

TOWN OF MAGNOLIA SPRINGS, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

TOWN OF MAGNOLIA SPRINGS, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

TABLE OF CONTENTS

FINANCIAL SECTION	<u>Page</u>
Independent Auditors' Report	1
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	2
Statement of Activities	3
Fund Financial Statements	
Statement of Assets, Liabilities and Fund Balances	4
Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities	5
Statement of Revenues, Expenditures and Changes in Fund Balances	6
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to the Financial Statements	8-23
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	24
Schedule of Changes in Net Pension Liability	25
Schedule of Employer Contributions	26
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required By the Uniform Guidance	28
Schedule of Expenditures of Federal Awards	29
Note to the Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the Town Council
Town of Magnolia Springs, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Magnolia Springs, Alabama, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Town of Magnolia Springs, Alabama's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Magnolia Springs, Alabama, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 24, schedule of changes in the net pension liability on page 25 and schedule of employer contributions on page 26, and 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.

Management 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Magnolia Springs's basic financial statements. The Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2022, on our consideration of Town of Magnolia Springs, Alabama'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Magnolia Springs, Alabama's internal control over financial reporting and compliance.

Avizo Group, Inc.

Certified Public Accountants

June 16, 2022
Fairhope, Alabama

TOWN OF MAGNOLIA SPRINGS, ALABAMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

ASSETS	
Cash and cash equivalents	\$ 304,314
Restricted cash and cash equivalents	89,793
Accounts receivable - taxes	14,512
Grants receivable	1,005,207
Prepays	3,300
Capital assets, net	<u>1,808,321</u>
TOTAL ASSETS	<u>3,225,447</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflows	<u>9,975</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 3,235,422</u></u>
LIABILITIES	
Accounts payable	\$ 42,171
Line of credit	487,916
Long-term liabilities:	
Net pension liability	<u>19,536</u>
TOTAL LIABILITIES	<u>549,623</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows	<u>10,047</u>
NET POSITION	
Net investment in capital assets	1,808,321
Restricted for streets construction and improvements	90,147
Unrestricted	<u>777,284</u>
Total net position	<u>2,675,752</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 3,235,422</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
General government	\$ 1,273,618	\$ -	\$ 1,006,914	\$ -	\$ (266,704)
Library	16,020	-	-	-	(16,020)
Parks and recreation	8,901	-	-	-	(8,901)
Public safety	85,325	-	-	-	(85,325)
Public works	34,933	-	-	-	(34,933)
Total governmental activities	<u>\$ 1,418,797</u>	<u>\$ -</u>	<u>\$ 1,006,914</u>	<u>\$ -</u>	<u>(411,883)</u>
General revenues:					
Property taxes					65,482
Local taxes					458,869
State taxes					3,935
Gas tax					24,255
Franchise agreement					62,074
Investment earnings					489
License and permits					85,210
Other					14,541
Total general revenues					<u>714,855</u>
Change in net position					302,972
Net position, beginning of year as previously stated					<u>2,372,780</u>
Net position, ending					<u><u>\$ 2,675,752</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
– GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 304,314	\$ 89,793	\$ 394,107
Accounts receivable	1,019,365	354	1,019,719
Prepays	3,300	-	3,300
Total assets	<u>\$ 1,326,979</u>	<u>\$ 90,147</u>	<u>\$ 1,417,126</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 42,171	\$ -	\$ 42,171
Line of credit	487,916	-	487,916
Total liabilities	<u>530,087</u>	<u>-</u>	<u>530,087</u>
FUND BALANCES:			
Nonspendable	3,300	-	3,300
Restricted for:			
Street construction and improvements	-	90,147	90,147
Unassigned	793,592	-	793,592
Total fund balances	<u>796,892</u>	<u>90,147</u>	<u>887,039</u>
Total liabilities and fund balances	<u>\$ 1,326,979</u>	<u>\$ 90,147</u>	<u>\$ 1,417,126</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2021

Fund Balances as reported on page 4	\$ 887,039
Net Position reported for governmental activities in the Statement of Net Position (page 2) is different from Fund Balances for governmental activities because:	
Capital assets used in governmental activities are financial resources and therefore are not reported in fund financial statements. Those assets consist of:	
Land	\$ 516,426
Other capital assets, net of \$561,839 accumulated depreciation	<u>1,291,895</u>
Total capital assets	<u>1,808,321</u>
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Deferred outflows of resources as related to the net pension liability	9,975
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Net pension liability	(19,536)
Other liabilities used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Deferred inflows of resources as related to the net pension liability	<u>(10,047)</u>
Net Position of Governmental Activities as reported on page 2	<u><u>\$2,675,752</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 65,482	\$ -	\$ 65,482
Local taxes	465,539	-	465,539
State taxes	-	3,935	3,935
Franchise agreement	62,074	-	62,074
Grants and contributions	1,006,914	24,255	1,031,169
Interest income	489	-	489
Licenses and permits	84,780	-	84,780
Miscellaneous other fees	8,302	-	8,302
	<u>1,693,580</u>	<u>28,190</u>	<u>1,721,770</u>
EXPENDITURES			
Current:			
General	1,221,479	-	1,221,479
Library	16,020	-	16,020
Parks and recreation	8,901	-	8,901
Public safety	85,325	-	85,325
Public works	34,933	-	34,933
Capital outlay	105,019	-	105,019
Total expenditures	<u>1,471,677</u>	<u>-</u>	<u>1,471,677</u>
Excess (deficiency) of revenue over expenditures	<u>221,903</u>	<u>28,190</u>	<u>250,093</u>
NET CHANGES IN FUND BALANCES	221,903	28,190	250,093
Fund balances-beginning of year	<u>574,989</u>	<u>61,957</u>	<u>636,946</u>
FUND BALANCES-END OF YEAR	<u><u>\$ 796,892</u></u>	<u><u>\$ 90,147</u></u>	<u><u>\$ 887,039</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Net changes in fund balances--total governmental funds, page 6 \$ 250,093

Amounts reported for governmental activities in the Statement of Activities (page 3) are different from the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the lives of the assets:

Capital outlays for the year	\$ 105,019	
Depreciation expense for the year	<u>(50,789)</u>	
		54,230

Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in the governmental funds.

Retirement expense		<u>(1,351)</u>
--------------------	--	----------------

Changes in Net Position of Government Activities, page 3 \$ 302,972

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Magnolia Springs, Alabama, (the “Town”), was incorporated under the applicable laws of the State of Alabama on June 29, 2006. The Town operates under a Mayor-Council form the government and provides the following services to its citizens: public improvements, planning and zoning, and other general administrative services.

The following is a summary of the more significant policies.

A. REPORTING ENTITY

The financial statements of the Town have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes, the Town includes those funds, account groups, agencies, boards, commissions, and authorities for which the Town has the ability to exercise its oversight responsibility and provides financial and managerial assistance.

B. BASIS OF PRESENTATION—GOVERNMENT-WIDE AND FUND LEVEL

Government-wide

The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program of function and, therefore, are clearly identifiable to a particular function.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Level

The governmental fund level financial statements are presented on a current financial resource and modified accrual basis of accounting. Since governmental fund level financial statements are presented on a different basis of accounting and measurement focus than governmental activities in the government-wide presentation, a summary is presented to explain adjustments necessary to reconcile fund level statements to the government-wide presentation.

The accounts of the Town are organized on the basis of funds which are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into broad fund categories as follows:

Governmental Funds:

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources.

Impact of Recently Issued Accounting Principles

GASB Statement No. 87, *Leases*, was issued to improve the consistency of accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of GASB Statement No. 87 are effective for the fiscal year 2022. The Town is currently evaluating the impact that this statement may have on the financial statements.

GASB Statement 92, Omnibus 2020, was issued as guidance addressing various accounting and financial reporting issues identified during the implementation and application of GASB Statement No. 87, *Leases*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, GASB Statement No. 84, *Fiduciary Activities*, and the measurement of liabilities and assets, if any, related to asset retirement obligations in a government acquisition. The various requirements of GASB Statement No. 92 are effective as early as fiscal year 2022. The Town is currently evaluating the impact that this statement may have on its consolidated financial statements.

(continued)

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement 93, Replacement of Interbank Offered Rate, was issued as result of global reference rate reform, in which LIBOR is expected to cease to exist, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The requirements of GASB Statement No. 93 are effective for the fiscal year 2022. The Town is currently evaluating the impact that this statement may have on its consolidated financial statements.

GASB Statement 96, Subscription-Based Information Technology Arrangements, was issued to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end by (1) defining a SBITA, (2) establishing that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability, (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (4) note disclosures regarding a SBITA. The requirements of GASB Statement No. 96 are effective for the fiscal year 2023. The Town is currently evaluating the impact that this statement may have on its consolidated financial statements.

C. CAPITAL ASSETS

The accounting treatment concerning capital assets depends on whether the assets are used for fund level or government-wide reporting.

In government-wide reporting, all fixed assets are reported as capital assets for governmental-type activities. The Town has not established a minimum capitalization threshold at this time. Depreciation is provided on all capital assets at the government-wide level.

In fund reporting, capital assets are reported as expenditures by governmental funds.

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated. The County contributed roads and bridges to the Town on August 7, 2007 in the amount of \$1,600,000.

Depreciation is allocated as an expense in the Statement of Activities (government-wide level) and accumulated depreciation is reflected in the Statement of Net Position (government-wide level). Depreciation has been provided over the estimated useful lives using the straight-line rates as follows:

Infrastructure assets	30 years
Vehicles and equipment	5 - 10 years

(continued)

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. COMPENSATED ABSENCES

Town employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. At year end, there were no accrued compensated absences.

E. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual that is when they become both "measurable" and "available" to finance expenditures of the current period. Ad valorem and other taxes collected by an intermediary are considered "measurable" when in the hand of the intermediary collecting governments and may be recognized as revenue at that time. Expenditures, generally, are recorded at the time liabilities are incurred.

The revenues susceptible to accrual are taxes, franchise fees and intergovernmental revenues. Taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

F. PROPERTY TAX

All ad valorem taxes levied by the state, county and any municipality in Baldwin County are assessed by the Tax Assessor and collected by the Revenue Commissioner of Baldwin County. The Baldwin County property tax calendar requires the Revenue Commissioner to assess and attach taxes as enforceable liens on property as of September 30 and taxes are due October 1 thru December 31. Property taxes not paid by January 1 are considered as delinquent. Tax collections received by the County Revenue Commissioner are remitted to the Town on a monthly basis. In accordance with implementation of GASB Statement No. 33, revenue is recorded based upon taxes assessed and considered available.

(continued)

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

H. BUDGETS AND BUDGETARY ACCOUNTING

The budget is adopted annually at the beginning of each fiscal year. The Mayor and members of the Town Council are responsible for the adoption of amendments to the budget. All appropriations lapse at the end of each fiscal year. A budget was not adopted for the special revenue fund.

I. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. NET POSITION AND EQUITY CLASSIFICATIONS

Government-wide Financial Statements

GASB Statement No. 63 requires the classification of net position (formerly net assets in GASB Statement No. 34) into three components

- Net investment in capital assets—Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather that portion of the debt or deferred inflows of resources is included in the same net position component as the unspent proceeds.
- Restricted net position—Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- Unrestricted net position—Consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

(continued)

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

The fund equity of the governmental fund financial statements is classified as fund balance. In March 2009, the GASB adopted a standard that establishes a hierarchy based on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

Fund balance is classified into one of the following five categories:

- Non-spendable fund balance—Consists of amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance—Consists of fund balances with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) the Town's own laws through its enabling legislation and other provisions of its laws and regulations.
- Committed fund balance—Consists of fund balances that are useable only for specific purposes by formal action of the government's highest level of decision making authority. The Town's highest level of decision making lies with the Mayor of the Town and the Town Council. In order to establish, modify or rescind a fund balance commitment, the Mayor and Town Council must pass a law by formal action committing the funds.
- Assigned fund balance—Consists of fund balances that are intended to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself, or (2) a subordinate high-level body or official which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Mayor and the Town Council have the power to assign fund balance amounts to specific purposes. The governing body must vote to grant authorization of assigned fund balances to specific purposes.
- Unassigned fund balance—All other fund balances that do not meet the definition of "Non-spendable, restricted, committed, or assigned fund balances."

The Town considers restricted fund balances to have been spent when both restricted and unrestricted fund balances are available. Also, the Town considers assigned and committed fund balances to have been spent when unassigned or unrestricted amounts are available. The Town does not have a formal minimum fund balance policy.

K. SUBSEQUENT EVENTS

The Town has evaluated subsequent events through June 16, 2022, the date which the financial statements were available to be issued. On January 14, 2022, the Town received a line of credit with an available balance of \$750,000 to fund hurricane damage expenses until they are reimbursed by FEMA. The line of credit has an interest rate of 1.969% and matures February 14, 2023.

There were no other material subsequent events which require disclosure in the September 30, 2021 financial statements.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 2 DEPOSITS AND INVESTMENTS

Investment Credit Risk

The Town 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 statutes authorize the Town's investments. The Town is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations to the state, and SEC registered mutual funds holding like maturities. The Town has no investment policy that further limits investment choices.

Custodial Credit Risk

The Town is a participant in the Security for Alabama Funds Enhancement (SAFE) Program, a multiple financial institution collateral pool, administered by the State of Alabama. The program, by law, provides administration of pledged collateral coverage for all governments and agencies in the State and requires qualified financial institutions to provide collateral to the administrator adequate to secure all deposits of public funds in that financial institution. The State guarantees deposits identified as "public funds" will be adequately secured by insurance or collateral. Any collateral shortages of one financial institution are assessed to other member financial institutions.

NOTE 3 CAPITAL ASSETS

Changes in capital assets during the fiscal year were as follows:

	Balance 10/1/2020	Additions	Retirements	Balance 9/30/2021
<i>Governmental Activities</i>				
<i>Capital assets not being depreciated</i>				
Land	\$ 516,426	\$ -	\$ -	\$ 516,426
<i>Capital assets being depreciated</i>				
Roads and buildings	1,682,828	85,229	-	1,768,057
Leasehold improvements	36,911	11,551	-	48,462
Vehicles and equipment	28,976	8,239	-	37,215
Total capital assets being depreciated	1,748,715	105,019	-	1,853,734
Less accumulated depreciation	(511,050)	(50,789)	-	(561,839)
Total capital assets being depreciated	1,237,665	54,230	-	1,291,895
Capital assets, net	\$1,754,091	\$ 54,230	\$ -	\$ 1,808,321

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 4 OPERATING LEASE

On June 1, 2021, the Town signed a 3 year non-cancelable operating lease for use of the Town Hall building. lease terms include monthly payments of \$700 for the first two years and \$750 for the last year. The future minimum lease payments are as follows:

2022	\$ 8,400
2023	8,550
2024	<u>6,750</u>
Total	<u>\$ 23,700</u>

NOTE 5 PENSION PLAN

The Employees' Retirement System of Alabama (the Plan or ERS) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

General Information about the Pension Plan

Plan Description

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the Code of Alabama 1975, Title 36, Chapter 27 (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and, on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The Code of Alabama 1975, Title 36, Chapter 27 grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

1. The Governor, ex officio.
2. The State Treasurer, ex officio.
3. The State Personnel Director, ex officio.
4. The State Director of Finance, ex officio.
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
6. Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

- a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
- b. Two vested active state employees.
- c. Two vested active employees of an employer participating in ERS pursuant to the Code of Alabama 1975, Section 36-27-6.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

Act 132 of the Legislature of 2019 allowed employers who participate in the ERS pursuant to Code of Alabama 1975, Section 36-27-6 to provide Tier 1 retirement benefits to their Tier 2 members. Tier 2 members of employers adopting Act 2019-132 will contribute 7.5% of earnable compensation for regular employees and 8.5% for firefighters and law enforcement officers. A total of 590 employers adopted Act 2019-132.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

As of September 30, 2020, the Town membership consisted of:

	<u>Number</u>
Retired members or their beneficiaries currently receiving benefits	1
Vested inactive members	-
Non-vested inactive members	2
Active members	-
	<u>3</u>

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation.

Employers participating in the ERS pursuant to Code of Alabama 1975, Section 36-27-6 were not required by statute to increase covered member contribution rates but were provided the opportunity to do so through Act 2011-676. By adopting Act 2011-676 Tier 1 regular members contribution rates increased from 5% to 7.5% of earnable compensation and Tier 1 firefighters and law enforcement officers increased from 6% to 8.5% of earnable compensation.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contribution rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2021, the Town's active employee contribution rate was 5% for Tier 1 – Regular, 6% for Tier 1 – FLC, 6% for Tier 2 – Regular and 7% for Tier 2 - FLC of covered employee payroll, and the Town's average contribution rate to fund the normal and accrued liability costs was 7.15% of pensionable payroll.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

Town's contractually required contribution rate for the year ended September 30, 2021, was 8.09% of pensionable pay for Tier 1 employees and 5.59% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2017, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan were \$6,211 for the year ended September 30, 2021.

Net Pension Liability

The Town's net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2019, rolled forward to September 30, 2020, using standard roll-forward techniques as shown in the following table:

	Expected	Actual Before Act 2019-132	Actual After Act 2019-132
(a) Total Pension Liability as of September 30, 2019	\$ 194,700	\$ 189,156	\$ 193,628
(b) Discount rate	7.70%	7.70%	7.70%
(c) Entry Age Normal Cost for the period October 1, 2019 to September 30, 2020	4,886	4,886	6,675
(d) Transfers Among Employers:	-	-	-
(e) Actual Benefit Payments & Refunds for October 1, 2019 to September 30, 2020	<u>(16,302)</u>	<u>(16,302)</u>	<u>(16,302)</u>
(f) Total Pension Liability as of September 30, 2020 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1+.5*(b))]	<u>\$ 197,648</u>	<u>\$ 191,677</u>	<u>\$ 198,282</u>
(g) Difference between Expected and Actual:		\$ (5,971)	
(h) Less Liability Transferred for Immediate Recognition		-	
(i) Difference between Expected and Actual - Experience (Gain)/Loss		\$ (5,971)	
(j) Difference between Actual TPL Before and After Act 2019-132 - Benefit Change (Gain)/Loss			\$ 6,605

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

Actuarial Assumptions

The total pension liability as of September 30, 2020, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2019. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25%-5.00%
Investment rate of return*	7.70%

*Net of pension plan investment expense

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2018, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

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

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
Inter'ntl Developed Mkt Stks	12.0%	9.5%
Inter'ntl Emerging Mkt Stks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash	3.0%	1.5%

Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2019	\$ 194,700	\$ 180,070	\$ 14,630
Changes for the year:			
Service cost	4,886	-	4,886
Interest	14,364	-	14,364
Changes of benefit terms	6,605	-	6,605
Changes of assumptions	-	-	-
Differences between expected and actual experience	(5,971)	-	(5,971)
Contributions - employer	-	788	(788)
Contributions - employee	-	4,222	(4,222)
Net investment income	-	9,968	(9,968)
Benefit payments, including refunds of employee contributions	(16,302)	(16,302)	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net Changes	<u>3,582</u>	<u>(1,324)</u>	<u>4,906</u>
Balances at September 30, 2020	<u>\$ 198,282</u>	<u>\$ 178,746</u>	<u>\$ 19,536</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Town's net pension liability calculated using the discount rate of 7.70%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage-point higher (8.70%) than the current rate (dollar amounts in thousands):

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Net pension liability	\$ 37,860	\$ 19,536	\$ 3,745

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2020. The auditor's report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

For the year ended September 30, 2021, the Town recognized pension expense of \$6,211. At September 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,047
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	5,693	-
Employer contributions subsequent to measurement date*	4,282	-
Total	<u>\$ 9,975</u>	<u>\$ 10,047</u>

*FY2021 Employer Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TOWN OF MAGNOLIA SPRINGS, ALABAMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 5 PENSION PLAN (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ending September 30,		
2022	\$	(1,982)
2023		(435)
2024		243
2025		(84)
2026		(775)
Thereafter		<u>(1,321)</u>
	\$	<u><u>(4,354)</u></u>

NOTE 6 UNCERTANTIES WITH REGARD TO COVID-19

On January 30, 2020, the World Health Organization declared the COVID-19 (Coronavirus) outbreak a “Public Health Emergency of International Concern”. On March 11, 2020, it was declared to be a pandemic. The spread of the virus has caused business disruption. Actions taken to mitigate the spread include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. While it is unknown how long these conditions will last and what complete financial effect this will have on the Town, the Town has taken action to mitigate this risk and does not expect a significant decline in revenue in fiscal year 2022.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MAGNOLIA SPRINGS, ALABAMA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL FUND
SEPTEMBER 30, 2021

	Original/Final Budget	Actual	Variance with Final Budget Over/ (Under)
REVENUES			
Property taxes	\$ 63,300	\$ 65,482	\$ 2,182
Local taxes	324,711	465,539	140,828
Franchise agreement	62,038	62,074	36
Grants and contributions	-	1,006,914	1,006,914
Interest income	5,180	489	(4,691)
Licenses and permits	115,500	84,780	(30,720)
Miscellaneous other fees	7,695	8,302	607
	<u>578,424</u>	<u>1,693,580</u>	<u>1,115,156</u>
EXPENDITURES			
Current:			
General	282,793	1,221,479	938,686
Library	19,000	16,020	(2,980)
Parks and recreation	5,180	8,901	3,721
Public safety	69,000	85,325	16,325
Public works	200,500	34,933	(165,567)
Capital outlay	-	105,019	105,019
Total expenditures	<u>576,473</u>	<u>1,471,677</u>	<u>895,204</u>
Excess (deficiency) of revenue over expenditures	<u>\$ 1,951</u>	<u>\$ 221,903</u>	<u>\$ 219,952</u>
Fund balances-beginning of year		<u>574,989</u>	
FUND BALANCES-END OF YEAR		<u>\$ 796,892</u>	

TOWN OF MAGNOLIA SPRINGS, ALABAMA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
 SEPTEMBER 30, 2021

Total pension liability	2020	2019	2018	2017	2016	2015
Service cost	\$ 4,886	\$ 4,327	\$ -	\$ -	\$ 4,006	\$ 3,803
Interest	14,364	14,281	14,366	13,733	10,977	9,954
Changes of benefit terms	6,605	-	-	-	-	-
Differences between expected and actual experience	(5,971)	(8,195)	(700)	552	(5,175)	(968)
Changes of assumptions	-	-	702	-	30,178	-
Benefit payments, including refunds of employee contributions	(16,302)	(16,302)	(12,227)	-	-	-
Transfers among employers	-	6,965	-	-	-	-
Net change in total pension liability	3,582	1,076	2,141	14,285	39,986	12,789
Total pension liability- beginning	194,700	193,624	191,483	177,198	137,212	124,423
Total pension liability- ending (a)	\$ 198,282	\$ 194,700	\$ 193,624	\$ 191,483	\$ 177,198	\$ 137,212
Plan fiduciary net position						
Contributions- employer	\$ 788	\$ 848	\$ 929	\$ 2,275	\$ 2,439	\$ 2,297
Contributions- member	4,222	2,825	2,112	2,235	2,284	2,142
Net investment income	9,968	4,579	15,735	19,563	13,695	1,523
Benefit payments, including refunds of employee contributions	(16,302)	(16,302)	(12,227)	-	-	-
Transfers among employers	-	6,965	-	-	-	-
Net change in plan fiduciary net position	(1,324)	(1,085)	6,549	24,073	18,418	5,962
Plan net position- beginning	180,070	181,155	174,606	150,533	132,115	126,153
Plan net position- ending (b)	\$ 178,746	\$ 180,070	\$ 181,155	\$ 174,606	\$ 150,533	\$ 132,115
Net pension liability (asset)- ending (a) - (b)	\$ 19,536	\$ 14,630	\$ 12,469	\$ 16,877	\$ 26,665	\$ 5,097
Plan fiduciary net position as a percentage of the total pension liability	90.15%	92.49%	93.56%	91.19%	84.95%	96.29%
Covered payroll *	\$ 67,417	\$ 70,375	\$ 54,395	\$ 47,455	\$ 50,941	\$ 41,598
Net pension liability (asset) as a percentage of covered payroll	28.98%	20.79%	22.92%	35.56%	52.34%	12.25%

* Employer's covered payroll during the measurement period is the total covered payroll. For FY2021 the measurement period is October 1, 2019 - September 30, 2020. GASB issued a statement "Pension Issues" in March, 2016 to redefine covered payroll for FY2017.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

TOWN OF MAGNOLIA SPRINGS, ALABAMA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 SEPTEMBER 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution*	\$ 4,282	\$ 788	\$ 845	\$ 982	\$ 2,275	\$ 2,431	\$ 2,216
Contributions in relation to the contractually required contribution*	<u>4,282</u>	<u>788</u>	<u>845</u>	<u>982</u>	<u>2,275</u>	<u>2,431</u>	<u>2,216</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered employee-payroll**	\$ 67,417	\$ 70,375	\$ 57,271	\$ 54,395	\$ 47,455	\$ 45,676	\$ 42,846
Contributions as a percentage of covered-employee payroll	6.35%	1.12%	1.48%	1.81%	4.79%	5.32%	5.17%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

*The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial

**Employer's covered payroll for FY 2021 is the total covered payroll for the 12 month period of the underlying financial statement.

COMPLIANCE SECTION



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

Honorable Mayor and Members
of the Town Council

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Town of Magnolia Springs, Alabama's basic financial statements, and have issued our report thereon dated June 16, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Magnolia Springs, Alabama'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 Town of Magnolia Springs, Alabama's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Magnolia Springs, Alabama'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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the following paragraph that we consider to be a significant deficiency.

Segregation of Duties

Our study and evaluation disclosed that because of the limited size of your accounting staff, your organization has limited segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization is not large enough to permit an adequate segregation of duties in all respects, it is important that you be aware of this condition.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Magnolia Springs, Alabama's financial statements are free from 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*.

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 results 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.

Avizo Group, Inc.

Certified Public Accountants

June 16, 2022
Fairhope, Alabama



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and Members
of the Town Council

Report on Compliance for Each Major Federal Program

We have audited the Town of Magnolia Springs' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Magnolia Springs' major federal programs for the year ended September 30, 2021. Town of Magnolia Springs' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Magnolia Springs' major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Town of Magnolia Springs' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Magnolia Springs' compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Magnolia Springs, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control over Compliance

Management of the Town of Magnolia Springs, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Magnolia Springs' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Town of Magnolia Springs' 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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Avizo Group, Inc.

Certified Public Accountants

June 16, 2022
Fairhope, Alabama

TOWN OF MAGNOLIA SPRINGS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through Alabama Emergency Management:			
Disaster Grants - Public Assistance	97.036	4563-DR-AL	
Disaster Grants - Public Assistance	97.036	Category A	\$ 766,953
Disaster Grants - Public Assistance	97.036	Category Z	9,255
Total U.S. Department of Homeland Security			<u>776,208</u>
Total Expenditures of Federal Awards			<u>\$ 776,208</u>

TOWN OF MAGNOLIA SPRINGS
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2021

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal activity of Town of Magnolia Springs under the programs of the federal government for the year ended September 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position or changes in net position of Town of Magnolia Springs.

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented based on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related liability is incurred.

Indirect Cost Rate

The Board has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance

TOWN OF MAGNOLIA SPRINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

SECTION 1-SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of opinion issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? X Yes None reported
Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditors' report issued on compliance of major programs: Unmodified

Internal control over major programs:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? Yes X None reported
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants - Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

SECTION 2-FINANCIAL STATEMENT FINDINGS (GAGAS)

No matters were reportable

SECTION 3-FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reportable.