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**CITY OF HORN LAKE
HORN LAKE, MISSISSIPPI
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2006**

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STATE AUDITOR'S OFFICE**

CITY OF HORN LAKE, MISSISSIPPI

**ANNUAL FINANCIAL REPORT
Year Ended September 30, 2006**

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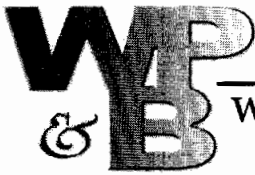
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund and the aggregate remaining fund information of the City of Horn Lake, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Horn Lake's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 and each major fund and the aggregate remaining fund information of the City of Horn Lake, Mississippi as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2007 on our consideration of the City of Horn Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Horn Lake, Mississippi's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Horn Lake, Mississippi. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

June 14, 2007

**City of Horn Lake, Mississippi
Management's Discussion and Analysis
For Year Ended September 30, 2006
Unaudited**

This Discussion and Analysis of the City of Horn Lake financial performance provides an overall review of the City's financial activities for the year ended September 30, 2006. 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 2006 were as follows:

Total net assets increased from \$5,943,217 to \$11,067,951

Total liabilities increased from \$42,348,360 for 2005 to \$49,040,293 for 2006

Total assets of governmental activities increased from \$3,721,602 to \$4,563,021 with a prior period adjustment of \$3,604,610 for a total of \$8,167,631

Total assets of business-type activities increased from \$2,221,616 to \$2,762,172 with a prior period adjustment of \$138,148 for a total of \$2,900,320

Using This Annual Financial Report

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

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

Reporting the City of Horn Lake, Mississippi as a whole.

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services including police, fire, administrative, and all other departments.

REPORTING THE CITY OF HORN LAKE'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City's major funds begins on page three. 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, \$4.5 Million Street Fund, Horn Lake Utility System, Sanitation and Utility Refunding Fund.

Governmental Funds

All of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statement.

The City of Horn Lake as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2006 compared to 2005.

Table 1
Statement of Net Assets

	2005	2006
Assets		
<i>Current and Other Assets</i>	\$12,410,527	\$ 18,423,432
<i>Capital Assets Net</i>	<u>35,881,147</u>	<u>41,684,810</u>
<i>Total Assets</i>	<u>48,291,596</u>	<u>60,108,244</u>
Liabilities		
<i>Current and Other Liabilities</i>	6,364,104	7,824,792
<i>Due Within One Year</i>	1,945,040	2,320,978
<i>Long Term Liabilities</i>		
<i>Due in More Than One Year</i>	<u>34,039,216</u>	<u>38,894,523</u>
<i>Total Liabilities</i>	<u>42,438,360</u>	<u>49,040,293</u>
Net Assets		
<i>Invested in Capital Assets Net of Debt</i>	1,174,945	1,761,798
<i>Restricted</i>	4,654,245	9,627,293
<i>Unrestricted</i>	<u>114,027</u>	<u>(321,140)</u>
<i>Total Net Assets</i>	<u>\$ 5,943,217</u>	<u>\$ 11,067,951</u>

The City of Horn Lake is attempting to stabilize certain long-term liabilities such as compensated absences.

Table 2 shows the Changes in Net Assets for the year ended September 30, 2006

Table 2
Changes In Net Assets
Statement Of Activities

Revenues	2005	2006
<i>Program Revenues</i>		
<i>Charges for Services</i>	\$ 3,640,036	\$ 4,771,297
<i>Operating Grants and Contributions</i>	529,858.	258,791
<i>Other</i>	<u>92,335</u>	<u>-</u>
<i>Total Program Revenues</i>	<u>4,262,229</u>	<u>5,030,088</u>
<i>General Revenues</i>		
<i>Property Taxes</i>	4,408,439	5,555,520
<i>Special Assessment Tax</i>	801,905	777,249
<i>Other</i>	<u>5,690,582</u>	<u>5,582,278</u>
<i>Total General Revenue</i>	<u>10,900,926</u>	<u>11,915,047</u>
 <i>Total Revenues</i>	 <u>\$ 15,163,155</u>	 <u>\$16,945,135</u>
 <i>Program Expenses</i>		
<i>General Government</i>	<u>\$ 15,399,908</u>	<u>\$15,563,158</u>

Information about the City's major governmental funds begins on page 12. These funds are accounted for using the modified accrual basis of accounting. 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.

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

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 General Fund.

During 2005-2006 the City amended its general fund budget. All recommendations for a budget change come from the Department Heads to the City Clerk to the Mayor.

Board of Aldermen of the City does not allow budget changes that modify totals within departments without Mayor and Board approval. With the General Fund supporting many of our major activities such as our 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.

Table 3
Capital Assets at September 30, 2006
Net of Depreciation
Governmental Activities

	2005	2006
<i>Land</i>	\$ 3,560,356	\$ 3,560,356
<i>Buildings and Improvements</i>	5,510,078	5,515,639
<i>Equipment</i>	641,962	924,354
<i>Vehicles</i>	2,803,434	2,728,093
<i>Construction In Progress</i>	-	723,579
<i>Infrastructure</i>	16,543,352	23,970,475
<i>Accumulated Depreciation</i>	<u>(4,388,778)</u>	<u>(9,206,309)</u>
	<u>\$24,670,404</u>	<u>\$28,216,187</u>

Table 4
Outstanding Notes And Long Term Obligations At Year End
Governmental Activities

	2005	2006
<i>General Obligation Bonds</i>	\$ 9,486,100	\$ 8,946,700
<i>Special Assessment Bonds</i>	15,295,000	14,580,000
<i>Lease Payable</i>	337,616	131,418
<i>Bond Premium</i>	279,774	260,698
<i>Deferred Loss</i>	(304,547)	(283,782)
<i>Compensated Absences</i>	<u>642,746</u>	<u>743,953</u>
Total	<u>\$25,736,689</u>	<u>\$24,758,987</u>
 Business Activities		
<i>Bonds and Notes Payable</i>	\$ 1,125,000	\$ 12,750,000
<i>Loans Payable</i>	9,083,160	2,960,915
<i>Leases Payable</i>	-	268,964
<i>Compensated Absences</i>	<u>39,574</u>	<u>42,110</u>
Total	<u>\$ 10,247,734</u>	<u>\$16,021,989</u>

The most significant changes were due to a two new Tax Anticipation Loans totally \$1,180,000 and a \$12,750,000 Special Obligation Revenue Bond Series 2005 (Utilities).

The compensated absences liability identified above refers to the current balance of what has been earned as a termination/retirement benefit that will be paid over time as people leave or retire. Under GAAP reporting, this liability must be reported as a compensated absence at year-end, due to the contract language to the effect that the employee has "Earned" this compensation.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show that the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Clerk at 662-393-6178.

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CITY OF HORN LAKE, MISSISSIPPI
Statement of Net Assets
September 30, 2006

	Governmental Activities	Business - Type Activities	Total
Assets			
Cash in bank and on hand	\$ 555,792	\$ 1,036,155	\$ 1,591,947
Accounts receivable (net allowance for doubtful accounts)	1,262,230	610,814	1,873,044
Intergovernmental receivables	601,803	-	601,803
Due from other funds	5,882	645,405	651,287
Inventory	-	2,195	2,195
Prepaid expenses	418,166	86,185	504,351
Cap loan receivable	-	490,391	490,391
Bond issue cost (net)	156,112	736,904	893,016
Restricted assets:			
Customer deposits	-	270,626	270,626
Cash in bank	2,535,453	3,405,902	5,941,355
Property tax receivable	5,603,417	-	5,603,417
Capital assets, net	28,216,188	13,468,624	41,684,812
Total assets	39,355,043	20,753,201	60,108,244
Liabilities			
Current liabilities			
Accounts payable	51,934	149,073	201,007
Accrued expenses	290,089	51,369	341,458
Accrued interest payable	420,835	213,226	634,061
Retainage payable	8,430	-	8,430
Customer deposits	-	328,872	328,872
Due to other funds	-	651,287	651,287
Other current liabilities	2,767	2,540	5,307
Deferred revenue	5,603,416	-	5,603,416
Warranty bonds on deposit	50,954	-	50,954
Due within one year			
General obligation bonds payable	565,300	-	565,300
Loans payable	380,000	109,235	489,235
Leases payable	122,462	173,981	296,443
Revenue bonds payable	-	260,000	260,000
Special assessments bonds payable	710,000	-	710,000
Non - current liabilities			
Compensated absences	743,953	42,110	786,063
Bond premium	260,698	434,525	695,223
Loss on extinguishment of debt	(283,782)	-	(283,782)
General obligation bonds payable	8,381,400	-	8,381,400
Loans payable	-	2,851,680	2,851,680
Leases payable	8,956	94,983	103,939
Revenue bonds payable	-	12,490,000	12,490,000
Special assessments bonds payable	13,870,000	-	13,870,000
Total liabilities	31,187,412	17,852,881	49,040,293
Net Assets			
Invested in capital assets, net of related debt	4,178,070	(2,416,272)	1,761,798
Restricted net assets:			
General government	2,309,630	-	2,309,630
Debt service	379,850	-	379,850
Capital projects	1,720,806	4,643,710	6,364,516
Other purposes	573,297	-	573,297
Unrestricted			
	(994,022)	672,882	(321,140)
Total net assets	\$ 8,167,631	\$ 2,900,320	\$ 11,067,951

See accompanying notes to financial statements.

CITY OF HORN LAKE, MISSISSIPPI
Statement of Activities
Year Ended September 30, 2006

	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for	Operating	Governmental Activities	Business - Type Activities	Total
		Services	Grants and Contributions			
Governmental activities						
Administrative	\$ 890,852	\$ -	\$ -	\$ (890,852)	\$ -	\$ (890,852)
Ambulance	563,716	342,922	-	(220,794)	-	(220,794)
Animal control	133,930	-	-	(133,930)	-	(133,930)
Capital outlay	34,639	-	-	(34,639)	-	(34,639)
Emergency management	40,104	-	-	(40,104)	-	(40,104)
Engineering	21,682	-	-	(21,682)	-	(21,682)
Fire	2,112,479	-	-	(2,112,479)	-	(2,112,479)
Municipal court	301,931	-	-	(301,931)	-	(301,931)
Other	388,477	-	-	(388,477)	-	(388,477)
Park	533,983	-	-	(533,983)	-	(533,983)
Planning	250,459	-	-	(250,459)	-	(250,459)
Police	3,728,377	-	258,791	(3,469,586)	-	(3,469,586)
Street	1,482,396	-	-	(1,482,396)	-	(1,482,396)
Interest on long term debt	1,092,599	-	-	(1,092,599)	-	(1,092,599)
Total governmental activities	\$ 11,575,622	\$ 342,922	\$ 258,791	(10,973,910)	-	(10,973,910)
Business - type activities						
Utility	3,024,753	3,491,200	-	-	466,447	466,447
Sanitation	962,783	937,175	-	-	(25,608)	(25,608)
Total business - type activities	\$ 3,987,536	\$ 4,428,375	\$ -	-	440,839	440,839
General revenues						
Taxes				5,555,520	-	5,555,520
License & permits				442,272	-	442,272
Intergovernmental				4,189,499	-	4,189,499
Fines				407,906	-	407,906
Fire insurance rebate				71,699	-	71,699
Investment earnings				85,643	36,866	122,509
Transfers				22,204	(22,204)	-
Miscellaneous				263,336	85,056	348,392
Special assessment				777,249	-	777,249
Total general revenues				11,815,329	99,718	11,915,047
Change in net assets				841,419	540,557	1,381,976
Net assets-beginning of year				3,721,602	2,221,615	5,943,217
Prior period adjustment				3,604,610	138,148	3,742,757
Net assets-end of year				\$ 8,167,631	\$ 2,900,320	\$ 11,067,951

See accompanying notes to financial statements.

CITY OF HORN LAKE, MISSISSIPPI

Balance Sheet

Governmental Funds

September 30, 2006

	General	Debt Service	\$4.5 M Street Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in bank and on hand	\$ 423,730	\$ 42,130	\$ 1,730,490	\$ 89,932	\$ 2,286,282
Accounts receivable	1,262,350	-	-	-	1,262,350
Intergovernmental receivables	601,803	-	-	-	601,803
Due from other funds	340,899	-	-	-	340,899
Prepaid expenses	-	418,166	-	-	418,166
Property tax receivable	3,502,136	1,701,037	-	400,244	5,603,417
Restricted assets:					
Cash in bank	50,358	231,812	-	522,793	804,963
Total assets	<u>\$ 6,181,276</u>	<u>\$ 2,393,145</u>	<u>\$ 1,730,490</u>	<u>\$ 1,012,969</u>	<u>\$ 11,317,880</u>
Liabilities					
Current liabilities					
Accounts payable	\$ 25,701	\$ 5,749	\$ -	\$ 20,604	\$ 52,054
Accrued expenses	290,089	-	-	-	290,089
Other current liabilities	2,767	-	-	-	2,767
Due to other funds	-	306,509	9,254	19,254	335,017
Deferred revenue	3,502,135	1,701,037	-	400,244	5,603,416
Warranty bonds on deposit	50,954	-	-	-	50,954
Total liabilities	<u>3,871,646</u>	<u>2,013,295</u>	<u>9,254</u>	<u>440,102</u>	<u>6,334,297</u>
Fund balances					
Reserved for:					
Capital projects	-	-	1,721,236	(430)	1,720,806
Debt service	-	379,850	-	-	379,850
Undesignated reported in:					
General	2,309,630	-	-	-	2,309,630
Special revenue	-	-	-	573,297	573,297
Total fund balances	<u>2,309,630</u>	<u>379,850</u>	<u>1,721,236</u>	<u>572,867</u>	<u>4,983,583</u>
Total liabilities and fund balances	<u>\$ 6,181,276</u>	<u>\$ 2,393,145</u>	<u>\$ 1,730,490</u>	<u>\$ 1,012,969</u>	<u>\$ 11,317,880</u>

See accompanying notes to financial statements.

CITY OF HORN LAKE, MISSISSIPPI
Reconciliation of Total Governmental Fund Balance
To the Statement of Net Assets
September 30, 2006

Total Fund Balance - Governmental Funds **\$ 4,983,583**

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

Bond issue cost 156,112

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

Land	3,560,356	
Construction in progress	723,579	
Buildings and improvements	5,515,639	
Equipment	924,354	
Vehicles	2,728,093	
Infrastructure	23,970,475	
Accumulated depreciation	<u>(9,206,308)</u>	
		28,216,188

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

Accrued interest	(420,835)	
Premium on bond	(260,698)	
Loss on extinguishment of debt	283,782	
General obligation and revenue bonds	(8,946,700)	
Special assessment bonds payable	(14,580,000)	
Loans payable	(380,000)	
Capital leases payable	(131,418)	
Retainage payable	(8,430)	
Compensated absences	<u>(743,953)</u>	
		<u>(25,188,252)</u>

Net Assets of Governmental Activities **\$ 8,167,631**

See accompanying notes to financial statements.

CITY OF HORN LAKE, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended September 30, 2006

	General	Debt Service	\$4.5M Street Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 3,418,975	\$ 1,645,421	\$ -	\$ 491,127	\$ 5,555,523
Licenses and permits	425,472	-	-	16,800	442,272
Intergovernmental	4,331,724	-	-	116,566	4,448,290
Charges for services	246,624	-	-	96,298	342,922
Fines	407,906	-	-	-	407,906
Special assessments	-	777,249	-	-	777,249
Interest	77,999	753	5,378	1,512	85,642
Fire insurance rebate	-	-	-	71,699	71,699
Miscellaneous	224,209	-	-	39,127	263,336
Total revenues	9,132,909	2,423,423	5,378	833,129	12,394,839
Expenditures					
Administrative	874,017	-	-	-	874,017
Ambulance	563,716	-	-	-	563,716
Animal control	132,633	-	-	-	132,633
Capital outlay	190	-	845,085	238,506	1,083,781
Emergency management	40,104	-	-	-	40,104
Engineering	43,246	-	-	-	43,246
Fire	1,867,181	-	-	-	1,867,181
Municipal court	301,931	-	-	-	301,931
Other	-	-	-	388,477	388,477
Park	358,657	-	-	-	358,657
Planning	246,754	-	-	-	246,754
Police	3,773,410	-	-	-	3,773,410
Street	839,191	-	-	-	839,191
Debt service	800,000	2,362,531	-	62,881	3,225,412
Total expenditures	9,841,030	2,362,531	845,085	689,864	13,738,510
Excess (deficiency) of revenues over (under) expenditures	(708,121)	60,892	(839,707)	143,265	(1,343,671)
Other financing sources (uses)					
Bond issue cost	-	-	(1,171)	-	(1,171)
Transfer (out)	22,204	41,979	-	(41,979)	22,204
Loan proceeds	1,180,000	-	-	-	1,180,000
Total other financing sources (uses)	1,202,204	41,979	(1,171)	(41,979)	1,201,033
Net change in fund balances	494,083	102,871	(840,878)	101,286	(142,638)
Fund balance - beginning of year(as restated)	1,815,547	276,979	2,562,114	453,761	5,108,401
Prior period adjustment	-	-	-	17,820	17,820
Fund balance - end of year	\$ 2,309,630	\$ 379,850	\$ 1,721,236	\$ 572,867	\$ 4,983,583

See accompanying notes to 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
 Year Ended September 30, 2006

Net change in fund balances - total Governmental Funds \$ (142,638)

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

Governmental Funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$1,265,420) exceeded depreciation expense (\$1,308,807) in the current period. (41,007)

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment of debt reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments (\$2,260,598) exceeded proceeds (\$1,180,000) 1,080,598

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable and available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and revenue are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus the change in net assets differs from the change in fund balances by a combination of the following items:

Bond issue cost	(11,423)
Premium on bond	19,076
Loss on extinguishment of debt	(20,765)
Retainage payable	20,580
Accrued interest	38,205
Compensated absences	(101,207)

Change in Net Assets of Governmental Activities \$ 841,419

CITY OF HORN LAKE, MISSISSIPPI
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Utility System Fund	Sanitation Fund	Utility Refunding	Totals
Assets				
Current assets				
Cash in bank and on hand	\$ 550,351	\$ 285,804	\$ 200,000	\$ 1,036,155
Accounts receivable (net of allowance for doubtful accounts)	610,814	-	-	610,814
Due from other funds	-	158,711	486,694	645,405
Inventory	2,195	-	-	2,195
Prepaid expense	-	-	86,185	86,185
Cap loan receivable	-	-	490,391	490,391
Total current assets	<u>1,163,360</u>	<u>444,515</u>	<u>1,263,270</u>	<u>2,871,145</u>
Restricted assets:				
Cash	-	-	3,405,902	3,405,902
Customer deposits	270,626	-	-	270,626
Total restricted assets	<u>270,626</u>	<u>-</u>	<u>3,405,902</u>	<u>3,676,528</u>
Other assets				
Bond issue cost (net)	-	-	736,904	736,904
Total other assets	<u>-</u>	<u>-</u>	<u>736,904</u>	<u>736,904</u>
Fixed assets				
Land	28,225	-	-	28,225
Construction in progress	1,999,711	-	138,148	2,137,859
Buildings	151,001	67,547	-	218,548
Water and sewer system	11,125,045	-	2,563,189	13,688,234
Machinery and equipment	124,580	689,486	-	814,066
Vehicles	-	348,465	-	348,465
Accumulated depreciation	(3,018,370)	(610,271)	(138,132)	(3,766,773)
Total fixed assets	<u>10,410,192</u>	<u>495,227</u>	<u>2,563,205</u>	<u>13,468,624</u>
Total assets	<u>\$ 11,844,178</u>	<u>\$ 939,742</u>	<u>\$ 7,969,281</u>	<u>\$ 20,753,201</u>

Continued

CITY OF HORN LAKE, MISSISSIPPI
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Utility System Fund	Sanitation Fund	Utility Refunding	Totals
Liabilities				
Current liabilities				
Accounts payable	\$ 166,023	\$ 19,780	\$ 5,380	\$ 191,183
Accrued expenses	12,487	38,882	-	51,369
Due to other funds	651,287	-	-	651,287
Bond premium	-	-	434,525	434,525
Other	2,540	-	-	2,540
Total current liabilities	832,337	58,662	439,905	1,330,904
Current liabilities payable from restricted assets				
Customer deposits	238,573	90,299	-	328,872
Notes payable	-	-	109,235	109,235
Leases payable	-	173,981	-	173,981
Revenue bonds payable	-	-	260,000	260,000
Accrued interest payable	-	-	213,226	213,226
Total current liabilities payable from restricted assets	238,573	264,280	582,461	1,085,314
Long-term liabilities				
Notes payable	-	-	2,851,680	2,851,680
Leases payable	-	94,983	-	94,983
Revenue bonds payable	-	-	12,490,000	12,490,000
Total long-term liabilities	-	94,983	15,341,680	15,436,663
Total liabilities	1,070,910	417,925	16,364,046	17,852,881
Net Assets				
Invested in capital assets, net of related debt	10,410,192	495,227	(13,038,475)	(2,133,056)
Restricted	-	-	4,643,710	4,643,710
Unrestricted	363,076	26,590	-	389,666
Total net assets	10,773,268	521,817	(8,394,765)	2,900,320
Total liabilities and net assets	\$ 11,844,178	\$ 939,742	\$ 7,969,281	\$ 20,753,201
				Concluded

See accompanying notes to financial statements.

CITY OF HORN LAKE, MISSISSIPPI

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year Ended September 30, 2006

	Utility System Fund	Sanitation Fund	Utility Refunding	Totals
Operating revenues				
Sales	\$ 3,491,200	\$ 937,175	\$ -	\$ 4,428,375
Miscellaneous	81,765	3,291	-	85,056
Total operating revenues	<u>3,572,965</u>	<u>940,466</u>	<u>-</u>	<u>4,513,431</u>
Operating expenses				
Personnel	272,884	610,178	-	883,062
Supplies	91,564	118,338	-	209,902
Other	323,088	125,039	24,806	472,933
Depreciation & amortization	426,930	102,753	15,093	544,776
Water system management	634,515	-	-	634,515
Utility system management	541,556	-	-	541,556
Total operating expenses	<u>2,290,537</u>	<u>956,308</u>	<u>39,899</u>	<u>3,286,744</u>
Operating Income	<u>1,282,428</u>	<u>(15,842)</u>	<u>(39,899)</u>	<u>1,226,687</u>
Non-operating revenues(expenses)				
Transfer in (out)	7,944,909	(29,712)	(7,937,401)	(22,204)
Interest revenue	1,613	2,930	32,323	36,866
Interest expense	(93,636)	(6,475)	(600,681)	(700,792)
Total non-operating revenues (expenses)	<u>7,852,886</u>	<u>(33,257)</u>	<u>(8,505,759)</u>	<u>(686,130)</u>
Change in net assets	9,135,314	(49,099)	(8,545,658)	540,557
Net assets - beginning of year	1,637,954	570,916	12,745	2,221,615
Prior period adjustment	-	-	138,148	138,148
Net assets - end of year	<u>\$ 10,773,268</u>	<u>\$ 521,817</u>	<u>\$ (8,394,765)</u>	<u>\$ 2,900,320</u>

See accompanying notes to financial statements.

CITY OF HORN LAKE, MISSISSIPPI
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2006

	Utility System	Sanitation	Utility Refunding	Totals
Cash flows from operating activities				
Cash received from customers	\$ 3,352,970	\$ 940,942	\$ 5,379	\$ 4,299,291
Cash payments to employees	(272,884)	(610,178)	-	(883,062)
Cash payments for goods and services	(1,602,594)	(240,595)	(24,806)	(1,867,995)
Net cash provided by operating activities	1,477,492	90,169	(19,427)	1,548,234
Cash flows from noncapital financing activities				
Transfers (to) from other funds	7,822,699	68,782	(7,936,901)	(45,420)
Net cash provided by noncapital financing activities	7,822,699	68,782	(7,936,901)	(45,420)
Cash flows from capital & related financing activities				
Payments for capital acquisitions	(2,277,664)	(348,464)	(32,775)	(2,658,903)
Payments from customer deposits	2,409	51,153	-	53,562
Principal payments on debt	(6,595,447)	(157,126)	(1,264,168)	(8,016,741)
Principal proceeds from debt	-	426,090	12,750,000	13,176,090
Interest payments on debt	(93,636)	(6,475)	(402,411)	(502,522)
Net cash provided by capital & related financing activities	(8,964,338)	(34,822)	11,050,646	2,051,486
Cash flows from investing activities				
Receipts of interest	1,613	2,930	32,323	36,866
Net increase in cash & cash equivalents	337,466	127,059	3,126,641	3,591,166
Cash & cash equivalents -beginning of year	483,511	158,745	479,261	1,121,517
Cash & cash equivalents -end of year	\$ 820,977	\$ 285,804	\$ 3,605,902	\$ 4,712,683
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 1,282,428	\$ (15,842)	\$ (39,899)	\$ 1,226,687
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation/ Amortization	426,930	102,753	15,093	544,776
(Increase) in customer receivables	(218,230)	-	-	(218,230)
Increase(decrease) in accounts payable	(1,765)	476	5,379	4,090
Increase(decrease) in other payable	(14,630)	-	-	(14,630)
Increase(decrease) in accrued expenses	2,759	2,782	-	5,541
Total adjustments	195,064	106,011	20,472	321,547
Net cash provided by operating activities	\$ 1,477,492	\$ 90,169	\$ (19,427)	\$ 1,548,234

See accompanying notes to financial statements.

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies

A. General Statement:

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

The financial statements of the City of Horn Lake 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 City's most significant accounting polices are described below.

B. Reporting Entity:

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Generally Accepted Accounting Principles. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component units.

C. Encumbrance Accounting:

The City of Horn Lake does not use the encumbrance method of accounting.

D. Fund Accounting:

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2006

recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government, which are not required legally, or by sound financial management, to be accounted for in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

The City applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

E. Basis of Accounting:

Government – Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each program of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measured until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2006

costs, such as depreciation, are recorded in proprietary funds. Proprietary fund types have selected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20, that conflict with GASB pronouncements. Operating revenues and expenses for proprietary funds are those that result from providing utilities to customers. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

F. Cash and investments:

For the purpose of the Statement of Net Assets, "cash in bank and on hand" includes all demand savings accounts, and certificates of deposits of the City. For the purpose of proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

G. Budgets and Budgetary Accounting:

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

1. Prior to September 15, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at City Hall.
3. Prior to October 1, the budget is legally enacted through passage of ordinance.
4. The Mayor 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.
5. 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.

H. Capital Assets and Depreciation:

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the governments-wide statement of net assets. Capital assets used by proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the individual proprietary funds.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Capital Asset Account Group. Infrastructure such as streets, traffic signals and signs are capitalized.

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. 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 of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

I. Inventories:

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

J. Advances from Other Funds:

Current portions of interfund loans receivable (reported in "Due From" asset accounts) are considered "available spendable resources".

K. Compensated Absences:

The City accrues unused portions of vacation pay in the period the fund liability is incurred. As permitted by Governmental Accounting Standards Board Statement No. 16, the vesting method is used to accrue sick leave liability. The liability is based on the sick leave accumulated at year-end by those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. Even though the City has appropriated, accumulated and earmarked expendable available fund resources for these amounts, the portion not normally expected to be liquidated with expendable available financial resources is not reported as a fund liability in accordance with Interpretation No. 6 of the Governmental Accounting Standards Board- Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

L. Net Assets:

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2006

(2) Cash and Investments

The collateral for public entities' deposits in financial institutions is now 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.

(3) Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and payable on or before February 1. DeSoto County bills and collects the City's property taxes and monthly remits the taxes to the City.

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

(4) Changes in General Fixed Assets

The following is a summary of changes in general fixed assets:

	<i>Balance at</i> 9/30/2005	<i>Additions</i>	<i>Deletions</i>	<i>Adjustments</i>	<i>Balance at</i> 9/30/2006
<i>Governmental activities</i>					
<i>Capital assets, not being depreciated</i>					
Land	\$ 3,560,356	\$ -	\$ -	\$ -	\$ 3,560,356
Construction in progress	-	723,579	-	-	723,579
Total capital assets not being depreciated	<u>3,560,356</u>	<u>723,579</u>	<u>-</u>	<u>-</u>	<u>4,283,935</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	5,510,078	5,561	-	-	5,515,639
Equipment and machinery	641,962	146,945	-	135,447	924,354
Infrastructure	16,543,352	362,861	-	7,064,262	23,970,475
Vehicles	2,803,434	26,474	-	(101,815)	2,728,093
Total capital assets, being depreciated	<u>25,498,826</u>	<u>541,841</u>	<u>-</u>	<u>7,097,894</u>	<u>33,138,561</u>
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(814,551)	(127,915)	-	(1,096)	(943,562)
Equipment and machinery	(576,708)	(104,207)	-	159,887	(521,028)
Infrastructure	(1,234,316)	(884,438)	-	(3,501,379)	(5,620,133)
Vehicles	(1,763,203)	(189,866)	-	(168,516)	(2,121,585)
Total accumulated depreciation	<u>(4,388,778)</u>	<u>(1,306,426)</u>	<u>-</u>	<u>(3,511,104)</u>	<u>(9,206,308)</u>
Total capital assets, being depreciated, net	<u>21,110,048</u>	<u>(764,585)</u>	<u>-</u>	<u>3,586,790</u>	<u>23,932,253</u>
Governmental activities capital assets, net	<u>\$ 24,670,404</u>	<u>\$ (41,006)</u>	<u>\$ -</u>	<u>\$ 3,586,790</u>	<u>\$ 28,216,188</u>
<i>Business - type activities</i>					
<i>Capital assets, not being depreciated</i>					
Land	\$ 28,225	\$ -	\$ -	\$ -	\$ 28,225
Construction in progress	-	1,999,711	-	138,147	2,137,858
Total capital assets not being depreciated	<u>28,225</u>	<u>1,999,711</u>	<u>-</u>	<u>138,147</u>	<u>2,166,083</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	220,372	-	-	(1,824)	218,548
Equipment and machinery	772,412	51,889	-	(10,234)	814,067
Infrastructure	13,426,725	249,451	-	12,058	13,688,234
Vehicles	-	348,465	-	-	348,465
Total capital assets, being depreciated	<u>14,419,509</u>	<u>649,805</u>	<u>-</u>	<u>-</u>	<u>15,069,314</u>
<i>Less accumulated depreciation for</i>					
Buildings	(15,752)	(4,371)	-	237	(19,886)
Equipment and machinery	(566,930)	(39,325)	-	362	(605,893)
Infrastructure	(2,654,408)	(423,264)	-	(599)	(3,078,271)
Vehicles	-	(62,723)	-	-	(62,723)
Total accumulated depreciation	<u>(3,237,090)</u>	<u>(529,683)</u>	<u>-</u>	<u>-</u>	<u>(3,766,773)</u>
Total capital assets, being depreciated, net	<u>11,182,419</u>	<u>120,122</u>	<u>-</u>	<u>-</u>	<u>11,302,541</u>
Business - type activities capital assets, net	<u>\$ 11,210,644</u>	<u>\$ 2,119,833</u>	<u>\$ -</u>	<u>\$ 138,147</u>	<u>\$ 13,468,624</u>

No interest was capitalized on constructed or in-progress fixed assets during the year due to immateriality.

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2006

Depreciation was charged to functions of the City of Horn Lake as follows:

Governmental activities

<i>General government</i>	\$ 117,306
<i>Planning and zoning</i>	3,705
<i>Police</i>	95,825
<i>Fire</i>	194,695
<i>Street</i>	702,621
<i>Animal control</i>	1,298
<i>Park</i>	<u>190,976</u>
<i>Total depreciation expense, governmental activities</i>	<u>\$ 1,306,426</u>

Business-type activities

<i>Water and Sewer</i>	\$ 426,930
<i>Sanitation</i>	<u>102,753</u>
<i>Total depreciation expense, business-type activities</i>	<u>\$ 529,683</u>

Adjustments in summary of Changes in General Fixed Assets

Due to the ongoing attempt to properly implement GASB 34, it was discovered that several errors occurred previously in capital assets. The correction of these errors during the current year appears as adjustments to capital assets.

Commitments under construction contracts at September 30, 2006 are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
<i>Interstate Blvd</i>	\$ 858,514	\$ 76,064	<i>General</i>
<i>Church Road Extension</i>	67,222	6,722	<i>General</i>
<i>Goodman Road Sewer Extension</i>	2,298,762	1,381,280	<i>Enterprise</i>
<i>Nail Road Sanitary Sewer</i>	240,827	149,608	<i>Enterprise</i>
<i>Jeffries Hills Water Line Extension</i>	114,750	114,750	<i>Enterprise</i>
<i>Rolling Green Subdivision Sanitary Sewer</i>	650,800	650,800	<i>Enterprise</i>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

(5) Long-Term Debt

General obligation bonds. General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issued Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
1997	8.75%	7/22/1997	2/15/2012	\$ 134,000	\$ 76,700
1998	4.62% 5.70%	12/1/1998	12/1/2018	5,800,000	4,485,000
1999	3.65%	2/15/1999	9/1/2007	1,040,000	165,000
2004	3.70% 5.00%	8/11/2004	8/1/2024	4,500,000	4,220,000
<i>Total</i>				<u>\$ 11,474,000</u>	<u>\$ 8,946,700</u>

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issued Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
2005 Special Assessment Refunding	2.75% 5.00%	5/18/2005	4/15/2020	\$ 8,540,000	\$ 8,080,000
2001 Special Obligation Recreation Facilities Project	4.10% 5.00%	10/1/2001	4/1/2022	7,000,000	6,500,000
<i>Total</i>				<u>\$ 15,540,000</u>	<u>\$ 14,580,000</u>

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2006

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issued Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
<i>Enterprise 2005 Special Obligation Refunding</i>	2.40% 5.00%	6/1/2006	12/1/1930	\$ 12,750,000	\$ 12,750,000
<i>Total</i>				<u>\$ 12,750,000</u>	<u>\$ 12,750,000</u>

Tax Anticipation Loans. The City also issues tax anticipation loans where the City pledges income derived from future tax revenue. Tax Anticipation Loans outstanding at year end are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issued Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
<i>2006 Tax Anticipation</i>	4.45%	6/20/2006	9/30/2007	\$ 380,000	\$ 380,000
<i>Total</i>				<u>\$ 380,000</u>	<u>\$ 380,000</u>

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issued Date</u>	<u>Maturity Date</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
<i>Drinking Water System Improvements Revolving Loan</i>	4.00%	3/1/2001	11/1/2020	\$ 1,509,556	\$ 1,198,811
<i>Drinking Water System Improvements Revolving Loan (Water Treatment Plant)</i>	3.50%	11/13/2002	10/2/2023	773,901	697,866
<i>Cap Loan (Water Treatment Plant)</i>	2.00%	11/20/2002	10/2/2023	500,000	476,333
<i>Cap Loan (Water Treatment Plant)</i>	3.00%	2/1/2005	10/1/2027	587,905	587,905
<i>Subtotal</i>				3,371,362	2,960,915
<i>Less: Uncommitted Portion</i>				(490,391)	(490,391)
<i>Total</i>				<u>\$ 2,880,971</u>	<u>\$ 2,470,524</u>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Annual requirements to retire debt obligations.

The aggregate maturities of general obligation, special assessment bonds, revenue bonds and loans for the years subsequent to September 30, 2006 are as follows:

<u>Year ended</u> <u>September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 565,300	\$ 400,299
2008	421,200	371,370
2009	447,100	350,203
2010	473,200	329,284
2011	499,300	306,839
2012-2016	2,860,600	1,172,153
2017-2021	2,695,000	509,278
2022-2026	985,000	86,215
	<u>\$ 8,946,700</u>	<u>\$ 3,525,639</u>

<u>Year ended</u> <u>September 30</u>	<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 710,000	\$ 633,753
2008	735,000	609,298
2009	765,000	583,685
2010	800,000	556,520
2011	830,000	527,613
2012-2016	4,805,000	2,111,911
2017-2021	5,355,000	891,814
2022-2026	580,000	29,000
	<u>\$ 14,580,000</u>	<u>\$ 5,943,593</u>

<u>Year ended</u> <u>September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 380,000	\$ 11,400
	<u>\$ 380,000</u>	<u>\$ 11,400</u>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Annual requirements continued:

<i>Year ended September 30</i>	<i>Revenue Bonds</i>	
	<i>Principal</i>	<i>Interest</i>
2007	\$ 260,000	\$ 609,690
2008	270,000	599,090
2009	285,000	587,990
2010	300,000	576,290
2011	315,000	562,415
2012-2016	1,855,000	2,550,325
2017-2021	1,360,000	2,118,366
2022-2026	4,120,000	1,466,438
2027-2031	3,985,000	624,431
	<u>\$ 12,750,000</u>	<u>\$ 9,695,035</u>

<i>Year ended September 30</i>	<i>Other Loans</i>	
	<i>Principal</i>	<i>Interest</i>
2007	\$ 109,235	\$ 77,772
2008	138,101	92,000
2009	144,793	88,568
2010	149,874	83,488
2011	155,142	78,220
2012-2016	861,731	305,076
2017-2021	931,726	142,592
2022-2026	421,461	31,941
2027-2031	48,852	757
<i>Less: uncommitted</i>	<u>(490,391)</u>	<u>(157,586)</u>
	<u>\$ 2,470,524</u>	<u>\$ 742,827</u>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Long-term activity for the year ended September 30, 2006 was as follows:

	<u>Balance at</u> 9/30/2005	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> 9/30/2006	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<i>Governmental Activities:</i>					
<i>Bonds and leases payable:</i>					
General obligation bonds payable	\$ 9,486,100	\$ -	\$ (539,400)	\$ 8,946,700	\$ 565,300
Special assessment bonds payable	15,295,000	-	(715,000)	14,580,000	1,275,300
Tax anticipation loan	-	1,180,000	(800,000)	380,000	-
Leases payable	337,616	-	(206,198)	131,418	122,462
Bond premium	279,774	-	(19,076)	260,698	-
Deferred loss	(304,547)	-	20,765	(283,782)	-
Compensated absences	642,746	101,207	-	743,953	-
<i>Governmental activities</i> <i>long-term liabilities</i>	<u>\$ 25,736,689</u>	<u>\$ 1,281,207</u>	<u>\$ (2,258,909)</u>	<u>\$ 24,758,987</u>	<u>\$ 1,963,062</u>
<i>Business-type activities:</i>					
<i>Bonds and notes payable:</i>					
Bonds payable	\$ 1,125,000	\$ 12,750,000	\$ (1,125,000)	\$ 12,750,000	\$ 260,000
Loans payable	9,221,309	426,090	(6,686,484)	2,960,915	109,235
Leases payable	-	348,464	(79,500)	268,964	173,981
Compensated absences	39,584	2,526	-	42,110	-
Subtotal	<u>10,385,893</u>	<u>13,527,080</u>	<u>(7,890,984)</u>	<u>16,021,989</u>	<u>543,216</u>
Less uncommitted portion	<u>(140,016)</u>	<u>(350,375)</u>	<u>-</u>	<u>(490,391)</u>	<u>-</u>
<i>Business-type activities</i> <i>long-term liabilities</i>	<u>\$ 10,245,877</u>	<u>\$ 13,176,705</u>	<u>\$ (7,890,984)</u>	<u>\$ 15,531,598</u>	<u>\$ 543,216</u>

Advance Refunding

On June 1, 2006, the city issued \$12,750,000 in Special Obligation Bonds Series 2005 with an average interest rate of 3.70% to (1) advance refund the 1999 Revenue Refunding Bonds dated February 1, 2000, with an outstanding balance of \$1,125,000; to (2) prepay the lease purchase agreement with North Mississippi Utility Company date February 1, 2004, with an outstanding balance of \$6,595,447; and to (3) provide funds for capital improvements and to acquire, expand and/or improve the eater works system, water supply systems, sewerage systems and sewerage disposal systems. The amount of \$1,142,588 of net proceeds of \$12,478,619 (after \$271,381 net issuance costs) was deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 1999 Revenue Refunding Bonds are called on February 7, 2007. The balance of the proceeds was deposited in the City of Horn Lake's project fund for prepayment of the lease purchase and construction costs.

As a result, the bond is considered to be defeased, and the liability for the bond has been removed from long-term liabilities.

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

Prior Year Defeasance of Debt

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements. At fiscal year-end, the following bonds are considered defeased:

<u>Issuing Entity</u>	<u>Series</u>	<u>Defeased Balance</u>
General Fund	1992	\$ 320,000
General Fund	2000	8,230,000
	<u>Total</u>	<u>\$ 8,550,000</u>

(6) Capital Leases

The following is a schedule by years of total payments due as of September 30, 2006.

<u>Year Ending</u> <u>September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 122,462	\$ 3,072	\$ 173,981	\$ 8,249
2008	8,955	90	94,983	1,271
2009	-	-	-	-
	<u>\$ 131,417</u>	<u>\$ 3,162</u>	<u>\$ 268,964</u>	<u>\$ 9,520</u>

7) Intergovernmental Receivables

	<u>General</u> <u>Fund</u>
Ad valorem	\$ 219,158
Sales tax	316,834
Grants	<u>65,811</u>
 <u>Totals</u>	 <u>\$ 601,803</u>

CITY OF HORN LAKE, MISSISSIPPI
Notes to Financial Statements
Year Ended September 30, 2006

(8) Interfund Receivables and Payables

The following is a summary of interfund transactions and balances:

<i>A. Due From/ To Other Funds</i>	<u><i>Due To</i></u>	<u><i>Due From</i></u>
<i>Major funds:</i>		
<i>General fund</i>	\$ 24,222	\$ 365,121
<i>Debt service</i>	343,984	37,474
<i>\$4.5M street fund</i>	9,254	-
<i>Utility system</i>	1,241,609	590,322
<i>Sanitation</i>	-	158,712
<i>Utility refunding</i>	588,404	1,075,097
<i>Non - major funds</i>	28,890	9,636
	<u>\$ 2,236,363</u>	<u>\$ 2,236,362</u>
<i>Total Funds</i>		

B. Transfers In/Out

	<u><i>Transfers In</i></u>	<u><i>Transfer Out</i></u>
<i>Major funds:</i>		
<i>General fund</i>	\$ 22,204	\$ -
<i>Debt service</i>	41,984	5
<i>\$4.5M street fund</i>	-	-
<i>Utility system</i>	8,951,392	1,006,483
<i>Sanitation</i>	-	29,712
<i>Utility refunding</i>	955,689	8,893,090
<i>Non - major funds</i>	-	41,979
	<u>\$ 9,971,269</u>	<u>\$ 9,971,269</u>
<i>Total Funds</i>		

(9) Defined Benefit Pension Plan

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

CITY OF HORN LAKE, MISSISSIPPI

Notes to Financial Statements

Year Ended September 30, 2006

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Horn Lake is required to contribute at an actuarially determined rate. The current rate is 11.3% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Horn Lake's contributions to PERS for the year ending September 30, 2006, 2005, and 2004 were \$658,013, \$580,468, and \$573,700 respectively, equal to the required contribution.

(10) Risk Management

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

(11) Litigation

The City is party to various legal proceedings which normally occur in governmental operations. In the opinion of the administration, these legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

(12) Prior Period Adjustment

A summary of significant fund equity adjustments is as follows:

<u>Statement of Activities</u>	<u>Amount</u>
<i>Governmental Activities Explanation</i>	
<i>Fixed asset adjustments - GASB 34</i>	<i>\$ 7,097,893</i>
<i>Depreciation adjustments - GASB 34</i>	<i>(3,511,103)</i>
<i>To correct Deferred Revenue</i>	<i>17,820</i>
<i>Total</i>	<u><u><i>\$ 3,604,610</i></u></u>
 <i>Business Type Activities Explanation</i>	
<i>To correct 2005 Cap Loan Payable</i>	<u><u><i>\$ 138,148</i></u></u>
 <u>Statement of Revenues, Expenditures and Changes in Fund Balances</u>	<u>Amount</u>
<i>Governmental Activities Explanation</i>	
<i>To correct Deferred Revenue</i>	<u><u><i>\$ 17,820</i></u></u>
 <i>Business Type Activities Explanation</i>	
<i>To correct 2005 Cap Loan Payable</i>	<u><u><i>\$ 138,148</i></u></u>

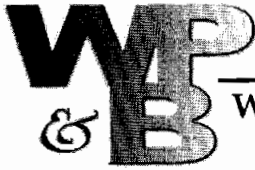
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CITY OF HORN LAKE, MISSISSIPPI
 Budgetary Comparison Schedule
 General Fund
 September 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variances Positive(Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Taxes	\$ 3,379,458	\$ 3,407,525	\$ 3,210,002	\$ 28,067	\$ (197,523)
Licenses and permits	391,000	416,000	425,472	25,000	9,472
Intergovernmental	4,014,000	4,242,746	3,872,665	228,746	(370,081)
Charges for services	250,000	250,000	80,022	-	(169,978)
Fines	557,000	424,000	407,906	(133,000)	(16,094)
Interest	20,000	48,295	77,999	28,295	29,704
Miscellaneous	330,875	290,547	224,209	(40,328)	(66,338)
Total revenues	8,942,333	9,079,113	8,298,275	136,780	(780,838)
Expenditures					
Administrative	1,127,125	1,141,435	856,392	14,310	285,043
Ambulance	721,910	716,362	563,716	(5,548)	152,646
Animal control	128,723	135,748	132,633	7,025	3,115
Capital outlay	1,000	500	190	(500)	310
Emergency Management	48,015	47,650	40,104	(365)	7,546
Engineering	179,304	56,180	43,246	(123,124)	12,934
Fire	1,952,090	1,988,122	1,807,181	36,032	180,941
Municipal court	294,675	314,925	301,931	20,250	12,994
Park	395,530	433,577	358,657	38,047	74,920
Planning	263,250	266,700	246,754	3,450	19,946
Police	4,053,779	4,106,158	3,713,410	52,379	392,748
Street	873,340	936,800	839,191	63,460	97,609
Debt service	-	1,180,000	800,000	1,180,000	380,000
Total expenditures	10,038,741	11,324,157	9,703,405	1,285,416	1,620,752
Excess (deficiency) of revenues over (under) expenditures	(1,096,408)	(2,245,044)	(1,405,130)	1,422,196	839,914
Other financing sources (uses)					
Grant revenue	91,858	69,500	69,512	(22,358)	12
Transfer in (out)	-	-	22,204	-	22,204
Lease proceeds	-	-	-	-	-
Loan proceeds	-	1,180,000	1,180,000	1,180,000	-
Sale of surplus property	5,000	5,000	-	-	(5,000)
Total other financing sources(uses)	96,858	1,254,500	1,271,716	1,157,642	17,216
Net changes in fund balances	\$ (999,550)	\$ (990,544)	(133,414)	\$ 2,579,838	\$ 857,130
Fund balance - beginning of year			1,815,547		
Prior period adjustment			-		
Fund balance - end of year			1,682,133		
Adjustments to conform with GAAP:					
Revenues			765,121		
Expenditures			(137,624)		
Fund balance - end of year (GAAP basis)			<u>\$ 2,309,630</u>		

CITY OF HORN LAKE, MISSISSIPPI
Schedule of Surety Bonds for Municipal Officials
September 30, 2006

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Mike Thomas	Mayor	Fidelity & Deposit Co.	\$ 75,000
Diane Stewart	City Clerk	Fidelity & Deposit Co.	75,000
Darrell Whaley	Police Chief	Fidelity & Deposit Co.	75,000
Public Employees		CNA Insurance Co.	1,000,000
Aldermen		Fidelity & Deposit Co.	375,000



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**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**

Mayor and Board of Aldermen
City of Horn Lake, Mississippi

We have audited the financial statements of the governmental activities, the business type activities, and each major fund, and the aggregate remaining fund information of the City of Horn Lake, Mississippi as of and for the year ended, September 30, 2006, and have issued our report thereon dated June 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Horn Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

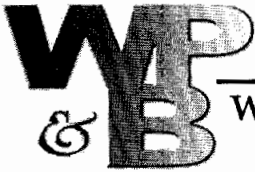
Compliance

As part of obtaining reasonable assurance about whether the City of Horn Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mississippi State Department of Audit and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
June 14, 2007



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Horn Lake with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Horn Lake's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Horn Lake's management. Our responsibility is to express an opinion on the City of Horn Lake's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Horn Lake's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Horn Lake's compliance with those requirements.

In our opinion, the City of Horn Lake complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2006.

Continued....

Internal Control Over Compliance

The management of the City of Horn Lake is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Horn Lake's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
June 14, 2007



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**INDEPENDENT AUDITOR'S REPORT ON THE CITY'S COMPLIANCE WITH THE
REQUIREMENTS OF THE STATE AUDIT DEPARTMENT, AS SET FORTH
IN THE MUNICIPAL COMPLIANCE QUESTIONNAIRE**

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

We have audited the financial statements of the City of Horn Lake, Mississippi for the year ended September 30, 2006, and issued our report thereon date June 14, 2007. Our audit was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The City of Horn Lake, Mississippi is in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire.

The report is intended for the use of the City of Horn Lake and the State Department of Audit. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Williams, Pitts & Beard, PLLC

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Certified Public Accountants
June 14, 2007