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City of Magnolia, Texas*

ANNUAL FINANCIAL REPORT

of the

**CITY OF MAGNOLIA,
TEXAS**

For the Year Ended
September 30, 2009

CITY OF MAGNOLIA, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Magnolia, Texas:

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component units, and each major fund of the City of Magnolia, Texas (the "City") as of and for the year then ended September 30, 2009, which collectively comprise the City's 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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component units, and each major fund of the City as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, the budgetary comparisons, and pension information are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Belt Harris & Associates, LLP

Belt Harris & Associates, LLP
Certified Public Accountants
Houston, Texas
November 30, 2009

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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CITY OF MAGNOLIA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

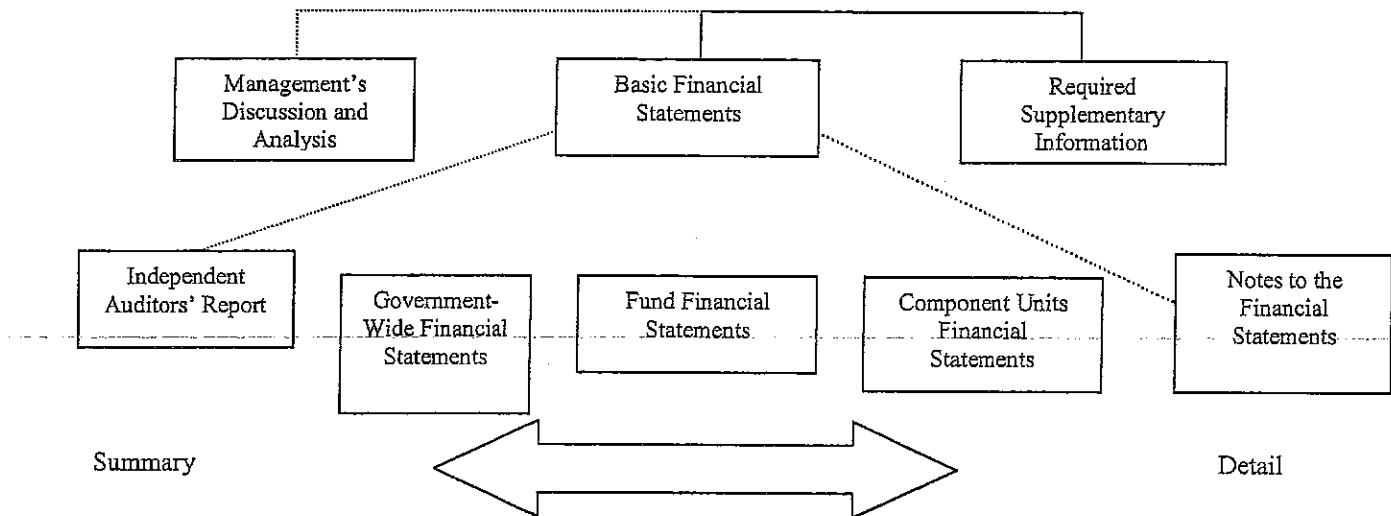
September 30, 2009

The purpose of the Management's Discussion and Analysis ("MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the City of Magnolia, Texas (the "City") for the year ending September 30, 2009. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

The table of contents presented at the beginning of this report provides an overview of the structure of the City's report, as well as the page numbers where the respective sections can be located within the report, as more fully described below.

Components of the Financial Section



The Annual Financial Report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

CITY OF MAGNOLIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2009

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here, including general government, public safety, and public works. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities – The City's services involving a fee for those services are reported here. These are the City's water and sewer services.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, being the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects fund and the special revenue fund – HB445, which are considered to be major funds. While the debt service and capital projects fund did not technically qualify as major funds, management has elected to present them as major for reporting purposes due to their significance.

CITY OF MAGNOLIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2009

The City adopts an annual appropriated budget for its general fund, special revenue fund, and debt service fund. A budgetary comparison schedule has been provided for the general fund, special revenue fund and debt service fund to demonstrate compliance with this budget.

Proprietary Funds

The City maintains one type of proprietary fund, enterprise funds, to account for all "business like" activities. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the respective enterprise funds.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund and special revenue fund – HB445 and a schedule of funding progress for the Texas Municipal Retirement System.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. Assets exceeded liabilities by \$3,575,871 at year end.

A large portion of the City's net assets, \$1,497,373, reflects its investments in capital assets (e.g., land, city hall, police station, drainage systems, as well as the public works facilities) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF MAGNOLIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2009

CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 780,399	\$ 655,280	\$ 2,496,138	\$ 2,262,591	\$ 3,276,537	\$ 2,917,871
Capital assets, net	3,504,353	3,404,285	4,827,221	5,005,586	8,331,574	8,409,871
Total Assets	4,284,752	4,059,565	7,323,359	7,268,177	11,608,111	11,327,742
Long-term liabilities	2,240,899	2,322,698	4,637,378	4,705,000	6,878,277	7,027,698
Other liabilities	964,144	599,221	189,819	215,884	1,153,963	815,105
Total Liabilities	3,205,043	2,921,919	4,827,197	4,920,884	8,032,240	7,842,803
Net Assets:						
Invested in capital assets, net of related debt	1,307,530	1,136,591	189,843	300,586	1,497,373	1,437,177
Restricted	409,420	221,663	-	-	409,420	221,663
Unrestricted	(637,241)	(220,608)	2,306,319	2,046,707	1,669,078	1,826,099
Total Net Assets	\$ 1,079,709	\$ 1,137,646	\$ 2,496,162	\$ 2,347,293	\$ 3,575,871	\$ 3,484,939

A portion of the primary government's net assets, 11%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$1,669,078 may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City remained relatively the same. The City's debt-to-total assets remains high requiring the City to allocate a large amount of resources to pay the debt.

The following table provides a summary of the City's changes in net assets:

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$ 546,372	\$ 527,863	\$ 1,463,497	\$ 1,245,330	\$ 2,009,869	\$ 1,773,193
Operating grants and contributions	39,470	-	-	-	39,470	-
General revenues:						
Property taxes	388,191	337,984	-	-	388,191	337,984
Sales taxes	1,207,500	1,220,279	-	-	1,207,500	1,220,279
Other revenue	270,830	362,854	45,251	61,165	316,081	424,019
Total Revenues	2,452,363	2,448,980	1,508,748	1,306,495	3,961,111	3,755,475
Expenses						
General government	696,677	673,578	-	-	696,677	673,578
Public safety	1,523,597	1,377,970	-	-	1,523,597	1,377,970
Public works	196,653	175,879	-	-	196,653	175,879
Interest and fiscal agent fees on long-term debt	118,373	119,173	240,193	243,889	358,566	363,062
Water and sewer systems	-	-	1,094,686	1,294,709	1,094,686	1,294,709
Total Expenses	2,535,300	2,346,600	1,334,879	1,538,598	3,870,179	3,885,198
Transfers	25,000	(676,688)	(25,000)	676,688	-	-
Change in Net Assets	(57,937)	(574,308)	148,869	444,585	90,932	(129,723)
Beginning Net Assets	1,137,646	1,711,954	2,347,293	1,902,708	3,484,939	3,614,662
Ending Net Assets	\$ 1,079,709	\$ 1,137,646	\$ 2,496,162	\$ 2,347,293	\$ 3,575,871	\$ 3,484,939

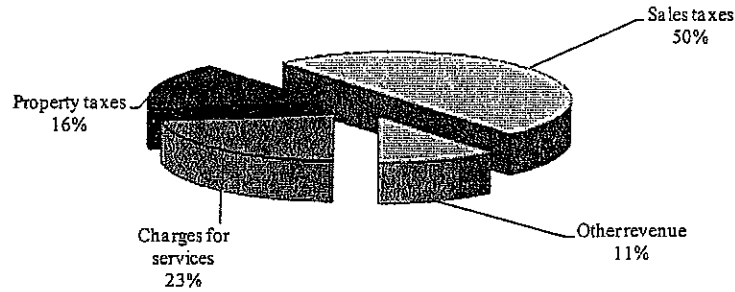
CITY OF MAGNOLIA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

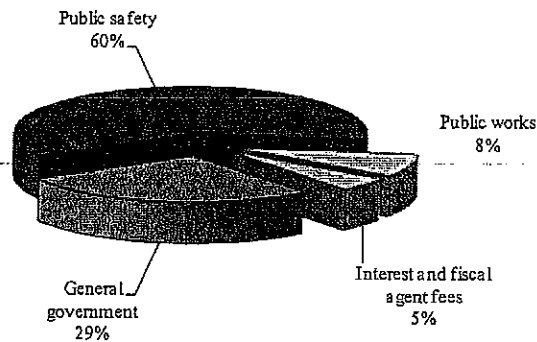
September 30, 2009

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

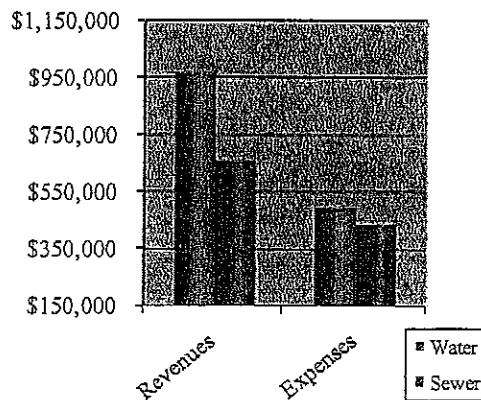
Governmental Activities - Revenues



Governmental Activities - Expenses



Business-Type Activities - Revenues and Expenses



CITY OF MAGNOLIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2009

Governmental Activities

Total revenues remained comparable to the prior year with a slight increase of \$3,383. Total expenses increased by eight percent over the prior year, much of which is due to the rise in the cost for public safety.

Business-Type Activities

Revenues for business-type activities increased \$202,253 or 15 percent in comparison to the prior year; contributing to the overall positive changes in net assets of \$148,869.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The City's governmental funds reflect a combined deficit fund balance of \$325,831. Of this, \$198,485 is reserved for special revenue fund – HB445, \$74,621 for tourism, \$108,623 for municipal court, and \$27,405 for debt service.

The general fund reported a decrease in fund balance due in part to the increase in cost for public safety.

The debt service fund reported an increase in fund balance as a result of property taxes received exceeding bond payments during the year.

The capital projects fund experienced an increase in fund balance due to the City not having any projects in the current year.

The special revenue fund increased fund balance by \$88,897 as a result of sales tax received exceeding the amount for capital outlay.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year, the general fund had total revenues of \$2,035,380, a negative budget variance of \$201,600 from the final budget. This variance is primarily due to property taxes and sales taxes reporting less than expected revenues during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of the year, the City's governmental activities and business-type activities had invested \$3,504,353 and \$4,827,221 respectively, in a variety of capital assets and infrastructure net of accumulated depreciation.

More detailed information about the City's capital assets is presented in the notes to the financial statements.

CITY OF MAGNOLIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2009

Long-Term Debt - At the end of the current year, the City had total long-term debt in governmental activities of \$2,240,899.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is experiencing a period of growth, property values are increasing and commercial development continues.

Management for the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the timely preparation of financial statements in conformity with generally accepted accounting principles. Thus, in future fiscal periods, it is the Mayor's and Council's objective to support staff in acquiring and implementing management and financial software (for fund accounting, utility billing, municipal court, and public safety) sufficient to satisfy these requirements and to meet the customer-service demands that accompany the City's expansion.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Administrator, City of Magnolia, Texas, 18111 Buddy Riley Blvd, Magnolia, Texas, 77355.

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FINANCIAL STATEMENTS

CITY OF MAGNOLIA, TEXAS

STATEMENT OF NET ASSETS

September 30, 2009

		Primary Government	
		Governmental Activities	Business-Type Activities
			Total
Assets			
Cash and equity in pooled cash	\$	451,987	\$ 2,471,863
Receivables, (net of allowance for uncollectible)		251,353	440,616
Due from component units		9,238	9,238
Internal balances		(53,230)	-
Total Current Assets		659,348	2,921,717
Deferred charges		121,051	354,820
Capital assets:			
Non-depreciable		144,873	253,507
Net depreciable		3,359,480	8,078,067
Total Noncurrent Assets		3,625,404	8,686,394
Total Assets		4,284,752	11,608,111
Liabilities			
Accounts payable and accrued liabilities		279,205	307,299
Deficit pooled cash		672,225	672,225
Customer deposits		-	66,830
Due to others		-	-
Due to primary government		-	-
Accrued interest payable		12,714	107,609
		964,144	1,153,963
Noncurrent liabilities:			
Long-term liabilities due within one year		106,057	191,791
Long-term liabilities due in more than one year		2,134,842	6,686,486
		2,240,899	6,878,277
Total Liabilities		3,205,043	8,032,240
Net Assets			
Invested in capital assets, net of related debt		1,307,530	1,497,373
Restricted for:			
Debt service		27,691	27,691
Municipal court		108,623	108,623
Tourism		74,621	74,621
HB445		198,485	198,485
Economic development		-	-
Community development		-	-
Unrestricted		(637,241)	1,669,078
Total Net Assets	\$	1,079,709	\$ 3,575,871

See Notes to Financial Statements.

Component Units	
4A Economic Development	4B Community Development
\$ 3,024,035	\$ 480,288
77,698	38,849
-	-
-	-
<u>3,101,733</u>	<u>519,137</u>
91,900	-
15,845	-
<u>1,183,958</u>	<u>1,548</u>
<u>1,291,703</u>	<u>1,548</u>
<u>4,393,436</u>	<u>520,685</u>
62,468	13,013
-	-
-	-
	1,702
4,706	4,532
<u>15,219</u>	<u>-</u>
<u>82,393</u>	<u>19,247</u>
105,000	83,017
<u>2,899,350</u>	<u>5,778</u>
<u>3,004,350</u>	<u>88,795</u>
<u>3,086,743</u>	<u>108,042</u>
425,488	1,548
-	-
-	-
-	-
-	-
881,205	-
-	411,095
-	-
<u>\$ 1,306,693</u>	<u>\$ 412,643</u>

CITY OF MAGNOLIA, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 696,677	\$ 36,188	39,470
Public safety	1,523,597	510,184	-
Public works	196,653	-	-
Interest and fiscal agent fees on long-term debt	118,373	-	-
Total Governmental Activities	<u>2,535,300</u>	<u>546,372</u>	<u>39,470</u>
Business-Type Activities			
Water	658,430	968,577	-
Sewer	436,256	494,920	-
Interest and fiscal agent fees on long-term debt	240,193	-	-
Total Business-Type Activities	<u>1,334,879</u>	<u>1,463,497</u>	<u>-</u>
Total Primary Government	<u>\$ 3,870,179</u>	<u>\$ 2,009,869</u>	<u>\$ 39,470</u>
Component Units			
4A Economic development	\$ 565,631	\$ -	\$ -
4B Community development	102,719	-	-
Total Component Units	<u>\$ 668,350</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Other revenue

Investment income

Transfers

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	4A Economic Dev	4B Community Dev
\$ (621,019)	\$ -	\$ (621,019)	\$ -	\$ -
(1,013,413)	-	(1,013,413)	-	-
(196,653)	-	(196,653)	-	-
(118,373)	-	(118,373)	-	-
(1,949,458)	-	(1,949,458)	-	-
-	310,147	310,147	-	-
-	58,664	58,664	-	-
-	(240,193)	(240,193)	-	-
-	128,618	128,618	-	-
(1,949,458)	128,618	(1,820,840)	-	-
-	-	-	(565,631)	-
-	-	-	-	(102,719)
-	-	-	(565,631)	(102,719)
388,191	-	388,191	-	-
1,207,500	-	1,207,500	478,769	235,454
213,733	-	213,733	-	-
47,551	-	47,551	27,837	11,302
9,546	45,251	54,797	-	-
25,000	(25,000)	-	-	-
1,891,521	20,251	1,911,772	506,606	246,756
(57,937)	148,869	90,932	(59,025)	144,037
1,137,646	2,347,293	3,484,939	1,365,718	268,606
\$ 1,079,709	\$ 2,496,162	\$ 3,575,871	\$ 1,306,693	\$ 412,643

CITY OF MAGNOLIA, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2009

	General	Debt Service	Capital Projects	Special Revenue-HB445
<u>Assets</u>				
Cash and equity in pooled cash	\$ -	\$ 27,905	\$ -	\$ 424,082
Receivables, net	199,504	13,000	-	38,849
Due from component units	9,238	-	-	-
Due from other funds	168,993	-	-	-
Total Assets	<u>\$ 377,735</u>	<u>\$ 40,905</u>	<u>\$ -</u>	<u>\$ 462,931</u>
<u>Liabilities</u>				
Accounts payable				
and accrued liabilities	\$ 182,252	\$ -	\$ -	\$ 96,953
Deficit pooled cash	615,091	-	57,134	-
Deferred revenue	20,749	13,000	-	-
Due to other funds	53,230	500	1,000	167,493
Total Liabilities	<u>871,322</u>	<u>13,500</u>	<u>58,134</u>	<u>264,446</u>
<u>Fund Balances</u>				
Reserved for:				
HB 445	-	-	-	198,485
Tourism	74,621	-	-	-
Debt service	-	27,405	-	-
Municipal court	108,623	-	-	-
Unreserved/ undesignated	(676,831)	-	(58,134)	-
Total Fund Balances	<u>(493,587)</u>	<u>27,405</u>	<u>(58,134)</u>	<u>198,485</u>
Total Liabilities and Fund Balances	<u>\$ 377,735</u>	<u>\$ 40,905</u>	<u>\$ -</u>	<u>\$ 462,931</u>

Adjustments for the Statement of Net Assets:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	\$ 144,873
Capital assets - net depreciable	<u>3,359,480</u>

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable	\$ (12,714)
Deferred charges	121,051
Non-current liabilities due in one year	(106,057)
Non-current liabilities due in more than one year	<u>(2,134,842)</u>

Net Assets of Governmental Activities

See Notes to Financial Statements.

Total

\$ 451,987
251,353
9,238
168,993
\$ 881,571

\$ 279,205
672,225
33,749
222,223
1,207,402

198,485
74,621
27,405
108,623
(734,965)
(325,831)

3,504,353

33,749

(2,132,562)
\$ 1,079,709

CITY OF MAGNOLIA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2009

	General	Debt Service	Capital Projects	Special Revenue-HB445
<u>Revenues</u>				
Property taxes	\$ 220,139	\$ 167,055	\$ -	\$ -
Sales taxes	968,115	-	-	239,385
Franchise fees	167,336	-	-	-
Hotel occupancy tax	46,397	-	-	-
Contributions	39,470	-	-	-
Licenses and permits	36,188	-	-	-
Fines and forfeitures	510,184	-	-	-
Other revenue	47,551	-	-	-
Investment revenue	-	920	128	8,498
Total Revenues	2,035,380	167,975	128	247,883
<u>Expenditures</u>				
Current:				
General government	675,389	-	-	-
Public safety	1,448,225	-	-	-
Public works	120,864	-	-	-
Capital Outlay	124,459	-	-	158,986
Debt Service:				
Principal	51,838	60,000	-	-
Interest and fiscal charges	6,293	105,641	-	-
Total Expenditures	2,427,068	165,641	-	158,986
Excess of Revenues Over Expenditures	(391,688)	2,334	128	88,897
<u>Other Financing Sources (Uses)</u>				
Transfers in	25,000	-	-	-
Total Other Financing Sources (Uses)	25,000	-	-	-
Net Change in Fund Balance	(366,688)	2,334	128	88,897
Beginning Fund Balances	(126,899)	25,071	(58,262)	109,588
Ending Fund Balances	\$ (493,587)	\$ 27,405	\$ (58,134)	\$ 198,485

See Notes to Financial Statements.

Total
Governmental
Funds

\$	387,194
	1,207,500
	167,336
	46,397
	39,470
	36,188
	510,184
	47,551
	9,546
	<u>2,451,366</u>

675,389
1,448,225
120,864
283,445

111,838
111,934
<u>2,751,695</u>

(300,329)

25,000

25,000

(275,329)

(50,502)

\$ (325,831)

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CITY OF MAGNOLIA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2009

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$	(275,329)
---	----	-----------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		298,645
Depreciation expense		(198,578)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		997
--	--	-----

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal expenditures		111,838
Deferred charges		(6,724)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Accrued interest		286
Compensated absences		10,928

	\$	(57,937)
--	----	----------

See Notes to Financial Statements.

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CITY OF MAGNOLIA, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

September 30, 2009

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,957,246	\$ 62,630	\$ 2,019,876
Receivables, net	131,829	57,434	189,263
Due from other funds	53,230	-	53,230
Deferred charges	233,769	-	233,769
Total Current Assets	2,376,074	120,064	2,496,138
Noncurrent Assets:			
Capital assets:			
Non-depreciable	108,634	-	108,634
Depreciable capital assets	6,378,995	-	6,378,995
Less: accumulated depreciation	(1,660,408)	-	(1,660,408)
Total Capital Assets			
(Net of Accumulated Depreciation)	4,827,221	-	4,827,221
Total Assets	7,203,295	120,064	7,323,359
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities	10,172	17,922	28,094
Customer deposits	66,830	-	66,830
Accrued interest payable	94,895	-	94,895
Total Current Liabilities	171,897	17,922	189,819
Noncurrent Liabilities:			
Due within one year	85,734	-	85,734
Due in more than one year	4,551,644	-	4,551,644
Total Noncurrent Liabilities	4,637,378	-	4,637,378
Total Liabilities	4,809,275	17,922	4,827,197
Net Assets			
Invested in capital assets, net of related debt	189,843	-	189,843
Unrestricted	2,204,177	102,142	2,306,319
Total Net Assets	\$ 2,394,020	\$ 102,142	\$ 2,496,162

See Notes to Financial Statements.

CITY OF MAGNOLIA, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND

For the Year Ended September 30, 2009

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<u>Operating Revenues</u>			
Service revenues	\$ 874,429	\$ 482,627	\$ 1,357,056
Penalty and interest revenues	8,573	-	8,573
Tap revenues	12,475	12,293	24,768
Impact fees	73,100	-	73,100
Total Operating Revenues	968,577	494,920	1,463,497
<u>Operating Expenses</u>			
Personnel	123,547	141,596	265,143
Contracted services	225,954	152,401	378,355
Services	91,545	121,073	212,618
Supplies	134	12,759	12,893
Insurance	10,989	5,927	16,916
Professional fees	2,500	2,500	5,000
Depreciation	203,761	-	203,761
Total Operating Expenses	658,430	436,256	1,094,686
Operating Income	310,147	58,664	368,811
<u>Nonoperating Revenues (Expenses)</u>			
Investment earnings	44,210	1,041	45,251
Interest expense	(240,193)	-	(240,193)
Total Nonoperating Revenues (Expenses)	(195,983)	1,041	(194,942)
Transfers	(25,000)	-	(25,000)
Change in Net Assets	89,164	59,705	148,869
Beginning Net Assets	2,304,856	42,437	2,347,293
Ending Net Assets	\$ 2,394,020	\$ 102,142	\$ 2,496,162

See Notes to Financial Statements.

CITY OF MAGNOLIA, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2009

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 871,167	\$ 454,867	\$ 1,326,034
Payments to suppliers	(396,487)	(313,841)	(710,328)
Payments to employees	(123,547)	(141,596)	(265,143)
Net Cash Provided (Used) by Operating Activities	351,133	(570)	350,563
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers (out)	(25,000)	-	(25,000)
Net Cash (Used) by Noncapital Financing Activities	(25,000)	-	(25,000)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal paid on debt	(19,632)	-	(19,632)
Interest paid on debt	(240,193)	-	(240,193)
Net Cash (Used) by Capital and Related Financing Activities	(259,825)	-	(259,825)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	44,210	1,041	45,251
Net Cash Provided by Investing Activities	44,210	1,041	45,251
Net Increase in Cash and Cash Equivalents	110,518	471	110,989
Beginning Cash and Cash Equivalents	1,846,728	62,159	1,908,887
Ending Cash and Cash Equivalents	\$ 1,957,246	\$ 62,630	\$ 2,019,876
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ 310,147	\$ 58,664	\$ 368,811
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	203,761	-	203,761
(Increase) Decrease in:			
Accounts receivable	(90,855)	(40,053)	(130,908)
Due from other funds	-	-	-
Prepaid costs	-	-	-
Deferred charges	8,349	-	8,349
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(72,086)	(19,181)	(91,267)
Accrued interest payable	(1,628)	-	(1,628)
Customer deposits	(6,555)	-	(6,555)
Net Cash Provided (Used) by Operating Activities	\$ 351,133	\$ (570)	\$ 350,563

See Notes to Financial Statements.

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CITY OF MAGNOLIA, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Magnolia, Texas (the "City") was incorporated under the laws of the State of Texas on September 28, 1968. The City has operated under a "General Law" City which provides for a "Mayor-Council" form of government.

The City provides the following services: general government, public safety, public works, water service, and sewer service.

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units

Economic Development Corporation – 4A

On September 8, 1997, the City incorporated the "City of Magnolia Economic Development Corporation." The purpose is to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City, and for improving the assessed valuations through the promotion of: (a) existing business enterprise expansion and retention and (b) new business enterprise development and attraction by developing, implementing, providing and financing projects. A one-half percent City sales tax is designed for this purpose.

Community Development Corporation – 4B

On June 21, 1995, the City incorporated the "City of Magnolia Community Development Corporation." The purpose is to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and to encourage employment and the public welfare of, for and on behalf of the City, and for parks, auditoriums, learning centers, open space improvements, athletic and exhibition facilities, and other related

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

improvements and for maintenance and operating costs of publicly owned and operated projects by developing, implementing, providing and financing projects. A one-half percent city sales tax was designated for this purpose until September 14, 2002, when the voters approved reducing the 4B's City sales tax to one-fourth of a percent of the city sales tax.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all the City's activities;
- A change in the fund financial statements to focus on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, including restricted 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.
- **Restricted** - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

C. 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 about the City as a whole. These statements include all 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 Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is 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 or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, and fines and forfeitures. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for the expenditures of resources accumulated from road project grants to construct or acquire capital facilities and improvements. The capital projects fund is considered a major fund for reporting purposes.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted or designated for specified activities. The HB445 fund, used to account for the receipt and expenditure of funds received from additional sales tax within the City, is considered a major fund for reporting purposes.

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

operating revenues and expenses from non operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board's (FASB) standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its proprietary funds as presented by GASB.

Enterprise Funds

The enterprise funds are used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise funds are considered major funds for reporting purposes.

D. Measurement Focus and Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type and component units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are 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 pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

The Statements of Net Assets, Statements of Activities, and financial statements of proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts are displayed on the combined balance sheet as "Cash and equity in pooled cash."

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivable and payables are classified as "due to/from component unit/primary government". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in an applicable governmental fund to indicate that they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectible amounts.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

Property Taxes

All taxes due to the City on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31 of the subsequent year, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest as the Council may provide by ordinance.

Property taxes attach as an enforceable lien on property as of January 1 each year. Montgomery County Tax Assessor-Collector bills and collects taxes on behalf of the City.

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of four years for personal property and \$25,000 or more for buildings and infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 20 years
Furniture and equipment	5 to 20 years
Infrastructure	20 to 75 years
Buildings and improvements	20 to 75 years

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

5. Compensated Employee Absences

The City maintains formal programs for vacation and sick leave. The City's full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums.

The estimated amount of compensation for services provided that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it upon maturity. Amounts of vested or accumulated sick leave and compensatory time that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities' or business-type activities' Statement of Net Assets. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on improvement bonds and certificate of obligation debt is provided by the tax along with the interest earned in the debt service fund.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

7. 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.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

8. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the capital projects funds, which adopt a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the object and purpose stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made during the year.

A. Deficit Fund Balances

For the year ended, deficit fund balances were reported in the following funds:

General fund	\$493,587
Capital projects fund	\$58,134

B. Excess of Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General Fund:	
Municipal Court	\$72,815
Public Works	\$8,406
Capital Outlay	\$124,459
Debt Service	\$98

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City is not involved in any active investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2009, market values of pledged securities and FDIC insurance exceeded bank balances.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Special Revenue	Water	Sewer
Property taxes	\$ 20,748	\$ 13,000	\$ -	\$ -	\$ -
Sales taxes	155,395	-	38,849	-	-
Others	23,361	-	-	-	-
Accounts	-	-	-	173,829	71,434
Allowance	-	-	-	(42,000)	(14,000)
	<u>\$ 199,504</u>	<u>\$ 13,000</u>	<u>\$ 38,849</u>	<u>\$ 131,829</u>	<u>\$ 57,434</u>

C. Capital Assets

A summary of changes in capital assets for governmental activities for the year end was as follows:

	Primary Government		
	Beginning Balance	Increases	Ending Balance
Governmental Activities:			
Capital assets not being depreciated:			
Land	\$ 20,414	\$ 124,459	\$ 144,873
Construction in progress	-	-	-
Total capital assets not being depreciated	<u>20,414</u>	<u>124,459</u>	<u>144,873</u>
Other capital assets:			
Vehicles and equipment	573,562	15,200	588,762
Buildings and improvements	679,865	-	679,865
Infrastructure	4,810,383	158,987	4,969,370
Total other capital assets	<u>6,063,810</u>	<u>174,187</u>	<u>6,237,997</u>
Less accumulated depreciation for:			
Vehicles and equipment	(430,267)	(47,568)	(477,835)
Buildings and improvements	(33,578)	(20,258)	(53,836)
Infrastructure	(2,216,094)	(130,752)	(2,346,846)
Total accumulated depreciation	<u>(2,679,939)</u>	<u>(198,578)</u>	<u>(2,878,517)</u>
Other capital assets, net	<u>3,383,871</u>	<u>(24,391)</u>	<u>3,359,480</u>
Totals	<u>\$ 3,404,285</u>	<u>\$ 100,068</u>	<u>\$ 3,504,353</u>
		Less associated debt	(2,196,823)
		Invested in capital assets, net of related debt	<u>\$ 1,307,530</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 32,216
Public safety	90,573
Public works	<u>75,789</u>
Total Governmental Activities Depreciation Expense	<u>\$ 198,578</u>

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

The following is a summary of changes in capital assets for business-type activities for the year ended:

	Primary Government			
	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 108,634	\$ -	\$ -	\$ 108,634
Total capital assets not being depreciated	108,634	-	-	108,634
Other capital assets:				
Equipment	105,508	25,396	-	130,904
Water system	6,248,091	-	-	6,248,091
Total other capital assets	6,353,599	25,396	-	6,378,995
Less accumulated depreciation for:				
Equipment	(105,508)	(5,729)	-	(111,237)
Water system	(1,351,139)	(198,032)	-	(1,549,171)
Total accumulated depreciation	(1,456,647)	(203,761)	-	(1,660,408)
Other capital assets, net	4,896,952	(178,365)	-	4,718,587
Totals	\$ 5,005,586	\$ (178,365)	\$ -	\$ 4,827,221
			Less associated debt	(4,637,378)
			Invested in capital assets, net of related debt	\$ 189,843

Depreciation was charged to business-type functions as follows:

Water	\$ 203,761
Total Business-Type Activities Depreciation Expense	\$ 203,761

	Component Unit			
	Beginning Balance	Increases	(Decreases)	Ending Balance
4A Corporation				
Capital assets not being depreciated:				
Land	\$ 15,845	* \$ -	\$ -	\$ 15,845
Construction in progress	14,864	-	(14,864)	-
Total capital assets not being depreciated	30,709	-	-	15,845
Other capital assets:				
Buildings and improvements	714,620	-	-	714,620
Pavement improvements	839,645	-	-	839,645
Equipment	7,150	-	-	7,150
Total other capital assets	1,561,415	-	-	1,561,415
Less accumulated depreciation for:				
Buildings and improvements	(123,542)	(17,866)	-	(141,408)
Pavement improvements	(190,012)	(41,982)	-	(231,994)
Equipment	(1,672)	(2,383)	-	(4,055)
Total accumulated depreciation	(315,226)	(62,231)	-	(377,457)
Other capital assets, net	1,246,189	(62,231)	-	1,183,958
Totals	<u>\$ 1,276,898</u>	<u>\$ (62,231)</u>	<u>\$ -</u>	<u>\$ 1,199,803</u>
			Less associated debt	(3,004,350)
			Plus unspent proceeds	2,230,035
			Invested in capital assets, net of related debt	\$ 425,488

*Beginning balance has been restated

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

	Component Unit			
	Beginning Balance	Increases	(Decreases)	Ending Balance
4B Corporation				
Other capital assets:				
Equipment	\$ 7,150	-	-	\$ 7,150
Total other capital assets	7,150	-	-	7,150
Less accumulated depreciation for:				
Equipment	(3,219)	(2,383)	-	(5,602)
Total accumulated depreciation	(3,219)	(2,383)	-	(5,602)
Other capital assets, net	3,931	(2,383)	-	1,548
Totals	\$ 3,931	\$ (2,383)	\$ -	\$ 1,548

D. Long-Term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Certificates of obligation	\$ 2,190,000	\$ -	\$ 60,000	\$ 2,130,000	* \$ 65,000
Capital leases	118,661	-	51,838	66,823	* 41,057
	<u>2,308,661</u>	<u>-</u>	<u>111,838</u>	<u>2,196,823</u>	<u>106,057</u>
Other liabilities:					
Compensated absences	55,004	-	10,928	44,076	-
Total Governmental Activities	<u>\$ 2,363,665</u>	<u>\$ -</u>	<u>\$ 122,766</u>	<u>\$ 2,240,899</u>	<u>\$ 106,057</u>
Long-term liabilities due in more than one year				<u>\$ 2,134,842</u>	
Business-Type Activities:					
Revenue bonds	\$ 4,705,000	\$ -	\$ 80,000	\$ 4,625,000	* \$ 80,000
Capital leases	-	17,753	5,375	12,378	* 5,734
	<u>\$ 4,705,000</u>	<u>\$ 17,753</u>	<u>\$ 85,375</u>	<u>\$ 4,637,378</u>	<u>\$ 85,734</u>
Long-term liabilities due in more than one year				<u>\$ 4,551,644</u>	
4A Corporation					
Revenue bonds	\$ 565,000	\$ 2,565,000	\$ 100,000	\$ 3,030,000	* \$ 105,000
Discount	-	(25,650)	-	(25,650)	* -
Capital leases	164,593	-	164,593	-	-
	<u>\$ 729,593</u>	<u>\$ 2,539,350</u>	<u>\$ 264,593</u>	<u>\$ 3,004,350</u>	<u>\$ 105,000</u>
Long-term liabilities due in more than one year				<u>\$ 2,899,350</u>	
4B Corporation					
Capital leases	\$ 165,816	\$ -	\$ 77,021	\$ 88,795	\$ 83,017
Long-term liabilities due in more than one year				<u>\$ 5,778</u>	

*Debt associated with capital assets.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

Long-term liabilities applicable to the City's governmental activities' are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt was comprised of the following debt issues:

Description	Interest Rates	Balance
Business-Type Activities		
Revenue Bonds		
Series 2006	4.0-5.20%	\$ 4,625,000
Governmental Activities		
Certificates of Obligation		
Series 2004	4.93-4.93%	\$ 660,000
Series 2006	4.5-4.75%	1,470,000
Total Certificates of Obligation		\$ 2,130,000
Component unit- 4A Corporation		
Revenue Bonds		
Series 2003	5%	\$ 465,000
Series 2009	6.5-6.75%	2,565,000
Total Revenue Bonds		\$ 3,030,000

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sep 30	Business-Type Revenue Bonds		4A Corporation - Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 80,000	\$ 231,345	\$ 105,000	\$ 189,975
2011	85,000	228,125	115,000	184,725
2012	90,000	224,763	120,000	178,975
2013	95,000	221,130	125,000	172,975
2014-2018	525,000	1,019,256	955,000	720,850
2019-2023	665,000	879,535	1,295,000	380,363
2024-2028	860,000	690,672	315,000	21,263
2029-2033	1,110,000	439,286	-	-
2034-2037	1,115,000	119,470	-	-
Total	\$ 4,625,000	\$ 4,053,582	\$ 3,030,000	\$ 1,849,126

Year Ending Sep 30	Certificates of Obligation		4B Corporation - Capital Leases	
	Principal	Interest	Principal	Interest
2010	\$ 65,000	\$ 101,726	\$ 83,017	\$ 2,952
2011	70,000	98,564	5,778	73
2012	75,000	95,178	-	-
2013	75,000	91,545	-	-
2014-2018	455,000	399,721	-	-
2019-2023	700,000	266,348	-	-
2024-2027	690,000	83,601	-	-
Total	\$ 2,130,000	\$ 1,136,683	\$ 88,795	\$ 3,025

Year Ending Sep 30	Governmental Capital Leases		Business-Type Capital Leases	
	Principal	Interest	Principal	Interest
2010	\$ 41,057	\$ 1,739	\$ 5,734	\$ 635
2011	25,766	311	6,118	251
2012	-	-	526	5
Total	\$ 66,823	\$ 2,050	\$ 12,378	\$ 891

Capital assets acquired under current capital lease obligations were a total of \$212,383 less accumulated depreciation of \$113,616, net \$98,767 for governmental assets. Enterprise capital assets acquired under current capital lease obligations were total of \$25,396 less accumulated depreciation of \$5,729, net \$19,667.

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities (streets, drainage, public safety, water and wastewater) and equipment for general government and enterprise fund activities. These instruments include general obligation bonds, certificates of obligation, and revenue bonds. Future ad valorem tax revenues, water and sewer system revenues, or liens on property and equipment secure these debt obligations.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

Federal Arbitrage

General obligation bonds, combination tax and revenue bonds and certificates of obligation are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.

E. Interfund Transactions

The compositions of interfund balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General	Capital Projects	\$ 1,000
General	Special Revenue	167,493
General	Debt Service	500
Water	General Fund	53,230
	Total	\$ 222,223

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

F. Fund Equity

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The following is a list of fund balance reserved or designated recognized by the City:

General Fund		
* Reserved for tourism	\$	74,621
* Reserved for municipal court		108,623
Debt Service Fund		
Reserved for debt service	\$	27,405
Special Revenue Fund-HB445		
Reserved for HB445	\$	198,485

*Restricted by enabling legislation

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 833 administered by TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8611. In addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2009</u>	<u>2008</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yr of service)	60/5, 0/25	60/5, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. City financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer financed monetary credits, with interest, were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 24-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as updated service credits and annuity increases.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2007 valuation is effective for rates beginning January 2009). The annual pension cost and the net pension obligation (asset) are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual Req. Contrib. (ARC)	\$ 35,494	\$ 34,515	\$ 31,274
Contributions Made	<u>\$ 35,494</u>	<u>\$ 34,515</u>	<u>\$ 31,274</u>
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarial Valuation Date	12/31/2008	12/31/2007	12/31/2006
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	24 Years - Closed period	25 Years - Closed period	25 Years - Open period
Asset Valuation Method	Amortized cost	Amortized cost	Amortized cost
Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	0%	0%	NA

The funded status as of December 31, 2008, the most recent valuation date, is as follows:

	<u>2009</u>
Actuarial Valuation Date	12/31/2008
Actuarial Value of Assets	\$ 563,750
Actuarial Accrued Liability	\$ 575,306
Percentage Funded	98.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 11,556
Annual Covered Payroll	\$ 1,022,705
UAAL as a Percentage of Covered Payroll	1.1%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2009

“other post employment benefit,” or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2009, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contribution rate to the TMRS SDBF, for the retiree portion, for the year ended September 30, 2009 is shown below.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual Req. Contrib. (Rate)	0.01%	0.02%	0.02%
Actual Contribution Made	0.01%	0.02%	0.02%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

E. Restatement

The City has restated the net assets for its governmental activities and 4A Economic Development component unit at the beginning of the year. The restatement of the beginning net assets for governmental activities and component unit is as follows:

	<u>Governmental Activities</u>	<u>4A Economic Development</u>
Prior year ending net assets, as reported	\$ 1,178,613	\$ 1,495,718
Change in reporting of assets	-	(130,000)
Change in reporting of liabilities	(40,967)	-
Restated beginning net assets	<u>\$ 1,137,646</u>	<u>\$ 1,365,718</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MAGNOLIA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2009

	Original Budgeted Amounts	Final Budgeted Amounts	2009 Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 249,236	\$ 249,236	\$ 220,139	\$ (29,097)
Sales taxes	1,165,578	1,165,578	968,115	(197,463)
Franchise fees	140,000	140,000	167,336	27,336
Hotel occupancy tax	32,000	32,000	46,397	14,397
Contributions	32,600	43,766	39,470	(4,296)
Licenses and permits	41,200	41,200	36,188	(5,012)
Fines and forfeitures	534,000	534,000	510,184	(23,816)
Other revenue	31,200	31,200	47,551	16,351
Total Revenues	2,225,814	2,236,980	2,035,380	(201,600)
Expenditures				
General government				
Administration	384,097	452,150	422,509	29,641
Finance	86,648	87,480	81,130	6,350
City Secretary	85,936	86,811	61,966	24,845
City Council	8,700	11,686	8,116	3,570
Facilities	103,650	106,245	101,668	4,577
Total General Government	669,031	744,372	675,389	68,983
Public safety				
Police	840,564	862,435	833,424	29,011
City Marshall	126,334	126,334	101,045	25,289
Municipal court	404,084	440,941	513,756	(72,815) *
Total Public Safety	1,370,982	1,429,710	1,448,225	(18,515)
Public works	109,758	112,458	120,864	(8,406) *
Capital outlay	-	-	124,459	(124,459) *
Debt service				
Principal	51,740	51,740	51,838	(98) *
Interest and fees	6,297	6,297	6,293	4
Total Debt Service	58,037	58,037	58,131	(94)
Total Expenditures	2,207,808	2,344,577	2,427,068	(82,491)
Other Financing Sources (Uses)				
Transfers in	25,000	25,000	25,000	-
Change in Fund Balance	\$ 43,006	\$ (82,597)	(366,688)	\$ (284,091)
Beginning Fund Balance			(126,899)	
Ending Fund Balance			\$ (493,587)	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Expenditures exceeded appropriations at the legal level of control.

CITY OF MAGNOLIA, TEXAS
SPECIAL REVENUE FUND - HB 445
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2009

	Original and Final Budgeted Amounts	2009 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales taxes	\$ 241,740	\$ 239,385	\$ (2,355)
Investment revenue	7,354	8,498	1,144
Total Revenues	<u>249,094</u>	<u>247,883</u>	<u>(1,211)</u>
<u>Expenditures</u>			
Capital outlay	230,000	158,986	71,014
Total Expenditures	<u>230,000</u>	<u>158,986</u>	<u>71,014</u>
Revenues Over (Under) Expenditures	<u>\$ 19,094</u>	88,897	<u>\$ 69,803</u>
Beginning Fund Balance		<u>109,588</u>	
Ending Fund Balance		<u>\$ 198,485</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF MAGNOLIA, TEXAS

SCHEDULE OF FUNDING PROGRESS- TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2009

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	2009	2008	2007
Actuarial Valuation Date	12/31/2008	12/31/2007	12/31/2006
Actuarial Value of Assets	\$ 563,750	\$ 493,031	\$ 429,853
Actuarial Accrued Liability	\$ 575,306	\$ 498,242	\$ 441,105
Percentage Funded	98.0%	99.0%	97.4%
Unfunded Actuarial			
Accrued Liability	\$ 11,556	\$ (1,662)	\$ 11,525
Annual Covered Payroll	\$ 1,022,705	\$ 800,006	\$ 800,760
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	1.1%	-0.2%	1.4%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 35,494	\$ 34,515	\$ 31,274
Contributions Made	\$ 35,494	\$ 34,515	\$ 31,274
NPO at the End of Period	\$ -	\$ -	\$ -

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SCHEDULES

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CITY OF MAGNOLIA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2009

	Original and Final Budgeted Amounts	2009 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property taxes	\$ 165,641	\$ 167,055	\$ 1,414
Investment revenue	1,350	920	(430)
Total Revenues	<u>166,991</u>	<u>167,975</u>	<u>984</u>
<u>Expenditures</u>			
Principal	60,000	60,000	-
Interest and fiscal charges	<u>105,641</u>	<u>105,641</u>	-
Total Expenditures	<u>165,641</u>	<u>165,641</u>	-
Revenues Over (Under) Expenditures	<u>\$ 1,350</u>	2,334	<u>\$ 984</u>
Beginning Fund Balance		<u>25,071</u>	
Ending Fund Balance		<u>\$ 27,405</u>	

Note to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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