

ANNUAL FINANCIAL REPORT

of the

**CITY OF MAGNOLIA,
TEXAS**

For the Year Ended
September 30, 2010

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CITY OF MAGNOLIA, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely present component units, each major fund, and the aggregate remaining fund information of the City of Magnolia, Texas (the "City") as of and for the year ended September 30, 2010, 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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010, 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. 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.

Providing Governmental & Nonprofit Audits Sealed with Excellence

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
December 10, 2010

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF MAGNOLIA, TEXAS

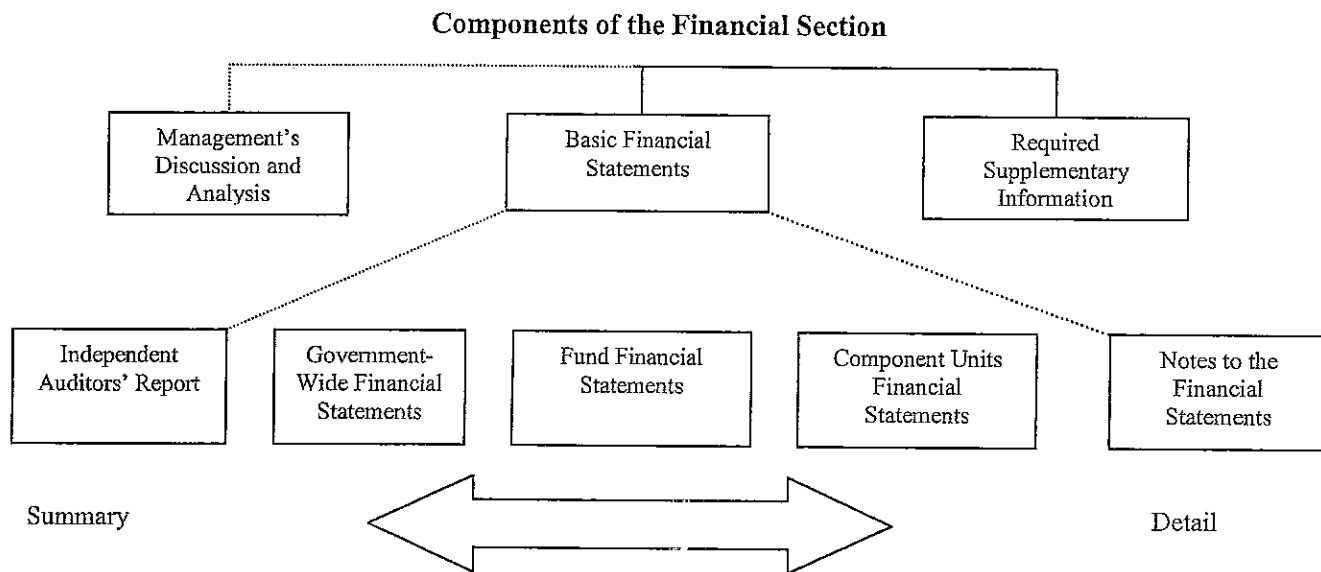
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2010

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, 2010. 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 the 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.



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, 2010

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 five 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, and capital projects fund, 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, 2010

The City adopts an annual appropriated budget for its general fund, special revenue fund – HB445, and debt service fund. A budgetary comparison schedule has been provided for the general fund, special revenue fund – HB445, 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 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 \$4,083,658 at year end.

A large portion of the City’s net assets, \$1,295,818, 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, 2010

CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,158,147	\$ 780,399	\$ 2,680,730	\$ 2,496,138	\$ 3,838,877	\$ 3,276,537
Capital assets, net	3,314,118	3,504,353	4,624,110	4,827,221	7,938,228	8,331,574
Total Assets	4,472,265	4,284,752	7,304,840	7,323,359	11,777,105	11,608,111
Long-term liabilities	2,124,046	2,240,899	4,551,644	4,637,378	6,675,690	6,878,277
Other liabilities	819,103	964,144	198,654	189,819	1,017,757	1,153,963
Total Liabilities	2,943,149	3,205,043	4,750,298	4,827,197	7,693,447	8,032,240
Net Assets:						
Invested in capital assets, net of related debt	1,223,352	1,307,530	72,466	189,843	1,295,818	1,497,373
Restricted	595,826	409,420	-	-	595,826	409,420
Unrestricted	(290,062)	(637,241)	2,482,076	2,306,319	2,192,014	1,669,078
Total Net Assets	\$ 1,529,116	\$ 1,079,709	\$ 2,554,542	\$ 2,496,162	\$ 4,083,658	\$ 3,575,871

A portion of the primary government's net assets, 15 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,192,014 may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved from the prior year. The City's total net assets increased by \$507,787 during the current fiscal year. This increase is primarily the result of an increase in property tax revenues and operating grants and contributions relating to several public safety grants.

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	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 627,773	\$ 546,372	\$ 1,231,926	\$ 1,463,497	\$ 1,859,699	\$ 2,009,869
Operating grants and contributions	196,127	39,470	-	-	196,127	39,470
General revenues:						
Property taxes	448,857	388,191	-	-	448,857	388,191
Sales taxes	1,156,185	1,207,500	-	-	1,156,185	1,207,500
Other revenue	298,176	270,830	17,233	45,251	315,409	316,081
Total Revenues	2,727,118	2,452,363	1,249,159	1,508,748	3,976,277	3,961,111
Expenses						
General government	711,931	696,677	-	-	711,931	696,677
Public safety	1,205,143	1,523,597	-	-	1,205,143	1,523,597
Public works	248,564	196,653	-	-	248,564	196,653
Interest and fiscal agent fees on long-term debt	112,073	118,373	236,973	240,193	349,046	358,566
Water and sewer systems	-	-	953,806	1,094,686	953,806	1,094,686
Total Expenses	2,277,711	2,535,300	1,190,779	1,334,879	3,468,490	3,870,179
Transfers	-	25,000	-	(25,000)	-	-
Change in Net Assets	449,407	(57,937)	58,380	148,869	507,787	90,932
Beginning Net Assets	1,079,709	1,137,646	2,496,162	2,347,293	3,575,871	3,484,939
Ending Net Assets	\$ 1,529,116	\$ 1,079,709	\$ 2,554,542	\$ 2,496,162	\$ 4,083,658	\$ 3,575,871

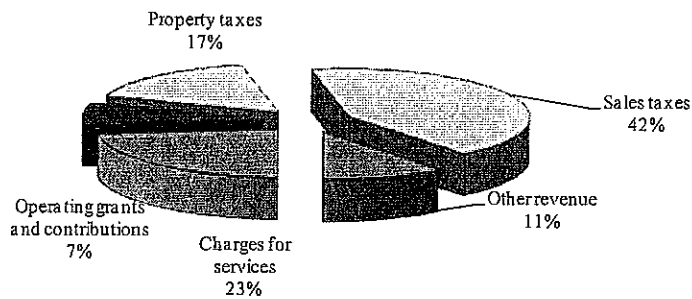
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

CITY OF MAGNOLIA, TEXAS

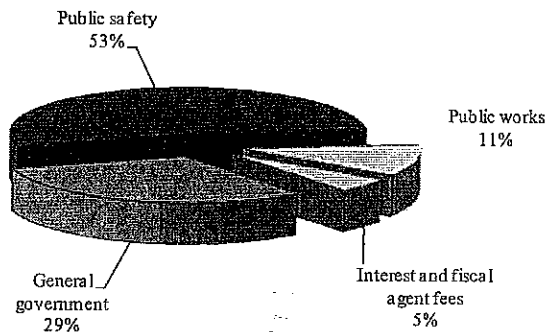
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2010

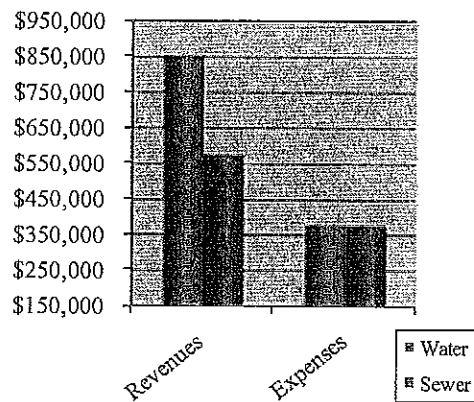
Governmental Activities - Revenues



Governmental Activities - Expenses



Business-Type Activities - Revenues and Expenses



CITY OF MAGNOLIA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2010

Governmental Activities

Total revenues remained comparable to the prior year with a slight increase of \$274,755. Total expenses decreased by ten percent from the prior year, much of which is due to the decrease in the cost for public safety during the year.

Business-Type Activities

Revenues for business-type activities decreased \$259,589 or 17 percent in comparison to the prior year. Expenses also decreased \$144,100 contributing to the overall positive change in net assets of \$58,380.

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 fund balance of \$190,468. Of this, \$429,807 is reserved for special revenue fund – HB445, \$25,501 for tourism, \$95,048 for municipal court, and \$45,077 for debt service.

The general fund reported an increase in fund balance of \$26,157, significantly less than the decrease in the prior year of \$366,688. This increase can be attributed to the City's concerted effort to reduce expenditures during the year.

The debt service fund reported an increase in fund balance of \$17,672.

The capital projects fund experienced a slight increase in fund balance due to the City not having any projects in the current year; however, as of year end, the fund has a deficit balance of \$58,042.

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 actual revenues of \$2,023,565, resulting in a negative variance of \$692,613 from the final budget. More than half of this negative variance is due to the negative variance for fines and forfeitures from the final amended budget. Total expenditures were less than the final amended budget by \$321,594. The majority of this positive variance can be seen in general government administration and public safety – municipal court.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – At the end of the year, the City's governmental activities and business-type activities had invested \$3,314,118 and \$4,624,110, 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, 2010

Long-Term Debt – At the end of the current year, the City had total long-term obligations in governmental activities of \$2,124,046, a reduction of \$116,853 from the prior year.

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

City anticipates an increase in property taxes due to the new property developing in the community. With the planned widening of highways FM1488 and FM1774, the Magnolia area will continue to grow with changes, challenges and an ever evolving image.

The main goal of the City is to maintain a small town atmosphere and to provide quality services to its citizens. With the support of Magnolia's Area Chamber of Commerce to promote the community and its businesses by enhancing commerce, tourism and beautification opportunities, the City will meet the needs of established and new businesses.

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, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and equity in pooled cash	\$ 661,205	\$ 1,867,563	\$ 2,528,768
Receivables, (net of allowance for uncollectible)	265,709	187,458	453,167
Investments	160,899	347,059	507,958
Due from component units	9,238	-	9,238
Internal balances	(53,230)	53,230	-
Total Current Assets	1,043,821	2,455,310	3,499,131
Deferred charges	114,326	225,420	339,746
Capital assets:			
Non-depreciable	144,873	108,634	253,507
Net depreciable	3,169,245	4,515,476	7,684,721
Total Noncurrent Assets	3,428,444	4,849,530	8,277,974
Total Assets	4,472,265	7,304,840	11,777,105
Liabilities			
Accounts payable and accrued liabilities	19,632	32,662	52,294
Deficit pooled cash	787,150	-	787,150
Retainage payable	-	-	-
Customer deposits	-	72,436	72,436
Due to others	-	-	-
Due to primary government	-	-	-
Accrued interest payable	12,321	93,556	105,877
	819,103	198,654	1,017,757
Noncurrent liabilities:			
Long-term liabilities due within one year	95,766	91,118	186,884
Long-term liabilities due in more than one year	2,028,280	4,460,526	6,488,806
	2,124,046	4,551,644	6,675,690
Total Liabilities	2,943,149	4,750,298	7,693,447
Net Assets			
Invested in capital assets, net of related debt	1,223,352	72,466	1,295,818
Restricted for:			
Debt service	45,470	-	45,470
Municipal court	95,048	-	95,048
Tourism	25,501	-	25,501
HB445	429,807	-	429,807
Economic development	-	-	-
Community development	-	-	-
Unrestricted	(290,062)	2,482,076	2,192,014
Total Net Assets	\$ 1,529,116	\$ 2,554,542	\$ 4,083,658

See Notes to Financial Statements.

Component Units	
4A Economic Development	4B Community Development
\$ 168,739	\$ 319,223
79,570	39,785
347,059	160,899
-	-
-	-
595,368	519,907
85,773	-
2,649,617	-
1,121,727	-
3,857,117	-
4,452,485	519,907
4,615	6,579
-	-
2,500	-
-	-
-	1,703
4,707	4,531
14,798	-
26,620	12,813
115,000	-
2,786,060	-
2,901,060	-
2,927,680	12,813
3,100,319	-
-	-
-	-
-	-
-	-
(1,575,514)	-
-	507,094
-	-
\$ 1,524,805	\$ 507,094

CITY OF MAGNOLIA, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 711,931	\$ 22,952	\$ 71,046
Public safety	1,205,143	604,821	125,081
Public works	248,564	-	-
Interest and fiscal agent fees on long-term debt	112,073	-	-
Total Governmental Activities	<u>2,277,711</u>	<u>627,773</u>	<u>196,127</u>
Business-Type Activities			
Water	576,388	854,371	-
Sewer	377,418	377,555	-
Interest and fiscal agent fees on long-term debt	236,973	-	-
Total Business-Type Activities	<u>1,190,779</u>	<u>1,231,926</u>	<u>-</u>
Total Primary Government	<u>\$ 3,468,490</u>	<u>\$ 1,859,699</u>	<u>\$ 196,127</u>
Component Units			
4A Economic development	\$ 697,700	\$ -	\$ 414,273
4B Community development	154,172	-	-
Total Component Units	<u>\$ 851,872</u>	<u>\$ -</u>	<u>\$ 414,273</u>

General Revenues:

Taxes

Property taxes
Sales taxes
Franchise and local taxes
Other revenue
Investment income

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
\$ (617,933)	\$ -	\$ (617,933)	\$ -	\$ -
(475,241)	-	(475,241)	-	-
(248,564)	-	(248,564)	-	-
(112,073)	-	(112,073)	-	-
(1,453,811)	-	(1,453,811)	-	-
-	277,983	277,983	-	-
-	137	137	-	-
-	(236,973)	(236,973)	-	-
-	41,147	41,147	-	-
(1,453,811)	41,147	(1,412,664)	-	-
-	-	-	(283,427)	-
-	-	-	-	(154,172)
-	-	-	(283,427)	(154,172)
448,857	-	448,857	-	-
1,156,185	-	1,156,185	454,341	227,171
177,521	-	177,521	-	-
107,508	-	107,508	-	2,938
13,147	17,233	30,380	46,659	18,514
1,903,218	17,233	1,920,451	501,000	248,623
449,407	58,380	507,787	217,573	94,451
1,079,709	2,496,162	3,575,871	1,307,232	412,643
\$ 1,529,116	\$ 2,554,542	\$ 4,083,658	\$ 1,524,805	\$ 507,094

CITY OF MAGNOLIA, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2010

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds
<u>Assets</u>				
Cash and equity in pooled cash	\$ -	\$ 21,858	\$ -	\$ 639,347
Receivables, net	207,329	18,595	-	39,785
Investments	-	-	-	160,899
Due from component units	9,238	-	-	-
Due from other funds	168,993	23,719	500	-
Total Assets	\$ 385,560	\$ 64,172	\$ 500	\$ 840,031
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 17,957	\$ -	\$ -	\$ 1,675
Deficit pooled cash	730,108	-	57,042	-
Deferred revenue	27,976	18,595	-	-
Due to other funds	76,949	500	1,500	167,493
Total Liabilities	852,990	19,095	58,542	169,168
<u>Fund Balances</u>				
Reserved for:				
HB 445	-	-	-	429,807
Tourism	25,501	-	-	-
Debt service	-	45,077	-	-
Municipal court	95,048	-	-	-
Unreserved/ undesignated	(587,979)	-	(58,042)	241,056
Total Fund Balances	(467,430)	45,077	(58,042)	670,863
Total Liabilities and Fund Balances	\$ 385,560	\$ 64,172	\$ 500	\$ 840,031

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	3,169,245

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	\$ (12,321)
Deferred charges	114,326
Non-current liabilities due in one year	(95,766)
Non-current liabilities due in more than one year	(2,028,280)

Net Assets of Governmental Activities

See Notes to Financial Statements.

<u>Total</u>	
\$	661,205
	265,709
	160,899
	9,238
	<u>193,212</u>
\$	<u><u>1,290,263</u></u>

\$	19,632
	787,150
	46,571
	<u>246,442</u>
	<u>1,099,795</u>

	429,807
	25,501
	45,077
	95,048
	<u>(404,965)</u>
	190,468

3,314,118

46,571

	<u>(2,022,041)</u>
\$	<u><u>1,529,116</u></u>

CITY OF MAGNOLIA, TEXAS

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

For the Year Ended September 30, 2010

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds
Revenues				
Property taxes	\$ 251,304	\$ 184,731	\$ -	\$ -
Sales taxes	918,115	-	-	238,070
Franchise fees	144,811	-	-	-
Hotel occupancy tax	32,710	-	-	-
Contributions	71,046	-	-	-
Licenses and permits	22,952	-	-	-
Fines and forfeitures	344,688	-	-	260,133
Intergovernmental	125,081	-	-	-
Other revenue	107,510	-	-	-
Investment revenue	5,348	666	92	7,041
Total Revenues	2,023,565	185,397	92	505,244
Expenditures				
Current:				
General government	691,018	-	-	19,140
Public safety	1,142,875	-	-	-
Public works	119,442	-	-	-
Capital outlay	-	-	-	13,726
Debt service:				
Principal	37,780	65,000	-	-
Interest and fiscal charges	6,293	102,725	-	-
Total Expenditures	1,997,408	167,725	-	32,866
Excess of Revenues Over (Under) Expenditures	26,157	17,672	92	472,378
Net Change in Fund Balances	26,157	17,672	92	472,378
Beginning Fund Balances	(493,587)	27,405	(58,134)	198,485
Ending Fund Balances	\$ (467,430)	\$ 45,077	\$ (58,042)	\$ 670,863

See Notes to Financial Statements.

Total Governmental Funds	
\$	436,035
	1,156,185
	144,811
	32,710
	71,046
	22,952
	604,821
	125,081
	107,510
	13,147
	<u>2,714,298</u>
	710,158
	1,142,875
	119,442
	13,726
	102,780
	109,018
	<u>2,197,999</u>
	516,299
	516,299
	(325,831)
\$	<u><u>190,468</u></u>

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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, 2010

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

Net changes in fund balances - total governmental funds	\$	516,299
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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.

Depreciation expense		(190,235)
----------------------	--	-----------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		12,822
--	--	--------

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		106,057
Deferred charges		(6,725)

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		393
Compensated absences		10,796

Change in Net Assets of Governmental Activities	\$	<u>449,407</u>
--	-----------	-----------------------

See Notes to Financial Statements.

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CITY OF MAGNOLIA, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

September 30, 2010

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 1,801,987	\$ 65,576	\$ 1,867,563
Receivables, net	134,415	53,043	187,458
Investments	347,059	-	347,059
Due from other funds	53,230	-	53,230
Total Current Assets	2,336,691	118,619	2,455,310
Noncurrent Assets:			
Deferred charges	225,420	-	225,420
Capital assets:			
Non-depreciable	- 108,634	-	108,634
Depreciable capital assets	6,378,995	-	6,378,995
Less: accumulated depreciation	(1,863,519)	-	(1,863,519)
Total Capital Assets			
(Net of Accumulated Depreciation)	4,624,110	-	4,624,110
Total Noncurrent Assets	4,849,530	-	4,849,530
Total Assets	7,186,221	118,619	7,304,840
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable and accrued liabilities	16,419	16,243	32,662
Customer deposits	72,436	-	72,436
Accrued interest payable	93,556	-	93,556
Total Current Liabilities	182,411	16,243	198,654
Noncurrent Liabilities:			
Due within one year	91,118	-	91,118
Due in more than one year	4,460,526	-	4,460,526
Total Noncurrent Liabilities	4,551,644	-	4,551,644
Total Liabilities	4,734,055	16,243	4,750,298
<u>Net Assets</u>			
Invested in capital assets, net of related debt	72,466	-	72,466
Unrestricted	2,379,700	102,376	2,482,076
Total Net Assets	\$ 2,452,166	\$ 102,376	\$ 2,554,542

See Notes to Financial Statements.

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

For the Year Ended September 30, 2010

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<u>Operating Revenues</u>			
Service revenues	\$ 804,010	\$ 375,705	\$ 1,179,715
Penalty and interest revenues	19,511	-	19,511
Tap revenues	4,150	1,850	6,000
Impact fees	26,700	-	26,700
Total Operating Revenues	854,371	377,555	1,231,926
<u>Operating Expenses</u>			
Personnel	136,739	112,895	249,634
Contracted services	197,134	122,343	319,477
Services	28,541	127,131	155,672
Supplies	2,183	8,928	11,111
Insurance	6,180	2,646	8,826
Professional fees	2,500	2,500	5,000
Maintenance	-	975	975
Depreciation	203,111	-	203,111
Total Operating Expenses	576,388	377,418	953,806
Operating Income	277,983	137	278,120
<u>Nonoperating Revenues (Expenses)</u>			
Investment earnings	17,136	97	17,233
Interest expense	(236,973)	-	(236,973)
Total Nonoperating Revenues (Expenses)	(219,837)	97	(219,740)
Change in Net Assets	58,146	234	58,380
Beginning Net Assets	2,394,020	102,142	2,496,162
Ending Net Assets	\$ 2,452,166	\$ 102,376	\$ 2,554,542

See Notes to Financial Statements.

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CITY OF MAGNOLIA, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2010

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 857,388	\$ 387,140	\$ 1,244,528
Payments to suppliers	(570,337)	(271,396)	(841,733)
Payments to employees	(136,739)	(112,895)	(249,634)
Net Cash Provided by Operating Activities	150,312	2,849	153,161
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal paid on debt	(85,734)	-	(85,734)
Interest paid on debt	(236,973)	-	(236,973)
Net Cash (Used) by Capital and Related Financing Activities	(322,707)	-	(322,707)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	17,136	97	17,233
Net Cash Provided by Investing Activities	17,136	97	17,233
Net Increase (Decrease) in Cash and Cash Equivalents	(155,259)	2,946	(152,313)
Beginning Cash and Cash Equivalents	1,957,246	62,630	2,019,876
Ending Cash and Cash Equivalents	\$ 1,801,987	\$ 65,576	\$ 1,867,563
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating income	\$ 277,983	\$ 137	\$ 278,120
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	203,111	-	203,111
(Increase) Decrease in:			
Accounts receivable	(2,589)	9,585	6,996
Investments	(347,059)	-	(347,059)
Deferred charges	8,349	-	8,349
Increase (Decrease) in:			
Accounts payable and accrued liabilities	6,249	(6,873)	(624)
Accrued interest payable	(1,338)	-	(1,338)
Customer deposits	5,606	-	5,606
Net Cash Provided by Operating Activities	\$ 150,312	\$ 2,849	\$ 153,161

See Notes to Financial Statements.

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CITY OF MAGNOLIA, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

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,

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

learning centers, open space improvements, athletic and exhibition facilities, and other related 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, 2010

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

Special revenue funds are 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, and the red light camera fund are considered nonmajor funds 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, 2010

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, 2010

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
- Mutual funds of a specific type
- 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."

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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.

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 \$25,000 or more for buildings and infrastructure and an estimated useful life in excess of four years for personal property. 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, 2010

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 certificates 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.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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.

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	\$467,430
Capital projects fund	\$58,042

B. Excess of Expenditures Over Appropriations

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

General fund:	
Public works	\$9,242
Debt service	\$6,000

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and 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, 2010, market values of pledged securities and FDIC insurance exceeded bank balances for the City and the component units.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

As of year end, the City and component units had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Risk</u>
U.S agencies	\$ 528,981	0.42	AAA
Commercial paper	103,742	8.38	AAA
Certificates of deposit	69,300	0.74	N/A
Money market	313,893	0.00	N/A
Total fair value	<u>\$ 1,015,916</u>		
Portfolio weighted average maturity		1.12	

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Water</u>	<u>Sewer</u>
Property taxes	\$ 27,976	\$ 18,595	\$ -	\$ -	\$ -
Sales taxes	159,134	-	39,785	-	-
Others	20,219	-	-	-	-
Accounts	-	-	-	180,373	76,022
Allowance	-	-	-	(45,958)	(22,979)
	<u>\$ 207,329</u>	<u>\$ 18,595</u>	<u>\$ 39,785</u>	<u>\$ 134,415</u>	<u>\$ 53,043</u>

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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	(Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 144,873	\$ -	\$ -	\$ 144,873
Construction in progress	-	-	-	-
Total capital assets not being depreciated	144,873	-	-	144,873
Other capital assets:				
Vehicles and equipment	588,762	-	-	588,762
Buildings and improvements	679,865	-	-	679,865
Infrastructure	4,969,370	-	-	4,969,370
Total other capital assets	6,237,997	-	-	6,237,997
Less accumulated depreciation for:				
Vehicles and equipment	(477,835)	(45,517)	-	(523,352)
Buildings and improvements	(53,836)	(20,258)	-	(74,094)
Infrastructure	(2,346,846)	(124,460)	-	(2,471,306)
Total accumulated depreciation	(2,878,517)	(190,235)	-	(3,068,752)
Other capital assets, net	3,359,480	(190,235)	-	3,169,245
Totals	\$ 3,504,353	\$ (190,235)	\$ -	\$ 3,314,118
			Less associated debt	(2,090,766)
			Invested in capital assets, net of related debt	\$ 1,223,352

Depreciation was charged to governmental functions as follows:

General government	\$ 12,569
Public safety	62,268
Public works	115,398
Total Governmental Activities Depreciation Expense	\$ 190,235

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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	130,904	-	-	130,904
Water system	6,248,091	-	-	6,248,091
Total other capital assets	6,378,995	-	-	6,378,995
Less accumulated depreciation for:				
Equipment	(111,237)	(5,079)	-	(116,316)
Water system	(1,549,171)	(198,032)	-	(1,747,203)
Total accumulated depreciation	(1,660,408)	(203,111)	-	(1,863,519)
Other capital assets, net	4,718,587	(203,111)	-	4,515,476
Totals	\$ 4,827,221	\$ (203,111)	\$ -	\$ 4,624,110
			Less associated debt	(4,551,644)
			Invested in capital assets, net of related debt	\$ 72,466

Depreciation was charged to business-type functions as follows:

Water	\$ 203,111
Total Business-Type Activities Depreciation Expense	\$ 203,111

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

	Component Unit		
	Beginning Balance	Increases	(Decreases) Ending Balance
4A Corporation			
Capital assets not being depreciated:			
Land	\$ 15,845	\$ -	\$ 15,845
Construction in progress	-	2,633,772	2,633,772
Total capital assets not being depreciated	15,845	2,633,772	2,649,617
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	(141,408)	(17,866)	(159,274)
Pavement improvements	(231,994)	(41,982)	(273,976)
Equipment	(4,055)	(2,383)	(6,438)
Total accumulated depreciation	(377,457)	(62,231)	(439,688)
Other capital assets, net	1,183,958	(62,231)	1,121,727
Totals	\$ 1,199,803	\$ 2,571,541	\$ 3,771,344
		Less associated debt	(2,901,060)
		Plus unspent proceeds	2,230,035
		Invested in capital assets, net of related debt	\$ 3,100,319

	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	(5,602)	(1,548)	(7,150)
Total accumulated depreciation	(5,602)	(1,548)	(7,150)
Other capital assets, net	1,548	(1,548)	-
Totals	\$ 1,548	\$ (1,548)	\$ -

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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	\$ 2,130,000	\$ -	\$ 65,000	\$ 2,065,000	* \$ 70,000
Capital leases	66,823	-	41,057	25,766	* 25,766
	<u>2,196,823</u>	<u>-</u>	<u>106,057</u>	<u>2,090,766</u>	<u>95,766</u>
Other liabilities:					
Compensated absences	44,076	-	10,796	33,280	-
Total Governmental Activities	<u>\$ 2,240,899</u>	<u>\$ -</u>	<u>\$ 116,853</u>	<u>\$ 2,124,046</u>	<u>\$ 95,766</u>
				<u>Long-term liabilities due in more than one year</u>	<u>\$ 2,028,280</u>
Business-Type Activities:					
Revenue bonds	\$ 4,625,000	\$ -	\$ 80,000	\$ 4,545,000	* \$ 85,000
Capital leases	12,378	-	5,734	6,644	* 6,118
	<u>\$ 4,637,378</u>	<u>\$ -</u>	<u>\$ 85,734</u>	<u>\$ 4,551,644</u>	<u>\$ 91,118</u>
				<u>Long-term liabilities due in more than one year</u>	<u>\$ 4,460,526</u>
4A Corporation					
Revenue bonds	\$ 3,030,000	\$ -	\$ 105,000	\$ 2,925,000	* \$ 115,000
Discount	(25,650)	-	(1,710)	(23,940)	* -
	<u>\$ 3,004,350</u>	<u>\$ -</u>	<u>\$ 103,290</u>	<u>\$ 2,901,060</u>	<u>\$ 115,000</u>
				<u>Long-term liabilities due in more than one year</u>	<u>\$ 2,786,060</u>
4B Corporation					
Capital leases	<u>\$ 88,795</u>	<u>\$ -</u>	<u>\$ 88,795</u>	<u>\$ -</u>	<u>\$ -</u>

*Debt associated with capital assets

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.

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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%	\$ 4,545,000
Governmental Activities		
Certificates of Obligation		
Series 2004	4.93-4.93%	\$ 605,000
Series 2006	4.5-4.75%	1,460,000
Total Certificates of Obligation		\$ 2,065,000
Component unit- 4A Corporation		
Revenue Bonds		
Series 2003	5%	\$ 360,000
Series 2009	6.5-6.75%	2,565,000
Total Revenue Bonds		\$ 2,925,000

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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
2011	\$ 85,000	\$ 224,763	\$ 115,000	\$ 184,725
2012	90,000	221,130	120,000	178,975
2013	95,000	217,197	125,000	172,975
2014	95,000	213,089	170,000	166,725
2015	100,000	208,797	180,000	155,675
2016-2020	575,000	968,255	1,070,000	600,613
2021-2025	740,000	810,950	1,145,000	199,464
2026-2030	950,000	598,048	-	-
2031-2035	1,230,000	318,271	-	-
2036-2037	585,000	30,810	-	-
Total	\$ 4,545,000	\$ 3,811,309	\$ 2,925,000	\$ 1,659,151

Year Ending Sep 30	Certificates of Obligation		Business-Type Capital Leases	
	Principal	Interest	Principal	Interest
2011	\$ 70,000	\$ 98,564	\$ 6,118	\$ 251
2012	75,000	95,178	526	5
2013	75,000	91,545	<u>\$ 6,644</u>	<u>\$ 256</u>
2014	80,000	87,912		
2015	80,000	84,032		
2016-2020	555,000	353,429		
2021-2025	770,000	198,410		
2026-2027	360,000	25,888		
Total	\$ 2,065,000	\$ 1,034,957		

Year Ending Sep 30	Governmental Capital Leases	
	Principal	Interest
2011	\$ 25,766	\$ 311
Total	\$ 25,766	\$ 311

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, 2010

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	Nonmajor funds	167,493
General	Capital projects	1,500
Debt service	General	23,719
Capital projects	Debt service	500
Water	General	53,230
	Total	\$ 246,442

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	\$ 25,501
* Reserved for municipal court	95,048
Debt Service Fund	
Reserved for debt service	\$ 45,077
Special Revenue Fund-HB445	
*Reserved for HB445	\$ 407,758

*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 funds 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, 2010

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 TMRS. 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>2010</u>	<u>2009</u>
Employee deposit rate	6.00%	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/yrs 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

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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 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, 2008 valuation is effective for rates beginning January 2010).

The annual pension cost and the net pension obligation (asset) are as follows:

	2010	2009	2008
Annual Req. Contrib. (ARC)	\$ 23,902	\$ 35,494	\$ 34,515
Contributions Made	23,902	35,494	34,515
NPO at the End of Period	\$ -	\$ -	\$ -

CITY OF MAGNOLIA, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarial Valuation Date	12/31/2009	12/31/2008	12/31/2007
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	24 Years - Closed period 10-year Smoothed	24 Years - Closed period	25 Years - Closed period
Asset Valuation Method	Market	Amortized cost	Amortized cost
Investment Rate of Return	7.5%	7.5%	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%	0%

The funded status as of December 31, 2009, the most recent valuation date, is as follows:

	<u>2010</u>
Actuarial Valuation Date	12/31/2009
Actuarial Value of Assets	\$ 626,305
Actuarial Accrued Liability	\$ 667,546
Percentage Funded	93.8%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 41,241
Annual Covered Payroll	\$ 1,042,660
UAAL as a Percentage of Covered Payroll	4.0%

The schedule of funding progress, presented as RSI 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, 2010

“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, 2010, 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 contributions to the TMRS SDBF for the years ended 2010, 2009 and 2008 were \$24,437, \$21,801, and \$27,863, respectively, which equaled the required contributions each year.

	<u>2010</u>	<u>2009</u>	<u>2008</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%

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2010

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 440,622	\$ 440,622	\$ 251,304	\$ (189,318)
Sales taxes	930,865	930,865	918,115	(12,750)
Franchise fees	185,000	185,000	144,811	(40,189)
Hotel occupancy tax	54,000	54,000	32,710	(21,290)
Contributions	101,564	101,564	71,046	(30,518)
Licenses and permits	42,700	42,700	22,952	(19,748)
Fines and forfeitures	764,500	764,500	344,688	(419,812)
Intergovernmental	125,277	125,277	125,081	(196)
Other revenue	71,650	71,650	107,510	35,860
Investment revenue	-	-	5,348	5,348
Total Revenues	2,716,178	2,716,178	2,023,565	(692,613)
Expenditures				
General government				
Administration	782,802	763,485	588,221	175,264
City Council	10,547	-	8,836	(8,836)
Facilities	109,350	104,160	93,961	10,199
Total General Government	902,699	867,645	691,018	176,627
Public safety				
Police	926,505	858,066	823,521	34,545
City Marshall	122,557	34,647	8,790	25,857
Municipal court	454,401	410,371	310,564	99,807
Total Public Safety	1,503,463	1,303,084	1,142,875	160,209
Public works	125,200	110,200	119,442	(9,242) *
Debt service				
Principal	37,780	31,780	37,780	(6,000)
Interest and fees	6,293	6,293	6,293	-
Total Debt Service	44,073	38,073	44,073	(6,000) *
Total Expenditures	2,575,435	2,319,002	1,997,408	321,594
Change in Fund Balance	\$ 140,743	\$ 397,176	26,157	\$ (371,019)
Beginning Fund Balance			(493,587)	
Ending Fund Balance			\$ (467,430)	

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.

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CITY OF MAGNOLIA, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2010

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	2010	2009	2008	2007
Actuarial Valuation Date	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Actuarial Value of Assets	\$ 626,305	\$ 563,750	\$ 493,031	\$ 429,853
Actuarial Accrued Liability	\$ 667,546	\$ 575,306	\$ 498,242	\$ 441,105
Percentage Funded	93.8%	98.0%	99.0%	97.4%
Unfunded Actuarial				
Accrued Liability	\$ 41,241	\$ 11,556	\$ (1,662)	\$ 11,525
Annual Covered Payroll	\$ 1,042,660	\$ 1,022,705	\$ 800,006	\$ 800,760
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	4.0%	1.1%	-0.2%	1.4%
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	23,902	35,494	34,515	31,274
Contributions Made	23,902	35,494	34,515	31,274
NPO at the End of Period	\$ -	\$ -	\$ -	\$ -

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***COMBINING STATEMENTS
AND 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, 2010

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property taxes	\$ 167,726	\$ 184,731	\$ 17,005
Investment revenue	520	666	146
Total Revenues	<u>168,246</u>	<u>185,397</u>	<u>17,151</u>
<u>Expenditures</u>			
Principal	65,000	65,000	-
Interest and fiscal charges	<u>102,725</u>	<u>102,725</u>	-
Total Expenditures	<u>167,725</u>	<u>167,725</u>	-
Change in Fund Balance	<u>\$ 521</u>	<u>17,672</u>	<u>\$ 17,151</u>
Beginning Fund Balance		<u>27,405</u>	
Ending Fund Balance		<u>\$ 45,077</u>	

Note to 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

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

CITY OF MAGNOLIA, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2010

	HB445	Red Light Camera	Total Nonmajor Governmental Funds
<u>Assets</u>			
Cash and equity in pooled cash	\$ 398,291	\$ 241,056	\$ 639,347
Receivables, net	39,785	-	39,785
Investment	160,899	-	160,899
Total Assets	598,975	241,056	840,031
<u>Liabilities and Fund Balances</u>			
Account payable and accrued liabilities	1,675	-	1,675
Due to other funds	167,493	-	167,493
Total Liabilities	169,168	-	169,168
Fund balances:			
Reserved for HB445	429,807	-	429,807
Unreserved	-	241,056	241,056
Ending Fund Balances	\$ 429,807	\$ 241,056	\$ 670,863

CITY OF MAGNOLIA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	HB445	Red Light Camera	Total Nonmajor Governmental Funds
<u>Revenues</u>			
Sales taxes	\$ 238,070	\$ -	\$ 238,070
Fines and forfeitures	-	260,133	260,133
Investment revenues	6,978	63	7,041
Total Revenue	<u>245,048</u>	<u>260,196</u>	<u>505,244</u>
<u>Expenditures</u>			
General government			
Administrative	-	19,140	19,140
Capital outlay	13,726	-	13,726
Total Expenditures	<u>13,726</u>	<u>19,140</u>	<u>32,866</u>
Net Change in Fund Balances	231,322	241,056	472,378
Beginning fund balances	<u>198,485</u>	<u>-</u>	<u>198,485</u>
Ending Fund Balances	<u><u>\$ 429,807</u></u>	<u><u>\$ 241,056</u></u>	<u><u>\$ 670,863</u></u>

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CITY OF MAGNOLIA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - HB 445
For the Year Ended September 30, 2010

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales taxes	\$ 229,966	\$ 238,070	\$ 8,104
Investment revenue	5,000	6,978	1,978
Total Revenues	<u>234,966</u>	<u>245,048</u>	<u>10,082</u>
<u>Expenditures</u>			
Capital outlay	230,000	13,726	216,274
Total Expenditures	<u>230,000</u>	<u>13,726</u>	<u>216,274</u>
Revenues Over (Under) Expenditures	<u>\$ 4,966</u>	231,322	<u>\$ 226,356</u>
Beginning Fund Balance		<u>198,485</u>	
Ending Fund Balance		<u>\$ 429,807</u>	

Notes to Supplementary Information:

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

