

## 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, 2021**

**CITY OF MAGNOLIA**  
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**September 30, 2021**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Magnolia, Mississippi as of September 30, 2021, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Magnolia, Mississippi and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City of Magnolia, Mississippi's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Magnolia, Mississippi's ability to continue as a going concern for a reasonable period of time

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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.

## **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.



### ***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 January 31, 2023, 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.

*Herzog CPA Company, PLLC*

**Herzog CPA Company, PLLC**  
Hattiesburg, Mississippi  
January 31, 2023

**CITY OF MAGNOLIA**  
**Statement of Activities and Net Position-Cash Basis**  
**Governmental and Business-Type Activities**  
**September 30, 2021**

Exhibit 1

Function/Programs:	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ (329,625)	\$ 54,820	\$ 207,069	\$ 120,000	\$ 52,264	\$ -	\$ 52,264
Public Safety	(1,034,233)	36,667	50,304	-	(947,262)	-	(947,262)
Public Works	(455,153)	-	-	-	(455,153)	-	(455,153)
Culture and Recreation	(30,058)	-	-	-	(30,058)	-	(30,058)
Debt Service:							
Principal	(196,729)	-	-	-	(196,729)	-	(196,729)
Interest	(44,638)	-	-	-	(44,638)	-	(44,638)
Total Governmental Activities	(2,090,436)	91,487	257,373	120,000	(1,621,576)	-	(1,621,576)
Business-Type Activities:							
Water/ Sewer	(1,548,298)	1,039,794	-	193,692	-	(314,812)	(314,812)
Total Business-Type Activities	(1,548,298)	1,039,794	-	193,692	-	(314,812)	(314,812)
Total Functions/Programs	\$ (3,638,734)	\$ 1,131,281	\$ 257,373	\$ 313,692	\$ (1,621,576)	\$ (314,812)	\$ (1,936,388)
<b>General Revenue:</b>							
Property Tax					\$ 976,218	\$ -	\$ 976,218
Road and Bridge Privilege Taxes					93,392	-	93,392
Grants and Contributions not Restricted to a Specific Program					534,254	-	534,254
Unrestricted Investment Income					19,158	8,977	28,135
Miscellaneous					2,793	-	2,793
Transfers					(87,888)	87,888	-
Total General Revenues					1,537,927	96,865	1,634,792
Change in Net Position					(83,649)	(217,947)	(301,596)
Net Position-Beginning of Year					1,642,929	794,700	2,437,629
Net Position-End of Year					\$ 1,559,280	\$ 576,753	\$ 2,136,033

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, 2021**

	<b>Exhibit 2</b>									
	<b>Governmental Activities</b>			<b>Business-Type Activities</b>						
	<b>Major Funds</b>	<b>BP</b>	<b>Other</b>	<b>Total</b>	<b>Water and Sewer Fund</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>	<b>Total</b>	<b>Memorandum (Only)</b>	
	<b>General Fund</b>	<b>Fund</b>	<b>Funds</b>	<b>Funds</b>						
<b>RECEIPTS</b>										
Property taxes	\$ 976,218	\$ -	\$ -	\$ 976,218	\$ -	\$ -	\$ -	\$ -	\$ 976,218	
Road and bridge privilege taxes	93,392	-	-	93,392	-	-	-	-	93,392	
Licenses, commissions and other revenue	54,820	-	-	54,820	-	-	-	-	54,820	
Fines and forfeitures	36,667	-	-	36,667	-	-	-	-	36,667	
Intergovernmental revenues	791,627	-	120,000	911,627	-	193,692	193,692	193,692	1,105,319	
Charges for services										
Sanitation	-	-	-	-	118,469	-	-	118,469	118,469	
Sewer utility	-	-	-	-	351,293	-	-	351,293	351,293	
Water utility	-	-	-	-	570,032	-	-	570,032	570,032	
Interest income	8,773	8,725	1,660	19,158	8,808	169	8,977	8,977	28,135	
Miscellaneous receipts	2,793	-	-	2,793	-	-	-	-	2,793	
<b>Total Receipts</b>	<b>1,964,290</b>	<b>8,725</b>	<b>121,660</b>	<b>2,094,675</b>	<b>1,048,602</b>	<b>193,861</b>	<b>1,242,463</b>	<b>1,242,463</b>	<b>3,337,138</b>	
<b>DISBURSEMENTS</b>										
General government	329,625	-	-	329,625	-	-	-	-	329,625	
Public safety	1,034,233	-	-	1,034,233	-	-	-	-	1,034,233	
Public works	247,049	-	-	247,049	-	-	-	-	247,049	
Culture and recreation	30,058	-	-	30,058	-	-	-	-	30,058	
Capital projects	27,266	24,000	156,838	208,104	137,099	193,744	330,843	330,843	538,947	
Water and sewer	-	-	-	-	760,726	-	760,726	760,726	760,726	
Debt service:										
Principal	196,729	-	-	196,729	419,376	-	419,376	419,376	616,105	
Interest	44,638	-	-	44,638	37,353	-	37,353	37,353	81,991	
<b>Total Expenditures</b>	<b>1,909,598</b>	<b>24,000</b>	<b>156,838</b>	<b>2,090,436</b>	<b>1,354,554</b>	<b>193,744</b>	<b>1,548,298</b>	<b>1,548,298</b>	<b>3,638,734</b>	
<b>Excess of Receipts over (under)</b>	<b>54,692</b>	<b>(15,275)</b>	<b>(35,178)</b>	<b>4,239</b>	<b>(305,952)</b>	<b>117</b>	<b>(305,835)</b>	<b>(305,835)</b>	<b>(301,596)</b>	

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, 2021**

Page 2  
**Exhibit 2**

Governmental Activities		Business-Type Activities						Total	Enterprise Funds	Memorandum Only		
Major Funds		Other		Total		Water and Sewer					Other Enterprise Funds	
		Governmental Funds		Governmental Funds		Governmental Funds					Enterprise Funds	
BP Fund												
OTHER FINANCING SOURCES (USES)												
Transfers	\$ (381,343)	\$ -	\$ 293,455	\$ (87,888)	\$ 87,888	\$ -	\$ 87,888	\$ -	\$ 87,888	\$ -		
Total Other Financing Sources	(381,343)	-	293,455	(87,888)	87,888	-	87,888	-	87,888	-		
Net Changes in Fund Balances	(326,651)	(15,275)	258,277	(83,649)	(218,064)	117	(217,947)		(301,596)			
Cash Basis Fund Balance-Beginning of Yee	1,025,907	485,033	131,989	1,642,929	781,489	13,211	794,700		2,437,629			
Cash Basis Fund Balance- End of Year	\$ 699,256	\$ 469,758	\$ 390,266	\$1,559,280	\$ 563,425	\$ 13,328	\$ 576,753	\$	\$ 2,136,033			

Exhibit 2

## **NOTES TO THE FINANCIAL STATEMENTS**



**CITY OF MAGNOLIA**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

**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, 2021**

**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, 2021**

**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 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, 2021**

**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 41 mills broken down as follows:

General Fund

41



**CITY OF MAGNOLIA**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2021**

**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, 2021, was \$2,134,632 and the bank balance was \$2,590,706. 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, 2021, to January 1, 2022. 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, 2021**

**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, 2021, 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, 2021 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, 2021, 2020 and 2019 were \$159,016, \$146,954 and \$129,774 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 January 31, 2023, and determined that the following subsequent events required disclosure in the notes to the financial statements:

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

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

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

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

On July 5, 2022, the Board approved a bid from a local contractor in amount of \$255,619 for Quinlivan Road Project.

On August 16, 2022, the Board approved a bid from local contractor in amount of \$1,766,420 for SRI Wastewater Improvement Project.

On December 6, 2022, the Board approved a bid from local contractor in amount of \$90,462 for Washington Street Drainage Improvement.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MAGNOLIA**  
**Budgetary Comparison Schedule-Budget to Actual (Non-GAAP) –**  
**General Fund-UNAUDITED**  
**For the Year Ended September 30, 2021**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Property taxes	\$ 926,108	\$ 1,019,500	\$ 976,218	\$ (43,282)
Road and Bridge privilege taxes	93,392	93,392	93,392	-
Licenses, commissions and other receipts	140,900	140,900	54,820	(86,080)
Fines and forfeitures	35,000	35,000	36,667	1,667
Intergovernmental revenue	656,500	656,500	791,627	135,127
Miscellaneous revenues	77,750	77,750	11,421	(66,329)
Total Revenues	<u>1,929,650</u>	<u>2,023,042</u>	<u>1,964,145</u>	<u>(58,897)</u>
<b>EXPENDITURES</b>				
General government	449,566	449,566	293,834	155,732
Public safety	828,667	828,667	998,126	(169,459)
Public works	313,294	313,294	311,193	2,101
Culture and recreation	13,300	13,300	30,058	(16,758)
Debt Service:				
Principal	476,527	476,527	196,729	279,798
Interest	38,646	38,646	44,638	(5,992)
Total Expenditures	<u>2,120,000</u>	<u>2,120,000</u>	<u>1,874,578</u>	<u>245,422</u>
Excess of Receipts Over (Under)				
Disbursements	<u>(190,350)</u>	<u>(96,958)</u>	<u>89,567</u>	<u>186,525</u>
Net Change in Fund Balance	(190,350)	(96,958)	89,567	186,525
Fund Balance - Beginning	<u>190,350</u>	<u>190,350</u>	<u>758,684</u>	<u>568,334</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 93,392</u>	<u>\$ 848,251</u>	<u>\$ 754,859</u>

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, 2021**

	<u>Interest Rate</u>	<u>Beginning Date</u>	<u>Maturity Date</u>	<u>Other Information</u>	<u>September 30, 2021 Balance</u>
<b>GENERAL FUND</b>					
Certificate of Deposit	0.05%	5/7/2021	11/8/2021	Trustmark Bank	\$ 51,162
Certificate of Deposit	0.30%	9/24/2021	9/24/2022	First Bank	15,466
Total General Fund					<u>66,628</u>
<b>OTHER GOVERNMENTAL FUNDS</b>					
Certificate of Deposit	0.10%	5/6/2021	11/6/2021	First Bank	28,621
Total Other Governmental Funds					<u>28,621</u>
Total Governmental Funds					<u>95,249</u>
<b>ENTERPRISE FUNDS</b>					
Certificate of Deposit	0.10%	5/12/2021	11/12/2021	First Bank	54,072
Total Enterprise Funds					<u>54,072</u>
Total Governmental and Proprietary Fund Type Investments					<u>\$ 149,321</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, 2021**

	<u>Balance</u> <u>October 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30, 2021</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets:				
Land	\$ 326,426	\$ -	\$ -	\$ 326,426
Construction in Progress	1,174,992	24,000	-	1,198,992
Buildings	1,134,975	8,250	-	1,143,225
Improvements other than buildings	173,128	138,440	-	311,568
Leased equipment	315,738	-	-	315,738
Machinery and equipment	852,675	37,414	-	890,089
Infrastructure	118,507	-	-	118,507
Total Governmental Activities				
Capital Assets	<u>\$ 4,096,441</u>	<u>\$ 208,104</u>	<u>\$ -</u>	<u>\$ 4,304,545</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
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	6,454,091	330,843	-	6,784,934
Total Business-Type Activities				
Capital Assets	<u>\$ 18,334,803</u>	<u>\$ 330,843</u>	<u>\$ -</u>	<u>\$ 18,665,646</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, 2021**

Description	Issue Date	Maturity Date	Int. Rate	Balance 10/01/20	Proceeds	Principal Payments	Balance 9/30/21
Governmental Activities:							
<u>A. General Obligation Bonds</u>							
2016 G.O. Bond	11/1/2016	12/1/2031	2.875%	\$ 1,250,000	\$ -	\$ (88,000)	\$ 1,162,000
<u>B. Capital Leases</u>							
2015 Kenworth T370 Pumper Fire Truck	12/1/2014	10/5/2024	3.05%	\$ 100,714	\$ -	\$ (23,870)	\$ 76,844
Total				\$ 100,714	\$ -	\$ (23,870)	\$ 76,844
<u>C. Other Loans</u>							
Cap Loan #50718	6/5/2012	12/1/2023	2.00%	\$ 121,505	\$ -	\$ (36,549)	\$ 84,956
Fire and Police Complex	7/29/2020	7/31/2025	1.70%	250,000	-	(48,310)	201,690
Total				\$ 371,505	\$ -	\$ (84,859)	\$ 286,646

Description	Issue Date	Maturity Date	Int. Rate	Balance 10/01/20	Proceeds	Principal Payments	Balance 9/30/21
Business-Type Activities:							
<u>A. Limited-Obligation Bonds:</u>							
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%	\$ 670,000	\$ -	\$ (385,000)	\$ 285,000
<u>B. Other Loans</u>							
Cap Loan #50655	6/5/2012	4/1/2032	2.00%	\$ 196,311	\$ -	\$ (15,213)	\$ 181,098
Cap Loan #19251CP01	3/5/2019	2/1/2040	3.00%	479,175	-	(19,163)	460,012
Total				\$ 675,486	\$ -	\$ (34,376)	\$ 641,110

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, 2021**

<b>Name</b>	<b>Position</b>	<b>Company</b>	<b>Bond Amount</b>
Anthony Witherspoon	Mayor	Travelers Insurance	50,000
Tammy 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
Tasha Dillon	City Clerk	Travelers Insurance	50,000
Priscilla Thompson	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
Sonya Woodall	Police Chief	Travelers Insurance	50,000

**CITY OF MAGNOLIA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**September 30, 2021**  
**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, 2021:

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, 2021, the amount of outstanding debt was equal to 7% of the latest property assessments.



## **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 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 31, 2023.

#### Report On 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 2021-001, 2021-002, 2021-003, and 2021-004 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**  
Hattiesburg, Mississippi  
January 31, 2023

## **HERZOG CPA COMPANY, PLLC**

**Angela T. Herzog, CPA**

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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, 2021, and the related notes to the financial statements, and have issued our report thereon January 31, 2023. 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 2021-001 and 2021-002, 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

January 31, 2023



## **SCHEDULE OF FINDINGS AND RESPONSES**

**CITY OF MAGNOLIA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**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, 2021**

**Section 2: Financial Statement Findings**

**2021-001. 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, 2020-001

**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.

**2021-002. 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, 2020-002

**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, 2021**

**Section 2: Financial Statement Findings**

**2021-003. Finding**

**Significant Deficiency - Material Weakness**

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

**Repeat Finding:** 2020-003.

**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 2020. Therefore, it resulted in expenditures being paid from a governmental fund instead of an enterprise fund in 2021.

**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.



**CITY OF MAGNOLIA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Section 2: Financial Statement Findings

2021-004. Finding

Significant Deficiency - Material Weakness

The City had no subsidiary records to support the last claims docket for September 2021.

Repeat Finding: No

Criteria: The City should establish procedures to ensure that subsidiary records are maintained for all transactions.

Condition: The claims docket for the last claims docket for September, 2021, was not available.

Effect: The expenditures for the last claims docket of the fiscal year could not be accurately classified in the cash basis financial statements. There was no effect to the change in net position, but the account classifications for expenditures could not be verified.

Recommendation: The city should keep paper or electronic records for all transactions.

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