

OFFICE OF THE STATE AUDITOR REPORT NOTE:

Section 7-7-211, Mississippi Code Annotated (1972) gives the Office of the State Auditor the authority to audit, with the exception of municipalities, any governmental entity in the state. In the case of municipalities, *Section 21-35-31, Mississippi Code Annotated (1972)* requires municipalities to obtain an annual audit performed by a private CPA firm and submit that audit report to the Office of the State Auditor. The Office of the State Auditor files these audit reports for review in case questions arise related to the municipality.

As a result, the following document was not prepared by the Office of the State Auditor. Instead, it was prepared by a private CPA firm and submitted to the Office of the State Auditor. The document was placed on this web page as it was submitted and no review of the report was performed by the Office of the State Auditor prior to finalization of the report. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

**CITY OF MAGNOLIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
SEPTEMBER 30, 2020**

CITY OF MAGNOLIA
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September 30, 2020

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Magnolia, Mississippi (the City) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the 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 the cash basis of accounting as described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in these circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' 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 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.

OPINION

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Magnolia, Mississippi, as of September 30, 2020, and the respective changes in cash basis financial position for the year ended in accordance with the basis of accounting as discussed in Note 1.

OTHER MATTERS

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes that the City of Magnolia, Mississippi 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. Our opinions are not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

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

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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2022, on our consideration of the City of Magnolia'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 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 by the United States of America.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
Hattiesburg, Mississippi
February 28, 2022

CITY OF MAGNOLIA
Statement of Activities and Net Position-Cash Basis
Governmental and Business-Type Activities
September 30, 2020

Exhibit 1

					Net (Disbursements) Receipts and Changes in Net Position		
	Program Cash Receipts				Primary Government		
	Cash	Charges for	Operating	Capital		Business-	
Function/Programs:	Disbursements	Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ (304,691)	\$ 68,701	\$ -	\$ -	\$ (235,990)	\$ -	\$ (235,990)
Public Safety	(914,125)	28,835	55,774	-	(829,516)	-	(829,516)
Public Works	(266,447)	-	-	-	(266,447)	-	(266,447)
Culture and Recreation	(52,723)	-	-	-	(52,723)	-	(52,723)
Capital Projects	(371,044)	-		-	(371,044)	-	(371,044)
Debt Service:							
Principal	(152,874)	-	-	-	(152,874)	-	(152,874)
Interest	(44,401)	-	-	-	(44,401)	-	(44,401)
Total Governmental Activities	(2,106,305)	97,536	55,774	-	(1,952,995)	-	(1,952,995)
Business-Type Activities:							
Water / Sewer	(1,222,134)	986,078	-	-	-	(236,056)	(236,056)
Other Enterprise Funds	(124,038)	3,199	-	124,038	-	3,199	3,199
Total Business-Type Activities	(1,346,172)	989,277	-	124,038	-	(232,857)	(232,857)
Total Functions/Programs	\$ (3,452,477)	\$1,086,813	\$ 55,774	\$ 124,038	\$ (1,952,995)	\$ (232,857)	\$ (2,185,852)
General Revenue:							
Property Tax					\$ 1,008,116	\$ -	\$ 1,008,116
Road and Bridge Privilege Taxes					96,220	-	96,220
Sales Tax					527,927	-	527,927
Grants and Contributions not Restricted to a Specific Program					126,197	-	126,197
Unrestricted Investment Income					40,495	24,858	65,353
Miscellaneous					28,599	-	28,599
Proceeds from Debt					250,000	-	250,000
Transfers					97,619	(97,619)	-
Total General Revenues					2,175,173	(72,761)	2,102,412
Change in Net Position					222,178	(305,618)	(83,440)
Net Position-Beginning of Year					1,420,751	1,100,318	2,521,069
Net Position-End of Year					\$ 1,642,929	\$ 794,700	\$ 2,437,629

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

CITY OF MAGNOLIA
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances
Governmental and Business-Type Activities
For the Year Ended September 30, 2020

Exhibit 2

	Governmental Activities				Business-Type Activities			Exhibit 2
	Major Funds							
		BP	Other	Total	Water and	Other	Total	Total
	General Fund	Fund	Governmental	Governmental	Sewer	Enterprise	Enterprise	(Memorandum
			Funds	Funds	Fund	Funds	Funds	Only)
RECEIPTS								
Property taxes	\$1,008,116	\$ -	\$ -	\$ 1,008,116	\$ -	\$ -	\$ -	\$ 1,008,116
Road and bridge privilege taxes	96,220	-	-	96,220	-	-	-	96,220
Licenses, commissions and other revenue	68,701	-	-	68,701	-	-	-	68,701
Fines and forfeitures	28,835	-	-	28,835	-	-	-	28,835
Intergovernmental revenues	709,898	-	-	709,898	-	124,038	124,038	833,936
Charges for services								
Sanitation	-	-	-	-	115,451	-	115,451	115,451
Sewer utility	-	-	-	-	349,767	-	349,767	349,767
Water utility	-	-	-	-	520,860	-	520,860	520,860
Interest income	20,200	13,996	6,299	40,495	24,752	106	24,858	65,353
Miscellaneous receipts	28,599	-	-	28,599	-	3,199	3,199	31,798
Total Receipts	1,960,569	13,996	6,299	1,980,864	1,010,830	127,343	1,138,173	3,119,037
DISBURSEMENTS								
General government	304,691	-	-	304,691	-	-	-	304,691
Public safety	914,125	-	-	914,125	-	-	-	914,125
Public works	260,327	-	6,120	266,447	-	-	-	266,447
Culture and recreation	52,723	-	-	52,723	-	-	-	52,723
Capital projects	18,821	32,600	319,623	371,044	70,302	124,038	194,340	565,384
Water and sewer	-	-	-	-	757,235	-	757,235	757,235
Debt service:								
Principal	152,874	-	-	152,874	342,757	-	342,757	495,631
Interest	44,401	-	-	44,401	51,840	-	51,840	96,241
Total Expenditures	1,747,962	32,600	325,743	2,106,305	1,222,134	124,038	1,346,172	3,452,477
Excess of Receipts over (under)								
Disbursements	212,607	(18,604)	(319,444)	(125,441)	(211,304)	3,305	(207,999)	(333,440)

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

CITY OF MAGNOLIA
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances
Governmental and Business-Type Activities
For the Year Ended September 30, 2020

Page 2
Exhibit 2

	Governmental Activities						Exhibit 2	
	Major Funds		Business-Type Activities					
		BP	Other	Total	Water and	Other	Total	Total
	General Fund	Fund	Governmental Funds	Governmental Funds	Sewer Funds	Enterprise Funds	Enterprise Funds	(Memorandum Only)
OTHER FINANCING SOURCES (USES)								
Proceeds from Debt	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000
Transfers	67,148	-	30,471	97,619	(107,286)	9,667	(97,619)	-
Total Other Financing Sources	317,148	-	30,471	347,619	(107,286)	9,667	(97,619)	250,000
Net Changes in Fund Balances	529,755	(18,604)	(288,973)	222,178	(318,590)	12,972	(305,618)	(83,440)
Cash Basis Fund Balance-Beginning of Year	496,152	503,637	420,962	1,420,751	1,100,079	239	1,100,318	2,521,069
Cash Basis Fund Balance- End of Year	\$1,025,907	\$ 485,033	\$ 131,989	\$ 1,642,929	\$ 781,489	\$ 13,211	\$ 794,700	\$ 2,437,629

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

NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity.

The City of Magnolia, Mississippi (the City) is a political subdivision of the State of Mississippi. The City is governed by an elected five-member Board of Alderpersons. The financial statements of the City are presented on a cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board.

These accounting principles require the City of Magnolia to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the City. There are no outside organizations that should be included as component units of the City reporting entity.

State law pertaining to city government provides for the independent election of city officials. The following elected and appointed officials are all part of the City legal entity and therefore are reported as part of the primary government financial statements.

- Board of Alderpersons

B. Basis of Presentation

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

Government-wide and Fund Financial Statements:

The Statement of Activities and Net Position-Cash Basis displays information concerning the City as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, are generally financed through taxes, intergovernmental receipts, and other nonexchange receipts and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

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

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

B. Basis of Presentation-continued

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting

The Government-wide, financial statements are presented on a cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash flows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred. This cash basis of accounting differs from GAAP primarily because revenues (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures or expenses (cash disbursements) are recognized when paid rather than when incurred or subject to accrual.

The City reports the following major governmental funds:

General Fund – This fund is used to account for and report all financial resources not accounted for and reported in another fund.

BP Fund – This fund is used to account for monies from the BP Settlement that are restricted for the police and fire buildings that are restricted for the grant expenditures.

The City reports the following major enterprise funds:

Water/Sewer Fund – This fund is used to account for the revenues and expenditures generated from the distribution of water and sewer and sanitation collection in the City.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

C. Measurement Focus and Basis of Accounting – continued

GOVERNMENTAL FUND TYPES-continued

Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to disbursement for principal and interest.

Capital Projects Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUND TYPE

Enterprise Funds- The funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the City has decided that periodic determination of receipts is collected, disbursements paid and/or net income is necessary for management accountability.

D. Account Classifications

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

E. Deposits

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

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

F. Equity Classifications

Government-wide Financial Statements:

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

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

Unrestricted Net Position – All other net position not meeting the definition of “restricted.”

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

F. Equity Classifications - continued

Net Position Flow Assumption – When a disbursement is paid for purposes for which both restricted and unrestricted (unassigned) resources are available, it is the City’s general policy to use restricted resources first. When disbursements are made for purposes for which unrestricted (unassigned) resources are available, and amounts in the unrestricted classification could be used, it is the City’s general policy to spend unassigned amounts.

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 restricted or unassigned. The following are descriptions of classifications used by the City:

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

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

Fund Balance Flow Assumption – When a disbursement is paid for purposes for which both restricted and unrestricted (unassigned) resources are available, it is the City’s general policy to use restricted resources first. When disbursements are paid for purposes for which unrestricted (unassigned) resources are available, it is the City’s general policy to spend unassigned amounts.

G. Property Tax Revenues

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

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

The millage rate for the City for January through December was -- mills broken down as follows:

General Fund

41

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

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

NOTE 2 - DEPOSITS

The carrying amount of the City's total deposits with financial institutions at September 30, 2020, was \$2,437,629 and the bank balance was \$2,355,212. 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 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 Deposit Insurance Corporation (FDIC).

Custodial Credit Risk – Deposits. Custodial credit risk is 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. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). Deposits above the FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on the behalf of the City.

NOTE 3 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulted from these insured risks have not exceeded commercial insurance in any of the past three fiscal years.

NOTE 4 – CLAIMS AND JUDGMENTS

Risk Financing: The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through Mississippi Municipal Workers' Compensation Group, a public entity risk pool. The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2020, to January 1, 2021. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

NOTE 5 –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. 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, at 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy: At September 30, 2020, PERS members are required to contribute 9% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer rate through June 30, 2020 was 15.75% of annual covered payroll and 17.40% thereafter. The contribution requirements of PERS members 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 ended September 30, 2020, 2019 and 2018 were \$146,954, \$129,774 and \$121,442 respectively, which is equal to the required contributions for each year.

NOTE 6–SUBSEQUENT EVENTS

Events that occur after the Statement of Financial 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 Financial Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Financial Position date require disclosure in the accompanying notes. The City of Magnolia has evaluated the activity of the City through February 28, 2022, and determined that the following subsequent events required disclosure in the notes to the financial statements:

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 November 3, 2020, the Board approved payment to local Construction Company for \$279,583 to overlay a portion of Reo Lane Road.

On October 5, 2021, the Board approved entering into a loan agreement for \$2.5 million for Water Pollution Improvements.

On October 5, 2021, the Board approved a resolution for a CAP loan not to exceed \$500,000 for a road project.

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

NOTE 6-SUBSEQUENT EVENTS - continued

On January 4, 2022, the Board approved local Company for debris removal not to exceed \$65,000.

On January 4, 2022, the Board approved local Company for debris monitoring not to exceed \$35,000.

On February 1, 2022, the Board approved opening a new checking account for ARPA funds received in the amount of \$271,905.

On February 1, 2022, the Board approved purchase of a New Holland TS Hub Tractor in the amount of \$62,689.

On February 1, 2022, the Board approved purchase of a Boom Mower in the amount of \$59,766.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MAGNOLIA
Budgetary Comparison Schedule-Budget to Actual (Non-GAAP) -
General Fund-UNAUDITED
For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
RECEIPTS				
Property taxes	\$ 976,730	\$1,008,116	\$1,008,116	\$ -
Road and Bridge privilege taxes	70,500	96,220	96,220	-
Licenses, commissions and other receipts	144,500	68,701	68,701	-
Fines and forfeitures	40,000	28,835	28,835	-
Intergovernmental revenue	491,500	709,898	709,898	-
Miscellaneous revenues	86,700	48,799	48,799	-
Total Revenues	1,809,930	1,960,569	1,960,569	-
EXPENDITURES				
General government	462,270	304,691	304,691	-
Public safety	787,996	932,946	932,946	-
Public works	310,699	260,327	260,327	-
Culture and recreation	15,300	52,723	52,723	-
Debt Service:				
Principal	418,193	152,874	152,874	-
Interest	44,401	44,401	44,401	-
Total Expenditures	2,038,859	1,747,962	1,747,962	-
Excess of Receipts Over (Under)				
Disbursements	(228,929)	212,607	212,607	-
OTHER FINANCING SOURCES				
Proceeds from debt	-	250,000	250,000	-
Transfers	-	67,148	67,148	-
Total Other Financing Sources	-	317,148	317,148	-
Net Change in Fund Balance	(228,929)	529,755	529,755	-
Fund Balance - Beginning	228,929	228,929	228,929	-
Fund Balance - Ending	\$ -	\$ 758,684	\$ 758,684	\$ -

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

OTHER INFORMATION

CITY OF MAGNOLIA
Schedule of Investments-UNAUDITED
September 30, 2020

	<u>Interest Rate</u>	<u>Beginning Date</u>	<u>Maturity Date</u>	<u>Other Information</u>	<u>September 30, 2020 Balance</u>
GENERAL FUND					
Certificate of Deposit	0.10%	5/7/2020	11/8/2020	Trustmark Bank	\$ 51,112
Certificate of Deposit	1.59%	9/24/2020	9/24/2021	First Bank	<u>15,420</u>
Total General Fund					<u>66,532</u>
OTHER GOVERNMENTAL FUNDS					
Certificate of Deposit	0.15%	4/6/2020	12/6/2020	First Bank	<u>28,590</u>
Total Other Governmental Funds					<u>28,590</u>
Total Governmental Funds					<u>95,122</u>
ENTERPRISE FUNDS					
Certificate of Deposit	0.15%	4/6/2020	12/6/2020	First Bank	<u>54,014</u>
Total Enterprise Funds					<u>54,014</u>
Total Governmental and Proprietary Fund Type Investments					<u>\$ 149,136</u>

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

CITY OF MAGNOLIA
Schedule of Capital Assets-UNAUDITED
For the Year Ended September 30, 2020

	<u>Balance</u> <u>October 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30, 2020</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets:				
Land	\$ 326,426	\$ -	\$ -	\$ 326,426
Construction in Progress	1,142,392	32,600	-	1,174,992
Buildings	967,502	167,473	-	1,134,975
Improvements other than buildings	173,128	-	-	173,128
Leased equipment	315,738	-	-	315,738
Machinery and equipment	809,854	42,821	-	852,675
Infrastructure	118,507	-	-	118,507
Total Governmental Activities				
Capital Assets	<u>\$ 3,853,547</u>	<u>\$ 242,894</u>	<u>\$ -</u>	<u>\$ 4,096,441</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets:				
Land	\$ 30,764	\$ -	\$ -	\$ 30,764
Buildings	17,565	-	-	17,565
Machinery and equipment	695,597	-	-	695,597
Water/Sewer infrastructure	11,136,786	-	-	11,136,786
Water/Sewer improvements	6,131,601	322,490	-	6,454,091
Total Business-Type Activities				
Capital Assets	<u>\$ 18,012,313</u>	<u>\$ 322,490</u>	<u>\$ -</u>	<u>\$ 18,334,803</u>

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

CITY OF MAGNOLIA
Schedule of Changes in Long-Term Debt-UNAUDITED
For the Year Ended September 30, 2020

Description	Issue Date	Maturity Date	Int. Rate	Balance 10/01/19	Proceeds	Principal Payments	Balance 9/30/20
Governmental Activities:							
<i>A. <u>General Obligation Bonds</u></i>							
2016 G.O. Bond	11/1/2016	12/1/2031	2.875%	\$ 1,336,000	\$ -	\$ (86,000)	\$ 1,250,000
<i>B. <u>Capital Leases</u></i>							
John Deere 310SK Backhoe	9/24/2014	10/29/2019	2.14%	\$ 39,929	\$ -	\$ (39,929)	\$ -
2015 Kenworth T370 Pumper Fire Truck	12/1/2014	10/5/2024	3.05%	123,761		(23,047)	100,714
Total				\$ 163,690	\$ -	\$ (62,976)	\$ 100,714
<i>C. <u>Other Loans</u></i>							
Cap Loan #50718	6/5/2012	12/1/2023	2.00%	\$ 157,332	\$ -	\$ (35,827)	\$ 121,505
Fire and Police Complex	7/29/2020	7/31/2025	1.70%	-	250,000	-	250,000
Total				\$ 157,332	\$ 250,000	\$ (35,827)	\$ 371,505

Description	Issue Date	Maturity Date	Int. Rate	Balance 10/01/19	Proceeds	Principal Payments	Balance 9/30/20
Business-Type Activities:							
<i>A. Limited-Obligation Bonds:</i>							
Combined Water & Sewer System Revenue Refunding Bonds \$3,415,000 (payments split by Water/ Sewer and General)							
	6/5/2012	6/1/2022	2.00-2.70%	\$ 955,000	\$ -	\$ (285,000)	\$ 670,000
<i>B. <u>Other Loans</u></i>							
Cap Loan #50655	6/5/2012	4/1/2032	2.00%	\$ 211,223	\$ -	\$ (14,912)	\$ 196,311
Cap Loan #19251CP01	3/5/2019	2/1/2040	3.00%	490,091	-	(10,916)	479,175
Total				\$ 701,314	\$ -	\$ (25,828)	\$ 675,486

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

CITY OF MAGNOLIA
SCHEDULE OF SURETY BONDS OF MUNICIPAL OFFICIALS-UNAUDITED
For the Year Ended September 30, 2020

Name	Position	Company	Bond Amount
Anthony Witherspoon	Mayor	Travelers Insurance	\$ 50,000
Clarence Burton, Jr.	Alderman	Old Republic	50,000
Darrell Pounds	Alderman	Travelers Insurance	50,000
Antonio Martin	Alderman	Travelers Insurance	50,000
Becky W. Magee	Alderman	Travelers Insurance	50,000
Joseph A. Cornacchione	Alderman	Travelers Insurance	50,000
Cynthia Richardson	City Clerk	Travelers Insurance	50,000
Lauria Evans	Deputy Clerk	Travelers Insurance	50,000
Trideana Lenard	Court Clerk	Travelers Insurance	50,000
Breanna Stovall	Billing Clerk	Travelers Insurance	50,000
Ray Reynolds	Police Chief	Travelers Insurance	50,000

CITY OF MAGNOLIA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2020
UNAUDITED

NOTE 1 – Budgetary Comparison Schedule

A. Budgetary Information.

Statutory requirements dictate how and when the City's budget is to be prepared. 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 each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of receipt, each general item of disbursement, 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 principally 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 presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund.

C. Unbudgeted Funds.

The following funds were not budgeted for the year ended September 30, 2020:

Special Revenue Funds:

BP Fund

Capital Improvement Fund

NOTE 2 – LONG-TERM DEBT INFORMATION

Legal Debt Margin – The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, the limitation increases to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2020, the amount of outstanding debt was equal to 7% of the latest property assessments.

SPECIAL REPORTS

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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 and
Members of the Board of Alderpersons
City of Magnolia, Mississippi

Independent Auditors' Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Magnolia, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Responses as 2020-001, 2020-002, and 2020-003 that we consider to be material weaknesses.

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 of Magnolia's Responses to Findings

City of Magnolia's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. City of Magnolia's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
February 28, 2022

HERZOG CPA COMPANY, PLLC

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor and
Members of the Board of Alderpersons
City of Magnolia, 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 Magnolia, Mississippi, as of and for the year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon February 28, 2022. 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.

The results of those procedures and our audit of the general purpose financial statements disclosed the following material instances of noncompliance with state laws and regulations: Findings 2020-001 and 2020-002, which are included in the Schedule of Findings and Responses.

The Office of the State Auditor or a public accounting firm will review, on subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended solely for the information and use of management, City officials 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.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
Hattiesburg, Mississippi
February 28, 2022

SCHEDULE OF FINDINGS AND RESPONSES

**CITY OF MAGNOLIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Section 1: Summary of Auditors' Results

Financial Statements:

Section 1: Summary of Auditor's Results

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

Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
BP Fund	Unmodified
Water and Sewer Fund	Unmodified
Aggregate remaining fund information	Unmodified

2. Internal Control over financial reporting:

a. Material weakness identified?	Yes
b. Significant deficiencies identified that are not considered to be a material weakness?	None Reported

3. Noncompliance material to the financial statements? No

**CITY OF MAGNOLIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Section 2: Financial Statement Findings

2020-001. Finding

Significant Deficiency-Material Weakness

As reported in prior years, during the review of fixed assets, we determined that fixed assets are not being accurately maintained.

Repeat Finding: Yes, 2019-001

Criteria: The City is responsible for maintaining fixed assets and depreciation.

Condition: A detailed list is not available for fixed assets and depreciation is not calculated.

Cause: All fixed assets have not been recorded in a detailed listing throughout the past years.

Effect: The City is not in compliance with fixed asset documentation procedures.

Recommendation: The City should ensure that fixed assets are being accurately maintained with additions, deletions, and depreciation.

Views of Responsible Officials: In the future, we will work toward having a complete fixed asset report including depreciation.

2020-002. Finding

Significant Deficiency - Material Weakness

As reported in prior years, during the review of the budget, we determined that the BP Fund was not budgeted during the initial or amended budgetary process.

Repeat Finding: Yes, 2019-002

Criteria: The City should establish procedures to budget all special revenue funds.

Condition: The BP Fund was not budgeted.

Effect: The City is not in compliance with State budgeting requirements.

Recommendation: The City should ensure that all funds are budgeted during the budgeting process and amend as necessary.

Views of Responsible Officials: In the future, we will ensure that all funds are budgeted during the budgeting process and amend as necessary.

**CITY OF MAGNOLIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Section 2: Financial Statement Findings

2020-003. Finding

Significant Deficiency - Material Weakness

As reported in the prior year, a portion of the expenditures were posted to a governmental fund instead of an enterprise fund.

Repeat Finding: 2019-003.

Criteria: The City should establish procedures to ensure that monies are posted to correct fund types.

Condition: A portion of the Cap Loan proceeds and corresponding expenditures were posted to a special revenue fund instead of an enterprise fund in fiscal year ended 2019. Therefore, it resulted in expenditures being paid from a governmental fund instead of an enterprise fund in 2020.

Effect: The expenditures are overstated in the governmental fund and understated in the enterprise fund.

Recommendation: The City should correctly post deposits and expenditures to the appropriate fund type. The City should create separate funds for enterprise capital improvements and governmental capital improvements.

Views of Responsible Officials: The City will comply in the future.