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**CITY OF MAGNOLIA, MISSISSIPPI**

**Audited Financial Statements and  
Special Reports  
For the Year Ended September 30, 2009**

**Faust & Associates**

CPA'S



P.A.

McComb, Mississippi

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STATE AUDITOR'S OFFICE

# Faust & Associates

CPA'S  P. A.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Magnolia, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Magnolia, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-cash basis 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, 2009, and the respective changes in financial position-cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2010, on our consideration of the City of Magnolia, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the budgetary comparison information on pages 13-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Magnolia has not presented 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 the missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Magnolia, Mississippi's financial statements as a whole. The supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplemental information section and the schedule of expenditures of Federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The schedule of expenditures of Federal awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole. The supplemental information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Faust & Assoc. CPA's P.A.*

Faust & Associates CPA's, P.A.  
McComb, Mississippi  
June 18, 2010

**CITY OF MAGNOLIA, MISSISSIPPI**  
**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Function / Programs	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT</b>							
Governmental activities:							
General government	\$ 806,290	\$ 103,372	\$ 6,811	\$ 416,127	\$ (279,980)	\$ -	\$ (279,980)
Public safety	519,898	31,485	-	26,368	(462,045)	-	(462,045)
Court	55,113	-	-	-	(55,113)	-	(55,113)
Sanitation	148,519	-	-	-	(148,519)	-	(148,519)
Culture and recreation	8,121	-	-	-	(8,121)	-	(8,121)
Street maintenance	395,682	-	-	-	(395,682)	-	(395,682)
Total governmental activities	<u>1,933,623</u>	<u>134,857</u>	<u>6,811</u>	<u>442,495</u>	<u>(1,349,460)</u>	<u>-</u>	<u>(1,349,460)</u>
Business-type activities:							
Water and sewer	2,454,382	893,452	-	1,412,109	-	(148,821)	(148,821)
Total business-type activities	<u>2,454,382</u>	<u>893,452</u>	<u>-</u>	<u>1,412,109</u>	<u>-</u>	<u>(148,821)</u>	<u>(148,821)</u>
Total Primary Government	<u>\$ 4,388,005</u>	<u>\$ 1,028,309</u>	<u>\$ 6,811</u>	<u>\$ 1,854,604</u>	<u>(1,349,460)</u>	<u>(148,821)</u>	<u>(1,498,281)</u>
<b>General Receipts:</b>							
Taxes:							
Ad Valorem					678,507	-	678,507
Sales taxes					331,130	-	331,130
Franchise taxes					73,662	-	73,662
Unrestricted investment income					20,789	10,019	30,808
Intergovernmental					207,652	-	207,652
Water deposit receipts					-	8,564	8,564
Miscellaneous					39,500	-	39,500
Loan proceeds					-	137,014	137,014
Transfers					122,440	(122,440)	-
Total General Receipts					<u>1,473,680</u>	<u>33,157</u>	<u>1,506,837</u>
Change in Net Assets					124,220	(115,664)	8,556
<b>Net Assets at Beginning of Year</b>					<u>731,593</u>	<u>390,547</u>	<u>1,122,140</u>
<b>Net Assets at End of Year</b>					<u>\$ 855,813</u>	<u>\$ 274,883</u>	<u>\$ 1,130,696</u>

The accompanying notes are an integral part of this statement.

**CITY OF MAGNOLIA, MISSISSIPPI**  
**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Function / Programs	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>(CONTINUED)</b>							
<b>ASSETS</b>							
Cash and cash equivalents					\$ 775,465	\$ 207,088	\$ 982,553
Restricted cash					80,348	67,795	148,143
Total Assets					<u>\$ 855,813</u>	<u>\$ 274,883</u>	<u>\$ 1,130,696</u>
<b>NET ASSETS</b>							
Restricted for debt service					\$ 38,082	\$ -	\$ 38,082
Restricted for fire prevention					6,770	-	6,770
Restricted for improvements					10,047	-	10,047
Restricted for law enforcement					11,134	-	11,134
Restricted for meter deposits					-	67,795	67,795
Restricted for unemployment compensation					14,315	-	14,315
Unrestricted					775,465	207,088	982,553
Total Net Assets					<u>\$ 855,813</u>	<u>\$ 274,883</u>	<u>\$ 1,130,696</u>

The accompanying notes are an integral part of this statement.

**CITY OF MAGNOLIA, MISSISSIPPI**  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND**  
**CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
	<u>General Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>	<u>Water &amp; Sewer Fund</u>	<u>Total</u>
<b>RECEIPTS</b>					
Taxes - Ad Valorem	\$ 675,253	\$ -	\$ 675,253	\$ -	\$ -
Penalties and interest on delinquent taxes	3,254	-	3,254	-	-
Franchise fees	73,662	-	73,662	-	-
Licenses and permits	3,750	-	3,750	-	-
Intergovernmental revenues	961,720	26,368	988,088	1,412,109	1,412,109
Charges for services:					
Sanitation	99,622	-	99,622	-	-
Water and sewer	-	-	-	890,936	890,936
Fines and forfeits	31,485	-	31,485	-	-
Interest	20,096	693	20,789	10,019	10,019
Other	39,500	-	39,500	2,516	2,516
Total Receipts	<u>1,908,342</u>	<u>27,061</u>	<u>1,935,403</u>	<u>2,315,580</u>	<u>2,315,580</u>
<b>DISBURSEMENTS</b>					
General government	\$ 585,511	\$ -	\$ 585,511	\$ -	\$ -
Court	55,113	-	55,113	-	-
Public safety	444,927	-	444,927	-	-
Sanitation	148,519	-	148,519	-	-
Streets	395,682	-	395,682	-	-
Culture and recreation	8,121	-	8,121	-	-
Enterprises:					
Water and sewer	-	-	-	539,057	539,057
Interest on loans	-	-	-	144,560	144,560
Total Disbursements	<u>1,637,873</u>	<u>-</u>	<u>1,637,873</u>	<u>683,617</u>	<u>683,617</u>
Excess of Receipts Over (Under) Disbursements	<u>270,469</u>	<u>27,061</u>	<u>297,530</u>	<u>1,631,963</u>	<u>1,631,963</u>

The accompanying notes are an integral part of this statement.

**CITY OF MAGNOLIA, MISSISSIPPI**  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND**  
**CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES**  
**AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
	<u>General Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>	<u>Water &amp; Sewer Fund</u>	<u>Total</u>
<b>(CONTINUED)</b>					
<b>OTHER CASH SOURCES (USES)</b>					
Debt repaid	-	-	-	(273,700)	(273,700)
Capital outlay	(220,779)	(74,971)	(295,750)	(1,497,065)	(1,497,065)
Interfund loans and transfers	112,072	10,368	122,440	(122,440)	(122,440)
Loan proceeds	-	-	-	137,014	137,014
Water deposits	-	-	-	8,564	8,564
<b>Total Other Cash Sources (Uses)</b>	<u>(108,707)</u>	<u>(64,603)</u>	<u>(173,310)</u>	<u>(1,747,627)</u>	<u>(1,747,627)</u>
Excess (Deficiency) of Receipts and Other Cash Sources Over Disbursements and Other Cash Uses	161,762	(37,542)	124,220	(115,664)	(115,664)
<b>CASH BASIS FUND BALANCE - Beginning of Year</b>	<u>638,228</u>	<u>93,365</u>	<u>731,593</u>	<u>390,547</u>	<u>390,547</u>
<b>CASH BASIS FUND BALANCE - End of Year</b>	<u>799,990</u>	<u>55,823</u>	<u>855,813</u>	<u>274,883</u>	<u>274,883</u>
<b>CASH BASIS ASSETS - End of Year</b>					
Cash and cash equivalents	775,465	-	775,465	207,088	207,088
Restricted cash	24,525	55,823	80,348	67,795	67,795
<b>Total Cash Basis Assets</b>	<u>799,990</u>	<u>55,823</u>	<u>855,813</u>	<u>274,883</u>	<u>274,883</u>
<b>CASH BASIS FUND BALANCES - End of Year</b>					
Reserved	24,525	55,823	80,348	67,795	67,795
Unreserved	775,465	-	775,465	207,088	207,088
<b>Total Cash Basis Fund Balances</b>	<u>799,990</u>	<u>55,823</u>	<u>855,813</u>	<u>274,883</u>	<u>274,883</u>

The accompanying notes are an integral part of this statement.

# CITY OF MAGNOLIA, MISSISSIPPI

## Notes to Financial Statements September 30, 2009

### Note 1 - Summary of Significant Accounting Policies

#### A. *Financial Reporting Entity*

The City of Magnolia, Mississippi, (the City) was incorporated in 1859. The City operates under a Mayor-Board of Alderpersons form of government and provides all of the rights and privileges provided by statute for municipalities.

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

#### B. *Government-wide and Fund Financial Statements*

Basic financial statements consist of the following:

- Statement of activities and net assets – cash basis
- Statement of cash basis assets and fund balances and cash receipts, disbursements and changes in cash basis fund balances

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City combines the statement of activities and statement of net assets.

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

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

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

# CITY OF MAGNOLIA, MISSISSIPPI

## Notes to Financial Statements September 30, 2009

### Note 1 - Summary of Significant Accounting Policies (continued)

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

The City reports the following major governmental fund:

The **general fund** is the government's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

The City reports the following major proprietary fund:

The **water and sewer fund** accounts for the activities of providing water and sewer services to citizens of the City.

Additionally, the City reports the following fund type:

**Special revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

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

#### **D. *Assets and Net Assets or Equity***

##### **1. *Cash and Investments***

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

##### **2. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# CITY OF MAGNOLIA, MISSISSIPPI

## Notes to Financial Statements September 30, 2009

### Note 2 - Cash and Cash Equivalents

The collateral for public entities, deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi Legislature and is governed by Section 27-105-5, Mississippi Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits.

Cash is comprised of the following at September 30, 2009:

	<u>Cash and Cash Equivalents</u>	<u>Restricted Cash</u>	<u>Total</u>
<b>Governmental Activities:</b>			
General fund	775,465	24,525	799,990
Bond fund	-	38,082	38,082
Public Safety Grants fund	-	17,741	17,741
<b>Total Governmental Activities</b>	<b>775,465</b>	<b>80,348</b>	<b>855,813</b>
<b>Business-Type Activities:</b>			
Water and Sewer fund	207,088	67,795	274,883
<b>Total Business-Type Activities</b>	<b>207,088</b>	<b>67,795</b>	<b>274,883</b>
<b>Government-Wide Total</b>	<b>982,553</b>	<b>148,143</b>	<b>1,130,696</b>

Deposits at September 30, 2009 are summarized as follows:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Cash	986,473	989,349
Certificates of deposit	144,223	144,223
<b>Total Deposits</b>	<b>1,130,696</b>	<b>1,133,572</b>

The difference of \$2,876 was principally due to outstanding checks.

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of a failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasury manages the risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2009, none of the City's bank balance of \$1,133,572 was exposed to custodial credit risk.

# CITY OF MAGNOLIA, MISSISSIPPI

## Notes to Financial Statements September 30, 2009

### Note 2 - Cash and Cash Equivalents (continued)

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

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

*Custodial Credit Risk – Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy that addresses custodial risk. However, the Mississippi State Treasurer manages the risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2009, none of the City's bank balance of \$1,133,572 was exposed to custodial credit risk.

*Concentration of Credit Risk.* Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of September 30, 2009, the City had no investments.

Following is a list of the City's eligible investments, which in accordance with state statute are limited to the investment of funds in excess of sums required for immediate expenditure or current obligations:

Certificates of deposit with municipal depositories approved annually by the State Treasurer bonds or direct obligations of the:

- United States of America
- State of Mississippi
- County or Municipality of Mississippi
- School Districts

State statute allows the investment of funds received from the sale of bonds, notes, or certificates of indebtedness which are not immediately required for disbursement for the purpose issued, in direct obligations issued by or guaranteed in full by the United States of America, or in certificates of deposit with approved municipal depositories.

# CITY OF MAGNOLIA, MISSISSIPPI

## Notes to Financial Statements

September 30, 2009

### Note 3 - Property Tax

The City levies property taxes annually based upon assessed valuations. Real property, personal property and automobile ad valorem taxes and certain road taxes are collected by the Pike County tax collector and disbursed to the City accordingly. Current collections of taxes for the year ended September 30, 2009 were approximately 97% of the total tax levy.

The tax rate levied by the City for fiscal year 2009 was set at 32.00 mills. The City allocated the property tax per \$100 of assessed value for the year as follows:

General Fund	\$3.20
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### Note 4 - Defined Benefit Pension Plan

#### Public Employees' Retirement System

##### A. *Plan Description and Provisions*

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

##### B. *Plan Funding Policy*

PERS members are required to contribute 7.25% of their annual covered salary and the City of Magnolia, Mississippi is required to contribute at an actuarially determined rate. This rate was 10.75% of annual covered payroll until June 30, 2009. Effective July 1, 2009, the employer's contribution rate was increased to 11.85%. This change was made during the municipal fiscal year 2009 budget year. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Magnolia, Mississippi's contributions to PERS for the years ended September 30, 2009, 2008, and 2007 were \$55,823, \$47,507 and \$42,243, respectively, equal to the required contributions for each year.

##### C. *Trend Information*

Ten year historical information showing PERS' progress in accumulating sufficient assets to pay benefits when due is presented in the PERS' June 30, 2009 comprehensive annual financial report.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MAGNOLIA, MISSISSIPPI**  
**Budgetary Comparison Schedule - Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Taxes-Ad Valorem	\$ 763,813	\$ 763,813	\$ 675,253	\$ (88,560)
Penalties and Interest on Delinquent Taxes	1,400	1,400	3,254	1,854
Franchise Fees	70,000	70,000	73,662	3,662
Licenses and Permits	4,600	4,600	3,750	(850)
Intergovernmental Revenues	1,932,999	1,964,999	961,720	(1,003,279)
Charges for Services: Sanitation	103,000	103,000	99,622	(3,378)
Fines and Forfeits	24,000	24,000	31,485	7,485
Miscellaneous	64,340	64,340	59,596	(4,744)
<b>Total Receipts</b>	<u>2,964,152</u>	<u>2,996,152</u>	<u>1,908,342</u>	<u>(1,087,810)</u>
<b>EXPENDITURES</b>				
General Government	1,511,618	1,515,418	585,511	\$ 929,907
Court	56,260	56,260	55,113	1,147
Public Safety	505,159	568,037	444,927	123,110
Sanitation	122,000	151,000	148,519	2,481
Streets	455,702	461,322	395,682	65,640
Culture and Recreation	12,347	12,347	8,121	4,226
<b>Total Expenditures</b>	<u>2,663,086</u>	<u>2,764,384</u>	<u>1,637,873</u>	<u>1,126,511</u>
Excess (deficiency) of receipts over expenditures	<u>301,066</u>	<u>231,768</u>	<u>270,469</u>	<u>38,701</u>
<b>OTHER CASH SOURCES (USES)</b>				
Interfund Loans and Transfers	-	-	112,072	\$ 112,072
Capital Outlay	(225,000)	(225,000)	(220,779)	4,221
<b>Total Other Cash Sources and Uses</b>	<u>(225,000)</u>	<u>(225,000)</u>	<u>(108,707)</u>	<u>116,293</u>
Net Change in Cash Basis Fund Balances	<u>76,066</u>	<u>6,768</u>	<u>161,762</u>	<u>154,994</u>
<b>Cash Basis Fund Balance - Beginning of Year</b>	<u>638,228</u>	<u>638,228</u>	<u>638,228</u>	<u>-</u>
<b>Cash Basis Fund Balance - End of Year</b>	<u>\$ 714,294</u>	<u>\$ 644,996</u>	<u>\$ 799,990</u>	<u>\$ 154,994</u>

The accompanying notes to the required supplementary information are an integral part of this schedule.

**CITY OF MAGNOLIA, MISSISSIPPI**

**Notes to the Required Supplementary Information  
For the Year Ended September 30, 2009**

**Note A - Budgetary Information**

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

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

**Note B - Basis of Presentation**

The Budgetary Comparison Schedule – Budget and Actual presents the original adopted budget, the final adopted budget, actual amounts on a budgetary basis and variance between the final budget and the actual amounts. The schedule is presented for the General Fund.

**Note C - Budget Reconciliation**

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

**SUPPLEMENTAL INFORMATION**

**CITY OF MAGNOLIA, MISSISSIPPI**

**Schedule of Investments - All Funds  
September 30, 2009**

	<b><u>Deposit Amount</u></b>
Certificate of Deposit with First Bank maturing September 24, 2010, Interest Rate 1.55%	\$ 14,315
Certificate of Deposit with First Bank maturing October 3, 2009, Interest Rate 1.25%	52,366
Certificate of Deposit with First Bank maturing October 3, 2009, Interest Rate 1.25%	27,718
Certificate of Deposit with Trustmark National Bank Maturing December 25, 2009, Interest rate 1.14%	<u>49,824</u>
	<u>\$ 144,223</u>
<b>Fund Recap:</b>	
General Fund	\$ 64,139
Bond Fund	27,718
Water and Sewer Fund	<u>52,366</u>
	<u>\$ 144,223</u>

**CITY OF MAGNOLIA, MISSISSIPPI**

**Schedule of Long-Term Debt  
For the Fiscal Year Ended September 30, 2009**

	<u>Balance Outstanding October 1, 2008</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance Outstanding September 30, 2009</u>
<b><u>NOTES:</u></b>				
State Revolving Fund Loan due in monthly payments of \$23,000 beginning May 10, 2003 through May 10, 2012, increasing to \$26,000 from June 10, 2012 through May 10, 2022 with variable lump sum payments throughout, including interest at 3.5% per annum.	\$ 3,969,127	\$ -	\$ (240,473)	\$ 3,728,654
Capital Improvements Revolving Loan due in monthly installments of \$3,522 through May 1, 2019; interest @ 3%, secured by sales tax allocation and/or homestead exemption reimbursements	388,149	-	(33,227)	354,922
Loan from Loves Travel Stops & Country Stores, Inc due in monthly installments of \$1,453 through September 20, 2019, interest at 5% per annum	-	137,014	-	137,014
<b>Total</b>	<u>\$ 4,357,276</u>	<u>\$ 137,014</u>	<u>\$ (273,700)</u>	<u>\$ 4,220,590</u>

**CITY OF MAGNOLIA, MISSISSIPPI**

**Schedule of Surety Bonds for Municipal Officials  
September 30, 2009**

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Bond Amount</u>
Becky Magee	Aldersperson	Travelers	\$ 50,000
James Jones, Sr.	Aldersperson	Travelers	\$ 50,000
A.J. Flowers, Jr.	Aldersperson	Travelers	\$ 50,000
Claude Mullins	Aldersperson	Travelers	\$ 50,000
Clarence Burton, Sr.	Aldersperson	Travelers	\$ 50,000
Melvin Harris	Mayor	Travelers	\$ 50,000
Ray Reynolds	Chief of Police	Travelers	\$ 50,000
Melissa Thornhill	City Clerk	Travelers	\$ 50,000
Berniece Carter	Deputy Clerk	Travelers	\$ 50,000
Bobbi Hart	Deputy Clerk	Travelers	\$ 50,000
Gail Rimes	Court Clerk	Travelers	\$ 50,000

**SINGLE AUDIT SECTION**

**CITY OF MAGNOLIA, MISSISSIPPI**

**Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2009**

<b>Federal Grantor / Pass-through Grantor / Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
U.S. Department of Agriculture direct programs:			
Community Facilities Loans and Grants	10.766		\$ 40,869
Community Facilities Loans and Grants	10.766		<u>24,000</u>
Total U.S. Department of Agriculture			<u>64,869</u>
U.S. Department of Housing and Urban Development			
Pass-through programs from:			
Mississippi Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDBG R-110-251-01-GZ	314,800
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDBG R-110-251-02-GZ	<u>660,762</u>
Total U.S. Department of Housing and Urban Development			<u>975,562</u>
U.S. Department of Justice			
Pass-through programs from:			
State of Mississippi Department of Public Safety:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2008-DJ-BX-0039	<u>2,368</u>
Total U.S. Department of Justice			<u>2,368</u>
U.S. Department of Transportation			
Pass-through programs from:			
Mississippi Department of Transportation:			
Highway Planning and Construction	20.205	STP-2175-00(003)	112,931
Highway Planning and Construction	20.205	STP-0152-00(025)	<u>153,590</u>
Total U.S. Department of Transportation			<u>266,521</u>
<b>Total Expenditure of Federal Awards</b>			<b><u>\$ 1,309,320</u></b>

The accompanying notes to the schedule of expenditures of Federal awards are an integral part of this schedule.

**CITY OF MAGNOLIA, MISSISSIPPI**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2009**

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the Federal grant activity of the City of Magnolia, Mississippi under programs of the Federal government for the year ended September 30, 2009. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Magnolia, it is not intended to and does not present the financial position or changes in net assets of the City of Magnolia, Mississippi.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

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Michael C Faust, C.P.A.

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

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

We have audited the 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, 2009, which collectively comprise the City of Magnolia, Mississippi's basic financial statements and have issued our report thereon dated June 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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*.

We noted a matter that we reported to management of the City of Magnolia, Mississippi, in a separate letter dated June 18, 2010.

This report is intended solely for the information and use of management, Board of Alderpersons, others within the entity, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Faust & Associates CPA's, P.A.  
McComb, Mississippi  
June 18, 2010

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A -133

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

### Compliance

We have audited the compliance of the City of Magnolia, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended September 30, 2009. The City of Magnolia, Mississippi's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of the City of Magnolia, Mississippi's management. Our responsibility is to express an opinion on the City of Magnolia, Mississippi's compliance based on our audit.

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

In our opinion, the City of Magnolia, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the year ended September 30, 2009.

**Internal Control over Compliance**

Management of the City of Magnolia, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the City of Magnolia, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Magnolia, Mississippi's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Alderpersons, others within the entity, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Faust & Assoc. CPA's P.A.*

Faust & Associates CPA's, P.A.  
McComb, Mississippi  
June 18, 2010

**CITY OF MAGNOLIA, MISSISSIPPI**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2009**

**Section 1: Summary of Auditor's Results**

***Financial Statements***

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements.                           | Unqualified |
| 2. | Material noncompliance related to the financial statements.                            | None        |
| 3. | Internal control over financial reporting:   |             |
| a. | Material weaknesses identified?  | No          |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | No          |

***Federal Awards***

- |    |  |             |
|----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major Federal program:   | Unqualified |
| 5. | Internal control over major program:   |             |
| a. | Material weaknesses identified?  | None        |
| b. | Significant deficiencies identified that are not considered to be material weaknesses?   | No          |
| 6. | Any audit findings reported as required by Section __.510(a) of Circular A-133?  | No          |
| 7. | Federal program identified as a major program:   |             |
| a. | U.S. Department of Housing and Urban Development/<br>Community Development Block Grants/State's<br>Program and Non-Entitlement Grants in Hawaii;<br>CFDA #14.228 |             |
| 8. | The dollar threshold used to distinguish between Type A and Type B programs:   | \$300,000   |
| 9. | Auditee did not qualify as a low-risk auditee.   |             |

**CITY OF MAGNOLIA, MISSISSIPPI**

**Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2009**

**Section 2: Findings - Financial Statements Audit**

No significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements were reported.

**Section 3: Findings – Federal Awards Program**

No audit findings required to be reported by section 510(a) of Circular A-133 were reported.

**STATE COMPLIANCE SECTION**

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

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

We have audited the 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, 2009, which collectively comprise the City of Magnolia, Mississippi's basic financial statements and have issued our report thereon dated June 18, 2010. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

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 procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our immaterial findings and recommendations and your responses are as follows:

1. *Finding*

During our review of the City's procurement procedures for the year ended September 30, 2009, we found the City did not comply with the state purchasing laws, Section 31-7-13 Miss. Code Ann. (1972). There were two (2) instances where two quote bids for purchases were not provided.

*Recommendation*

The City should establish internal administrative controls to ensure that all state procurement procedures are followed and that documentation supporting purchases is maintained in a systematic manner that will provide for timely retrieval.

*City's Response*

We concur with the finding. Internal administrative controls will be adopted to ensure that any documentation supporting purchases will be obtained and maintained in a systematic manner.

2. Finding

During our review of the City's fiscal year 2009 budget, we noted that the City's budgetary process did not comply with Section 21-35-5 Miss. Code Ann. (1972). The City did not publish a notice of public hearing for the fiscal year 2009 budget.

Recommendation

The City should ensure that a notice of public hearing be published to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget.

City's Response

We concur with the finding. The City will ensure that a notice of public hearing be published in a timely manner.

3. Finding

During our tests of the City's expenses, we noted thirteen (13) instances where items paid were not included on the City's claim docket pursuant to Section 21-39-7 Miss. Code Ann. (1972). The items related to contractual payments which the board had approved prior to payment.

Recommendation

The City should include all items for payment on the City's claim docket for approval by the Board of Alderpersons.

City's Response

We concur with the finding. The City will ensure that all items for payment be included in the docket of claims presented.

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

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

June 18, 2010

*Furnet & Assoc. CPA's P.A.*