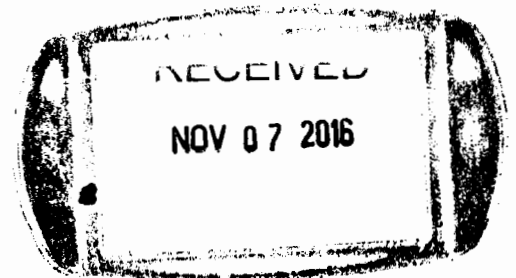




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CITY OF MAGNOLIA
AUDITED FINANCIAL STATEMENTS
And
SPECIAL REPORTS

SEPTEMBER 30, 2015



CITY OF MAGNOLIA

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CITY OF MAGNOLIA

FINANCIAL SECTION

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676

Members:
American Institute of CPAs
Mississippi Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the Board of Aldermen
City of Magnolia, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the major fund and the aggregate remaining fund information of the City of Magnolia, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 on the basis of cash receipts and disbursements; 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 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 *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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Magnolia as of September 30, 2015, and the respective changes in cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules 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 appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

The City of Magnolia, Mississippi, has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Required Supplementary Information

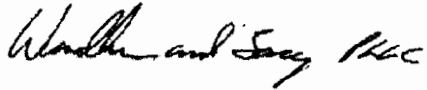
The Schedule of Changes in Long-term Debt, the Schedule of Investments, the Schedule of Surety Bonds, and the Schedule of Capital Assets for the City of Magnolia have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Requirements Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the City of Magnolia, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Magnolia's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the City of Magnolia prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
June 30, 2016

CITY OF MAGNOLIA

FINANCIAL STATEMENTS

City of Magnolia
Statement of Activities and Net Position - Cash Basis
As of and For the Year Ended September 30, 2015

Functions/Programs	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 308,373	4,843	9,591		(293,939)		(293,939)
Public safety	854,609	30,755		13,167	(810,687)		(810,687)
Public works	828,618	119,291			(709,327)		(709,327)
Culture and recreation	9,039			100,000	90,961		90,961
Court	71,559				(71,559)		(71,559)
Total Governmental Activities	2,072,198	154,889	9,591	113,167	(1,794,551)	0	(1,794,551)
Business-type Activities:							
Water/Sewer	776,382	1,064,381		106,638		394,637	394,637
Total Business-type Activities	776,382	1,064,381	0	106,638	0	394,637	394,637
Total Government	\$ 2,848,580	1,219,270	9,591	219,805	(1,794,551)	394,637	(1,399,914)
General Receipts							
Taxes:							
Property taxes					\$ 749,001		749,001
Road & bridge privilege taxes					98,057		98,057
Sales tax					392,245		392,245
Franchise taxes					67,036		67,036
Intergovernmental					36,255		36,255
Grants and contributions not restricted to specific programs					71,209		71,209
Unrestricted investment income					906	673	1,579
Miscellaneous					12,068		12,068
Debt proceeds					228,751		228,751
Transfers					35,095	(35,095)	
Total General Receipts					1,690,623	(34,422)	1,656,201
Change in net position					(103,928)	360,215	256,287
Net Position - Beginning					1,415,606	650,754	2,066,360
Net Position - Ending					\$ 1,311,678	1,010,969	2,322,647



City of Magnolia
Statement of Activities and Net Position - Cash Basis
As of and For the Year Ended September 30, 2015

(Continued)

	Net (Disbursements) Receipts and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,204,812	871,438	2,076,250
Restricted cash	106,866	139,531	246,397
 Total Assets	 \$ 1,311,678	 1,010,969	 2,322,647
 NET POSITION			
Restricted:			
Restricted for debt service	\$ 47,750		47,750
Restricted for unemployment compensation	14,839		14,839
Restricted for fire protection	29,649		29,649
Restricted for law enforcement	12,182		12,182
Restricted for improvements	2,446		2,446
Restricted for meter deposits		139,531	139,531
Unrestricted	1,204,812	871,438	2,076,250
 Total Net Position	 \$ 1,311,678	 1,010,969	 2,322,647

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

City of Magnolia
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental and Business-type Funds
As of and For the Year Ended September 30, 2015

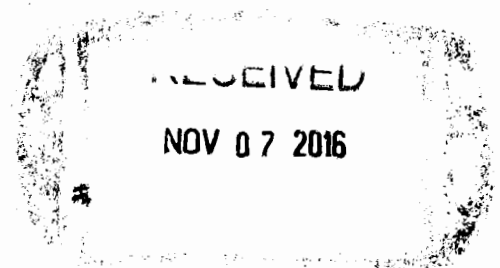
	<u>Governmental Activities</u>			<u>Business-type Activities</u>
	<u>Major Fund</u>			
	<u>General Fund</u>	<u>Other Non-Major Funds</u>	<u>Total</u>	<u>Water/Sewer Fund</u>
RECEIPTS				
Ad valorem taxes	\$ 749,001		749,001	
Road and bridge tax	98,057		98,057	
License and permits	4,843		4,843	
Franchise taxes on utilities	67,036		67,036	
Grand Gulf payments in lieu of tax	65,151		65,151	
Intergovernmental revenues:				
Federal revenues:				
Grants	100,000		100,000	106,638
State shared revenues:				
Sales taxes	392,245		392,245	
Grants	6,058		6,058	
Homestead reimbursement	36,255		36,255	
General municipal aid	1,207		1,207	
Fire insurance rebate	13,167		13,167	
Other	13,554		13,554	
Charges for services:				
Sanitation	114,466		114,466	
Water and sewer utility				1,064,381
Fines and forfeits	30,410		30,410	
Interest income	843	63	906	673
Miscellaneous revenue	12,068		12,068	
Total Receipts	<u>1,704,361</u>	<u>63</u>	<u>1,704,424</u>	<u>1,171,692</u>
DISBURSEMENTS				
General government	275,493		275,493	
Court	71,559		71,559	
Public safety	587,803		587,803	
Sanitation	151,629		151,629	
Public works	368,815		368,815	
Culture and recreation	9,039		9,039	
Water and sewer utility:				
Personnel services				130,538
Other operating expenses				290,193
Total Disbursements	<u>1,464,338</u>	<u>0</u>	<u>1,464,338</u>	<u>420,731</u>
Excess of Receipts over (under) Disbursements	<u>240,023</u>	<u>63</u>	<u>240,086</u>	<u>750,961</u>

City of Magnolia
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental and Business-type Funds
As of and For the Year Ended September 30, 2015

(Continued)

	Governmental Activities			Business-type Activities
	Major Fund	Other Non-Major Funds	Total	Water/Sewer Fund
OTHER CASH SOURCES (USES)				
Capital outlay	(297,530)		(297,530)	(33,492)
Principal paid on debt	(271,330)		(271,330)	(281,004)
Proceeds from debt	228,751		228,751	
Interest paid on debt	(39,000)		(39,000)	(41,155)
Transfers in (out) to other funds	35,095		35,095	(35,095)
Total Other Cash Sources and (Uses)	(344,014)	0	(344,014)	(390,746)
Excess (Deficiency) of Receipts and Other Cash Sources over Disbursements and Other Cash Uses	(103,991)	63	(103,928)	360,215
CASH BASIS FUND BALANCE – Beginning of Year	<u>1,353,995</u>	<u>61,611</u>	<u>1,415,606</u>	<u>650,754</u>
CASH BASIS FUND BALANCE – End of Year	<u>\$ 1,250,004</u>	<u>61,674</u>	<u>1,311,678</u>	<u>1,010,969</u>
CASH BASIS ASSETS				
Cash and cash equivalents	\$ 1,204,812		1,204,812	871,438
Restricted and committed cash	<u>45,192</u>	<u>61,674</u>	<u>106,866</u>	<u>139,531</u>
Total Cash Basis Assets	<u>\$ 1,250,004</u>	<u>61,674</u>	<u>1,311,678</u>	<u>1,010,969</u>
CASH BASIS FUND BALANCES				
Restricted for unemployment	\$ 14,839		14,839	
Restricted for public safety	27,907	13,924	41,831	
Restricted for debt service		47,750	47,750	
Restricted for improvements				139,531
Restricted for meter deposits	2,446		2,446	
Committed for culture and recreation	<u>1,204,812</u>		<u>1,204,812</u>	<u>871,438</u>
Unassigned				
Total Cash Basis Fund Balances	<u>\$ 1,250,004</u>	<u>61,674</u>	<u>1,311,678</u>	<u>1,010,969</u>

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



CITY OF MAGNOLIA

Notes to Financial Statements For the Year Ended September 30, 2015

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Magnolia, Mississippi, (the City) was incorporated in 1859. The City operates under an alderman/mayor form of government and provides all of the rights and privileges provided by statute for municipalities.

The financial statements of the City have been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

B. Government-wide and Fund 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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The City combines the Statement of Activities and Statement of Net Position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct disbursements* are those that are clearly identifiable with a specific function or segment. *Program receipts* include (1) receipts from 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 receipts are reported instead as *general receipts*.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation.

The government-wide financial statements are reported using the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when collected and disbursements are recorded when cash is spent.

Governmental fund financial statements are reported using the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when collected and disbursements are recorded when cash is spent.

The government reports the following major Governmental Fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF MAGNOLIA

Notes to Financial Statements For the Year Ended September 30, 2015

Amounts reported as *program receipts* include (1) receipts from customers or applicants for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general receipts* rather than as program receipts.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Net Assets or Equity.

1. *Cash and Investments.*

The government's cash and cash equivalents are considered to be cash on hand or invested in certificates of deposit.

2. *Fund Equity.*

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The City has no fund balance reported in this category.

Restricted - Includes fund balance amounts that are constrained for specific purposes which are internally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The City has \$104,335 reported as restricted fund balances.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has \$2,952 reported as committed fund balances.

Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by management other than the highest decision making authority of the City. The City has no fund balance reported in this category.

Unassigned - Includes positive fund balance with the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly, unassigned amounts of unrestricted fund balance when expenditures are made.

CITY OF MAGNOLIA

Notes to Financial Statements For the Year Ended September 30, 2015

(2) Cash and Cash Equivalents.

At year-end, the City's carrying amount of deposits was \$2,322,647 and the bank balance was \$2,318,272. 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.

Custodial Credit Risk - Deposits and Investments: Custodial credit risk is defined as the risk that, in the event of a failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasury manages the risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution trust department or agent in the name of the Mississippi State Treasurer on the behalf of the City. As of September 30, 2015, none of the City's bank balance of \$2,318,272 was exposed to custodial risk.

Interest Rate Risk: The City does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The City does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

(3) Defined Benefit Pension Plan.

Plan Description: The City of Magnolia 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, at 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy: PERS members are required to contribute 9.00% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ended September 30, 2015, 2014 and 2013 were \$93,541, \$96,519, and \$91,806, respectively, which is equal to the required contributions for each year.

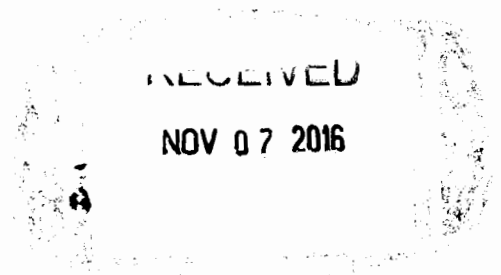
CITY OF MAGNOLIA

REQUIRED SUPPLEMENTARY INFORMATION

City of Magnolia
 Budgetary Comparison Schedule -
 Budget and Actual
 General Fund
 For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
RECEIPTS				
Ad valorem taxes	\$ 800,783	800,783	749,001	(51,782)
License and permits	69,600	69,600	71,879	2,279
Intergovernmental receipts	664,400	664,400	725,694	61,294
Charges for services - Sanitation	109,000	109,000	114,466	5,466
Fines and forfeits	20,000	20,000	30,410	10,410
Miscellaneous	67,500	69,500	12,911	(56,589)
Total Receipts	<u>1,731,283</u>	<u>1,733,283</u>	<u>1,704,361</u>	<u>(28,922)</u>
EXPENDITURES				
General government	713,503	715,603	291,857	423,746
Court	64,881	64,881	71,559	(6,678)
Public safety	702,954	702,954	854,609	(151,655)
Sanitation	146,000	146,000	151,629	(5,629)
Public works	528,622	563,622	693,505	(129,883)
Culture and recreation	8,500	7,700	9,039	(1,339)
Total Expenditures	<u>2,164,460</u>	<u>2,200,760</u>	<u>2,072,198</u>	<u>128,562</u>
Excess of Receipts over (under) Expenditures	<u>(433,177)</u>	<u>(467,477)</u>	<u>(367,837)</u>	<u>99,640</u>
OTHER CASH SOURCES (USES)				
Proceeds from debt			228,751	228,751
Transfers in			35,095	35,095
Total Other Cash Sources and Uses	<u>0</u>	<u>0</u>	<u>263,846</u>	<u>263,846</u>
Net Change in Cash Basis Fund Balance	<u>(433,177)</u>	<u>(467,477)</u>	<u>(103,991)</u>	<u>363,486</u>
Cash Basis Fund Balances - Beginning	<u>435,000</u>	<u>435,000</u>	<u>1,353,995</u>	
Cash Basis Fund Balances - Ending	<u>\$ 1,823</u>	<u>(32,477)</u>	<u>1,250,004</u>	

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



CITY OF MAGNOLIA

Notes to the Required Supplementary Information For the Year Ended September 30, 2015

A. Budgetary Information.

Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the City, using historical and anticipated fiscal data, prepares an original budget for the General Fund for said fiscal year. The completed budget for the fiscal year includes every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Aldermen that budgetary estimates will not be met, it may make revisions to the budget.

The City's budget is prepared on the cash basis of accounting. All appropriations lapse at year-end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original adopted budget, the final adopted budget, actual amounts on a budgetary (Non-GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund.

C. Budget Reconciliation.

As discussed in Note 1, the financial statements are prepared on the basis of cash receipts and disbursements which is the same as the basis used for budget preparation.

CITY OF MAGNOLIA

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**City of Magnolia
Schedule of Changes in Long-term Debt
For the Year Ended September 30, 2015**

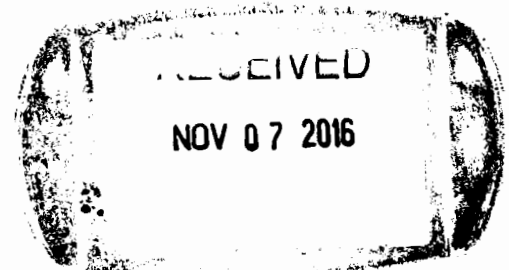
<u>Description</u>	<u>Outstanding Balance Oct. 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding Balance Sept. 30, 2015</u>
LOANS:				
Capital improvements revolving loan, due in monthly installments of \$3,522 through May 1, 2019, including interest at 3.0% per annum.	\$ 177,076		37,476	139,600
Capital improvements revolving loan, due in monthly installments of \$1,583 through April 1, 2032, including interest at 2.0% per annum.	281,650		13,528	268,122
Capital improvements revolving loan, due in monthly installments of \$3,220.47 through December 1, 2023, including interest at 2.0% per annum.	326,145		32,456	293,689
CAPITAL LEASES:				
Capital lease on purchase of equipment, due in monthly installments of \$898.92 through October 29, 2019, including interest at 2.14% per annum and balloon payment of \$40,000.	86,987		8,874	78,113
Capital lease on purchase of equipment, due in yearly installments of \$27,465 through October 5, 2024, including interest at 3.05% per annum.		228,751		228,751
REVENUE BONDS:				
Combined Water & Sewer System Revenue Refunding Bonds, Series 2012, dated June 5, 2012, payable annually as to principal and semi-annually as to interest through June 1, 2022, with variable interest of 2.00% - 2.70% per annum.	2,815,000		460,000	2,355,000
	<u>\$ 3,686,858</u>	<u>228,751</u>	<u>552,334</u>	<u>3,363,275</u>

City of Magnolia
Schedule of Investments - All Funds
September 30, 2015

	<u>Deposit Amount</u>
Certificate of Deposit with Trustmark National Bank, maturing November 24, 2015; interest rate of 0.10%.	\$ 50,878
Certificate of Deposit with First Bank, maturing October 10, 2015; interest rate of 0.07%.	53,491
Certificate of Deposit with First Bank, maturing September 24, 2016; interest rate of 0.25%.	14,839
Certificate of Deposit with First Bank, maturing October 10, 2015; interest rate of 0.07%.	<u>28,314</u>
	\$ <u><u>147,522</u></u>
 Fund Recap:	
General Fund	\$ 65,717
Bond Fund	28,314
Water and Sewer Fund	<u>53,491</u>
	\$ <u><u>147,522</u></u>

City of Magnolia
Schedule of Capital Assets
For the Fiscal Year Ended September 30, 2015

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets:				
Land	\$ 326,426			326,426
Buildings	934,775			934,775
Improvements other than building	156,764	16,364		173,128
Machinery and equipment	866,114	281,166	78,079	1,069,201
Total Governmental Activities Capital Assets	\$ 2,284,079	297,530	78,079	2,503,530
Business-type Activities:				
Capital Assets:				
Land	\$ 30,764			30,764
Machinery and equipment	213,222		28,782	184,440
Water/Sewer infrastructure	10,683,056	33,492	41,952	10,674,596
Water/Sewer improvements	5,903,382			5,903,382
Total Business-type Activities Capital Assets	\$ 16,830,424	33,492	70,734	16,793,182



City of Magnolia
Schedule of Surety Bonds for Municipal Officials and Employees
September 30, 2015

<u>Position</u>	<u>Company</u>	<u>Bond Amount</u>
Anthony Whitherspoon, Mayor	Scott Insurance	\$ 50,000
Sharon Burton, Alderman	Scott Insurance	50,000
Lonnie R. Cox, Alderman	Scott Insurance	50,000
Maria M. Ricks, Alderman	Scott Insurance	50,000
Becky W. Magee, Alderman	Scott Insurance	50,000
Joseph A. Cornacchione, Alderman	Scott Insurance	50,000
Servia Fortenberry, City Clerk	Travelers Insurance	50,000
Lauria Evand, Deputy Clerk	Travelers Insurance	50,000
Pam Kaisner, Court Clerk	Travelers Insurance	50,000
Rosezea Scott, Billing Clerk	Travelers Insurance	50,000
Ray Reynolds, Police Chief	Travelers Insurance	50,000

CITY OF MAGNOLIA

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

Honorable Mayor and
Members of the Board of Aldermen
City of Magnolia, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Magnolia, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Magnolia, Mississippi's basic financial statements and have issued our report thereon dated June 30, 2016.

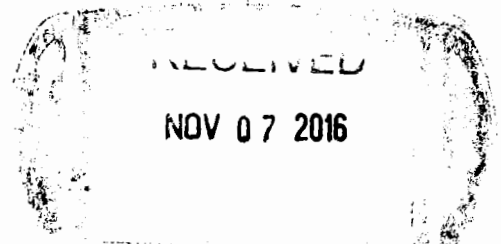
Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control that we consider to be a material weakness and significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Responses as 15-1 to be a material weakness.

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 as 15-1 to be a significant deficiency.



Compliance and Other Matters

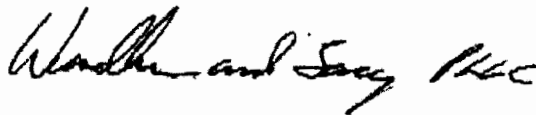
As part of obtaining reasonable assurance about whether the City of Magnolia, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a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

City's Response to Finding

The City of Magnolia, Mississippi's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City of Magnolia, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Windham and Lacey, PLLC
June 30, 2016

Windham and Lacey, PLLC

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

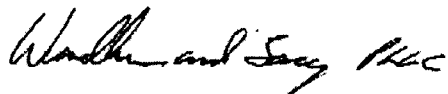
Honorable Mayor and
Members of the Board of Aldermen
City of Magnolia, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the City of Magnolia, Mississippi, as of and for the year ended September 30, 2015, and have issued our report thereon dated June 30, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures and our audit of the basic financial statements disclosed no instances of noncompliance with state laws and regulations.

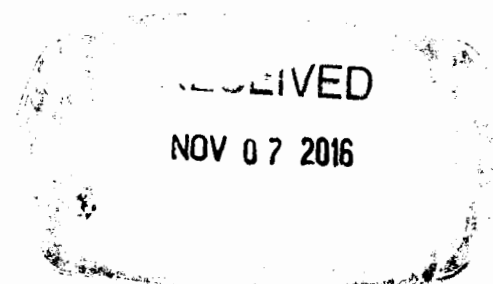
This report is intended solely for the information and use of management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
June 30, 2016

CITY OF MAGNOLIA

SCHEDULE OF FINDINGS AND RESPONSES



CITY OF MAGNOLIA

Schedule of Findings and Responses For the Year Ended September 30, 2015

Section 1: Summary of Auditor's Results

Financial Statements:

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

Section 2: Financial Statement Findings

Significant Deficiency - Material Weakness

15 - 1. Finding

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. During the fiscal year, the City of Magnolia converted to new bookkeeping software. As a result of the conversion, some transactions were duplicated and others were not converted properly. This resulted in a significant misstatement that management was not able to completely correct prior to the audit. The primary control of cash is the bank reconciliation and although management attempted to reconcile the cash accounts, the effect of the conversion errors prevented proper reconciliation. Significant adjustments were required to properly state cash and other accounts.

Recommendation

The City of Magnolia should provide resources to its accounting staff to help them deal with internal control deficiencies that are detected in the normal course of their duties. Such resources could include additional training for its clerks so that cash accounts can be reconciled accurately and timely.

City's Response

The management of the City of Magnolia detected this deficiency and took steps to correct the problem including additional training. Adjustments have been made to properly state cash and other accounts.

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