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CITY OF MAGEE MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

**CITY OF MAGEE, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
City of Magee, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Magee, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Basis for Adverse Opinion on the Governmental Activities

As discussed in Note 4 to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on assets. Accounting principles generally accepted in the United States of America require that assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the previous paragraph, the financial statements referred to above do not present fairly, the financial position of the governmental activities of the City of Magee, Mississippi, as of September 30, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the City of Magee, Mississippi, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Employer's Proportionate Share of the Net Pension Liability, the Schedule of the City's Contributions, and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

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

Omission of Required Supplementary Information

The City of Magee, Mississippi, has omitted the Management's Discussion and Analysis and the Budgetary Comparison Schedule and corresponding notes 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 financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report October 15, 2020, on our consideration of the City of Magee, Mississippi's internal control over financial reporting and 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 Magee, Mississippi's internal control over financial reporting and compliance.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
Hattiesburg, Mississippi
October 15, 2020

City of Magee
Statement of Net Position
September 30, 2018

EXHIBIT 1

Assets	Primary Government		
	Governmental	Business-Type	Total
Current Assets	Activities	Activities	
Cash and Cash Equivalents	\$ 1,905,959	\$ 418,173	\$ 2,324,132
Receivables (net of uncollectibles):			
Accounts	391,500	85,924	477,424
Fines Receivable (net of allowance for uncollectibles of \$(3,627,374))	1,274,483	-	1,274,483
Due from Other Funds	720,537	13,093	733,630
Property Tax Receivable	1,028,648	-	1,028,648
Prepaid Expenses	12,516	-	12,516
Other Receivables	8,262	-	8,262
Total Current Assets	<u>5,341,905</u>	<u>517,190</u>	<u>5,859,095</u>
Noncurrent Assets			
Restricted Cash	-	89,239	89,239
Capital Assets:			
Land	139,970	-	139,970
Buildings	3,704,567	19,844	3,724,411
Improvements Other Than Buildings	7,223,644	83,252	7,306,896
Mobile Equipment	4,028,431	1,273,118	5,301,549
Water and Sewer Lines and Facilities	-	7,430,482	7,430,482
Infrastructure	6,633,496	-	6,633,496
Less: Accumulated Depreciation	(289,186)	(7,205,844)	(7,495,030)
Net Capital Assets	<u>21,440,922</u>	<u>1,600,852</u>	<u>23,041,774</u>
Total Noncurrent Assets	<u>21,440,922</u>	<u>1,690,091</u>	<u>23,131,013</u>
Other Assets	-	36,811	36,811
Total Assets	<u>26,782,827</u>	<u>2,244,092</u>	<u>29,026,919</u>
Deferred Outflows of Resources			
Deferred Outflows Related to Pension	356,475	32,449	388,924
Total Deferred Outflows of Resources	<u>356,475</u>	<u>32,449</u>	<u>388,924</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 27,139,302</u>	<u>\$ 2,276,541</u>	<u>\$ 29,415,843</u>

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

City of Magee, Mississippi
Statement of Net Position
September 30, 2018

Page 2
EXHIBIT 1

Liabilities	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current Liabilities			
Claims Payable	\$ 71,487	\$ 30,807	\$ 102,294
Accrued Wages	49,413	3,597	53,010
Due to Other Funds	562,403	171,227	733,630
Current Portion of Capital Leases Payable	47,012	-	47,012
Current Portion of Capital Related Long-term Debt	290,000	42,590	332,590
Other Payable	12,356	-	12,356
Total Current Liabilities	1,032,671	248,221	1,280,892
Non-Current Liabilities			
Compensated Absences Payable	95,940	12,441	108,381
Customer Deposits	-	89,239	89,239
Capital Leases Payable-Due in More Than One Year	59,501	-	59,501
Long-term Capital Related Long-term Debt- Due in More Than One Year	2,865,000	273,783	3,138,783
Net Pension Liability	4,943,279	449,962	5,393,241
Total Noncurrent Liabilities	7,963,720	825,425	8,789,145
Total Liabilities	8,996,391	1,073,646	10,070,037
Deferred Inflows of Resources			
Deferred Inflows Related to Pension	20,404	1,858	22,262
Unearned Revenue-Property Taxes	1,028,648	-	1,028,648
Total Deferred Inflows of Resources	1,049,052	1,858	1,050,910
Total Liabilities and Deferred Inflows of Resources	10,045,443	1,075,504	11,120,947
Net Position			
Net Investment in Capital Assets	18,179,409	1,284,479	19,463,888
Unrestricted	(1,085,550)	(83,442)	(1,168,992)
Total Net Position	17,093,859	1,201,037	18,294,896
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 27,139,302	\$ 2,276,541	\$ 29,415,843

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

City of Magee
Statement of Activities
For the Year Ended September 30, 2018

EXHIBIT 2

Function/Programs:	Expenses	Program Revenues			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants	Capital Grants			
Governmental Activities:							
General Government	\$ (1,004,261)	\$ -	\$ -	\$ -	\$ (1,004,261)	\$ -	\$ (1,004,261)
Public Safety	(1,664,630)	-	16,127	-	(1,648,503)	-	(1,648,503)
Public Works	(529,892)	-	-	-	(529,892)	-	(529,892)
Culture and Recreation	(619,630)	62,280	-	102,668	(454,682)	-	(454,682)
Interest and Fiscal Charges on Long-term Debt	(106,501)	-	-	-	(106,501)	-	(106,501)
Pension Expense	(719,913)	-	-	-	(719,913)	-	(719,913)
Total Governmental Activities	<u>(4,644,827)</u>	<u>62,280</u>	<u>16,127</u>	<u>102,668</u>	<u>(4,463,752)</u>	<u>-</u>	<u>(4,463,752)</u>
Business-Type Activities:							
Water, Sewer, and Garbage	(960,523)	962,272	-	-	-	1,749	1,749
Total Functions/Programs	<u>\$ (5,605,350)</u>	<u>\$ 1,024,552</u>	<u>\$ 16,127</u>	<u>\$ 102,668</u>	<u>\$ (4,463,752)</u>	<u>\$ 1,749</u>	<u>\$ (4,462,003)</u>
General Revenues:							
Property Tax					\$ 941,344	\$ -	\$ 941,344
Franchise Tax					136,897	-	136,897
Sales Tax					2,489,736	-	2,489,736
Licenses and Permits					33,393	-	33,393
Intergovernmental, Not Restricted to Specific Functions/Programs					330,904	-	330,904
Fines and Forfeitures					522,573	-	522,573
Other Revenue					137,085	15,200	152,285
Total General Revenues					<u>4,591,932</u>	<u>15,200</u>	<u>4,607,132</u>
Change in Net Position					128,180	16,949	145,129
Net Position - Beginning					16,965,679	1,184,088	18,149,767
Net Position - Ending					<u>\$ 17,093,859</u>	<u>\$ 1,201,037</u>	<u>\$ 18,294,896</u>

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

**City of Magee
Balance Sheet
Governmental Funds
September 30, 2018**

	EXHIBIT 3			
	General Fund	Sports Complex Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,166,300	\$ 493,148	\$ 246,511	\$ 1,905,959
Accounts Receivable	391,500	-	-	391,500
Fines Receivable - Net	1,274,483	-	-	1,274,483
Property Tax Receivable	870,391	-	158,257	1,028,648
Prepaid Expenses	12,516	-	-	12,516
Due from Other Funds	572,753	-	147,784	720,537
Other Receivables	-	-	8,262	8,262
Total Assets	\$ 4,287,943	\$ 493,148	\$ 560,814	\$ 5,341,905
LIABILITIES				
Liabilities				
Claims Payable	\$ 71,312	\$ -	\$ 175	\$ 71,487
Accrued Wages	49,233	-	180	49,413
Other Payables	12,356	-	-	12,356
Due to Other Funds	111,812	-	450,591	562,403
Total Liabilities	244,713	-	450,946	695,659
Deferred Inflows of Resources				
Property Tax for Future Reporting Period	870,391	-	158,257	1,028,648
Unavailable Revenue-Fines	1,274,483	-	-	1,274,483
Total Deferred Inflows of Resources	2,144,874	-	158,257	2,303,131
Total Liabilities and Deferred Inflows of Resources	2,389,587	-	609,203	2,998,790
FUND BALANCE				
Nonspendable	-	-	-	-
Prepaid Items	12,516	-	-	12,516
Unassigned	1,885,840	-	(48,389)	1,837,451
Restricted	-	-	-	-
Culture and Recreation	-	493,148	-	493,148
Total Fund Balance	1,898,356	493,148	(48,389)	2,343,115
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 4,287,943	\$ 493,148	\$ 560,814	\$ 5,341,905

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

City of Magee
Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
September 30, 2018

EXHIBIT 3.1

Fund Balances - Total Governmental Funds	\$ 2,343,115
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Amounts reported for governmental activities in the Statement of
Net Position are different because:

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

Governmental Capital Assets, Net	21,440,922
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Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,274,483
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Deferred outflows related to pension liability are applicable to future periods, and, therefore are not reported in the funds.	356,475
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Deferred inflows related to pension liability are applicable to future periods, and, therefore are not reported in the funds.	(20,404)
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Net pension obligations are not due and payable in the current period, and, therefore are not reported in the funds.	(4,943,279)
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Long-term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds.

Bonds Payable	(3,155,000)	
Capital Leases Payable	(106,513)	
Compensated Absences	(95,940)	
	(3,357,453)	(3,357,453)

Net Position of Governmental Activities	<u>\$ 17,093,859</u>
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The notes to the financial statements are an integral part of this statement.

City of Magee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2018

Exhibit 4

	General Fund	Sports Complex Bond Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 799,967	\$ -	\$ 141,377	\$ 941,344
Licenses and Permits	232,570	-	-	232,570
Intergovernmental	2,517,038	309,729	112,668	2,939,435
Fines and Forfeitures	484,145	-	-	484,145
Miscellaneous	94,860	468	41,757	137,085
Total Revenues	<u>4,128,580</u>	<u>310,197</u>	<u>295,802</u>	<u>4,734,579</u>
EXPENDITURES				
Current:				
General Government	1,063,503	-	45,773	1,109,276
Public Safety	1,876,904	-	-	1,876,904
Public Works	623,644	-	5,719	629,363
Culture and Recreation	514,002	-	-	514,002
Capital Improvements	-	-	319,245	319,245
Debt Service:				
Principal	50,384	160,000	120,000	330,384
Interest and Fiscal Charges	3,148	85,565	17,788	106,501
Total Expenditures	<u>4,131,585</u>	<u>245,565</u>	<u>508,525</u>	<u>4,885,675</u>
Excess of Revenues Over Expenditures	<u>(3,005)</u>	<u>64,632</u>	<u>(212,723)</u>	<u>(151,096)</u>
OTHER FINANCING SOURCES AND (USES)				
Proceeds from Debt	39,980	-	-	39,980
Transfers In	-	-	234,650	234,650
Transfers Out	(234,650)	-	-	(234,650)
Total Other Financing Sources	<u>(194,670)</u>	<u>-</u>	<u>234,650</u>	<u>39,980</u>
Net Change in Fund Balances	<u>(197,675)</u>	<u>64,632</u>	<u>21,927</u>	<u>(111,116)</u>
Fund Balances - Beginning	2,096,031	428,516	(70,316)	2,454,231
Fund Balances - Ending	<u>\$ 1,898,356</u>	<u>\$ 493,148</u>	<u>\$ (48,389)</u>	<u>\$ 2,343,115</u>

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

City of Magee
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2018

		EXHIBIT 4.1
Net Change in Fund Balances - Total Governmental Funds		\$ (111,116)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures.		
However, in the Statement of Activities, the cost of these assets is depreciated over their estimated useful lives.		
Expenditures for Capital Assets		418,999
Depreciation Expense		(179,979)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.		
		38,428
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Debt Proceeds		(39,980)
Principal Payments		330,384
Some expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in Long-term Compensated Absences		(3,605)
Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:		
Recording of pension expense for the current period		(719,913)
Recording of contributions made subsequent to the measurement date		82,009
Recording of reduction in pension expense for amounts included in net pension liability		312,953
Change in Net Position of Governmental Activities		\$ 128,180

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

City of Magee
Statement of Net Position
Proprietary Funds
September 30, 2018

EXHIBIT 5

	Enterprise Fund
	Water & Sewer
ASSETS	
Current Assets	
Cash	\$ 418,173
Accounts Receivable	85,924
Due from other Funds	13,093
Total Current Assets	<u>517,190</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	89,239
Capital Assets	
Property, Plant, and Equipment, Net of Accumulated Depreciation	1,600,852
Other Assets	36,811
Total Noncurrent Assets	<u>1,726,902</u>
Total Assets	<u>2,244,092</u>
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	32,449
Total Deferred Outflows of Resources	<u>32,449</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,276,541</u>
LIABILITIES	
Current Liabilities	
Claims Payable	\$ 30,807
Accrued Wages	3,597
Due to Other Funds	171,227
Notes Payable-Current Portion	42,590
Total Current Liabilities	<u>248,221</u>
Noncurrent Liabilities	
Compensated Absences Payable	12,441
Customer Deposits	89,239
Long-term Debt	273,783
Net Pension Liability	449,962
Total Noncurrent Liabilities	<u>825,425</u>
Total Liabilities	<u>1,073,646</u>
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	1,858
Total Deferred Inflows of Resources	<u>1,858</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,075,504</u>
NET POSITION	
Net Investment in Capital Assets	1,284,479
Unrestricted	(83,442)
Total Net Position	<u>1,201,037</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 2,276,541</u>

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

City of Magee
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2018

	EXHIBIT 6
	Enterprise Fund
	Water & Sewer
Operating Revenues:	
Charges for Services	\$ 962,272
Miscellaneous Income	14,516
Total Operating Revenue	<u>976,788</u>
Operating Expenses:	
Personnel Services	356,469
Contractual Services, Materials, and Supplies	276,820
Other Services and Charges	139,132
Depreciation	158,489
Total Operating Expenses	<u>930,910</u>
Operating Income	<u>45,878</u>
Non-operating Revenues (Expenses):	
Interest Income	684
Interest Expense	(29,613)
Total Non-operating Revenues (Expenses)	<u>(28,929)</u>
Change in Net Position	<u>16,949</u>
Net Position - Beginning	<u>1,184,088</u>
Net Position - Ending	<u><u>\$ 1,201,037</u></u>

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

City of Magee
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

EXHIBIT 7

	<u>Enterprise Fund</u>
	<u>Water & Sewer</u>
CASH FLOWS OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 972,296
Cash payments to suppliers	(394,276)
Cash payments to employees	(302,638)
Net cash provided by operating activities	<u>275,382</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on long-term debt	(68,517)
Interest expense	(29,613)
Net cash (used) by capital and related financing activities	<u>(98,130)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on money market account	684
Net cash provided by investing activities	<u>684</u>
Net increase in cash and cash equivalents	177,936
Cash and cash equivalents, October 1	329,476
Cash and cash equivalents, September 30	<u>\$ 507,412</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	<u>\$ 45,878</u>
Adjustment:	
Depreciation expense	158,489
Changes in assets and liabilities:	
(Increase) in accounts receivable	(4,492)
Decrease in due from other funds	26
Decrease in deferred outflows related to pension	28,043
(Decrease) in deferred inflows related to pension	(5,301)
Increase in accounts payable	21,676
(Decrease) in due to other funds	(7,031)
Increase in customer deposits	12,969
Increase in compensated absences payable	55
Increase in accrued wages	3,597
Increase in pension liability	21,473
Total adjustments	<u>229,504</u>
Net cash provided by operating activities	<u>\$ 275,382</u>

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

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City operates under a Mayor/Aldermen form of government and provides the following services as authorized by its charter: public safety (police and volunteer fire protection), highways and streets, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to local governmental units, (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989, to its business-type activities or enterprise funds. The most significant of the City's accounting policies are described below.

A. Government-wide and Fund Financial Statements

The government-wide and fund financial statements along with the notes to the financial statements comprise the basic 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 City. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Franchise and utility taxes, state revenue sharing, charges for garbage and water service, fines and forfeitures, and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

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

C. Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following is a summary of the City's funds by fund type:

GOVERNMENTAL FUNDS: Governmental Funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- The *General Fund* is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Sports Complex Bond Fund* is a major fund used to account for the special obligation bonds for the recreational facilities.

PROPRIETARY FUNDS: Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The City's proprietary fund is an enterprise fund. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's enterprise fund is a major fund.

- The *Water, Sewer, and Garbage Fund* accounts for the provision of water, sewer, and garbage services to customers within the service area.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Capital Assets

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost.

Contributed assets are recorded at fair market value as of the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Pursuant to GASB Statement 34, small governmental entities (less than \$10 million in annual revenue) are not required to retroactively state the values of infrastructure purchased or constructed in prior years. Therefore, infrastructure acquired prior to October 1, 2002 has not been recorded, unless the value was already included in the City's inventory of capital assets.

Depreciation has not been provided for governmental activities.

Depreciation has been provided for proprietary funds using the straight-line method, over the following estimated useful lives:

Building & Improvements	30-40 Years
Machinery & Equipment	3-10 Years

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Receivables

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

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

H. Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund.

J. Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The city has incurred deferred outflows that are related to pension reporting.

K. Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation leave, which will be paid to employees upon separation from service to the City. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. For governmental activities, an accrual of \$95,940 was reported. For business-type activities, an accrual of \$12,441 was reported.

L. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows are property tax unearned revenue and deferred inflows that are related to pension reporting.

M. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and displayed in three components:

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

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

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

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

M. Equity Classifications-Continued

Fund Financial Statements:

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

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

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portions of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

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

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

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

N. Surety Bonds

Surety bond coverage meets the legal requirements for the year ended September 30, 2018.

O. Mississippi Municipal Compliance Questionnaire

The Mississippi Municipal Compliance Questionnaire was completed and entered into the City's Minute Book as prescribed by law.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 2 – CASH AND INVESTMENTS

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with State statutes. Various restrictions on deposits are imposed by statutes.

Code Sec. 21-33-323 allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts.

The collateral for public entities' deposit 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 City'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.

The City's deposits, which include all cash accounts and certificates of deposits, with a carrying value of \$2,413,371 and a bank balance of \$2,540,041 at September 30, 2018, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 3 – INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2018:

A. Due From/To Other Funds:

Major Funds:

<u>Due From:</u>	<u>Due To:</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 450,591
Other Governmental Funds	Enterprise Fund	49,065
General Fund	Enterprise Fund	122,162
Other Governmental Funds	General Fund	98,719
Enterprise Fund	General Fund	13,093
Total Interfund Receivables		<u>\$ 733,630</u>

The interfund receivables and payables were the result of loans between funds.

B. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount/Purpose</u>
Other Governmental Funds	General Fund	\$ 234,650
		<u>\$ 234,650</u>

Transfers were the result of reimbursements between funds.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended September 30, 2018:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities:					
<i><u>Capital assets not being depreciated:</u></i>					
Land	\$ 139,970	\$ -	\$ -	\$ -	\$ 139,970
<i><u>Capital assets being depreciated:</u></i>					
Buildings	3,704,567	-	-	-	3,704,567
Improvements other than buildings	7,223,644	-	-	-	7,223,644
Mobile equipment	3,609,432	418,999	-	-	4,028,431
Infrastructure	6,633,496	-	-	-	6,633,496
Total capital assets being depreciated	21,171,139	418,999	-	-	21,590,138
Less accumulated depreciation	(109,207)	(179,979)	-	-	(289,186)
Total capital assets being depreciated, net	21,061,932	239,020	-	-	21,300,952
Governmental activities capital assets, net	21,201,902	239,020	-	-	21,440,922
	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business-type Activities:					
<i><u>Capital assets being depreciated:</u></i>					
Buildings	\$ 19,844	\$ -	\$ -	\$ -	\$ 19,844
Improvements other than buildings	83,252	-	-	-	83,252
Water and sewer lines and facilities	7,430,482	-	-	-	7,430,482
Mobile equipment	1,273,118	-	-	-	1,273,118
Total capital assets being depreciated	8,806,696	-	-	-	8,806,696
Less accumulated depreciation	(7,047,355)	(158,489)	-	-	(7,205,844)
Business-type activities capital assets, net	\$ 1,759,341	\$ (158,489)	\$ -	\$ -	\$ 1,600,852

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 4 – CAPITAL ASSETS - Continued

Certain general infrastructure assets have not been recorded for governmental functions.

Depreciation expense was changed to functions/programs of the primary government as follows:

Governmental Activities:	Amount
Public Safety	\$ 9,233
Culture and Recreation	170,746
Total Depreciation expense - Governmental Activities	<u>\$ 179,979</u>
 Business-Type Activities:	
Water and Sewer and Garbage	\$ 158,489
Total Depreciation expense - Business-Type Activities	<u>\$ 158,489</u>

NOTE 5 – LONG-TERM DEBT

The amount of general obligation debt that can be incurred is limited by State statute. The City was within those limits for the year ended September 30, 2018.

On January 1, 2006, the City issued \$1,345,000 of general obligation bonds for the purpose of retiring the 1981 FMHA Water Bonds and the 1990 FMHA Water Bonds. These bonds mature in various amounts through 2026, and carry various interest rates ranging from 3.60 to 4.45%.

On June 1, 2012 the City issued \$1,500,000 of general obligation bonds for the purpose of street improvements. These bonds mature in various amounts through 2024 and carry various interest rates ranging from 1.60 to 2.25%.

Refunding:

On December 17, 2015, the City issued \$2,800,000 in Special Obligation Bonds with an average interest rate of 3.12% to refund \$1,455,000 of the following outstanding bond issue:

2008 Recreational Facilities Bond	1.92%	\$1,455,000
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The City refunded the above bonds to provide funding for the expansion and improvement of the Sports Complex.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 5 – LONG-TERM DEBT - Continued

Capital Leases

The City has nine equipment leases with maturity dates in 2019, 2020, 2021, 2022, and 2023.

Notes Payable

The City has a 2.00% cap loan for water well repairs. Yearly payments will continue through 2023.

The following is a summary of changes in long-term debt transactions for the year ended September 30, 2018:

	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Balance Due Within one Year
<u>Governmental Activities:</u>					
Compensated Absences	\$ 92,335	\$ 3,605	\$ -	\$ 95,940	\$ -
Lease Obligations Payable	116,917	39,980	(50,384)	106,513	47,012
General Obligation Bonds	945,000	-	(120,000)	825,000	125,000
Special Obligation Bonds	2,490,000	-	(160,000)	2,330,000	165,000
Total Governmental Activities	3,644,252	43,585	(330,384)	3,357,453	337,012
<u>Business-Type Activities:</u>					
<u>Major Enterprise Fund:</u>					
Compensated Absences Payable	12,386	55	-	12,441	-
Notes Payable	44,890	-	(33,517)	11,373	2,590
Revenue Bonds	340,000	-	(35,000)	305,000	40,000
Total Business-Type Activities	397,276	55	(68,517)	328,814	42,590
Total Long-Term Debt	\$ 4,041,528	\$ 43,640	\$ (398,901)	\$ 3,686,267	\$ 379,602

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 5 – LONG-TERM DEBT – Continued

The following is a schedule by years of the total capital lease payments due as of September 30, 2018:

Year	<u>Governmental-type Activities</u>	
	Principal	Interest
2019	\$ 47,012	\$ 2,570
2020	32,340	1,485
2021	14,294	762
2022	8,490	371
2023	4,377	53
Total	<u>\$ 106,513</u>	<u>\$ 5,241</u>

The annual debt service requirements to maturity for all long-term debt are detailed below:

Year Ending	<u>Governmental-type Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
30-Sep				
2019	\$ 290,000	\$ 97,333	\$ 2,590	\$ 15,104
2020	295,000	91,620	42,642	13,413
2021	305,000	85,697	42,695	11,712
2022	315,000	77,555	42,750	10,013
2023	325,000	69,085	45,696	8,232
2024-2028	1,165,000	216,695	140,000	12,683
2029-2030	460,000	27,800	-	-
Total	<u>\$ 3,155,000</u>	<u>\$ 665,785</u>	<u>\$ 316,373</u>	<u>\$ 71,157</u>

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 5 - LONG-TERM DEBT - Continued

Debt outstanding as of September 30, 2018, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>
<u>Governmental Activities:</u>			
A. <u>General Obligation Bonds</u>			
2012 Street Improvements Bonds			
Authorized and issued \$1,500,000;			
Issued date 6/1/12	\$ 825,000	1.60-2.25%	2024
	<u>\$ 825,000</u>		
B. <u>Special Obligation Bonds</u>			
2015 Recreational Facilities Bonds			
Authorized and issued \$2,800,000;			
Issued date 12/17/15	\$ 2,330,000	2.25-4.00%	2030
	<u>\$ 2,330,000</u>		
C. <u>Capital Leases</u>			
Dodge Charger, Chevy Truck & Mower	\$ 7,146	2.55%	2019
F250 Truck	5,834	2.73%	2019
Street Sweeper	17,922	2.50%	2020
Kubota Tractor and 2015 Dodge Ram	12,694	2.25%	2020
Sewer Machine	26,576	2.40%	2021
Kubota Tractor	36,341	4.12%	2023
	<u>\$ 106,513</u>		
<u>Business-Type Activities:</u>			
A. <u>Cap Loan</u>			
Water Well #6 Repairs	\$ 11,373	2.00%	2023
	<u>\$ 11,373</u>		
B. <u>Revenue Bonds</u>			
General Obligation Refunding Bonds, Series 2006			
Authorized and issued \$1,345,000			
Issue date 1/1/06	\$ 305,000	3.60-4.45%	2026
	<u>\$ 305,000</u>		

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 6 – RISK MANAGEMENT

The City has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures/expenses. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7– PROPERTY TAXES

Property taxes on real and personal property, exclusive of automobiles, become an enforceable lien on January 1, for the preceding year. Taxes are levied before September 15, and are due before February 1. The City bills and collects its own property taxes, except for automobile ad valorem. The City's levy on automobile taxes is collected by Simpson County and remitted to the City monthly. Simpson County also remits to the City a pro-rata share of road and bridge taxes collected by them. The City levies taxes based on 15% of fair value of property. The City may levy taxes as necessary to meet bonded debt retirement. Tax millage levies for the current fiscal year were as follows:

<u>Fund</u>	<u>Millage</u>	<u>Purpose</u>
General Fund	22.00	General Government
Street Bond Fund	4.00	Debt Service
	<u>26.00</u>	

NOTE 8 – PENSION PLAN OBLIGATIONS

General Information about the Pension Plan

Plan Description. The City of Magee, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 8 – PENSION PLAN OBLIGATIONS - Continued

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

Contributions. At September 30, 2018, PERS members were required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2018 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2018, 2017, and 2016 were \$334,681, \$313,666, and \$302,621, respectively, equal to the required contributions for each year.

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

At September 30, 2018, the City of Magee reported a liability of \$5,393,241 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to calculate the September 30, 2018, net pension liability was .032425 percent, which was based on a measurement date of June 30, 2018. This was an increase of .000425 percent from its proportionate share used to calculate the September 30, 2016 net pension liability, which was based on a measurement date of June 30, 2017.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 8 – PENSION PLAN OBLIGATIONS - Continued

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

For the year ended September 30, 2018, the City of Magee, recognized pension expense of \$785,443. At September 30, 2018, the City of Magee reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 56,261	\$ 16,508
Net difference between projected and actual earnings on pension plan investments	85,092	-
Changes of assumptions	83,966	5,754
Changes in proportion and differences between the City's Contributions and Proportionate Share of Contributions	81,596	-
Contributions subsequent to the measurement date	82,009	-
	<u>\$ 388,924</u>	<u>\$ 22,262</u>

\$82,009 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30	Amount
2019	\$ 216,568
2020	79,611
2021	(10,952)
2022	(574)
	<u>\$ 284,653</u>

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 8 – PENSION PLAN OBLIGATIONS – Continued

Actuarial Assumptions

The total pension liability used in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75%-18.50%, average, including inflation
Investment rate of return	7.75%, net of position of pension plan investment expense, including inflation

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long-term Expected Real Rate of Return</u>
U. S. Broad	27.00 %	4.60 %
International equity	18.00	4.50
Emerging markets equity	4.00	4.75
Global	12.00	4.75
Fixed income	18.00	.75
Real estate	10.00	3.50
Private equity	8.00	5.10
Emerging debt	2.00	2.50
Cash	1.00	-
	<u>100.00 %</u>	

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 8 – PENSION PLAN OBLIGATIONS – Continued

Discount Rate

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

Sensitivity of the City of Magee's Proportionate Share of the Net Pension Liability to changes in the Discount Rate

The City of Magee's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the City of Magee's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$ 7,101,351	\$ 5,393,241	\$ 3,973,576

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At September 30, 2018, the City of Magee has no amounts payable for outstanding contributions to the pension plan required for the year ended September 30, 2018.

NOTE 9 – EFFECT OF DEFERRED AMOUNTS ON NET POSITION

The governmental activities' unrestricted net position amount of \$(1,085,550) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$82,009 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. The \$306,915 balance of the deferred outflow of resources related to pensions at September 30, 2018, will be recognized in pension expense over the next four years. The \$22,262 balance of the deferred inflow of resources related to pension at September 30, 2018, will be recognized in pension expense over the next four years.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

NOTE 10 – FEDERAL AND STATE GRANTS

In normal course of operations, the City receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authorities. The purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 11 – SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Magee, Mississippi evaluated the activity of the City through October 15, 2020, (the date the financial statements were available to be issued) and determined that the following subsequent events require disclosure in the notes to the financial statements:

On November 20, 2018, the Board approved the purchase of a new fire truck in the amount of \$238,000.

On December 18, 2018, the Board approved a lease agreement with C Spire to lease a portion of the Police Department parking lot for a cell tower location.

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of this virus began to cause some business disruption through reduced revenue. While this disruption is currently expected to be temporary, there is considerable uncertainty around the duration. However, the related financial impact and duration cannot be reasonably estimated at this time.

On February 5, 2019, the Board approved a resolution to legislature for \$500,000 bond grant for the city lagoon.

On September 3, 2019, the Board approved a bid in the amount of \$879,288 for an Airport Project.

On January 21, 2020, the Board approved a bid for a new 20-yard garbage truck.

On February 18, 2020, the Board approved a \$500,000 bond grant for road and bridges.

On March 3, 2020, the Board approved the purchase of a new grapple truck for \$156,000.

On March 17, 2020, the Board approved a motion to declare a state of emergency for the City due to COVID-19.

On June 2, 2020, the Board approved a loan from a local bank for \$142,000 at 1.79% for water leak repairs.

On September 1, 2020, the Board accepted a \$150,000 grant from MDA to replace the roof on City Hall.

REQUIRED SUPPLEMENTARY INFORMATION

City of Magee, Mississippi
Schedule of the City's Proportionate
Share of the Net Pension Liability-Unaudited
For the Years Ended September 30, 2018, 2017, 2016, 2015, and 2014

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	.032425%	.032%	.029%	.028%	.029%
Employer's proportionate share of the net pension liability (asset)	\$ 5,393,241	\$ 5,319,486	\$ 5,180,124	\$ 4,328,248	\$ 3,520,069
Employer's covered payroll	\$ 2,124,956	\$ 1,991,530	\$ 1,921,403	\$ 1,776,863	\$ 1,769,137
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	253.80%	267.11%	269.60%	243.59%	198.97%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	61.49%	57.47%	61.70%	67.21%

Information above is presented as of the measurement date of June 30 of the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See the Notes to the Required Supplementary Information.

City of Magee, Mississippi
Schedule of the City's Contributions-Unaudited
For the Years Ended September 30, 2018, 2017, 2016, 2015, and 2014

Contractually required contribution	\$ 334,681	\$ 313,666	\$ 302,621	\$ 279,856	\$ 278,639
Contributions in relation to the contractually required contributions	<u>(334,681)</u>	<u>(313,666)</u>	<u>(302,621)</u>	<u>(279,856)</u>	<u>(278,639)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 2,124,956	\$ 1,991,530	\$ 1,921,403	\$ 1,776,863	\$ 1,769,137
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	15.75%	15.75%

Information above is presented as of the City's fiscal year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See the Notes to the Required Supplementary Information.

City of Magee, Mississippi
Notes to the Required Supplementary Information-Unaudited
For the Year Ended September 30, 2018

a. Schedule of the Employer's Proportionate Share of the Net Pension Liability and Schedule of the City's Contributions.

Changes in Benefit Provisions.

2016

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

Changes in Assumptions.

2017

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022 rather than projected with Scale BB to 2016 which was used prior to 2017. Small adjustments were also made to the Mortality Table for disabled lives.
- The wage inflation assumption was reduced from 3.75% to 3.25%.
- Withdrawal rates, pre-retirement mortality rates, disability rates, and service retirement rates were also adjusted to more closely reflect actual experience.
- The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2016

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

2015

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than RP-2000 Mortality Table, which was used prior to 2015.
- The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
- The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

City of Magee, Mississippi
Notes to the Required Supplementary Information-Unaudited
For the Year Ended September 30, 2018

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

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation, method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

OTHER INFORMATION

City of Magee, Mississippi
Schedule of Surety Bonds of Municipal Officials and Others-Unaudited
September 30, 2018

<u>Name</u>	<u>Position</u>	<u>Bond Amount</u>	<u>Bonding Company</u>
Joe Worrell	Building Inspector	50,000	Western Surety
Ashley Steele	Airport Manager	50,000	Western Surety
Dale Berry	Mayor	100,000	Travelers
Wanda Williams	Deputy Clerk	50,000	Western Surety
Deana Moseley	Deputy Clerk	50,000	Western Surety
Randy Crawford	Police Chief	50,000	EMC
Vernice Floyd	Deputy Clerk	50,000	Western Surety
Layne Yearby	City Clerk	50,000	EMC
Layne Yearby	Tax Collector	50,000	EMC
Brandi Hanna	Deputy Court Clerk	50,000	Western Surety
Faye Runnels	Deputy Clerk	50,000	Western Surety
Rontonagles McNair	Deputy Court Clerk	50,000	Western Surety
Beverly McWilliams	Deputy Court Clerk	50,000	Western Surety
Angel Brister	Alderman	100,000	Travelers
Whitney Baker	Alderman	100,000	Travelers
Matthew Hickman	Alderman	100,000	Travelers
Lane Steele	Alderman	100,000	Travelers
Patrick Brown	Alderman	100,000	Travelers
Casey Bowen	Deputy Clerk	50,000	Western Surety
Jamie Freeman	Deputy Court Clerk	50,000	Western Surety
Shena Freeman	Deputy Court Clerk	50,000	Western Surety
Paula Harvey	Deputy Court Clerk	50,000	Western Surety
Rebecca Freeman	Deputy Clerk	50,000	Western Surety
Kim Jackson	Court Clerk	50,000	Western Surety

SPECIAL REPORTS

HERZOG CPA COMPANY, PLLC

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

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
Magee, Mississippi

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Magee, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2020.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as 2018-001. that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Magee, 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*.

The City of Magee's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Aldermen, federal awarding agencies, and passes 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.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
Hattiesburg, Mississippi
October 15, 2020

HERZOG CPA COMPANY, PLLC

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
Magee, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Magee, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon October 15, 2020. 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*.

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

With respect to the items tested, the results of those procedures and our audit of the primary government financial statements disclosed no instances of non-compliance with state laws and regulations.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC

Hattiesburg, Mississippi

October 15, 2020

SCHEDULE OF FINDINGS AND RESPONSES

City of Magee, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2018

Schedule 1

Section 1: Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued on the financial statements:

Governmental Activities	Adverse
Business-Type Activities	Unmodified
General Fund	Unmodified
Sports Complex Bond Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

2. Internal Control over financial reporting:

A. Material weakness identified?	Yes
B. Reportable condition identified that is not considered to be a material weakness?	None reported

3. Noncompliance material to the financial statements? No

**City of Magee, Mississippi
Schedule of Findings and Responses
For the Year Ended September 30, 2018**

Schedule 1

Section 2: Financial Statement Findings

2018-001. Finding

Significant Deficiency – Material Weakness

As reported in prior years, capital asset control procedures are inadequate for maintaining an accurate inventory or adequate subsidiary records documenting the existence, valuation, and completeness of capital assets. Therefore, the Independent Auditors' Report on the Financial Statements is adverse because we were unable to satisfy ourselves as to the fair presentation of the City's capital assets reported for Governmental Activities. We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets:

- a. Records were not available to support the valuation and ownership of the land and buildings.
- b. The City did not properly maintain a capital assets account for leased property under capital leases.
- c. Most assets posted to the fixed asset inventory listing are not listed in detail by item.
- d. Accumulated depreciation and depreciation expense were not recorded on all capital assets.

Repeat Finding: Yes, 2017-001.

Criteria: The City should establish procedures to ensure that all capital assets are included in the financial statements.

Condition: The City should include all capital assets, accumulated depreciation, and depreciation expense in the financial statements.

Cause: When GASB Statement 34 was implemented, the City did not have a complete list of capital assets.

Effect: Capital Assets are overstated in the financial statements.

Recommendation: The City should maintain capital asset records.

View of Responsible Officials: The City of Magee concurs with this finding and is working toward a solution.