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**CITY OF MAGNOLIA**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

**CITY OF MAGNOLIA**

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**CITY OF MAGNOLIA**

**FINANCIAL SECTION**

# Windham and Lacey, PLLC

*Certified Public Accountants*

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American Institute of CPAs  
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## INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Board of Aldermen  
City of Magnolia

We have audited the accompanying financial statements of the governmental activities, business-type activities, the major fund and the aggregate remaining fund information of the City of Magnolia, as of and for the year ended September 30, 2010, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 *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 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 opinion.

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

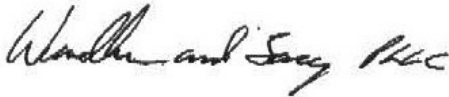
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and the business-type activities, each major fund and the aggregate remaining fund information of the City of Magnolia as of September 30, 2010, and the respective changes in cash basis financial position 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 May 26, 2011, 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* and should be considered in assessing the results of our audit.

The Budgetary Comparison Schedule is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Magnolia has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Magnolia, Mississippi's basic financial statements. The other required supplementary 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 not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to 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 basic financial statements taken as a whole. The other required supplementary 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.



Windham and Lacey, PLLC  
May 26, 2011

**CITY OF MAGNOLIA**

**FINANCIAL STATEMENTS**

**City of Magnolia**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and For the Year Ended September 30, 2010**

	<u>Cash</u>	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes</u>		
		<u>Disbursements</u>	<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Governmental</u>	<u>Business-type</u>
<b>Functions/Programs</b>		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Activities</u>	<u>Activities</u>	
			<u>Contributions</u>	<u>Contributions</u>			
Governmental Activities:							
General government	\$ 287,648	25,659	9,003		(252,986)		(252,986)
Public safety	529,571	94,814		18,027	(416,730)		(416,730)
Public works	1,448,895	105,651	6,242	827,282	(509,720)		(509,720)
Culture and recreation	4,178				(4,178)		(4,178)
Court	56,167				(56,167)		(56,167)
Interest on long-term debt	6,592				(6,592)		(6,592)
Total Governmental Activities	<u>2,333,051</u>	<u>226,124</u>	<u>13,245</u>	<u>845,309</u>	<u>(1,246,373)</u>	<u>0</u>	<u>(1,246,373)</u>
Business-type Activities:							
Water/Sewer	<u>797,852</u>	<u>907,874</u>		<u>29,541</u>		<u>139,563</u>	<u>139,563</u>
Total Business-type Activities	<u>797,852</u>	<u>907,874</u>	<u>0</u>	<u>29,541</u>	<u>0</u>	<u>139,563</u>	<u>139,563</u>
Total Government	\$ <u>3,130,903</u>	<u>1,133,998</u>	<u>13,245</u>	<u>874,850</u>	<u>(1,246,373)</u>	<u>139,563</u>	<u>(1,106,810)</u>
General Receipts							
Taxes:							
Property taxes					\$ 693,405		693,405
Road & bridge privilege taxes					85,141		85,141
Sales tax					387,273		387,273
Franchise taxes					67,341		67,341
Intergovernmental					46,364		46,364
Grants and contributions not restricted to specific programs					64,622		64,622
Unrestricted investment income					19,521	5,922	25,443
Loan proceeds						32,467	32,467
Miscellaneous					14,512		14,512
Transfers					109,504	(109,504)	
Total General Receipts					<u>1,487,683</u>	<u>(71,115)</u>	<u>1,416,568</u>
Change in net assets					241,310	68,448	309,758
Net Assets - Beginning					<u>855,813</u>	<u>274,883</u>	<u>1,130,696</u>
Net Assets - Ending					\$ <u>1,097,123</u>	<u>343,331</u>	<u>1,440,454</u>

**City of Magnolia**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and For the Year Ended September 30, 2010**

**(Continued)**

	<b>Net (Disbursements) Receipts and Changes in Net Assets</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,023,457	237,993	1,261,450
Restricted cash	73,666	105,338	179,004
Total Assets	<u>\$ 1,097,123</u>	<u>343,331</u>	<u>1,440,454</u>
<b>NET ASSETS</b>			
Restricted:			
Restricted for debt service	\$ 38,657		38,657
Restricted for unemployment compensation	14,538		14,538
Restricted for fire protection	2,368		2,368
Restricted for law enforcement	11,356		11,356
Restricted for improvements	6,747		6,747
Restricted for meter deposits		105,338	105,338
Unrestricted	<u>1,023,457</u>	<u>237,993</u>	<u>1,261,450</u>
Total Net Assets	<u>\$ 1,097,123</u>	<u>343,331</u>	<u>1,440,454</u>

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

**City of Magnolia**  
**Statement of Cash Basis Assets and Fund Balances and**  
**Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances**  
**Governmental and Business-type Funds**  
**As of and For the Year Ended September 30, 2010**

	<u>Governmental Activities</u>			<u>Business-type</u>
	<u>Major Fund</u>			<u>Activities</u>
	<u>General</u>	<u>Other</u>		<u>Water/Sewer</u>
	<u>Fund</u>	<u>Non-Major</u>	<u>Total</u>	<u>Fund</u>
		<u>Funds</u>		
<b>RECEIPTS</b>				
Ad valorem taxes	\$ 693,406		693,406	
Road and bridge tax	85,141		85,141	
License and permits	7,481		7,481	
Franchise taxes on utilities	67,341		67,341	
Grand Gulf payments in lieu of tax	59,909		59,909	
Intergovernmental revenues:				
Federal revenues:				
Grants	827,283		827,283	29,541
State shared revenues:				
Sales taxes	387,273		387,273	
Grants	6,747		6,747	
Homestead reimbursement	26,394		26,394	
General municipal aid	1,075		1,075	
Fire insurance rebate	11,280		11,280	
Other	34,141		34,141	
Local shared revenues:				
Police special school revenue	49,171		49,171	
Charges for services:				
Sanitation	104,451		104,451	
Water and sewer utility				907,875
Fines and forfeits	44,684		44,684	
Interest income	18,705	816	19,521	5,922
Miscellaneous revenue	39,561		39,561	
Total Receipts	<u>2,464,043</u>	<u>816</u>	<u>2,464,859</u>	<u>943,338</u>

City of Magnolia  
Statement of Cash Basis Assets and Fund Balances and  
Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances  
Governmental and Business-type Funds  
As of and For the Year Ended September 30, 2010

(Continued)

	Governmental Activities			Business-type
	Major Fund			Activities
	General Fund	Non-Major Funds	Total	Water/Sewer Fund
<b>DISBURSEMENTS</b>				
General government	287,649		287,649	
Court	56,167		56,167	
Public safety	525,169		525,169	
Sanitation	131,919		131,919	
Streets	440,113		440,113	
Culture and recreation	4,178		4,178	
Water and sewer utility				
Personal services				168,031
Other operating expenses				241,517
Total Disbursements	<u>1,445,195</u>	<u>0</u>	<u>1,445,195</u>	<u>409,548</u>
Excess of Receipts over (under) Disbursements	<u>1,018,848</u>	<u>816</u>	<u>1,019,664</u>	<u>533,790</u>
<b>OTHER CASH SOURCES (USES)</b>				
Proceeds from loans				32,467
Capital outlay	(866,017)	(4,402)	(870,419)	(61,601)
Principal paid on loans	(10,847)		(10,847)	(186,455)
Interest paid on loans	(6,592)		(6,592)	(140,249)
Transfers in (out) to other funds	109,504		109,504	(109,504)
Total Other Cash Sources and (Uses)	<u>(773,952)</u>	<u>(4,402)</u>	<u>(778,354)</u>	<u>(465,342)</u>
Excess (Deficiency) of Receipts and Other Cash Sources Over Disbursements and Other Cash Uses	244,896	(3,586)	241,310	68,448
<b>CASH BASIS FUND BALANCE - Beginning of Year</b>	<u>799,990</u>	<u>55,823</u>	<u>855,813</u>	<u>274,883</u>
<b>CASH BASIS FUND BALANCE - End of Year</b>	<u>\$ 1,044,886</u>	<u>52,237</u>	<u>1,097,123</u>	<u>343,331</u>
<b>CASH BASIS ASSETS - End of Year</b>				
Cash and cash equivalents	\$ 1,023,457		1,023,457	237,993
Restricted cash	21,429	52,237	73,666	105,338
Total Cash Basis Assets	<u>\$ 1,044,886</u>	<u>52,237</u>	<u>1,097,123</u>	<u>343,331</u>
<b>CASH BASIS FUND BALANCES - End of Year</b>				
Reserved	\$ 21,429		21,429	105,338
Unreserved	1,023,457	52,237	1,075,694	237,993
Total Cash Basis Fund Balances	<u>\$ 1,044,886</u>	<u>52,237</u>	<u>1,097,123</u>	<u>343,331</u>

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

**CITY OF MAGNOLIA**

**Notes to Financial Statements  
For the Year Ended September 30, 2010**

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

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

B. Government-wide and Fund Financial Statements.

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

The government reports the following major Governmental Fund:

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

**CITY OF MAGNOLIA**

**Notes to Financial Statements  
For the Year Ended September 30, 2010**

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 balance 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.

(2) Cash and Cash Equivalents

At year-end, the City's carrying amount of deposits was \$1,440,454 and the bank balance was \$1,474,221. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**Custodial Credit Risk – Deposits and Investments:** Custodial credit risk is defined as the risk that, in the event of a failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasury manages the risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution trust department or agent in the name of the Mississippi State Treasury on the behalf of the City. As of September 30, 2010, none of the City's bank balance of \$1,474,221 was exposed to custodial risk.

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

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

**CITY OF MAGNOLIA**

**Notes to Financial Statements  
For the Year Ended September 30, 2010**

(3) Defined Benefit Pension Plan.

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

Funding Policy: PERS members are required to contribute 9.00% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 12.0% of annual covered payroll. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ended September 30, 2010, 2009 and 2008 were \$67,946, \$55,823 and \$47,507, respectively, which is equal to the required contributions for each year.

**CITY OF MAGNOLIA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Magnolia**  
**Budgetary Comparison Schedule -**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>RECEIPTS</b>				
Ad valorem taxes	\$ 773,783	773,783	778,547	
License and permits	68,650	68,650	74,822	
Intergovernmental receipts	1,811,671	1,811,671	1,403,273	
Charges for services - Sanitation	109,000	109,000	104,451	
Fines and forfeits	24,000	24,000	44,684	
Miscellaneous	120,430	120,430	58,266	
Total Receipts	<u>2,907,534</u>	<u>2,907,534</u>	<u>2,464,043</u>	<u>(443,491)</u>
<b>EXPENDITURES</b>				
General government	1,576,160	1,576,460	1,184,022	
Court	57,350	57,350	56,167	
Public safety	557,204	560,606	525,169	
Sanitation	165,000	165,000	131,919	
Streets	514,598	514,598	421,789	
Culture and recreation	20,197	20,326	9,584	
Total Expenditures	<u>2,890,509</u>	<u>2,894,340</u>	<u>2,328,650</u>	<u>565,690</u>
Excess of Receipts over (under) Expenditures	<u>17,025</u>	<u>13,194</u>	<u>135,393</u>	<u>122,199</u>
<b>OTHER CASH SOURCES (USES)</b>				
Transfers in			109,504	
Total Other Cash Sources and Uses	<u>0</u>	<u>0</u>	<u>109,504</u>	<u>109,504</u>
Net Change in Cash Basis Fund Balance	17,025	13,194	244,897	231,703
Cash Basis Fund Balances - Beginning	<u>799,990</u>	<u>799,990</u>	<u>799,990</u>	<u>0</u>
Cash Basis Fund Balances - Ending	<u>\$ 817,015</u>	<u>813,184</u>	<u>1,044,887</u>	<u>231,703</u>

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

## CITY OF MAGNOLIA

### Notes to the Required Supplementary Information For the Year Ended September 30, 2010

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget Reconciliation.

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

**CITY OF MAGNOLIA**

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**City of Magnolia**  
**Schedule of Changes in Long-term Debt**  
**For the Year Ended September 30, 2010**

Description	Outstanding Balance Oct. 1, 2009	Issued	Redeemed	Outstanding Balance Sept. 30, 2010
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.	\$ 3,728,654		147,854	3,580,800
Capital improvements revolving loan due in monthly installments of \$3,522 through May 1, 2019 including interest at 3.0% per annum.	354,922		38,009	316,913
Loan from Loves Travel Stops & Country Stores, Inc. due in monthly installments of \$1,453 through September 20, 2019 including interest at 5.0% per annum.	137,014		10,847	126,167
USDA Rural Development loan assumed with the acquisition of North Street Water, due in monthly installments of \$28 through June 1, 2010 including interest at 5.0% per annum.		46	46	0
USDA Rural Development loan assumed with the acquisition of North Street Water, due in monthly installments of \$37 through February 17, 2021 including interest at 5.0% per annum.		2,990	123	2,867
USDA Rural Development loan assumed with the acquisition of North Street Water, due in monthly installments of \$232 through October 17, 2030 including interest at 5.0% per annum.		29,431	424	29,007
	\$ 4,220,590	32,467	197,303	4,055,754

**City of Magnolia**  
**Schedule of Investments - All Funds**  
**September 30, 2010**

	<u>Deposit Amount</u>
Certificate of Deposit with Trustmark National Bank maturing December 18, 2010, Interest rate 0.399%	\$ 50,288
Certificate of Deposit with First Bank maturing January 17, 2011, Interest rate 0.50%	53,022
Certificate of Deposit with First Bank maturing September 24, 2011, Interest rate 0.90%	14,538
Certificate of Deposit with First Bank maturing January 17, 2011, Interest rate 0.50%	<u>28,065</u>
Total	\$ <u><u>145,913</u></u>
Fund Recap:	
General Fund	\$ 64,826
Bond Fund	28,065
Water and Sewer Fund	<u>53,022</u>
Total	\$ <u><u>145,913</u></u>

**City of Magnolia**  
**Schedule of Surety Bonds for Municipal Officials and Employees**  
**September 30, 2010**

<u>Position</u>	<u>Company</u>		<u>Bond Amount</u>
Aldermen	MS Municipal Bond Program	\$	50,000
Mayor	MS Municipal Bond Program		50,000
City Clerk	Travelers		50,000
Deputy City Clerks	Travelers		50,000
Court Clerk	Travelers		50,000
Chief of Police	Travelers		50,000
Police Officers	CNA Surety		50,000

**CITY OF MAGNOLIA**

**SUPPLEMENTAL INFORMATION**

**City of Magnolia**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2010**

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>MAJOR FEDERAL AWARDS:</b>				
U.S. Department of Housing & Urban Development Mississippi Development Authority/Community Development Block Grants:				
Downtown Renovation	14.228/14.219	R-110	R-110-251-02-GZ	\$ 120,092
Drainage Improvement	14.228	CDBG-2009	1126-09-251-PF-01	290,443
Sewer Line Rehabilitation	14.228	CDBG-2004	1126-04-251-EM-01	<u>4,277</u>
<b>Total Expenditures of Major Federal Awards</b>				<u>414,812</u>
<b>OTHER FEDERAL AWARDS:</b>				
U.S. Department of Transportation/Mississippi Department of Transportation/Highway Planning and Construction				
	20.205	STP-0152-00(025)		214,269
		STP-2175-00(003)		9,914
Department of Homeland Security/Mississippi Emergency Management Agency/ Hurricane Recovery				
	97.039			<u>17,293</u>
<b>Total Expenditures of Other Federal Awards</b>				<u>241,476</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 656,288</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements that are prepared on the basis of cash receipts and disbursements.

**CITY OF MAGNOLIA**

**SPECIAL REPORTS**

# Windham and Lacey, PLLC

*Certified Public Accountants*

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

Members:  
American Institute of CPAs  
Mississippi Society of CPAs

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of City of Magnolia, Mississippi, as of and for the year ended September 30, 2010 which collectively comprise City of Magnolia, Mississippi's basic financial statements and have issued our report thereon dated May 26, 2011. 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 City of Magnolia, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

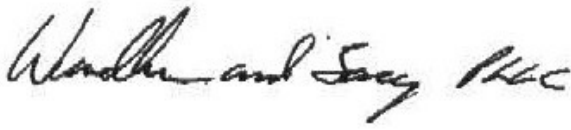
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal controls 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 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*.

This report is intended solely for the information and use of management, 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. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Windham and Lacey, PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC  
May 26, 2011

# Windham and Lacey, PLLC

*Certified Public Accountants*

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

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

### Compliance

We have audited the compliance of 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 its major federal program for the year ended September 30, 2010. 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 each of its major federal programs is the responsibility of City of Magnolia, Mississippi's management. Our responsibility is to express an opinion on 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 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 City of Magnolia, Mississippi's compliance with those requirements.

In our opinion, City of Magnolia, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

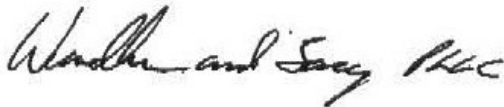
### Internal Control Over Compliance

The management of City of Magnolia, Mississippi is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Magnolia's internal control over compliance with 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 entity's internal control over compliance.

A deficiency in internal control over compliance 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 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 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, 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. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Windham and Lacey, PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC  
May 26, 2011

# Windham and Lacey, PLLC

*Certified Public Accountants*

---

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of City of Magnolia, Mississippi, as of and for the year ended September 30, 2010, and have issued our report thereon dated May 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed the following instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

### Finding

The City did not include a Schedule of Capital Assets in the audit report as required by Office of the State Auditor.

### Recommendation

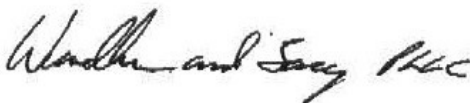
The City should include a Schedule of Capital Assets in the audit report.

### City's Response

In future years, we will include a Schedule of Capital Assets in the audit report.

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



Windham and Lacey, PLLC  
May 26, 2011

**CITY OF MAGNOLIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF MAGNOLIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2010**

Section 1: Summary of Auditor's Results

***Financial Statements:***

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

***Federal Awards:***

- |     |  |               |
|-----|--|---------------|
| 4.  | Internal control over major programs:  |               |
| a.  | Material weaknesses identified?  | No            |
| b.  | Significant deficiencies identified that are not considered to be material weaknesses?   | None Reported |
| 5.  | Type of auditor's report issued on compliance for major federal programs:  | Unqualified   |
| 6.  | Any audit findings reported as required by Section ____.510(a) of Circular A-133?  | No            |
| 7.  | Federal programs identified as major programs:<br><br>U.S. Department of Housing and Urban Development/<br>Community Development Block Grants, CFDA #14.228  |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000     |
| 9.  | Auditee qualified as a low-risk auditee?   | No            |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No            |

**CITY OF MAGNOLIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2010**

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.