar project on Hwy 51.

The CORE5 project has an estimated cost of \$120 million to build and supply the 5 new warehouse/manufacturing buildings. Currently 2 warehouse/building buildings are built and the final 3 warehouse/buildings are under construction.

Also there are several other projects and new businesses that will help build a better economy throughout the City of Horn Lake. McDonalds and Aldi's are being developed at the corner of Horn Lake Road and Goodman. Bojangles is conducting a feasibility study on a location in Horn Lake. A new Days Inn hotel is under construction. Other projects include the expansion of Titan, Rite Hite International Dock Door Safety Systems, and Ground Support Specialist, LLC. The City of Horn Lake is also committed to providing all public services needed to support this growth in each fiscal year.

**Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF HORN LAKE, MISSISSIPPI**  
**STATEMENT OF NET POSITION**  
September 30, 2018

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activity</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,539,817	\$ 2,407,862	\$ 3,947,679
Restricted cash and cash equivalents	-	690,351	690,351
Receivables			
Property taxes	8,036,800	-	8,036,800
Accounts receivable	6,216,890	469,345	6,686,235
Other	59,626	-	59,626
Less allowance for doubtful accounts	(5,496,570)	(132,583)	(5,629,153)
Investments	118,059	753,950	872,009
Due from other governments	1,150,648	-	1,150,648
Restricted assets - property held for sale	982,591	-	982,591
Prepaid items	125,197	51,114	176,311
Inventory	-	2,195	2,195
Capital assets, not being depreciated	3,729,631	28,225	3,757,856
Capital assets, being depreciated, net	21,589,798	12,064,902	33,654,700
Total assets	<u>38,052,487</u>	<u>16,335,361</u>	<u>54,387,848</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on refunding	264,722	294,519	559,241
Related to pension	685,254	78,377	763,631
Total deferred outflows of resources	<u>949,976</u>	<u>372,896</u>	<u>1,322,872</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	576,615	171,565	748,180
Accrued interest payable	132,088	137,900	269,988
Customer deposits	391,528	373,846	765,374
Unearned revenue	-	16,491	16,491
Noncurrent liabilities:			
Due within one year	2,636,583	891,757	3,528,340
Due in more than one year	11,188,334	11,430,470	22,618,804
Net pension liability	18,883,221	1,918,638	20,801,859
Total liabilities	<u>33,808,369</u>	<u>14,940,667</u>	<u>48,749,036</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Current property taxes assessed for subsequent period	7,873,252	-	7,873,252
Related to pension	833,263	76,844	910,107
Total deferred inflows of resources	<u>8,706,515</u>	<u>76,844</u>	<u>8,783,359</u>
<b>NET POSITION</b>			
Net investment in capital assets	12,514,210	98,536	12,612,746
Restricted:			
Debt service	-	690,351	690,351
Unrestricted	(16,026,631)	901,859	(15,124,772)
Total net position	<u>\$ (3,512,421)</u>	<u>\$ 1,690,746</u>	<u>\$ (1,821,675)</u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 1,790,786	\$ -	\$ -	\$ -	\$ (1,790,786)	\$ -	\$ (1,790,786)
Public safety	9,223,527	367,895	215,391	-	(8,640,241)	-	(8,640,241)
Public works	3,799,372	1,644,907	-	-	(2,154,465)	-	(2,154,465)
Culture and recreation	1,190,291	184,678	-	-	(1,005,613)	-	(1,005,613)
Economic development	267,219	-	-	-	(267,219)	-	(267,219)
Interest on long-term debt	439,911	-	-	-	(439,911)	-	(439,911)
Debt issuance costs	63,039	-	-	-	(63,039)	-	(63,039)
Total governmental activities	16,774,145	2,197,480	215,391	-	(14,361,274)	-	(14,361,274)
Business-type activity:							
Utility services	3,901,039	4,598,404	-	-	-	697,365	697,365
Total business-type activities	3,901,039	4,598,404	-	-	-	697,365	697,365
Total primary government	\$ 20,675,184	\$ 6,795,884	\$ 215,391	\$ -	(14,361,274)	697,365	(13,663,909)
General revenues:							
Property taxes					8,158,716	-	8,158,716
Sales tax					5,176,073	-	5,176,073
Licenses and permits					244,338	-	244,338
Franchise fees					721,793	-	721,793
Hotel-motel taxes					90,670	-	90,670
Fines					1,024,886	-	1,024,886
Intergovernmental revenues					331,294	-	331,294
Other revenue					353,846	11,564	365,410
Interest on investments					1,962	268	2,230
Loss on sale of capital assets					(1,255)	-	(1,255)
Transfers					400,000	(400,000)	-
Total general revenues and transfers					16,502,323	(388,168)	16,114,155
Change in net position					2,141,049	309,197	2,450,246
Net position - beginning					(5,653,470)	1,381,549	(4,271,921)
Net position - ending					\$ (3,512,421)	\$ 1,690,746	\$ (1,821,675)

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 986,004	\$ -	\$ 553,813	\$ 1,539,817
Investments	118,059	-	-	118,059
Receivables				
Property taxes	5,260,094	2,617,564	159,142	8,036,800
Customer	6,216,890	-	-	6,216,890
Other	4,741	-	54,885	59,626
Less allowance for doubtful accounts	(5,496,570)	-	-	(5,496,570)
Due from other governments	1,150,648	-	-	1,150,648
Due from other funds	-	-	-	-
Prepaid Items	125,197	-	-	125,197
	<u>\$ 8,365,063</u>	<u>\$ 2,617,564</u>	<u>\$ 767,840</u>	<u>\$ 11,750,467</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 573,734	\$ -	\$ 2,881	\$ 576,615
Customer deposits	391,528	-	-	391,528
Due to other funds	-	-	-	-
Total liabilities	<u>965,262</u>	<u>-</u>	<u>2,881</u>	<u>968,143</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue				
Property taxes	5,166,965	2,569,065	158,223	7,894,253
Other	315,379	-	-	315,379
Total deferred inflows of resources	<u>5,482,344</u>	<u>2,569,065</u>	<u>158,223</u>	<u>8,209,632</u>
<b>FUND BALANCES</b>				
Nonspendable	125,197	-	-	125,197
Committed	400,000	-	111,606	511,606
Assigned	-	-	495,130	495,130
Unassigned	1,392,260	48,499	-	1,440,759
Total fund balances	<u>1,917,457</u>	<u>48,499</u>	<u>606,736</u>	<u>2,572,692</u>
	<u>\$ 8,365,063</u>	<u>\$ 2,617,564</u>	<u>\$ 767,840</u>	<u>\$ 11,750,467</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,365,063</u>	<u>\$ 2,617,564</u>	<u>\$ 767,840</u>	<u>\$ 11,750,467</u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**RECONCILIATION OF THE BALANCE SHEET -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
September 30, 2018

Total fund balances, governmental funds		\$ 2,572,692
Amounts reported for governmental activities in the statement of net position are different because:		
(1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		25,319,429
(2) Other long-term assets are not available to pay for current-period expenditures and, therefore, are unearned or unavailable in the funds.		1,318,971
Add: tax forfeited land	982,591	
Less: unavailable revenue	<u>336,380</u>	
(3) Long-term debt is not due and payable in the current period and, therefore is not reported in the funds.		
Less: loans payable	(900,949)	
Less: bonds payable	(12,011,000)	
Less: capital leases	(89,957)	
Less: settlement liability	(479,403)	
Less: unamortized premiums and discounts on debt	(68,034)	
Add: deferred amount on refunding	<u>264,722</u>	(13,284,621)
(4) Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Less: accrued interest payable	(132,088)	
Less: compensated absences payable	<u>(275,574)</u>	(407,662)
(5) Net pension assets are not a financial resource in the current period, and net pension liabilities and net other postemployment liabilities are not payable with current financial resources and, therefore, are not reported in the funds.		(18,883,221)
(6) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be amortized and recognized as components of pension and OPEB expense in future years.		
Add: deferred outflows of resources related to pensions	685,254	
Less: deferred inflows of resources related to pensions	<u>(833,263)</u>	<u>(148,009)</u>
Net position of governmental activities		<u><u>\$ (3,512,421)</u></u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2018

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Property taxes	\$ 5,306,350	\$ 2,609,480	\$ 151,240	\$ 8,067,070
Local sales taxes	5,897,866	-	90,670	5,988,536
Intergovernmental	319,165	-	-	319,165
Intergovernmental gas tax	12,129	-	-	12,129
Licenses and permits	244,338	-	-	244,338
Charges for services	2,197,480	-	-	2,197,480
Fines, forfeitures, and penalties	759,491	-	-	759,491
Grants	215,391	-	-	215,391
Interest on investments	1,962	-	-	1,962
Other	286,500	67,346	-	353,846
Total revenues	<u>15,240,672</u>	<u>2,676,826</u>	<u>241,910</u>	<u>18,159,408</u>
<b>EXPENDITURES</b>				
Current				
General government	1,516,002	-	-	1,516,002
Public safety	8,335,680	-	-	8,335,680
Public works	2,563,402	-	-	2,563,402
Culture and recreation	786,510	-	132,276	918,786
Economic development	185,571	-	71,631	257,202
Debt Service				
Principal	202,859	6,065,000	-	6,267,859
Interest and fiscal charges	22,421	410,439	-	432,860
Bond issuance costs	-	63,039	-	63,039
Capital outlays	640,552	-	-	640,552
Total expenditures	<u>14,252,997</u>	<u>6,538,478</u>	<u>203,907</u>	<u>20,995,382</u>
Excess (deficiency) of revenues over (under) expenditures	987,675	(3,861,652)	38,003	(2,835,974)
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan and lease proceeds	-	3,936,000	-	3,936,000
Sale of capital assets	4,731	-	-	4,731
Transfers in	400,000	493,971	-	893,971
Transfers out	(493,971)	-	-	(493,971)
Total other financing sources and uses	<u>(89,240)</u>	<u>4,429,971</u>	<u>-</u>	<u>4,340,731</u>
Net change in fund balances	898,435	568,319	38,003	1,504,757
Fund balances - beginning	<u>1,019,022</u>	<u>(519,820)</u>	<u>568,733</u>	<u>1,067,935</u>
Fund balances - ending	<u>\$ 1,917,457</u>	<u>\$ 48,499</u>	<u>\$ 606,736</u>	<u>\$ 2,572,692</u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2018

Net change in fund balance - total governmental funds		\$ 1,504,757
Amounts reported for governmental activities in the statement of activities are different because:		
(1) Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital outlays capitalized	111,602	
Depreciation expense	(1,393,114)	
Loss from the disposition of capital assets	<u>(5,986)</u>	(1,287,498)
(2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		357,041
(3) The issuance of long-term debt (e.g. bonds, notes, other loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Add: principal payments on long-term debt	6,267,858	
Add: amortization of premiums and discounts	18,893	
Less: change in deferred amount on refunding	(61,495)	
Less: proceeds from debt issuance	<u>(3,936,000)</u>	2,289,256
(4) Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	35,550	
Change in compensated absences	3,515	
Change in net pension liability	(760,904)	
Change in deferred outflows related to pensions	(580,823)	
Change in deferred inflows related to pensions	580,155	<u>(722,507)</u>
Change in net position of governmental activities		<u>\$ 2,141,049</u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
September 30, 2018

	<u>Enterprise Fund Utility Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents - unrestricted	\$ 2,407,862
Cash and cash equivalents - restricted	690,351
Receivables	
Customers	469,345
Less allowance for doubtful accounts	(132,583)
Investments	753,950
Inventory	2,195
Prepaid expenses	51,114
Total current assets	<u>4,242,234</u>
Noncurrent assets:	
Capital assets, not being depreciated	28,225
Capital assets, being depreciated, net	12,064,902
Total capital assets, net	<u>12,093,127</u>
Total noncurrent assets	<u>12,093,127</u>
Total assets	<u>16,335,361</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pension	78,377
Deferred charges on refunding	294,519
Total deferred outflows of resources	<u>372,896</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and other accruals	171,565
Accrued interest payable	137,900
Customer deposits	373,846
Unearned revenue	16,491
Current portion of notes payable	891,757
Total current liabilities	<u>1,591,559</u>
Noncurrent liabilities:	
Notes payable, net of current portion	11,397,353
Accrued compensated absences	33,117
Net pension liability	1,918,638
Total noncurrent liabilities	<u>13,349,108</u>
Total liabilities	<u>14,940,667</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pension	<u>76,844</u>
<b>NET POSITION</b>	
Net investment in capital assets	98,536
Unrestricted	1,592,210
Total net position	<u>\$ 1,690,746</u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2018

	<b>Enterprise Fund Utility Fund</b>
Operating Revenues:	
Water and sewer service fee	\$ 4,598,404
Other	11,564
Total operating revenues	<u>4,609,968</u>
Operating Expenses:	
Salaries	702,760
Benefits	338,260
Materials and supplies	260,998
Utilities	182,380
Sewer treatment fees	949,461
Professional services	250,980
Other services and charges	1,234
Water and sewer system management	52,942
Depreciation	775,303
Total operating expenses	<u>3,514,318</u>
Operating income	1,095,650
Nonoperating Revenues (Expenses):	
Interest income	268
Bond interest and fiscal charges	<u>(386,721)</u>
Total nonoperating expenses	<u>(386,453)</u>
Loss before transfers	709,197
Transfers out	<u>(400,000)</u>
Change in net position	309,197
Total net position - beginning	<u>1,381,549</u>
Total net position - ending	<u><u>\$ 1,690,746</u></u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
For the Year Ended September 30, 2018

	<b>Enterprise Fund</b>
	<b>Sewer Fund</b>
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 4,660,918
Payments to suppliers	(1,603,944)
Payments to employees	(966,547)
Other receipts	11,564
Net cash provided by operating activities	<u>2,101,991</u>
<b>CASH FLOW FROM (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>	
Net payments to/from other funds	(161,736)
<b>CASH FLOW FROM (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(207,435)
Proceeds from long-term debt	245,874
Principal paid on capital debt	(814,561)
Interest paid on capital debt	(367,613)
Net cash from (used for) capital and related financing activities	<u>(1,143,735)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	(8,815)
Net cash used for investing activities	<u>(8,815)</u>
Net decrease in cash and cash equivalents	787,705
Cash and cash equivalents - beginning of the year	<u>2,310,508</u>
Cash and cash equivalents - end of the year	<u>\$ 3,098,213</u>
<b>Reconciliation of operating income to net cash from operating activities:</b>	
Operating income	\$ 1,095,650
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	775,303
Pension expense in excess of employer contributions	74,473
Change in assets and liabilities	
Receivables	45,110
Prepaid expenses	8,886
Customer deposits	17,404
Accounts payable	85,165
Net cash provided by operating activities	<u>\$ 2,101,991</u>

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Horn Lake ("the City") was 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, recreation, public improvements, planning and zoning, and general administrative services.

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

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

**B. Basis of Presentation**

*Government-Wide Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Certain eliminations have been made in regards to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and business type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated.

The statement of net position presents information on all the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted.

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

*Fund Financial Statements*

Separate financial statements are provided for governmental funds and proprietary funds. The activities of the government are organized into funds, each of which are considered to be separate entities. Each fund is accounted for by providing a set of self-balancing accounts which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures/expenses. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City has presented all major funds that met the quantitative or qualitative qualifications to be reported as a major fund as separate columns in the fund financial statements. The City's major governmental funds include the General Fund and Debt Service Fund. In addition, the City reports the Utility Fund as a major proprietary fund. Detailed descriptions of these funds are presented below:

*1. Governmental Fund Financial Statements*

Governmental fund financial statements include a balance sheet and statement of revenues, expenditures, and changes in fund balance individually for all major funds and in the aggregate for the remaining nonmajor funds. An accompanying schedule is presented to reconcile and explain the difference in fund balance and changes in fund balances as presented in these statements to net position and changes in net position presented in the government-wide financial statements. The governmental funds of the City are described below:

- a. **General Fund** – The primary operating fund of the City and accounts for all financial resources of the general government not specifically provided for in other funds. Most of the essential governmental services such as general administration, community services, and public works are reported in the general fund.
- b. **Special Revenue Funds** – These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted or committed to expenditures for specific purposes.
- c. **Debt Service Fund** – The fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*2. Proprietary Fund Financial Statements*

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. The proprietary funds of the City are described below:

- a. **Enterprise Fund** – Account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of the financial activity focuses on net income measurement similar to private sector businesses.

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

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

*Measurement Focus*

On the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the “economic resources” measurement focus. Accordingly, all of the City's assets and liabilities, including capital assets and long-term liabilities, along with deferred inflows and outflows of resources, are included in the accompanying statement of net position. The statement of activities presents changes in net position.

Proprietary funds are also accounted for using the “economic resources” measurement focus. Accordingly all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. The statement of revenues, expenses, and changes in net position presents revenues (additions) and expenses (deductions) in total net position.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. These funds use fund balance as their measure of available resources at the end of the period.

*Basis of Accounting*

The government-wide financial statements are presented using the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available to finance expenditures of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, other local taxes, and intergovernmental revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The issuance of long-term debt is reported as other financing sources.

**D - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances**

*1. Deposits and investments*

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

The City’s investments consists of shares of common stock and certificate of deposits. The stock is valued at fair market value using quoted prices in an actively traded market.

*2. Receivables*

All trade and property taxes receivable are shown net of an allowance for uncollectibles.

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

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

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

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

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned as "unearned revenue". At the end of the current fiscal year, unavailable revenue principally represents amounts relating to property taxes and grants.

*3. Interfund transactions*

Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Interfund transfers

Permanent reallocations of resources between funds of the City are classified as interfund transfers. For the purpose of the statement of activities, all transfers between individual governmental funds have been eliminated.

*4. Restricted Assets*

The property held for sale is carried at an amount equal to the property taxes uncollected at the time the City received title to the property and limited to appraised values as assessed by the local tax collector.

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

*5. Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

*6. Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

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statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are capitalized at estimated fair market value on the date donated.

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

Land and construction in progress are not depreciated. Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

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

*7. Deferred outflows of resources*

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has qualifying items for reporting in this category. Deferred outflows of resources include pension changes in experience, pension changes in investment earnings, and employer contributions to the pension plan after the measurement date.

*8. Compensated absences*

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

*9. Long-term obligations*

In the governmental-wide financial statements, and proprietary fund types in the 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 fund type statement of net position. Premiums and discounts are deferred and amortized over the life of the associated debt using the effective interest method. Debt is reported net of the applicable premium or discount. Debt issuance costs are expensed when incurred.

In the governmental fund financial statements, debt premiums and discounts, as well as issuance costs are recognized in the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*10. Deferred inflows/outflows 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 of refunding – For current refundings 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.

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.

#### 11. *Net position and fund balance*

In the government-wide financial statements and the proprietary fund in the fund 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 notes or other borrowings that are 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 (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislations.

**Unrestricted net position** – all other net position that does not meet the definition of restricted or net investment in capital assets.

In the fund financial statements, governmental funds report fund balances in classifications that compromise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classification consist of the following five components, as applicable:

**Nonspendable** – amounts that cannot be spent because they are either in a (a) non-spendable form, including items not expected to be converted to cash (i.e. inventories, prepaid amounts, long-term portion of loans and notes receivable), or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

**Restricted** – amounts constrained to be used for a specific purpose as per external parties, constitutional provision, or enabling legislation.

**Committed** – amounts constrained to be used for specific purposes by formal action by ordinance adopted by the Board of Mayor and Aldermen. Amounts classified as committed are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the Board removes or changes the commitment by taking the same action it employed to impose the commitment. The City has committed \$111,606 of property tax revenue to the Library Fund and \$400,000 to road overlay projects.

**Assigned** – amounts intended to be used by the City for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Mayor pursuant to authorization established by the Board of Aldermen. The City has assigned \$495,130 for economic development.

**Unassigned** – represents the residual balance available for any purpose in the general fund or deficit balances in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the City to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

#### *12. 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.

#### *13. Fair Value Measurements*

GASB Statement 72, Fair Value Measurement and Application, categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities accessible at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that can be corroborated by observable market data. Such inputs include market interest rates and volatilities, spreads and yield curves. Level 3 inputs are inputs which are unobservable for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining fair value, the City utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at reporting date.

#### *14. Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary information**

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

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

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

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

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

**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**A. Deposits**

Legal Provisions

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institutions failure, the City's deposits might not be recovered. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. As of September 30, 2018, the City's bank balance was not exposed to custodial credit risk.

As of September 30, 2018, the carrying amount of the City's deposits with financial institutions was \$4,638,030 and the bank balances totaled \$4,031,734. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

**B. Investments**

*1. Primary Government Investments*

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2018.

- *Common Stock:* Based on trading prices in active markets.

For the year ended September 30, 2018, investments held in governmental funds totaled \$118,059 and valued using Level 1 inputs.

Long-term certificate of deposits are reported at amortized cost which approximates fair value at \$753,950.

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

**C. Interfund transfers**

The composition of interfund transfers for the year ended September 30, 2018 is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds		
General Fund	\$ 400,000	\$ 493,971
Debt Service Fund	493,971	-
Utility Fund	-	400,000
	<u>\$ 893,971</u>	<u>\$ 893,971</u>

Transfers out of the major funds and enterprise funds generally represent debt service and capital project funding.

**D. Property Held For Sale**

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

**E. Capital assets**

Capital asset activity for the year ended September 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,729,631	\$ -	\$ -	\$ 3,729,631
Total capital assets, not being depreciated	3,729,631	-	-	3,729,631
Capital assets, being depreciated:				
Buildings and improvements	11,019,977	-	-	11,019,977
Equipment and machinery	3,205,281	29,803	-	3,235,084
Infrastructure	28,049,349	-	-	28,049,349
Vehicles	5,022,265	81,799	(59,864)	5,044,200
Total capital assets, being depreciated	47,296,872	111,602	(59,864)	47,348,610
Less accumulated depreciation for:				
Buildings and improvements	(3,416,884)	(284,874)	-	(3,701,758)
Equipment and machinery	(1,874,444)	(216,508)	-	(2,090,952)
Infrastructure	(14,952,108)	(781,822)	-	(15,733,930)
Vehicles	(4,176,140)	(109,910)	53,878	(4,232,172)
Total accumulated depreciation	(24,419,576)	(1,393,114)	53,878	(25,758,812)
Total capital assets, being depreciated, net	22,877,296	(1,281,512)	(5,986)	21,589,798
Governmental activities capital assets, net	<u>\$ 26,606,927</u>	<u>\$ (1,281,512)</u>	<u>\$ (5,986)</u>	<u>\$ 25,319,429</u>

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 28,225	\$ -	\$ -	\$ 28,225
Construction in progress	342,189	-	(342,189)	-
Total capital assets, not being depreciated	<u>370,414</u>	<u>-</u>	<u>(342,189)</u>	<u>28,225</u>
Capital assets, being depreciated:				
Buildings and improvements	151,001	-	-	151,001
Equipment and machinery	297,064	22,682	-	319,746
Infrastructure	22,014,167	185,628	342,189	22,541,984
Vehicles	56,121	-	-	56,121
Total capital assets, being depreciated	<u>22,518,353</u>	<u>208,310</u>	<u>342,189</u>	<u>23,068,852</u>
Less accumulated depreciation for:				
Buildings and improvements	(47,285)	(2,850)	-	(50,135)
Equipment and machinery	(278,966)	(2,654)	-	(281,620)
Infrastructure	(9,851,886)	(769,799)	-	(10,621,685)
Vehicles	(50,510)	-	-	(50,510)
Total accumulated depreciation	<u>(10,228,647)</u>	<u>(775,303)</u>	<u>-</u>	<u>(11,003,950)</u>
Total capital assets, being depreciated, net	<u>12,289,706</u>	<u>(566,993)</u>	<u>342,189</u>	<u>12,064,902</u>
Business-type activities capital assets, net	<u>\$ 12,660,120</u>	<u>\$ (566,993)</u>	<u>\$ -</u>	<u>\$ 12,093,127</u>

Depreciation expense was charged to function/programs of the primary government as follows:

**DEPRECIATION DISCLOSURE**

Governmental Activities:	
General government	\$ 182,331
Public safety	252,876
Public works	743,389
Parks and recreation	214,518
Total depreciation expense - governmental activities	<u>\$ 1,393,114</u>

Business-Type Activities:

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

**F. Operating Leases**

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

Years Ending September 30	Amount
2019	\$ 20,904
2020	20,904
2021	20,904
2022	20,904
2023	20,904
2024-2028	101,036
	<u>\$ 205,556</u>

**G. Long-Term Liabilities**

*1. Long-Term Debt*

A summary of long-term liability activity, including debt, for the year ended September 30, 2018 is as follows. Additional detailed information is available following the summary.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds payable	\$ 10,785,000	\$ 1,936,000	\$ (3,430,000)	\$ 9,291,000	\$ 1,663,000
Special obligation bonds payable	3,355,000	-	(635,000)	2,720,000	650,000
Loans payable	1,012,519	2,000,000	(2,111,570)	900,949	113,775
Leases payable	181,245	-	(91,288)	89,957	89,957
Settlement payable	479,403	-	-	479,403	119,851
Unamortized premiums (discounts), net	86,927	-	(18,893)	68,034	-
Total long-term debt	15,900,094	3,936,000	(6,286,751)	13,549,343	2,636,583
Compensated absences	279,089	4,104	(7,619)	275,574	-
Net pension liability*	18,122,317	760,904	-	18,883,221	-
	<u>\$ 34,301,500</u>	<u>\$ 4,701,008</u>	<u>\$ (6,294,370)</u>	<u>\$ 32,708,138</u>	<u>\$ 2,636,583</u>
Business-type activities:					
Special obligation bonds payable	\$ 9,860,000	\$ -	\$ (560,000)	\$ 9,300,000	\$ 600,000
Loans payable	2,912,002	245,874	(254,563)	2,903,313	291,757
Unamortized premiums	93,597	-	(7,800)	85,797	-
Total long-term debt	12,865,599	245,874	(822,363)	12,289,110	891,757
Compensated absences	33,117	-	-	33,117	-
Net pension liability*	1,843,377	75,261	-	1,918,638	-
	<u>\$ 14,742,093</u>	<u>\$ 321,135</u>	<u>\$ (822,363)</u>	<u>\$ 14,240,865</u>	<u>\$ 891,757</u>

\*net increase (decrease) shown

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

For governmental activities, net pension liability, and compensated absences are generally liquidated by the general fund.

The City has pledged special assessment taxes levied against certain properties to service a portion of the \$7,120,000 GO bonds issued during fiscal year 2015. The levy will continue through tax year 2019 and is expected to generate an average of \$67,500 in taxes per year.

General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds outstanding as of September 30, 2018 are as follows:

	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Outstanding at Year End</u>
Governmental activities:				
General obligation bonds				
Series 2018	2.20%-2.60%	4/1/2023	\$ 1,936,000	\$ 1,936,000
Series 2011	2.00%-3.125%	8/1/2024	3,395,000	1,835,000
Series 2015	2.00%-3.125%	11/1/2028	7,120,000	5,520,000
Total General Obligation Bonds			<u>\$ 12,451,000</u>	<u>\$ 9,291,000</u>

Special obligation bonds are issued by the Mississippi Development Bank under the Mississippi Development Bank Act, the proceeds of which are used to loan money to the City pursuant to a loan agreement between the City and the Bank (or its assignee) and secured by a promissory note. The note will never constitute a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged, however a tax intercept agreement secures the note payments. Special obligation bonds outstanding at year end are as follows:

	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Outstanding at Year End</u>
Special obligation bonds				
2012 Recreation Facility Refunding	2.0%-3.0%	10/1/2021	<u>\$ 5,185,000</u>	<u>\$ 2,720,000</u>

The City issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Outstanding at Year End</u>
Business-type activities:				
Special obligation bonds				
2014 Special Obligation Refunding	2.0%-3.5%	10/1/2027	\$ 7,320,000	\$ 6,655,000
2015 Special Obligation Refunding	3.00%-3.25%	12/1/2030	<u>2,695,000</u>	<u>2,645,000</u>
Total revenue bonds			<u>\$ 10,015,000</u>	<u>\$ 9,300,000</u>

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

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

	Interest Rates	Maturity Date	Original Issue	Outstanding at Year End
General Loans payable				
Fire pumper truck	2.29%	12/15/2024	\$ 787,795	\$ 697,129
MDA Railroad Spur	0%	11/1/2020	313,568	203,820
			<u>\$ 1,101,363</u>	<u>\$ 900,949</u>
Business-Type Loans payable				
Drinking Water System Improvements Revolving Loan	4.00%	11/1/2020	\$ 1,509,556	\$ 229,981
Drinking Water System Improvements Revolving Loan	3.50%	10/2/2023	773,901	252,671
Cap Loan (Water Treatment Plant)	2.00%	10/2/2023	476,333	213,345
Cap Loan (Water Treatment Plant)	3.00%	10/1/2027	587,905	312,730
Cap Loan (Allen Subdivision Sewer Improvement)	2.00%	2/1/2035	367,350	309,385
Cap Loan (Twin Lakes Sewer Improvement)	2.00%	2/1/2035	1,585,201	1,585,201
Total loans payable			<u>\$ 5,300,246</u>	<u>\$ 2,903,313</u>

Annual debt service requirements to maturity for bonds and notes payable are as follows:

Year Ending September 30	General Obligation Bonds		Special Obligation Bonds		Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,663,000	\$ 225,312	\$ 650,000	\$ 64,412	\$ 113,775	\$ 16,186
2020	1,691,000	200,237	670,000	49,956	115,931	14,030
2021	1,730,000	162,389	690,000	31,650	118,105	11,856
2022	982,000	118,049	710,000	10,650	120,394	9,567
2023	1,020,000	91,949	-	-	-	-
2024-2028	1,875,000	200,594	-	-	417,060	14,630
2029-2032	330,000	10,725	-	-	15,684	-
Total	<u>\$ 9,291,000</u>	<u>\$ 1,009,255</u>	<u>\$ 2,720,000</u>	<u>\$ 156,668</u>	<u>\$ 900,949</u>	<u>\$ 66,269</u>

**Business Type Activities:**

Year Ending September 30	Revenue Bonds		Loans	
	Principal	Interest	Principal	Interest
2019	\$ 600,000	\$ 273,344	\$ 291,757	\$ 65,287
2020	610,000	258,194	300,757	56,285
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
2024-2028	3,645,000	702,803	744,617	132,420
2029-2033	2,520,000	120,637	552,565	65,840
2034-2038	-	-	386,666	14,941
	<u>\$ 9,300,000</u>	<u>\$ 2,039,285</u>	<u>\$ 2,903,313</u>	<u>\$ 463,873</u>

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

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Future minimum capital lease payments and the net present value of these minimum lease payments as of September 30, 2018 is as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2019	\$ 89,957	\$ 1,787

On July 17, 2018, the City entered into an agreement to repay funding between DeSoto County, Mississippi and the City related to the settlement of a 2008 tax sale voided by Order of the Chancery Court of DeSoto County, Mississippi and affirmed by the Supreme Court of Mississippi. The City has agreed to pay \$479,403 to DeSoto County in annual installments of \$119,851 starting February 28, 2019 and ending February 28, 2022.

Current refunding – On June 28, 2018, the City issued \$1,936,000 in General Obligation Refunding Bonds, Series 2018 with an average interest rate of 2.48% to currently refund \$1,855,000 of the Mississippi Development Bank Special Obligation Bonds, Series 2008 with an interest rate ranging from 3.25% to 4.63%.

The City currently refunded the above bonds to reduce its total debt service payment over the next five years by approximately \$90,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$85,000.

Advance refunding – On October 29, 2015, the City issued \$2,695,000 in Water and Sewer System Revenue Refunding Bonds with an average interest rate of 3.00% to advance refund \$2,510,000 of the 2005 Special Obligation Water & Sewer Refunding Bonds with an average interest rate of 5.00%.

The bonds had a total outstanding balance of \$3,350,000 at the time of refunding, but only \$2,510,000 of the 2005 bonds was refunded.

The net proceeds of \$2,566,475 (after payment of \$128,525 in underwriting fees and other issuance costs) were used to purchase US government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Position.

The City advance refunded the above bonds to reduce its total debt service payment over the next 15 years by almost \$325,495 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$259,971.

Legal Debt Margin. The City is subject to the limitations of indebtedness prescribed by Section 21-33-303, Miss. Code Ann. (1972). No municipality may issue bonds secured by a pledge of its full faith and credit in an amount which, when added to the then outstanding bond indebtedness of such municipality, would exceed the 15% and 20% tests prescribed in Section 21-33-303. These percentages are applied to the assessed value of the taxable property within such municipality, with certain types of bond issues being excluded from the authorized debt limit tests.

Presented in the schedule below are the calculations of the applicable statutory debt limitations and the resulting margin for further debt in the amount of \$14,322,840 (the smaller of the two computed margins) as of September 30, 2018.

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

	<u>15% Test</u>	<u>20% Test</u>
Net assessed value as of September 30, 2018 (\$157,425,600 times applicable percentage)	\$ 23,613,840	\$ 31,485,120
Present debt subject to limit as of September 30, 2018: Total bonds outstanding (excluding proprietary)	<u>(9,291,000)</u>	<u>(9,291,000)</u>
Margin for additional debt	<u>\$ 14,322,840</u>	<u>\$ 22,194,120</u>

**NOTE 4 – PENSION**

**A. General Information about the Pension Plan**

Plan Description

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

Benefits Provided

Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions

Contribution rates of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. Employees contribute 9 percent of their annual covered salary. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended September 30, 2018, the employer contributions for the City to PERS was \$1,247,177 based on a rate of 15.75% of covered payroll. By law employer contributions are required to be paid. The employer's and employee contribution are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of the unfunded liability.

**B. Actuarial Assumptions**

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00%
Salary increases	3.25 - 18.50%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with male rates set forward one year.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

Investment Policy

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Broad	27.00%	4.60%
International Equity	18.00	4.50
Emerging Markets Equity	4.00	4.75
Global	12.00	4.75
Fixed Income	18.00	0.75
Real Assets	10.00	3.50
Private Equity	8.00	5.10
Emerging Debt	2.00	2.25
Cash	1.00	0.00
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF HORN LAKE, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
September 30, 2018

Sensitivity of 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</u>	<u>Current Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability	\$ 27,390,079	\$ 20,801,859	\$ 15,326,178

**C. Pension Liability**

At September 30, 2018, the City reported a liability of \$20,801,859 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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 the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion was .1251 percent, as opposed to its proportion of .1201 percent measured as of June 30, 2017. For the year ended September 30, 2018, the City recognized pension expense of \$836,046.

**D. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the PERS plan from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 88,305	\$ 84,214
Changes of assumptions	11,787	11,024
Net difference between projected and actual earnings on pension plan investments	-	398,242
Changes in the City's proportion and differences between the City's contributions and proportionate share of contributions	330,603	416,627
City contributions subsequent to the measurement date	<u>332,936</u>	<u>-</u>
Total	<u>\$ 763,631</u>	<u>\$ 910,107</u>

The amounts shown above for "Contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction to net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending September 30:

	<u>Total</u>
2019	\$ (21,088)
2020	5,669
2021	(370,446)
2022	<u>(93,547)</u>
	<u>\$ (479,412)</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**NOTE 7 - COMMITMENTS AND 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.

**NOTE 8 - RISK MANAGEMENT**

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

**NOTE 9 – SUBSEQUENT EVENT**

On October 1, 2018, a tax anticipation loan was issued in the amount of \$1,800,000, with an interest rate of 2.74 percent per year maturing March 15, 2019.

On May 7, 2019, the Mayor and Board of Alderman passed a city bond resolution authorizing and directing the issuance of a general obligation bond, series 2019, in the principal amount of not to exceed \$6,000,000 to be sold to the Mississippi Development Bank. This bond will raise money for financing certain capital projects and improvements which consists of construction, improving or paving streets, sidewalks, parkways, walkways or public parking facilities and purchasing land, constructing bridges and culverts, and for other authorized purposes under the Mississippi code 21-33-301 as amended and/or supplemented from time to time, including paying for the cost of such borrowing.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF HORN LAKE, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 5,297,000	\$ 5,368,127	\$ 5,255,974	\$ (112,153)
Property tax interest and penalties	35,000	35,000	50,376	15,376
Total property taxes	5,332,000	5,403,127	5,306,350	(96,777)
<b>LOCAL TAXES</b>				
Local sales tax	4,850,000	4,921,127	5,176,073	254,946
Franchise tax	740,000	740,000	721,793	(18,207)
Total local taxes	5,590,000	5,661,127	5,897,866	236,739
<b>INTERGOVERNMENTAL</b>	365,000	365,000	331,294	(33,706)
<b>LICENSES AND PERMITS</b>	306,000	306,000	244,338	(61,662)
<b>CHARGES FOR SERVICES</b>				
Public safety	281,000	247,800	367,895	120,095
City service fees	8,000	8,000	10,476	2,476
Recreation fees for services	152,905	126,355	184,678	58,323
Sanitation	1,600,000	1,600,000	1,634,431	34,431
Total charge for services	2,041,905	1,982,155	2,197,480	215,325
<b>FINES, FORFEITURES, AND PENALTIES</b>	888,000	888,000	759,491	(128,509)
<b>GRANTS</b>	240,975	229,598	215,391	(14,207)
<b>INTEREST ON INVESTMENTS</b>	4,000	4,000	1,962	(2,038)
<b>OTHER</b>	369,400	369,400	286,500	(82,900)
<b>Total Revenues</b>	15,137,280	15,208,407	15,240,672	32,265

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**CITY OF HORN LAKE, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES</b>				
<b>GENERAL GOVERNMENT</b>				
General Government				
Salaries	811,250	807,450	752,113	55,337
Benefits	313,425	318,121	270,405	47,716
Contractual services	78,500	79,300	56,425	22,875
Materials and supplies	32,000	33,846	24,660	9,186
Insurance	400,000	400,000	395,833	4,167
Other charges	21,400	19,638	16,566	3,072
Total general government	<u>1,656,575</u>	<u>1,658,355</u>	<u>1,516,002</u>	<u>142,353</u>
<b>PUBLIC SAFETY</b>				
Salaries	6,209,100	6,098,334	5,699,288	399,046
Benefits	2,152,550	2,161,870	2,011,246	150,624
Contractual services	82,000	91,000	73,321	17,679
Materials and supplies	405,200	469,080	434,888	34,192
Other charges	187,300	197,673	116,937	80,736
Total public safety	<u>9,036,150</u>	<u>9,017,957</u>	<u>8,335,680</u>	<u>682,277</u>
<b>PUBLIC WORKS</b>				
Salaries	414,800	400,600	369,227	31,373
Benefits	192,975	182,975	171,073	11,902
Contractual services	1,829,000	1,800,690	1,720,811	79,879
Materials and supplies	153,000	154,250	132,434	21,816
Other charges	560,000	571,500	169,857	401,643
Total public works	<u>3,149,775</u>	<u>3,110,015</u>	<u>2,563,402</u>	<u>546,613</u>
<b>CULTURE AND RECREATION</b>				
Salaries	318,600	316,278	316,377	(99)
Benefits	137,800	128,828	128,645	183
Contractual services	139,500	152,485	146,842	5,643
Materials and supplies	109,000	97,237	94,532	2,705
Other charges	67,500	102,422	100,114	2,308
	<u>772,400</u>	<u>797,250</u>	<u>786,510</u>	<u>10,740</u>

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**CITY OF HORN LAKE, MISSISSIPPI**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Year Ended September 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>ECONOMIC DEVELOPMENT</b>				
Salaries	128,600	111,810	93,574	18,236
Benefits	45,550	44,350	32,329	12,021
Contractual services	40,000	57,790	57,784	6
Materials and supplies	400	600	295	305
Other charges	4,500	4,500	1,589	2,911
	<u>219,050</u>	<u>219,050</u>	<u>185,571</u>	<u>33,479</u>
<b>CAPITAL OUTLAY</b>	711,500	799,940	640,552	159,388
<b>DEBT SERVICE</b>	236,905	250,915	225,280	25,635
<b>Total Expenditures</b>	<u>15,782,355</u>	<u>15,853,482</u>	<u>14,252,997</u>	<u>1,600,485</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(645,075)	(645,075)	987,675	1,632,750
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	220,075	220,075	4,731	(215,344)
Transfers in	425,000	425,000	400,000	(25,000)
Transfers out	0	0	(493,971)	(493,971)
<b>Total Other Financing Sources (Uses)</b>	<u>645,075</u>	<u>645,075</u>	<u>(89,240)</u>	<u>(734,315)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	898,435	<u>\$ 898,435</u>
Fund balances - beginning			<u>1,019,022</u>	
Fund balances - ending			<u>\$ 1,917,457</u>	

**CITY OF HORN LAKE, MISSISSIPPI**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
 Last Ten Fiscal Years September 30

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.1251%	0.1201%	0.1200%	0.1265%
City's proportionate share of the net pension liability	\$ 20,801,859	\$ 19,965,694	\$ 21,434,996	\$ 19,554,406
City's covered employee payroll	\$ 7,918,573	\$ 7,895,302	\$ 7,881,829	\$ 7,902,200
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	262.70%	252.88%	271.95%	247.46%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	61.49%	57.47%	61.70%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF HORN LAKE, MISSISSIPPI**  
**SCHEDULE OF CITY'S CONTRIBUTIONS**  
 LAST TEN FISCAL YEARS SEPTEMBER 30

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,247,177	\$ 1,243,512	\$ 1,241,338	\$ 1,237,471
Contributions in relation to the contractually required contribution	<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>\$ 1,494</u>
City's covered employee payroll	\$ 7,918,573	\$ 7,895,302	\$ 7,881,829	\$ 7,856,961
Contributions as a percentage of covered employee payroll	15.75%	15.75%	15.75%	15.75%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**SUPPLEMENTARY INFORMATION**

**CITY OF HORN LAKE, MISSISSIPPI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Number	Expenditures
<b>FEDERAL AWARDS</b>			
U.S. Department of Transportation/MS Dept. of Transportation Highway Planning and Construction	20.205	STP-9227-00(008)LPA	\$ 67,445
Environmental Protection Agency/MS. Dept. of Health Capitalization Grants for Drinking Water State Revolving Funds	66.468	DWI-L170022-03-0	<u>1,395,448</u>
Total Federal Awards			<u>\$ 1,462,893</u>

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Horn Lake, Mississippi (the City) under programs of the federal government for the year ended September 30, 2017. 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, Costs 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 assets, or cash flows of the City.

**NOTE 2 – LOANS OUTSTANDING**

At September 30, 2018, there was an outstanding balance of \$1,585,201 on a loan obtained through the Capitalization Grant for Drinking Water State Revolving Loan Fund. Federally funded amounts received during the year ended September 30, 2018 of \$240,671 related to reimbursement of expenditures. Payment on the loan during the current fiscal year totaled \$40,841.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in either OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the Uniform Guidance, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available
- 3) There were no federal awards passed through to subrecipients.
- 4) The City has elected not to use the de minimis indirect cost rate as allowed under the Uniform Guidance.

**OTHER INFORMATION (UNAUDITED)**

**CITY OF HORN LAKE, MISSISSIPPI**  
**SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS**  
For the Year Ended September 30, 2018

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<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount of Bond</u>
Allen Latimer	Mayor	Fidelity	\$ 75,000
Jim Robinson	City Clerk	Fidelity	\$ 50,000
Tara Warren	Court Clerk	Fidelity	\$ 50,000
Darryl Whaley	Police Chief (6/1/2016 - 6/1/2017)	Fidelity	\$ 50,000
Troy Rowell	Police Chief	Fidelity	\$ 50,000
Ronald L. White, Jr.	Deputy Fire Marshall	Fidelity	\$ 50,000
Arianne Linville	Human Resources Director	Fidelity	\$ 50,000
Danny Smith	Animal Shelter Director	Fidelity	\$ 50,000
Willis Charles Dixon	Finance Officer	Fidelity	\$ 50,000
Julie Valsamis	Accounting Clerk	Traveler's	\$ 50,000
	Aldermen (each)	Fidelity	\$ 100,000

**GOVERNMENT AUDITING STANDARDS SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 16, 2019.

**Internal Control over Financial Reporting**

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

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of 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. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2018-001, 2018-002, 2017-004, 2018-004, 2018-005, and 2018-006 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency 2018-007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's responses were 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Watkins Mikusall, PLLC*

Memphis, Tennessee  
September 16, 2019

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

Mayor and Board of Aldermen  
City of Horn Lake, Mississippi

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi ("the City"), as of and for the year ended September 30, 2018, and have issued our report dated September 16, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standard*, issued by the Comptroller General of the United States of America.

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

The results of those procedures and our audit of the basic financial statements disclosed no material instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of the City's management, federal awarding agencies 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 specified parties. However, this report is a matter of public record and its distribution is not limited.

*Watkins Uiberall, PLLC*

Memphis, Tennessee  
September 16, 2019

**CITY OF HORN LAKE, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
For the Year Ended September 30, 2018

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**FINDINGS – FINANCIAL STATEMENT AUDIT**

**MATERIAL WEAKNESSES**

2018-001 Ambulance Revenue

*Condition:* An adjusting entry was needed to correct ambulance revenue and unavailable ambulance revenue in fiscal year 2018. Total ambulance revenue was understated by \$325,435 and total unavailable ambulance revenue was understated by \$265,669. The net effect of these misstatements on the State of Revenues, Expenditures, and Changes in Fund Balances was ambulance revenue being understated by \$59,766. The City did not appropriately record ambulance revenue and related accounts (ambulance receivable, allowance for doubtful accounts, and unavailable revenue) using the modified accrual basis of accounting as of September 30, 2018.

*Criteria:* Internal controls should include procedures to properly reconcile the ambulance receivable account in order to provide reasonable assurance of proper revenue recognition.

*Cause:* There are no standard procedures for reconciling information from the third-party billing company to the City's internal ambulance records.

*Effect:* Ambulance accounts receivable, allowance for doubtful accounts, revenue, and unavailable revenue were misstated.

*Recommendation:* We recommend that the City establish and document a standard policy for ambulance revenue recognition in accordance with generally accepted accounting principles and reconcile the accounts receivable on a monthly basis.

*Views of Responsible Officials and Planned Corrective Actions:* The City Finance department will update the ambulance receivables on a monthly basis and outstanding uncollected will be updated as a receivable at year end.

2018-002 Court Fines

*Condition:* Accounts receivable related to court fines were not recorded using the modified accrual basis of accounting as of September 30, 2018. As a result, an adjusting entry was needed to correct court fines accounts receivable, allowance for doubtful accounts, court fines revenue, and court fines unavailable revenue. Court fines accounts receivable was understated by \$552,908, court fines allowance for doubtful accounts was understated by \$571,462, and court fines revenue was overstated by \$18,281.

*Criteria:* Internal controls should include procedures to properly reconcile the court fines receivable account to the reports generated by the City's Court Clerk in order to provide reasonable assurance of proper revenue recognition.

*Cause:* There are no standard procedures for recording, reconciling, and monitoring of court fines receivable before the year-end books are closed.

*Effect:* Court fines receivable, allowance for doubtful accounts, and revenue were misstated.

*Recommendation:* We recommend that the City establish and document a standard policy for court fines recognition in accordance with generally accepted accounting principles and reconcile the receivable account on a monthly basis.

*Views of Responsible Officials and Planned Corrective Actions:* The Court Clerk records all fines in Syscon and generates a report from Syscon and each individual receivable. From the generated report, all court fines are recorded in the City software (Munis). The City Finance department will update the court fines receivable on a monthly basis and outstanding uncollected will be updated as a receivable at year end.

**CITY OF HORN LAKE, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
For the Year Ended September 30, 2018

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2018-003 Fund Balance

*Condition:* A current year adjusting entry was needed to correct beginning fund balance for the general fund and the proprietary fund. The City incorrectly recorded an entry to both funds' fund balance account during the current year that caused beginning fund balance to not agree with ending fund balances for the general fund and utility fund to the prior year financial statements.

*Criteria:* Internal controls should be in place that provide reasonable assurance that no entries to fund balance accounts are being made.

*Cause:* Management of the City was not aware entries should not be posted to fund balance accounts.

*Effect:* Beginning fund balance for the general fund was overstated by \$105,718 and beginning fund balance for the proprietary fund was understated by \$60,115.

*Recommendation:* We recommend that the City management review their internal controls to ensure no entries are posted to fund balance accounts, other than proposed audit adjustments to correct for misstatements.

*Views of Responsible Officials and Planned Corrective Actions:* The City Finance department will record all audit entries and reconcile fund balance accounts to the audited financial statements.

2018-004 Recording Capital Assets in the Proprietary Fund

*Condition:* Assets purchases were not capitalized in the proprietary fund which is not in accordance with generally accepted accounting principles (accrual basis of accounting for proprietary funds).

*Criteria:* All asset purchases that meet the requirements for capitalization under the City's capitalization policy should be recorded as fixed assets and not as expenses in the Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position.

*Effect:* The Proprietary Fund Statement of Net Position was understated by \$207,424 and expenses in the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Balance was overstated by \$207,424.

*Recommendation:* We recommend that City management review their internal controls to ensure that capital asset purchases are capitalized on the Proprietary Fund Statement of Net Positions and not recorded as expenses on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Balance.

*Views of Responsible Officials and Planned Corrective Actions:* The City Finance department will review proprietary fund capital expenditures during the course of the fiscal year and make all necessary financial adjustments prior to close of each fiscal year.

2018-005 Recording Cash Transactions and Reconciliation of Bank Accounts

*Condition:* Significant cash transactions near fiscal year end were recorded in the incorrect periods resulting incorrect reconciliation of cash accounts at fiscal year end

*Criteria:* Internal controls should be in place to ensure that cash disbursements are recorded in the appropriate period and that bank reconciliations are proper.

*Effect:* General Fund cash and accounts payable were understated by \$355,803 due to the incorrect posting of cash transactions and the bank reconciliation resulted in cash being understated an additional \$61,000 at year end.

**CITY OF HORN LAKE, MISSISSIPPI**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
For the Year Ended September 30, 2018

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*Recommendation:* We recommend that City management review their internal controls to ensure that cash disbursements are recorded in the appropriate period.

*Views of Responsible Officials and Planned Corrective Actions:* The City Finance department will record cash transactions in the correct period and properly reconcile the bank account.

2018-006 Recording Reversals of Prior Year Accruals

*Condition:* Prior year revenue and expense accruals relating to a road overlay project were not reversed in the current year. As a result, adjusting entries were made to correct general fund accounts receivables and revenue in the amount of \$377,808 and general fund accounts payable and expenditures in the amount of

*Criteria:* Internal controls should be in place to ensure that year-end expense accruals that do not get recorded in the accounts payable subledger and reversed out in the year that the expense is paid.

*Effect:* General Fund accounts receivables and revenue were overstated by \$377,808 and general fund accounts payable and expenditures were overstated by \$523,612.

*Recommendation:* We recommend that City management review their internal controls to ensure that year end revenue and expense accruals are reversed as appropriate.

*Views of Responsible Officials and Planned Corrective Actions:* The City Finance department will make all necessary year end revenue and expense and accrual reversals as appropriate.

SIGNIFICANT DEFICIENCIES

2018-007 Interfund Accounts

*Condition:* Interfund due to/from accounts did not reconcile between funds.

*Criteria:* Internal controls should be in place to ensure that interfund accounts between funds reconcile and agree.

*Cause:* The City lacks the appropriate oversight and review procedures as the interfund due to/from accounts did not agree between funds.

*Effect:* Incorrect financial reporting between funds and potential misappropriation of assets may occur and not be detected.

*Recommendation:* We recommend that City management reconcile interfund activity each month.

*Views of Responsible Officials and Planned Corrective Actions:* The City Finance department will reconcile interfund activity each month.

**CITY OF HORN LAKE, MISSISSIPPI**  
**SUMMARY OF PRIOR YEAR AUDIT FINDINGS**  
For the Year Ended September 30, 2018

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**A. PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT**

MATERIAL WEAKNESSES

2017-001 Ambulance Revenue

*Condition:* A prior period adjustment was required to restate the ambulance accounts receivable account for an overstatement of prior year revenue.

*Recommendation:* We recommend that the City establish and document a standard policy for ambulance revenue recognition in accordance with generally accepted accounting principles and reconcile the accounts receivable on a monthly basis.

*Current Status:* The ambulance receivable, the related allowance for doubtful accounts, and the related deferred ambulance revenue was not recorded using the modified accrual basis of accounting as of September 30, 2018. See finding 2018-001.

*Planned Corrective Action:* City management will ensure that ambulance receipts are recorded on the modified accrual basis of accounting for the period ending September 30, 2019.

2017-002 Court Fines

*Condition:* Accounts receivable related to court fines was not recorded on the City's books. A prior year adjustment was required to establish the receivable balance related to court fines and record a corresponding allowance.

*Recommendation:* We recommend that the City establish and document a standard policy for court fines recognition in accordance with generally accepted accounting principles and reconcile the receivable account on a monthly basis.

*Current Status:* The court fines accounts receivable, related allowance for doubtful accounts, and the related deferred court fines revenue was not recorded using the modified accrual basis of accounting as of September 30, 2018. See finding 2018-002.

*Planned Corrective Action:* City management will ensure that court receipts are recorded on the modified accrual basis of accounting for the period ending September 30, 2019.

2017-003 Sales Tax Receivable

*Condition:* A prior period adjustment was required to adjust beginning governmental activities net position on the statement of activities related to sales tax revenue that was not recognized during fiscal year 2016.

*Recommendation:* We recommend that the City management review their internal controls to ensure sales tax revenue is recorded in the correct fiscal year

*Current Status:* This finding was corrected during fiscal year 2018.

**CITY OF HORN LAKE, MISSISSIPPI**  
**SUMMARY OF PRIOR YEAR AUDIT FINDINGS**  
For the Year Ended September 30, 2018

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2017-004 Recording Audit Adjustments

*Condition:* Proposed audit adjustments for the prior fiscal year were not recorded by the City.

*Recommendation:* We recommend recording audit adjustments prior to closing the books for the fiscal year so beginning fund balances/net position will agree to the prior year audited financial statements.

*Current Status:* This finding was corrected during fiscal year 2018.

**SIGNIFICANT DEFICIENCIES**

2017-005 Segregation of Duties – Bank Reconciliations

*Condition:* The Finance Officer reconciles the bank accounts and has access via phone to make cash transactions. The bank reconciliations were not reviewed after preparation by City management.

*Recommendation:* We recommend management of the City review, approve, and sign the bank reconciliation each month.

*Current Status:* This finding was corrected during fiscal year 2018.