

CITY OF MAGNOLIA, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011



VANWASSEHNOVA AND ASSOCIATES
Certified Public Accountants

CITY OF MAGNOLIA, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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CITY OF MAGNOLIA, TEXAS
List of Officials

| | |
|----------------------------------|---------------------|
| Mayor | Todd Kana |
| Mayor Pro-Tem | Patsy Williams |
| Councilwoman | Anne Sundquist |
| Councilman | Jeff Chumley |
| Councilman | Chris Schod |
| Councilman | Burhl Sanders |
| City Administrator | Paul Mendes |
| City Secretary | Lynne George |
| City Attorney | Liles & Parker |
| Public Works Coordinator | David Coburn |
| Economic Development Coordinator | Deborah Rose Miller |
| Court Administrator | Karla Bussey |
| Police Chief | Domingo Ibarra |

CITY OF MAGNOLIA, TEXAS

Management's Discussion and Analysis

Our discussion and analysis of the City of Magnolia, Texas' financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the City's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

The City's assets increased by \$2,410,431 and liabilities increased by \$1,852,402 as the \$2,000,000 State Infrastructure Loan was funded. Long-term debt increased by \$1,813,115.

During the year, the City had governmental revenues that were \$365,493 (13%) higher than the prior year. Total governmental expenses were \$513,077 (23%) higher than in fiscal 2010. Red light camera revenues were \$284,000 higher than expected.

In the City's business-type activities, revenues increased by \$399,461 (32%) and expenses increased by \$50,496 (4%). Water revenue was higher and in fiscal 2011, the City began operating the water & sewer system by itself.

Governmental activities reported an increase in net assets this year of \$150,476 and the business-type activities (water & sewer utility fund) reported a increase in net assets of \$407,345.

In the two component units, the Economic Development Corporation (4A Fund) and the Community Development Corporation (4B Fund), assets increased by \$98,617 and liabilities decreased by \$52,859. Net assets of the two funds increased \$151,476.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements are also presented. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

One of the most important questions asked about the City's finances is, "Has the City of Magnolia, Texas improved as a whole as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities 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 regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities we divide the City into two kinds of activities:

Governmental activities—Most of the City's basic services are reported here, including the police, parks departments, and general administration. Property taxes, sales taxes, franchise fees, and traffic fines finance most of these activities.

Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's water and sewer system is reported here.

Reporting the City's Most Significant Funds

The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the City as a whole.

Governmental Funds

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities reported in the Statement of Net Assets and the Statement of Activities and governmental funds in reconciliation at the bottom of the fund financial statements.

Proprietary Funds

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail.

THE CITY AS A WHOLE

The City's combined assets increased by \$2,410,431. General assets increased by \$53,507 and business-type assets increased by \$2,356,924. General liabilities decreased by \$97,177 and business-type liabilities increased by \$1,949,579. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

The 4A & 4B funds assets increased by \$98,617 and liabilities decreased by \$52,859. Net assets increased by \$151,476 (7%) over last year.

Table 1 - Net Assets
Governmental and Business-Type Activities

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|------------------------|----------------------------|--------------|-----------------------------|--------------|-----------------------------|--------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Current & Other Assets | \$ 1,158,147 | \$ 1,401,889 | \$ 2,680,730 | \$ 5,107,456 | \$ 3,838,877 | \$ 6,509,345 |
| Capital Assets | 3,314,118 | 3,123,883 | 4,624,110 | 4,554,308 | 7,938,228 | 7,678,191 |
| Total Assets | 4,472,265 | 4,525,772 | 7,304,840 | 9,661,764 | 11,777,105 | 14,187,536 |
| Long-Term Debt | 2,124,046 | 2,028,280 | 4,551,644 | 6,460,525 | 6,675,690 | 8,488,805 |
| Other Liabilities | 819,103 | 817,692 | 198,654 | 239,352 | 1,017,757 | 1,057,044 |
| Total Liabilities | 2,943,149 | 2,845,972 | 4,750,298 | 6,699,877 | 7,693,447 | 9,545,849 |
| Net Assets: | | | | | | |
| Invested in Capital | | | | | | |
| Assets-Net of Debt | 1,223,352 | 1,095,603 | 72,466 | (1,906,217) | 1,295,818 | (810,614) |
| Restricted | 595,826 | 508,314 | - | 2,000,000 | 595,826 | 2,508,314 |
| Unrestricted | (290,062) | 75,883 | 2,482,076 | 2,868,104 | 2,192,014 | 2,943,987 |
| Total Net Assets | \$ 1,529,116 | \$ 1,679,800 | \$ 2,554,542 | \$ 2,961,887 | \$ 4,083,658 | \$ 4,641,687 |

Component Units

| | 4A Fund | | 4B Fund | | Total | |
|------------------------|------------|------------|------------|------------|--------------|------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Current & Other Assets | \$ 681,141 | \$ 496,937 | \$ 519,907 | \$ 319,119 | \$ 1,201,048 | \$ 816,056 |
| Capital Assets | 3,771,344 | 4,039,565 | - | 215,388 | 3,771,344 | 4,254,953 |
| Total Assets | 4,452,485 | 4,536,502 | 519,907 | 534,507 | 4,972,392 | 5,071,009 |
| Long-Term Debt | 2,901,060 | 2,787,770 | - | - | 2,901,060 | 2,787,770 |
| Other Liabilities | 26,620 | 86,600 | 12,813.00 | 14,264 | 39,433 | 100,864 |
| Total Liabilities | 2,927,680 | 2,874,370 | 12,813 | 14,264 | 2,940,493 | 2,888,634 |

| | 4A Fund | | 4B Fund | | Total | |
|---------------------|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Net Assets: | | | | | | |
| Invested in Capital | 870,284 | 1,251,795 | - | 215,388 | 870,284 | 1,467,183 |
| Assets-Net of Debt | | | | | | |
| Restricted | 654,521 | 410,337 | 507,094 | 304,855 | 1,161,615 | 715,192 |
| Unrestricted | | | | | | |
| Total Net Assets | <u>\$ 1,524,805</u> | <u>\$ 1,662,132</u> | <u>\$ 507,094</u> | <u>\$ 520,243</u> | <u>\$ 2,031,899</u> | <u>\$ 2,182,375</u> |

Net assets of the City's governmental activities increased by 16% (\$1,679,800 compared to \$1,529,116). Unrestricted net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased from \$2,192,014 at September 2010 to \$2,943,987 at the end of this year.

The net assets of our business-type activities increased by 16% (\$2,961,887 compared to \$2,554,542). Unrestricted net assets increased from \$2,482,076 at September 2010 to \$2,868,104 in 2011.

Table 2 - Changes in Net Assets
Governmental and Business-Type Activities

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|------------------------|----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Revenues | | | | | | |
| Program | \$ 627,773 | \$ 1,125,824 | \$ 1,231,926 | \$ 1,644,415 | \$ 1,859,699 | \$ 2,770,239 |
| Grants | 196,127 | - | - | - | 196,127 | - |
| Sales tax | 1,156,185 | 1,215,394 | - | - | 1,156,185 | 1,215,394 |
| Property tax | 448,857 | 506,570 | - | - | 448,857 | 506,570 |
| Other | 298,176 | 244,823 | 17,233 | 4,205 | 315,409 | 249,028 |
| Total Revenues | <u>2,727,118</u> | <u>3,092,611</u> | <u>1,249,159</u> | <u>1,648,620</u> | <u>3,976,277</u> | <u>4,741,231</u> |
| Program Expenses | | | | | | |
| General government | 711,931 | 940,546 | - | - | 711,931 | 940,546 |
| Tourism | - | 25,768 | - | - | - | 25,768 |
| Public Works | 248,564 | 253,445 | - | - | 248,564 | 253,445 |
| Water & sewer | - | - | 953,806 | 1,008,164 | 953,806 | 1,008,164 |
| Red light camera | - | 234,882 | - | - | - | 234,882 |
| Road repair | - | 324,508 | - | - | - | 324,508 |
| Special revenue | - | - | - | - | - | - |
| Court | - | 339,142 | - | - | - | 339,142 |
| Public safety | 1,205,143 | 796,818 | - | - | 1,205,143 | 796,818 |
| Interest | 112,073 | 99,565 | 236,973 | 233,111 | 349,046 | 332,676 |
| Transfers | - | (72,747) | - | - | - | (72,747) |
| Total Program Expenses | <u>2,277,711</u> | <u>2,941,927</u> | <u>1,190,779</u> | <u>1,241,275</u> | <u>3,468,490</u> | <u>4,183,202</u> |
| Change in Net Assets | <u>\$ 449,407</u> | <u>\$ 150,684</u> | <u>\$ 58,380</u> | <u>\$ 407,345</u> | <u>\$ 507,787</u> | <u>\$ 558,029</u> |

Component Units

| | 4A Fund | | 4B Fund | | Total | |
|----------------------|------------|------------|------------|------------|------------|------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Sales tax | \$ 454,341 | \$ 486,483 | \$ 227,171 | \$ 243,241 | \$ 681,512 | \$ 729,724 |
| Interest & other | 46,659 | 2,601 | 21,452 | 15,627 | 68,111 | 18,228 |
| Total Revenues | 501,000 | 489,084 | 248,623 | 258,868 | 749,623 | 747,952 |
| Program Expenses | 283,427 | 321,610 | 154,172 | 203,119 | 437,599 | 524,729 |
| Transfers | - | 30,147 | - | 42,600 | - | 72,747 |
| Total | 283,427 | 351,757 | 154,172 | 245,719 | 437,599 | 597,476 |
| Change in Net Assets | \$ 217,573 | \$ 137,327 | \$ 94,451 | \$ 13,149 | \$ 312,024 | \$ 223,223 |

Governmental Activities

Revenues for the City's governmental activities increased by \$365,493 (13%), while expenses increased \$664,216 (29%).

Business-Type Activities

Water and sewer revenues of the City's business-type activities increased by \$399,461 (32%) and expenses increased by \$50,496 (4%). Depreciation expense, which is a non-cash outlay, was \$203,111 for fiscal year 2011.

THE CITY'S FUNDS

Governmental Funds - The purpose of the City's governmental fund financial statements 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$584,197. This is \$393,729 higher than last years balance of \$190,468. The City had a reserved fund balance of \$508,314 and an unreserved fund balance of \$75,883.

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

Total net assets of the Utility Fund at year end were \$2,961,887. This represents an increase of \$407,345. Other factors concerning the finances of the Utility Fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

General fund revenues were \$164,219 higher than budgeted. Expenses were \$141,465 above the budget amount. This resulted in a positive variance of \$22,754. Debt service revenues were \$7,654 over budget and expenses the same as the budget amount. The result was a positive variance of \$7,654. The HB 445 revenues were \$25,714 higher than expected while its expenses were \$104,508 over budget. This resulted in a negative variance of \$78,794. Red Light Cameras revenues were \$283,610 over budget and expenses were \$132,782 higher than budgeted. The result was a positive variance of \$150,828. The overall general fund budget showed a positive variance of \$102,442. All of the figures shown here include interfund transfers.

| | Actual | | Budget | | Total |
|-------------------|--------------------|---------------------|---------------------|---------------------|-------------------|
| | Revenue | Expense | Revenue | Expense | Variance |
| General Fund | \$2,140,932 | \$ 1,969,927 | \$ 1,976,713 | \$ 1,828,462 | \$ 22,754 |
| Debt Service | 177,639 | 169,565 | 169,985 | 169,565 | 7,654 |
| HB 445 | 249,430 | 324,508 | 223,716 | 220,000 | (78,794) |
| Red Light Cameras | 524,610 | 234,882 | 241,000 | 102,100 | 150,828 |
| | <u>\$3,092,611</u> | <u>\$ 2,698,882</u> | <u>\$ 2,611,414</u> | <u>\$ 2,320,127</u> | <u>\$ 102,442</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 2011, the City had \$7,678,191, net of accumulated depreciation, invested in a broad range of capital assets, including land, city hall, police station, drainage systems, as well as water and sewer facilities. This amount represents a net decrease of \$260,037, or 3%, from last year. The current year depreciation expense was \$190,235 for the General Fund and \$203,111 for the Water & Sewer Fund.

Table 3 - Capital Assets at Year-end
Governmental and Business-Type Activities

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|------------------------|----------------------------|--------------------|-----------------------------|---------------------|-----------------------------|---------------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Land | \$ 144,873 | \$ 144,873 | \$ 108,634 | \$ 108,634 | \$ 253,507 | \$ 253,507 |
| Vehicles & equipment | 588,762 | 588,762 | - | - | 588,762 | 588,762 |
| Equipment | - | - | 130,904 | 130,904 | 130,904 | 130,904 |
| Buildings-improvements | 679,865 | 679,865 | - | - | 679,865 | 679,865 |
| Infrastructure | 4,969,370 | 4,969,370 | - | - | 4,969,370 | 4,969,370 |
| Water System | - | - | 6,248,091 | 6,381,400 | 6,248,091 | 6,381,400 |
| Less depreciation | (3,068,752) | (3,258,987) | (1,863,519) | (2,066,630) | (4,932,271) | (5,325,617) |
| Total | <u>\$3,314,118</u> | <u>\$3,123,883</u> | <u>\$ 4,624,110</u> | <u>\$ 4,554,308</u> | <u>\$ 7,938,228</u> | <u>\$ 7,678,191</u> |

Component Units

| | 4A Fund | | 4B Fund | | Total | |
|-------------------------|--------------|--------------|---------|------------|--------------|--------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Land | \$ 15,845 | \$ 15,845 | \$ - | \$ 97,679 | \$ 15,845 | \$ 113,524 |
| Construction in process | 2,633,772 | - | - | - | 2,633,772 | - |
| Unity Park & Downtown | - | 2,977,101 | - | - | - | 2,977,101 |
| Buildings-improvements | 714,620 | 714,620 | - | 122,613 | 714,620 | 837,233 |
| Pavement-streets | 839,645 | 839,645 | - | - | 839,645 | 839,645 |
| Equipment | 7,150 | 7,150 | 7,150 | 7,150 | 14,300 | 14,300 |
| Less depreciation | (439,688) | (514,797) | (7,150) | (12,054) | (446,838) | (526,851) |
| Total | \$ 3,771,344 | \$ 4,039,564 | \$ - | \$ 215,388 | \$ 3,771,344 | \$ 4,254,952 |

The 4A & 4B funds showed an increase in assets, net of accumulated depreciation of \$483,608 (13%). Depreciation expense was \$80,013.

Debt

At September 2011, the City of Magnolia, Texas had \$8,488,806 in outstanding debt. This was a increase of \$1,813,116 from 2010. \$2,000,000 in debt was issued and \$186,884 was paid. All regularly scheduled payments were made. Current debt schedules call for payments through 2037.

Table 4 - Outstanding Debt at Year-end
Governmental and Business-Type Activities

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-------------------------|----------------------------|--------------|-----------------------------|--------------|-----------------------------|--------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Cert of Obligation-2004 | \$ 1,460,000 | \$ 1,445,000 | \$ - | \$ - | \$ 1,460,000 | \$ 1,445,000 |
| Cert of Obligation-2006 | 605,000 | 550,000 | - | - | 605,000 | 550,000 |
| Capital leases | 25,766 | - | 6,644 | 526 | 32,410 | 526 |
| Infrastructure Loan | - | - | - | 2,000,000 | - | 2,000,000 |
| Compensated Absences | 33,280 | 33,280 | - | - | 33,280 | 33,280 |
| Revenue Bonds-2006 | - | - | 4,545,000 | 4,460,000 | 4,545,000 | 4,460,000 |
| | \$ 2,124,046 | \$ 2,028,280 | \$ 4,551,644 | \$ 6,460,526 | \$ 6,675,690 | \$ 8,488,806 |

Component Units

| | 4A Fund | | 4B Fund | | Total | |
|--------------------|--------------|--------------|---------|------|--------------|--------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Revenue Bonds-2003 | \$ 360,000 | \$ 245,000 | \$ - | \$ - | \$ 360,000 | \$ 245,000 |
| Revenue Bonds-2009 | 2,565,000 | 2,565,000 | - | - | 2,565,000 | 2,565,000 |
| Discount | (23,940) | (22,230) | - | - | (23,940) | (22,230) |
| | \$ 2,901,060 | \$ 2,787,770 | \$ - | \$ - | \$ 2,901,060 | \$ 2,787,770 |

The 4A & 4B funds had \$2,787,770 in outstanding debt. Payments of \$113,290 were made.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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. General fund revenues are budgeted at \$2,757,208 for 2012. This represents an 11% decrease from 2011 actual figures.

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.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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.

VANWASSEHNOVA AND ASSOCIATES
Certified Public Accountants

Independent Auditor's Report

The Honorable Mayor and
Members of City Council
City of Magnolia, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Magnolia, Texas (the "City"), as of and for the year ended September 30, 2011, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Magnolia, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, 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 and budgetary comparison information are not a required part 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 supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the 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.

VanWassehnova & Associates

VanWassehnova & Associates
December 21, 2011

CITY OF MAGNOLIA, TEXAS

Statement of Net Assets

September 30, 2011

| | Primary Government | | |
|-------------------------------------------------|-------------------------|--------------------------|--------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 888,292 | \$ 4,295,668 | \$ 5,183,960 |
| Receivables (net) | 263,381 | 247,658 | 511,039 |
| Investments | 160,899 | 347,059 | 507,958 |
| Due from (to) other funds | 89,317 | (80,079) | 9,238 |
| Deferred Charges | - | 217,071 | 217,071 |
| Capital assets, net | 3,123,883 | 4,554,308 | 7,678,191 |
| Total assets | 4,525,772 | 9,581,685 | 14,107,457 |
| Liabilities | | | |
| Accounts payable and accrued liabilities | 15,512 | 84,563 | 100,075 |
| Deficit pooled cash | 774,204 | - | 774,204 |
| Customer deposits | - | 74,710 | 74,710 |
| Deferred revenues | 27,976 | - | 27,976 |
| Accrued interest payable | - | - | - |
| Noncurrent liabilities: | | | |
| Due within one year | 75,000 | 198,059 | 273,059 |
| Due in more than one year | 1,953,280 | 6,262,466 | 8,215,746 |
| Total liabilities | 2,845,972 | 6,619,798 | 9,465,770 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 1,095,603 | (1,906,217) | (810,614) |
| Restricted for: | | | |
| Debt service | 53,151 | - | 53,151 |
| Municipal court | 64,860 | - | 64,860 |
| Tourism | 35,574 | - | 35,574 |
| HB445 | 354,729 | - | 354,729 |
| Economic development | - | - | - |
| Community development | - | - | - |
| Infrastructure loan | - | 2,000,000 | 2,000,000 |
| Unrestricted | 75,883 | 2,868,104 | 2,943,987 |
| Total net assets | \$ 1,679,800 | \$ 2,961,887 | \$ 4,641,687 |

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

| | Component Units | | |
|-------------------------------------------------|----------------------------|-----------------------------|--------------|
| | 4A Economic Development | 4B Community Development | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 56,491 | \$ 111,526 | \$ 168,017 |
| Receivables (net) | 93,387 | 46,693 | 140,080 |
| Investments | 347,059 | 160,900 | 507,959 |
| Due from (to) other funds | (4,706) | (4,532) | (9,238) |
| Deferred Charges | - | - | - |
| Capital assets, net | 4,039,565 | 215,388 | 4,254,953 |
| Total assets | 4,531,796 | 529,975 | 5,061,771 |
| Liabilities | | | |
| Accounts payable | - | 1,701 | 1,701 |
| Deficit pooled cash | 67,095 | 8,031 | 75,126 |
| Customer deposits | - | - | - |
| Deferred revenues | - | - | - |
| Accrued interest payable | 14,799 | - | 14,799 |
| Noncurrent liabilities: | | | |
| Due within one year | 120,000 | - | 120,000 |
| Due in more than one year | 2,667,770 | - | 2,667,770 |
| Total liabilities | 2,869,664 | 9,732 | 2,879,396 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 1,251,795 | 215,388 | 1,467,183 |
| Restricted for: | | | |
| Debt service | - | - | - |
| Municipal court | - | - | - |
| Tourism | - | - | - |
| HB445 | - | - | - |
| Economic development | 410,337 | - | 410,337 |
| Community development | - | - | - |
| Infrastructure loan | - | - | - |
| Unrestricted | - | 304,855 | 304,855 |
| Total net assets | \$ 1,662,132 | \$ 520,243 | \$ 2,182,375 |

CITY OF MAGNOLIA, TEXAS
Statement of Activities
For the Year Ended September 30, 2011

| Function/programs | Expenses | Program Revenues | |
|-----------------------------------|---------------------|-------------------------|-------------------|
| | | Charges for Services | Grant Revenues |
| Primary government: | | | |
| Governmental activities: | | | |
| General Government | \$ 940,546 | \$ 128,786 | \$ - |
| Public safety | 796,818 | - | - |
| Public works | 253,445 | - | - |
| Tourism | 25,768 | 35,840 | - |
| Court | 339,142 | 436,843 | - |
| Road repair | 324,508 | - | - |
| Red light camera | 234,882 | 524,355 | - |
| Interest & fees on long-term debt | 99,565 | - | - |
| Total governmental activities | <u>3,014,674</u> | <u>1,125,824</u> | <u>-</u> |
| Business-type activities: | | | |
| Water | 633,863 | 1,138,435 | - |
| Sewer | 374,301 | 505,980 | - |
| Interest & fees on long-term debt | 233,111 | - | - |
| Total business-type activities | <u>1,241,275</u> | <u>1,644,415</u> | <u>-</u> |
| Total primary government | <u>\$ 3,648,537</u> | <u>\$ 2,264,259</u> | <u>\$ -</u> |
| Component Units: | | | |
| 4A Economic Development | \$ 342,380 | \$ - | \$ 20,770 |
| 4B Community Development | 203,119 | - | - |
| Total Component Units | <u>\$ 545,499</u> | <u>\$ -</u> | <u>\$ 20,770</u> |

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government

| | Governmental Activities | Business-type Activities | Total |
|--------------------------------------|----------------------------|-----------------------------|----------------|
| Primary government: | | | |
| Governmental activities: | | | |
| General Government | \$ (811,760) | \$ - | \$ (811,760) |
| Public safety | (796,818) | - | (796,818) |
| Public works | (253,445) | - | (253,445) |
| Tourism | 10,072 | - | 10,072 |
| Court | 97,701 | - | 97,701 |
| Road repair | (324,508) | - | (324,508) |
| Red light camera | 289,473 | - | 289,473 |
| Interest & fees on long-term debt | (99,565) | - | (99,565) |
| Total governmental activities | (1,888,850) | - | (1,888,850) |
| Business-type activities: | | | |
| Water | - | 504,572 | 504,572 |
| Sewer | - | 131,679 | 131,679 |
| Interest & fees on long-term debt | - | (233,111) | (233,111) |
| Total business-type activities | - | 403,140 | 403,140 |
| Total primary government | \$ (1,888,850) | \$ 403,140 | \$ (1,485,710) |
| Component Units: | | | |
| 4A Economic development | \$ - | \$ - | \$ - |
| 4B Community development | - | - | - |
| Total Component Units | \$ - | \$ - | \$ - |
| General revenues: | | | |
| Property taxes | 506,570 | - | 506,570 |
| Sales taxes | 1,215,394 | - | 1,215,394 |
| Franchise and local taxes | 186,994 | - | 186,994 |
| Other Revenue | 50,691 | - | 50,691 |
| Investment earnings | 7,138 | 4,205 | 11,343 |
| Transfers | 72,747 | - | 72,747 |
| Total general revenues and transfers | 2,039,534 | 4,205 | 2,043,739 |
| Change in net assets | 150,684 | 407,345 | 558,029 |
| Net assets-beginning | 1,529,116 | 2,554,542 | 4,083,658 |
| Net assets-ending | \$ 1,679,800 | \$ 2,961,887 | \$ 4,641,687 |

CITY OF MAGNOLIA, TEXAS
Statement of Activities
For the Year Ended September 30, 2011

| | Net (Expense) Revenue and Changes in Net Assets | | |
|--------------------------------------|----------------------------------------------------|----------------|--------------|
| | Component Units | | |
| | 4A Econ Dev | 4B Comm Dev | Total |
| Primary government: | | | |
| Governmental activities: | | | |
| General Government | \$ - | \$ - | \$ - |
| Public safety | - | - | - |
| Public works | - | - | - |
| Tourism | - | - | - |
| Court | - | - | - |
| Road repair | - | - | - |
| Red light camera | - | - | - |
| Interest & fees on long-term debt | - | - | - |
| Total governmental activities | - | - | - |
| Business-type activities: | | | |
| Water | - | - | - |
| Sewer | - | - | - |
| Interest & fees on long-term debt | - | - | - |
| Total business-type activities | - | - | - |
| Total primary government | \$ - | \$ - | \$ - |
| Component Units: | | | |
| 4A Economic development | \$ (321,610) | \$ - | \$ (321,610) |
| 4B Community development | - | (203,119) | (203,119) |
| Total Component Units | \$ (321,610) | \$ (203,119) | \$ (524,729) |
| General revenues: | | | |
| Property taxes | - | - | - |
| Sales taxes | 486,483 | 243,241 | 729,724 |
| Franchise and local taxes | - | - | - |
| Other Revenue | - | 11,515 | 11,515 |
| Investment earnings | 2,601 | 4,112 | 6,713 |
| Transfers | (30,147) | (42,600) | (72,747) |
| Total general revenues and transfers | 458,937 | 216,268 | 675,205 |
| Change in net assets | 137,327 | 13,149 | 150,476 |
| Net assets-beginning | 1,524,805 | 507,094 | 2,031,899 |
| Net assets-ending | \$ 1,662,132 | \$ 520,243 | \$ 2,182,375 |

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

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CITY OF MAGNOLIA, TEXAS

Balance Sheet

Governmental Funds

September 30, 2011

| | Governmental Fund Types | | |
|--------------------------------------------|-------------------------|------------------|---------------------|
| | General | Debt Service | Capital Projects |
| Assets | | | |
| Cash on hand and in bank | \$ - | \$ 29,932 | \$ - |
| Receivables, net of uncollectibles: | | | |
| Ad valorem tax | 27,976 | - | - |
| Sales tax | 186,773 | - | - |
| Mixed beverage tax | 1,939 | - | - |
| Investments | - | - | - |
| Due from component units | - | - | - |
| Due from other funds | 234,591 | 23,219 | - |
| | <u>234,591</u> | <u>23,219</u> | <u>-</u> |
| Total assets | <u>\$ 451,279</u> | <u>\$ 53,151</u> | <u>\$ -</u> |
| Liabilities | | | |
| Accounts payable and accrued liabilities | \$ 15,512 | \$ - | \$ - |
| Deficit pooled cash | 704,216 | - | 57,042 |
| Deferred revenues | 27,976 | - | - |
| Due to other funds | - | - | 1,000 |
| | <u>-</u> | <u>-</u> | <u>1,000</u> |
| Total liabilities | <u>747,704</u> | <u>-</u> | <u>58,042</u> |
| Fund balances | | | |
| Restricted for: | | | |
| HB 445 | - | - | - |
| Tourism | 35,574 | - | - |
| Debt service | - | 53,151 | - |
| Municipal court | 64,860 | - | - |
| Unassigned | (396,859) | - | (58,042) |
| | <u>(396,859)</u> | <u>-</u> | <u>(58,042)</u> |
| Total fund balance | <u>(296,425)</u> | <u>53,151</u> | <u>(58,042)</u> |
| Total liabilities and fund balances | <u>\$ 451,279</u> | <u>\$ 53,151</u> | <u>\$ -</u> |

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

| | Governmental Fund Types | | |
|--------------------------------------------|-------------------------|---------------------|---------------------|
| | Nonmajor Funds | | |
| | HB 445 | Red Light Camera | Total |
| Assets | | | |
| Cash on hand and in bank | \$ 323,502 | \$ 534,858 | \$ 888,292 |
| Receivables, net of uncollectibles: | | | |
| Ad valorem tax | - | - | 27,976 |
| Sales tax | 46,693 | - | 233,466 |
| Mixed beverage tax | - | - | 1,939 |
| Investments | 160,899 | - | 160,899 |
| Due from component units | - | - | - |
| Due from other funds | - | - | 257,810 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 531,094</u> | <u>\$ 534,858</u> | <u>\$ 1,570,382</u> |
| Liabilities | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ 15,512 |
| Deficit pooled cash | 8,872 | 4,074 | 774,204 |
| Deferred revenues | - | - | 27,976 |
| Due to other funds | 167,493 | - | 168,493 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>176,365</u> | <u>4,074</u> | <u>986,185</u> |
| Fund balances | | | |
| Restricted for: | | | |
| HB 445 | 354,729 | - | 354,729 |
| Tourism | - | - | 35,574 |
| Debt service | - | - | 53,151 |
| Municipal court | - | - | 64,860 |
| Unassigned | - | 530,784 | 75,883 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balance | <u>354,729</u> | <u>530,784</u> | <u>584,197</u> |
| Total liabilities and fund balances | <u>\$ 531,094</u> | <u>\$ 534,858</u> | <u>\$ 1,570,382</u> |

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CITY OF MAGNOLIA, TEXAS
Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
September 30, 2011

| | |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Total governmental fund balances | \$ 584,197 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore not reported in governmental funds | 3,123,883 |
| Long-term liabilities are not reported as liabilities in the governmental funds | <u>(2,028,280)</u> |
| Net assets of governmental activities | <u>\$ 1,679,800</u> |

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

CITY OF MAGNOLIA, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2011

| | Governmental Fund Types | | |
|------------------------------------------------------|-------------------------|------------------|---------------------|
| | General Fund | Debt Service | Capital Projects |
| Revenues | | | |
| Sales taxes | \$ 972,153 | \$ - | \$ - |
| Fines & forfeitures | 436,843 | - | - |
| Property taxes | 329,625 | 176,945 | - |
| Franchise taxes | 177,743 | - | - |
| Licenses and permits | 128,786 | - | - |
| Other revenue | 50,691 | - | - |
| Hotel occupancy tax | 35,840 | - | - |
| Mixed beverage tax | 9,251 | - | - |
| Investment earnings | - | 694 | - |
| Total revenues | <u>2,140,932</u> | <u>177,639</u> | <u>-</u> |
| Expenditures | | | |
| General government | 802,604 | 1,000 | - |
| Public safety | 734,550 | - | - |
| Public works | 138,047 | - | - |
| Tourism | 25,768 | - | - |
| Court | 341,705 | - | - |
| Road repair | - | - | - |
| Bond interest | - | 98,565 | - |
| Bond principal | - | 70,000 | - |
| Total expenditures | <u>2,042,674</u> | <u>169,565</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | 98,258 | 8,074 | - |
| Other financing sources (uses) | | | |
| Transfers in (out) | <u>72,747</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | 171,005 | 8,074 | - |
| Fund balances-beginning | <u>(467,430)</u> | <u>45,077</u> | <u>(58,042)</u> |
| Fund balances-ending | <u>\$ (296,425)</u> | <u>\$ 53,151</u> | <u>\$ (58,042)</u> |

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

| Governmental Fund Types | | | |
|------------------------------------------------------|-------------------|---------------------|-------------------|
| Nonmajor Funds | | | |
| | HB 445 | Red Light Camera | Total |
| Revenues | | | |
| Sales taxes | \$ 243,241 | \$ - | \$ 1,215,394 |
| Fines & forfeitures | - | 524,355 | 961,198 |
| Property taxes | - | - | 506,570 |
| Franchise taxes | - | - | 177,743 |
| Licenses and permits | - | - | 128,786 |
| Other revenue | - | - | 50,691 |
| Hotel occupancy tax | - | - | 35,840 |
| Mixed beverage tax | - | - | 9,251 |
| Investment earnings | 6,189 | 255 | 7,138 |
| Total revenues | <u>249,430</u> | <u>524,610</u> | <u>3,092,611</u> |
| Expenditures | | | |
| General government | - | - | 803,604 |
| Police | - | - | 734,550 |
| Public works | - | - | 138,047 |
| Tourism | - | - | 25,768 |
| Court | - | 234,882 | 576,587 |
| Road repair | 324,508 | - | 324,508 |
| Bond interest | - | - | 98,565 |
| Bond principal | - | - | 70,000 |
| Total expenditures | <u>324,508</u> | <u>234,882</u> | <u>2,771,629</u> |
| Excess (deficiency) of revenues over expenditures | (75,078) | 289,728 | 320,982 |
| Other financing sources (uses) | | | |
| Transfers in (out) | - | - | 72,747 |
| Net change in fund balances | (75,078) | 289,728 | 393,729 |
| Fund balances-beginning | <u>429,807</u> | <u>241,056</u> | <u>190,468</u> |
| Fund balances-ending | <u>\$ 354,729</u> | <u>\$ 530,784</u> | <u>\$ 584,197</u> |

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, 2011

| | |
|------------------------------------------------------|------------|
| Net change in fund balances-total governmental funds | \$ 393,729 |
|------------------------------------------------------|------------|

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

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 as depreciation expense. This is the amount of depreciation for the year.

(190,235)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of current year repayments.

98,329

This is the amount of deferred charges.

(151,139)

| | |
|-------------------------------------------------|-------------------|
| Change in net assets of governmental activities | <u>\$ 150,684</u> |
|-------------------------------------------------|-------------------|

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

CITY OF MAGNOLIA, TEXAS

Statement of Net Assets

Proprietary Funds

September 30, 2011

| | Business-Type Activities | | |
|-----------------------------------------------|--------------------------|-------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 4,114,791 | \$ 180,877 | \$ 4,295,668 |
| Investments | 347,059 | - | 347,059 |
| Receivables, net of uncollectibles: | | | |
| Accounts & other | 194,078 | 53,580 | 247,658 |
| Total current assets | 4,655,928 | 234,457 | 4,890,385 |
| Noncurrent assets | | | |
| Deferred charges | 217,071 | - | 217,071 |
| Fixed assets, net of accumulated depreciation | 4,554,308 | - | 4,554,308 |
| Total assets | <u>\$ 9,427,307</u> | <u>\$ 234,457</u> | <u>\$ 9,661,764</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | \$ (9,313) | \$ 320 | \$ (8,993) |
| Customer deposits | 74,710 | - | 74,710 |
| Due to other funds | 80,079 | - | 80,079 |
| Accrued interest payable | 93,556 | - | 93,556 |
| Total current liabilities | 239,032 | 320 | 239,352 |
| Noncurrent liabilities | | | |
| Bonds payable | 6,460,525 | - | 6,460,525 |
| Total liabilities | <u>6,699,557</u> | <u>320</u> | <u>6,699,877</u> |
| Net Assets | | | |
| Invested in capital assets, net | (1,906,217) | - | (1,906,217) |
| Restricted-Infrastructure Loan | 2,000,000 | - | 2,000,000 |
| Unrestricted net assets | 2,633,967 | 234,137 | 2,868,104 |
| Total net assets | <u>2,727,750</u> | <u>234,137</u> | <u>2,961,887</u> |
| Total Net Assets and Liabilities | <u>\$ 9,427,307</u> | <u>\$ 234,457</u> | <u>\$ 9,661,764</u> |

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

CITY OF MAGNOLIA, TEXAS
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2011

| | Business-Type Activities | | |
|---------------------------------|--------------------------|-------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| Operating revenues | | | |
| Service revenues | \$ 858,940 | \$ 355,296 | \$ 1,214,236 |
| Penalties | 11,716 | 3,282 | 14,998 |
| Lone Star GCD & SJRA | 112,892 | - | 112,892 |
| Garbage collection | - | 103,673 | 103,673 |
| Tap & other fees | 23,387 | 43,729 | 67,116 |
| Impact fees | 131,500 | - | 131,500 |
| Total operating revenues | 1,138,435 | 505,980 | 1,644,415 |
| Operating expenses | 633,863 | 374,301 | 1,008,164 |
| Operating income | 504,572 | 131,679 | 636,251 |
| Nonoperating revenue (expense) | | | |
| Interest expense | (233,111) | - | (233,111) |
| Interest and investment revenue | 4,123 | 82 | 4,205 |
| Total | (228,988) | 82 | (228,906) |
| Change in net assets | 275,584 | 131,761 | 407,345 |
| Total net assets-beginning | 2,452,166 | 102,376 | 2,554,542 |
| Total net assets-ending | <u>\$ 2,727,750</u> | <u>\$ 234,137</u> | <u>\$ 2,961,887</u> |

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

CITY OF MAGNOLIA, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2011

| | Business-Type Activities | | |
|-----------------------------------------------------------------------------------------|----------------------------|--------------------------|----------------------------|
| | Water Fund | Sewer Fund | Total |
| Cash flows from operating activities | | | |
| Receipts from customers | \$ 1,222,704 | \$ 505,443 | \$ 1,728,147 |
| Payments to suppliers | (370,283) | (351,987) | (722,270) |
| Payments to employees | (86,202) | (38,237) | (124,439) |
| Net cash provided by operating activities | <u>766,219</u> | <u>115,219</u> | <u>881,438</u> |
| Cash flows from capital and related financing activities | | | |
| Bond proceeds | 2,000,000 | - | 2,000,000 |
| Purchase of assets | (133,309) | - | (133,309) |
| Principal paid on debt | (91,118) | - | (91,118) |
| Interest paid on debt | (233,111) | - | (233,111) |
| Net cash used by capital and related financing activities | <u>1,542,462</u> | <u>-</u> | <u>1,542,462</u> |
| Interest received | 4,123 | 82 | 4,205 |
| Net cash provided by investing activities | <u>4,123</u> | <u>82</u> | <u>4,205</u> |
| Net increase in cash and cash equivalents | 2,312,804 | 115,301 | 2,428,105 |
| Cash & cash equivalents-beginning of the year | <u>1,801,987</u> | <u>65,576</u> | <u>1,867,563</u> |
| Cash & cash equivalents-end of the year | <u><u>\$ 4,114,791</u></u> | <u><u>\$ 180,877</u></u> | <u><u>\$ 4,295,668</u></u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ 504,572 | \$ 131,679 | \$ 636,251 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation expense | 203,111 | - | 203,111 |
| Change in net assets and liabilities: | | | |
| Receivables, net | (59,663) | (537) | (60,200) |
| Due from other funds | 53,230 | - | 53,230 |
| Deferred charges | 8,349 | - | 8,349 |
| Accounts payable and accrued liabilities | (25,733) | (15,923) | (41,656) |
| Due to other funds | 80,079 | - | 80,079 |
| Customer deposits | 2,274 | - | 2,274 |
| Net cash provided by operating activities | <u><u>\$ 766,219</u></u> | <u><u>\$ 115,219</u></u> | <u><u>\$ 881,438</u></u> |

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

CITY OF MAGNOLIA, TEXAS
Notes to Financial Statements
September 30, 2011

Note 1 - Summary of Significant Accounting Policies

A. History & General Statement

The City of Magnolia, Texas (the "City") was incorporated under the laws of the State of Texas on September 28, 1968. The City operates 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 services, and sewer services.

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.

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 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* (“the statement” or “Statement No. 34”). 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. Basic Financial Statements – Government-Wide Statements

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

D. Basic Financial Statements – Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

1. General Fund – The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.
2. Debt Service Fund – The Debt Service Fund is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.
3. Capital Projects Fund – The Capital Projects Fund is used to account for expenditures or resources accumulated from road projects grants to construct or acquire capital facilities and improvements. The capital projects fund is considered a major fund for reporting purposes.
4. Special Revenue Fund - The 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. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

Enterprise Fund - The Enterprise Fund is used to account for the provision of water & 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 fund is considered a major fund for reporting purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses for the proprietary funds include the cost of materials, contracts, personnel, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Property Taxes

Property taxes are levied on October 1 and are payable on or before January 31. They attach as an enforceable lien on January 1.

F. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter (30 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other Governmental Fund Type revenues are recognized when received.

G. Budgetary Control

The City has established its fiscal year as the twelve-month period beginning October 1. The departments submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor subsequently submits a budget of estimated expenditures and revenues to the City Council.

The budget is then legally enacted through passage of an ordinance. The Mayor is authorized to transfer budgeted amounts between line items and departments within any fund, however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original adopted appropriations.

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual to provide a meaningful comparison of actual results with the budget. The major difference between budget and GAAP basis in the General Fund is that depreciation, since it is not a cash expense, is not budgeted. Depreciation for the general fund for the year ending September 30, 2011 was \$190,235.

H. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, requires that investments having a maturity date of over three months not be defined as cash equivalents.

I. 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 expenses during the reporting period. Actual results could differ from those estimates.

J. Interfund Receivables and Payables

Short-term amounts owed between funds are classified as "Due to/from other funds". Any residual balances outstanding between the governmental activities, business-type activities and component units are reported in the government-wide statements. At September 30, 2011, the governmental activities funds were owed \$89,317, business type funds owed \$80,079 and the component units owed \$9,238.

K. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

| | |
|----------------------------|----------------|
| Vehicles | 5 to 20 Years |
| Furniture and Equipment | 5 to 20 Years |
| Infrastructure | 20 to 75 Years |
| Buildings and improvements | 20 to 75 Years |

L. Compensated 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. At September 30, 2011, the balance was \$33,280.

M. Fund Balances

Effective July 1, 2009, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("the statement" or "Statement No. 54"). The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The City has evaluated the use of its Debt Service and Capital Projects Funds under the criteria set forth in Statement No. 54 and has determined that there is no change needed.

As prescribed by the statement, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance—includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance—includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance— includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

Assigned Fund Balance—includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) The City Council or (b) a body (a budget, finance committee, or City Administrator) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned Fund Balance—this residual classification is used for all negative fund balances.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

N. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Note 2 - Employees Pension Plan

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), 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 from 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:

| | Plan Year 2010 | Plan Year 2011 |
|-----------------------------------------------------------------------|-------------------|-------------------|
| Employee deposit rate | 6% | 6% |
| Matching ratio (city to employee) | 1 to 1 | 1 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expressed as age/years 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 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 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 stale 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). Additional data is presented in the supplemental information of this report.

Note 3 - Deposits & Investments

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earning on these monies is allocated based upon relative equity at the prior month end.

In accordance with GASB No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools* ("the statement" or "Statement No. 31"), 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 Security and Exchange Commission's (SEC) Rule 2a7 of the Investment Company Act of 1940, such as the Texas Local Government Investment Pool (TexPool), are reported using the pool's 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 certificate of deposit
- Mutual funds of a specific type
- Statewide investment pools

Custodial credit risk 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%. As of September 30, 2011, market values of pledged securities and the Federal Deposit Insurance Corporation (FDIC) insurance exceeded bank balances for the City and component units.

Note 4 - Long-Term Debt

The following is a summary of notes payable transactions for the year ended September 30, 2011:

| | Balance 9-30-10 | Additions | Reductions | Balance 9-30-11 |
|------------------------------------------|--------------------|--------------|------------|--------------------|
| Governmental Activities | | | | |
| Certificates of obligation - Series 2004 | \$ 1,460,000 | \$ - | \$ 15,000 | \$ 1,445,000 |
| Certificates of obligation - Series 2006 | 605,000 | - | 55,000 | 550,000 |
| Capital leases | 25,766 | - | 25,766 | - |
| | 2,090,766 | - | 95,766 | 1,995,000 |
| Other liabilities: | | | | |
| Compensated absences | 33,280 | - | - | 33,280 |
| Total Governmental Activities | 2,124,046 | - | 95,766 | 2,028,280 |
| Business-Type Activities | | | | |
| Revenue bonds - Series 2006 | 4,545,000 | - | 85,000 | 4,460,000 |
| State Infrastructure Loan | - | 2,000,000 | - | 2,000,000 |
| Capital leases | 6,644 | - | 6,118 | 526 |
| Total Business-Type Activities | 4,551,644 | 2,000,000 | 91,118 | 6,460,526 |
| 4A Corporation | | | | |
| Revenue bonds - Series 2003 | 360,000 | - | 115,000 | 245,000 |
| Revenue bonds - Series 2009 | 2,565,000 | - | - | 2,565,000 |
| Discount | (23,940) | - | (1,710) | (22,230) |
| Total 4A Corporation | 2,901,060 | - | 113,290 | 2,787,770 |
| Total | \$ 9,576,750 | \$ 2,000,000 | \$ 300,174 | \$11,276,576 |

Total Long-Term Debt requirements are as follows:

| Year Ending | Principal Payment | Interest | Total |
|-----------------------------|----------------------|---------------------|---------------------|
| September 2012 | \$ 393,059 | \$ 543,343 | \$ 936,402 |
| September 2013 | 405,759 | 536,833 | 942,592 |
| September 2014 | 459,082 | 519,465 | 978,547 |
| September 2015 | 477,504 | 496,767 | 974,271 |
| September 2016 | 501,030 | 472,998 | 974,028 |
| September 2017 & Thereafter | 9,029,092 | 3,900,622 | 12,929,714 |
| | <u>\$11,265,526</u> | <u>\$ 6,470,028</u> | <u>\$17,735,554</u> |

Note 5 - Changes in Capital Assets

A summary of changes in capital assets follows:

| | Balance 9-30-10 | Increases | Decreases | Balance 9-30-11 |
|---------------------------------------------|---------------------|---------------------|-------------|---------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 144,873 | \$ - | \$ - | \$ 144,873 |
| Capital assets being depreciated: | | | | |
| Buildings & improvements | 679,865 | - | - | 679,865 |
| Vehicles & equipment | 588,762 | - | - | 588,762 |
| Infrastructure | 4,969,370 | - | - | 4,969,370 |
| Total capital assets being depreciated | 6,237,997 | - | - | 6,237,997 |
| Less accumulated depreciation | | | | |
| Buildings & improvements | (523,352) | (45,517) | - | (568,869) |
| Vehicles & equipment | (74,094) | (20,258) | - | (94,352) |
| Infrastructure | (2,471,306) | (124,460) | - | (2,595,766) |
| Total accumulated depreciation | (3,068,752) | (190,235) | - | (3,258,987) |
| Total capital assets being depreciated, net | 3,169,245 | (190,235) | - | 2,979,010 |
| Governmental Activities | | | | |
| Capital Assets, net | <u>\$ 3,314,118</u> | <u>\$ (190,235)</u> | <u>\$ -</u> | <u>\$ 3,123,883</u> |

Depreciation expense was charged to functions as follows:

| | |
|----------------------------------------------------|-------------------|
| Governmental activities: | |
| General government | \$ 12,569 |
| Public safety | 62,268 |
| Public works | 115,398 |
| Total governmental activities depreciation expense | <u>\$ 190,235</u> |

| | Balance 9-30-10 | Increases | Decreases | Balance 9-30-11 |
|---------------------------------------------|---------------------|--------------------|-------------|---------------------|
| Business-Type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 108,634 | \$ - | \$ - | \$ 108,634 |
| Capital assets being depreciated: | | | | |
| Equipment | 130,904 | - | - | 130,904 |
| Water system | 6,248,091 | 133,309 | - | 6,381,400 |
| Total capital assets being depreciated | 6,378,995 | 133,309 | - | 6,512,304 |
| Less accumulated depreciation: | | | | |
| Equipment | (116,316) | (5,079) | - | (121,395) |
| Water system | (1,747,203) | (198,032) | - | (1,945,235) |
| Total accumulated depreciation | (1,863,519) | (203,111) | - | (2,066,630) |
| Total capital assets being depreciated, net | 4,515,476 | (69,802) | - | 4,445,674 |
| Business-Type Activities | | | | |
| Capital Assets, net | <u>\$ 4,624,110</u> | <u>\$ (69,802)</u> | <u>\$ -</u> | <u>\$ 4,554,308</u> |

Depreciation expense was charged to functions as follows:

Business-type activities:

| | |
|-------|-------------------|
| Water | <u>\$ 203,111</u> |
|-------|-------------------|

| Component Units | Balance 9-30-10 | Increases | Decreases | Balance 9-30-11 |
|---------------------------------------------|---------------------|-------------------|-------------|---------------------|
| 4A Corporation | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 15,845 | \$ - | \$ - | \$ 15,845 |
| Capital assets being depreciated: | | | | |
| Buildings & improvements | 714,620 | - | - | 714,620 |
| Unity Park & Downtown | 2,633,772 | 343,329 | - | 2,977,101 |
| Pavement improvements | 839,645 | - | - | 839,645 |
| Equipment | 7,150 | - | - | 7,150 |
| Total capital assets being depreciated | 4,195,187 | 343,329 | - | 4,538,516 |
| Less accumulated depreciation: | | | | |
| Buildings & improvements | (159,274) | (17,866) | - | (177,140) |
| Unity Park & Downtown | - | (12,878) | - | (12,878) |
| Pavement improvements | (273,976) | (43,653) | - | (317,629) |
| Equipment | (6,438) | (712) | - | (7,150) |
| Total accumulated depreciation | (439,688) | (75,109) | - | (514,797) |
| Total capital assets being depreciated, net | 3,755,499 | 268,220 | - | 4,023,719 |
| Component Unit | | | | |
| Capital Assets, net | <u>\$ 3,771,344</u> | <u>\$ 268,220</u> | <u>\$ -</u> | <u>\$ 4,039,564</u> |
| 4B Corporation | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ - | \$ 97,679 | \$ - | \$ 97,679 |
| Capital assets being depreciated: | | | | |
| Yellow House | - | 122,613 | - | 122,613 |
| Equipment | 7,150 | - | - | 7,150 |
| Total capital assets being depreciated | 7,150 | 122,613 | - | 129,763 |
| Less accumulated depreciation: | | | | |
| Yellow House | - | (4,904) | - | (4,904) |
| Equipment | (7,150) | - | - | (7,150) |
| Total accumulated depreciation | (7,150) | (4,904) | - | (12,054) |
| Total capital assets being depreciated, net | - | 117,709 | - | 117,709 |
| Component Unit | | | | |
| Capital Assets, net | <u>\$ -</u> | <u>\$ 215,388</u> | <u>\$ -</u> | <u>\$ 215,388</u> |

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF MAGNOLIA, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended September 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|-------------------------------------------------|---------------------|---------------------|---------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 317,498 | \$ 317,498 | \$ 329,625 | \$ 12,127 |
| Sales taxes | 874,865 | 874,865 | 972,153 | 97,288 |
| Franchise taxes | 167,000 | 167,000 | 177,743 | 10,743 |
| Hotel occupancy tax | - | - | 35,840 | 35,840 |
| Mixed beverage tax | 10,000 | 10,000 | 9,251 | (749) |
| Licenses and permits | 22,500 | 22,500 | 128,786 | 106,286 |
| Fines and forfeitures | 555,000 | 555,000 | 436,843 | (118,157) |
| Other revenue | 29,850 | 29,850 | 50,691 | 20,841 |
| Total revenues | <u>1,976,713</u> | <u>1,976,713</u> | <u>2,140,932</u> | <u>164,219</u> |
| Expenditures | | | | |
| General government | 682,899 | 682,899 | 802,604 | (119,705) |
| Public Safety | 771,588 | 771,588 | 734,550 | 37,038 |
| Public works | 223,996 | 223,996 | 138,047 | 85,949 |
| Tourism | - | - | 25,768 | (25,768) |
| Court | 271,979 | 271,979 | 341,705 | (69,726) |
| Total expenditures | <u>1,950,462</u> | <u>1,950,462</u> | <u>2,042,674</u> | <u>(92,212)</u> |
| Excess of revenues over (under) expenditures | 26,251 | 26,251 | 98,258 | 72,007 |
| Other sources | | | | |
| Transfers | <u>122,000</u> | <u>122,000</u> | <u>72,747</u> | <u>(49,253)</u> |
| Net change in fund balance | 148,251 | 148,251 | 171,005 | <u>\$ 22,754</u> |
| Fund balance-beginning | <u>(467,430)</u> | <u>(467,430)</u> | <u>(467,430)</u> | |
| Fund balance-ending | <u>\$ (319,179)</u> | <u>\$ (319,179)</u> | <u>\$ (296,425)</u> | |

CITY OF MAGNOLIA, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Year Ended September 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------|------------------|------------------|------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 169,565 | \$ 169,565 | \$ 176,945 | \$ 7,380 |
| Investment revenue | 420 | 420 | 694 | 274 |
| Total revenues | <u>169,985</u> | <u>169,985</u> | <u>177,639</u> | <u>7,654</u> |
| Expenditures | | | | |
| Debt service interest | 99,565 | 99,565 | 99,565 | - |
| Debt service principal | <u>70,000</u> | <u>70,000</u> | <u>70,000</u> | - |
| Total expenditures | <u>169,565</u> | <u>169,565</u> | <u>169,565</u> | - |
| Net change in fund balance | 420 | 420 | 8,074 | <u>\$ 7,654</u> |
| Fund balance-beginning | <u>45,077</u> | <u>45,077</u> | <u>45,077</u> | |
| Fund balance-ending | <u>\$ 45,497</u> | <u>\$ 45,497</u> | <u>\$ 53,151</u> | |

CITY OF MAGNOLIA, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
Special Revenue Funds - HB 445
For the Year Ended September 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------|-----------------------|--------------------------|--------------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Sales taxes | \$ 218,716 | \$ 218,716 | \$ 243,241 | \$ 24,525 |
| Investment Revenue | 5,000 | 5,000 | 6,189 | 1,189 |
| Total revenues | <u>223,716</u> | <u>223,716</u> | <u>249,430</u> | <u>25,714</u> |
| Expenditures | | | | |
| Road repair | <u>220,000</u> | <u>220,000</u> | <u>324,508</u> | <u>(104,508)</u> |
| Net change in fund balance | 3,716 | 3,716 | (75,078) | <u>\$ (78,794)</u> |
| Fund balance-beginning | <u>429,807</u> | <u>429,807</u> | <u>429,807</u> | |
| Fund balance-ending | <u><u>433,523</u></u> | <u><u>\$ 433,523</u></u> | <u><u>\$ 354,729</u></u> | |

CITY OF MAGNOLIA, TEXAS
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budgetary Basis)
Special Revenue Funds - Red Light Cameras
For the Year Ended September 30, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------|-------------------|-------------------|-------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Fines and forfeitures | \$ 240,000 | \$ 240,000 | \$ 524,355 | \$ 284,355 |
| Investment earnings | 1,000 | 1,000 | 255 | (745) |
| Total revenues | <u>241,000</u> | <u>241,000</u> | <u>524,610</u> | <u>283,610</u> |
| Expenditures | | | | |
| Administrative | <u>102,100</u> | <u>102,100</u> | <u>234,882</u> | <u>(132,782)</u> |
| Net change in fund balance | 138,900 | 138,900 | 289,728 | <u>\$ 150,828</u> |
| Fund balance-beginning | <u>241,056</u> | <u>241,056</u> | <u>241,056</u> | |
| Fund balance-ending | <u>\$ 379,956</u> | <u>\$ 379,956</u> | <u>\$ 530,784</u> | |

CITY OF MAGNOLIA, TEXAS
Pension Plan
Schedule of Actuarial Liabilities and Funding Progress

| Fiscal Year End - September | 2009 | 2010 | 2011 |
|-----------------------------------------------------------|-----------|-----------|----------|
| Actuarial Valuation Date | 12-31-08 | 12-31-09 | 12-31-10 |
| Actuarial Value of Assets | 563,750 | 626,305 | 691,805 |
| Actuarial Accrued Liability | 575,306 | 667,546 | 702,556 |
| Percentage Funded | 98.0% | 93.8% | 98.5% |
| Under (Over) Funded Actuarial Accrued Liability (UAAL) | 11,556 | 41,241 | 10,751 |
| Annual Covered Payroll | 1,022,705 | 1,042,660 | 908,453 |
| UAAL as a Percentage of Covered Payroll | 1.1% | 4.0% | 1.2% |

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, follows:

| | | | |
|-----------------------------------------------|------------------------------|------------------------------|------------------------------|
| Valuation Date | 12-31-08 | 12-31-09 | 12-31-10 |
| Actuarial Cost Method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level % of Payroll | Level % of Payroll | Level % of Payroll |
| GASB 25 Equivalent Single Amortization Period | 24.0 years: closed period | 23.9 years: closed period | 18.7 years: closed period |
| Amortization Period for new Gains/Losses | 25 years | 25 years | 25 years |
| Asset Valuation Method | Amortized Cost | 10 year Smoothed Mkt | 10 year Smoothed Mkt |
| Actuarial Assumptions: | 7.5% | 7.5% | 7.0% |
| Investment Rate of Return * | Varies by age and service | Varies by age and service | Varies by age and service |
| Projected Salary Increases * | 3.0% | 3.0% | 3.0% |
| *Includes Inflation at | 0.0% | 0.0% | 0.0% |
| Cost of Living Adjustments | | | |

OTHER SUPPLEMENTAL INFORMATION

CITY OF MAGNOLIA, TEXAS
Statement of Expenses
General Fund
For the Year Ended September 30, 2011

| | General Government | Public Safety | Public Works |
|---------------------------|-----------------------|------------------|-----------------|
| | \$ 271,643 | \$ 441,291 | \$ 58,506 |
| Salaries | - | - | - |
| State portion of fines | - | - | - |
| Health insurance | 40,135 | 76,745 | 16,571 |
| Inspection services | 87,923 | - | - |
| Computer software & IT | 58,644 | 8,207 | - |
| Payroll taxes | 22,301 | 34,954 | 5,150 |
| Building lease | 55,628 | - | - |
| Legal | 42,178 | 1,160 | - |
| Electric | 32,182 | - | 19,561 |
| Fuel | - | 44,602 | 422 |
| Security | - | - | - |
| Repairs & maintenance | 3,706 | 24,532 | 8,111 |
| Office supplies | 9,170 | 11,492 | - |
| Capital lease principal | - | 26,647 | - |
| Event funding | - | - | - |
| City Hall lease | 25,766 | - | - |
| Consultant services | 14,991 | 9,750 | 700 |
| Collections | - | - | - |
| Prior year payable | 21,788 | - | - |
| Employees retirement fund | 6,716 | 11,861 | - |
| Supplies | 14,367 | - | 2,855 |
| Phone & internet | 14,026 | 1,874 | 600 |
| Insurance | 4,588 | 9,912 | - |
| Water | - | - | 13,067 |
| Accounting-Audit | 12,959 | - | - |
| Workers' Comp | 3,304 | 8,818 | - |
| Bad check reimbursement | - | - | - |
| Janitorial | 11,674 | - | - |
| Equipment rent | 8,206 | - | 2,129 |
| Uniforms | - | 8,623 | 524 |
| Vehicle | 7,315 | 1,369 | - |
| Minor equipment | 1,924 | 1,269 | 4,335 |
| Miscellaneous | 809 | 2,158 | 1,708 |

CITY OF MAGNOLIA, TEXAS
Statement of Expenses
General Fund
For the Year Ended September 30, 2011

| | General Government | Public Safety | Public Works |
|---------------------------------------------|-----------------------|-------------------|-------------------|
| Education & travel | 3,629 | 1,231 | - |
| Mayor-Council | 6,248 | - | - |
| Advertising | 5,571 | - | - |
| Radios | - | 4,518 | - |
| Engineering | 3,959 | - | - |
| Street signs | - | - | 3,808 |
| Appraisal District | 3,634 | - | - |
| Dues & memberships | 1,894 | 919 | - |
| Bank fees | 2,815 | - | - |
| K-9 expense | - | 2,618 | - |
| Postage | 2,489 | - | - |
| Capital lease interest | 422 | - | - |
| Total | 802,604 | 734,550 | 138,047 |
| Adjustments to the Statement of Activities: | | | |
| Depreciation | 12,569 | 62,268 | 115,398 |
| Deferred charges | 151,139 | - | - |
| Capital lease principal | (25,766) | - | - |
| Total Primary Government Expenses | <u>\$ 940,546</u> | <u>\$ 796,818</u> | <u>\$ 253,445</u> |

CITY OF MAGNOLIA, TEXAS
Statement of Expenses
General Fund-Continued
For the Year Ended September 30, 2011

| | <u>Tourism</u> | <u>Court</u> | <u>Total</u> |
|---------------------------|----------------|--------------|--------------|
| Salaries | \$ - | \$ 64,637 | \$ 836,077 |
| State portion of fines | - | 152,585 | 152,585 |
| Health insurance | - | 13,629 | 147,080 |
| Inspection services | - | - | 87,923 |
| Computer software & IT | - | 2,563 | 69,414 |
| Payroll taxes | - | 5,586 | 67,991 |
| Building lease | - | - | 55,628 |
| Legal | - | 9,070 | 52,408 |
| Electric | - | - | 51,743 |
| Fuel | - | - | 45,024 |
| Security | - | 42,507 | 42,507 |
| Repairs & maintenance | - | - | 36,349 |
| Office supplies | - | 7,540 | 28,202 |
| Capital lease principal | - | - | 26,647 |
| Event funding | 25,768 | - | 25,768 |
| City Hall lease | - | - | 25,766 |
| Consultant services | - | - | 25,441 |
| Collections | - | 24,991 | 24,991 |
| Prior year payable | - | - | 21,788 |
| Employees retirement fund | - | 2,008 | 20,585 |
| Supplies | - | - | 17,222 |
| Phone & internet | - | - | 16,500 |
| Insurance | - | - | 14,500 |
| Water | - | - | 13,067 |
| Accounting-Audit | - | - | 12,959 |
| Workers' Comp | - | 192 | 12,314 |
| Bad check reimbursement | - | 12,294 | 12,294 |
| Janitorial | - | - | 11,674 |
| Equipment rent | - | - | 10,335 |
| Uniforms | - | - | 9,147 |
| Vehicle | - | - | 8,684 |
| Minor equipment | - | - | 7,528 |
| Miscellaneous | - | 2,086 | 6,761 |

CITY OF MAGNOLIA, TEXAS
Statement of Expenses
General Fund-Continued
For the Year Ended September 30, 2011

| | <u>Tourism</u> | <u>Court</u> | <u>Total</u> |
|---------------------------------------------|------------------|-------------------|--------------------|
| Education & travel | - | 1,837 | 6,697 |
| Mayor-Council | - | - | 6,248 |
| Advertising | - | - | 5,571 |
| Radios | - | - | 4,518 |
| Engineering | - | - | 3,959 |
| Street signs | - | - | 3,808 |
| Appraisal District | - | - | 3,634 |
| Dues & memberships | - | 180 | 2,993 |
| Bank fees | - | - | 2,815 |
| K-9 expense | - | - | 2,618 |
| Postage | - | - | 2,489 |
| Capital lease interest | - | - | 422 |
| Total | <u>25,768</u> | <u>341,705</u> | <u>2,042,674</u> |
| Adjustments to the Statement of Activities: | | | |
| Depreciation | - | - | 190,235 |
| Deferred charges | - | - | 151,139 |
| Capital lease principal | - | (2,563) | (28,329) |
| Total Primary Government Expenses | <u>\$ 25,768</u> | <u>\$ 339,142</u> | <u>\$2,355,719</u> |

CITY OF MAGNOLIA, TEXAS
Statement of Expenses
Business-Type Activities Fund
For the Year Ended September 30, 2011

| | Business-Type Activities | | |
|---------------------------------|--------------------------|-------------------|---------------------|
| | Water Fund | Sewer Fund | Total |
| Operating Expenses | | | |
| Depreciation | \$ 203,111 | \$ - | \$ 203,111 |
| Electric | 74,424 | 74,184 | 148,608 |
| Salaries | 86,202 | 38,237 | 124,439 |
| Lone Star GCD & SJRA | 119,245 | - | 119,245 |
| Garbage service | - | 84,579 | 84,579 |
| Lift station repairs | - | 70,728 | 70,728 |
| Contract services | 25,067 | 21,821 | 46,888 |
| Supplies | 32,028 | 6,448 | 38,476 |
| Sludge hauling | - | 26,621 | 26,621 |
| Chemicals | 16,934 | 9,165 | 26,099 |
| Maintenance | 4,255 | 17,460 | 21,715 |
| Permits | 16,485 | 2,818 | 19,303 |
| Health insurance | 8,496 | 1,263 | 9,759 |
| Payroll tax | 6,628 | 2,753 | 9,381 |
| Insurance | 8,494 | - | 8,494 |
| Workers' Comp | 3,918 | 3,910 | 7,828 |
| Equipment rent | 6,726 | 903 | 7,629 |
| Computer software - IT | 6,912 | - | 6,912 |
| Telephone | 2,858 | 3,137 | 5,995 |
| Bank fees | 3,080 | 2,563 | 5,643 |
| Postage | 2,982 | 539 | 3,521 |
| Retirement | 2,229 | 1,025 | 3,254 |
| Insurance | - | 2,899 | 2,899 |
| Miscellaneous | 792 | 1,335 | 2,127 |
| Fuel | - | 1,913 | 1,913 |
| Uniforms | 1,744 | - | 1,744 |
| Engineering | 1,253 | - | 1,253 |
| Total Operating Expenses | <u>\$ 633,863</u> | <u>\$ 374,301</u> | <u>\$ 1,008,164</u> |

CITY OF MAGNOLIA, TEXAS
Statement of Revenues & Expenses
Component Units
For the Year Ended September 30, 2011

| | Economic Development 4A | Community Development 4B | Total |
|----------------------------------|-------------------------------|--------------------------------|---------------------|
| Revenues | | | |
| Sales tax | \$ 486,483 | \$ 243,241 | \$ 729,724 |
| Interest | 2,601 | 4,112 | 6,713 |
| Grant | 20,770 | - | 20,770 |
| Rent | - | 5,000 | 5,000 |
| Other | - | 6,515 | 6,515 |
| Total Revenues | <u>509,854</u> | <u>258,868</u> | <u>768,722</u> |
| Expenses | | | |
| Interest expense | 184,725 | - | 184,725 |
| Engineering | 19,599 | 78,928 | 98,527 |
| Depreciation | 75,108 | 4,904 | 80,012 |
| Park maintenance | 27,744 | 50,695 | 78,439 |
| Planning expense | - | 26,754 | 26,754 |
| Downtown "Stroll" | 19,617 | - | 19,617 |
| Improvement grant | - | 14,040 | 14,040 |
| Miscellaneous | 6,169 | 781 | 6,950 |
| Legal | 1,600 | 5,189 | 6,789 |
| Audit-Accounting | 3,000 | 3,000 | 6,000 |
| Maps-Books | 2,720 | 2,811 | 5,531 |
| Insurance | 2,098 | 2,097 | 4,195 |
| Contract/Consultants | - | 4,132 | 4,132 |
| Farmer's Market | - | 2,957 | 2,957 |
| Beautification | - | 2,779 | 2,779 |
| Public notices & signs | - | 2,573 | 2,573 |
| Salaries | - | 1,479 | 1,479 |
| Total Expenses | <u>342,380</u> | <u>203,119</u> | <u>545,499</u> |
| Net before transfers | 167,474 | 55,749 | 223,223 |
| Transfers to general fund | <u>(30,147)</u> | <u>(42,600)</u> | <u>(72,747)</u> |
| Change in fund balance | 137,327 | 13,149 | 150,476 |
| Fund balance-beginning | <u>1,524,805</u> | <u>507,094</u> | <u>2,031,899</u> |
| Fund balance-ending | <u>\$ 1,662,132</u> | <u>\$ 520,243</u> | <u>\$ 2,182,375</u> |
| Memo - capitalized expenditures: | | | |
| Unity Park roads | \$ 257,555 | \$ - | \$ 257,555 |
| "Yellow House" purchase | - | 122,613 | 122,613 |
| Land on Commerce Street | - | 97,679 | 97,679 |

STATISTICAL INFORMATION

City of Magnolia, Texas
Certificates of Obligation - Series 2004
Governmental Activities

| FYE September | Interest Rate | Interest Due | | Principal August 1 | Total |
|------------------------|------------------|-------------------|-------------------|-----------------------|---------------------|
| | | November 1 | August 1 | | |
| 2007 | 4.50 | \$ 38,012 | \$ 35,269 | \$ 10,000 | \$ 83,281 |
| 2008 | 4.50 | 35,044 | 35,044 | 10,000 | 80,088 |
| 2009 | 4.50 | 34,819 | 34,819 | 10,000 | 79,638 |
| 2010 | 4.50 | 34,594 | 34,594 | 10,000 | 79,188 |
| 2011 | 4.50 | 34,368 | 34,368 | 15,000 | 83,736 |
| 2012 | 4.50 | 34,031 | 34,031 | 15,000 | 83,062 |
| 2013 | 4.50 | 33,694 | 33,694 | 15,000 | 82,388 |
| 2014 | 4.50 | 33,356 | 33,356 | 15,000 | 81,712 |
| 2015 | 4.50 | 33,018 | 33,018 | 15,000 | 81,036 |
| 2016 | 4.625 | 32,681 | 32,681 | 15,000 | 80,362 |
| 2017 | 4.625 | 32,334 | 32,334 | 15,000 | 79,668 |
| 2018 | 4.625 | 31,988 | 31,988 | 45,000 | 108,976 |
| 2019 | 4.625 | 30,947 | 30,947 | 45,000 | 106,894 |
| 2020 | 4.625 | 29,906 | 29,906 | 135,000 | 194,812 |
| 2021 | 4.625 | 26,768 | 26,768 | 140,000 | 193,536 |
| 2022 | 4.75 | 23,512 | 23,512 | 145,000 | 192,024 |
| 2023 | 4.75 | 20,068 | 20,068 | 155,000 | 195,136 |
| 2024 | 4.75 | 16,388 | 16,388 | 165,000 | 197,776 |
| 2025 | 4.75 | 12,468 | 12,468 | 165,000 | 189,936 |
| 2026 | 4.75 | 8,551 | 8,551 | 175,000 | 192,102 |
| 2027 | 4.75 | 4,395 | 4,395 | 185,000 | 193,790 |
| Total Due | | 580,942 | 578,199 | 1,500,000 | 2,659,141 |
| Retired through 2011 | | 176,837 | 174,094 | 55,000 | 405,931 |
| Balance September 2011 | | <u>\$ 404,105</u> | <u>\$ 404,105</u> | <u>\$ 1,445,000</u> | <u>\$ 2,253,210</u> |

City of Magnolia, Texas
Certificates of Obligation - Series 2006
Governmental Activities

| <u>FYE</u> <u>September</u> | <u>Interest</u> <u>Rate</u> | <u>Interest Due</u> | | <u>Principal</u> <u>August 1</u> | <u>Total</u> |
|--------------------------------|--------------------------------|---------------------|------------------|-------------------------------------|-------------------|
| | | <u>February 1</u> | <u>August 1</u> | | |
| 2005 | 4.93 | \$ 14,913 | \$ 22,185 | \$ 50,000 | \$ 87,098 |
| 2006 | 4.93 | 20,953 | 20,953 | 45,000 | 86,906 |
| 2007 | 4.93 | 19,843 | 19,843 | 45,000 | 84,686 |
| 2008 | 4.93 | 18,734 | 18,734 | 50,000 | 87,468 |
| 2009 | 4.93 | 17,501 | 17,501 | 50,000 | 85,002 |
| 2010 | 4.93 | 16,269 | 16,269 | 55,000 | 87,538 |
| 2011 | 4.93 | 14,913 | 14,913 | 55,000 | 84,826 |
| 2012 | 4.93 | 13,558 | 13,558 | 60,000 | 87,116 |
| 2013 | 4.93 | 12,079 | 12,079 | 60,000 | 84,158 |
| 2014 | 4.93 | 10,600 | 10,600 | 65,000 | 86,200 |
| 2015 | 4.93 | 8,997 | 8,997 | 65,000 | 82,994 |
| 2016 | 4.93 | 7,395 | 7,395 | 70,000 | 84,790 |
| 2017 | 4.93 | 5,670 | 5,670 | 75,000 | 86,340 |
| 2018 | 4.93 | 3,820 | 3,820 | 75,000 | 82,640 |
| 2019 | 4.93 | 1,972 | 1,971 | 80,000 | 83,943 |
| Total Due | | 187,217 | 194,488 | 900,000 | 1,281,705 |
| Retired through 2011 | | 123,126 | 130,398 | 350,000 | 603,524 |
| Balance September 2011 | | <u>\$ 64,091</u> | <u>\$ 64,090</u> | <u>\$ 550,000</u> | <u>\$ 678,181</u> |

City of Magnolia, Texas
Revenue Bonds - Series 2006
Business-Type Activities

| FYE September | Interest Rate | Interest Due | | Principal November 1 | Total |
|------------------------|------------------|--------------------|--------------------|-------------------------|---------------------|
| | | February 1 | November 1 | | |
| 2007 | 4.00 | \$ 117,973 | \$ 117,973 | \$ - | \$ 235,946 |
| 2008 | 4.00 | 116,473 | 117,973 | 75,000 | 309,446 |
| 2009 | 4.00 | 114,872 | 116,473 | 80,000 | 311,345 |
| 2010 | 4.05 | 113,252 | 114,872 | 80,000 | 308,124 |
| 2011 | 4.10 | 111,510 | 113,252 | 85,000 | 309,762 |
| 2012 | 4.20 | 109,620 | 111,510 | 90,000 | 311,130 |
| 2013 | 4.30 | 107,578 | 109,620 | 95,000 | 312,198 |
| 2014 | 4.35 | 105,511 | 107,578 | 95,000 | 308,089 |
| 2015 | 4.45 | 103,286 | 105,511 | 100,000 | 308,797 |
| 2016 | 4.55 | 100,898 | 103,286 | 105,000 | 309,184 |
| 2017 | 4.65 | 98,340 | 100,898 | 110,000 | 309,238 |
| 2018 | 4.75 | 95,609 | 98,340 | 115,000 | 308,949 |
| 2019 | 4.75 | 92,759 | 95,609 | 120,000 | 308,368 |
| 2020 | 4.80 | 89,759 | 92,759 | 125,000 | 307,518 |
| 2021 | 4.80 | 86,519 | 89,759 | 135,000 | 311,278 |
| 2022 | 4.80 | 83,159 | 86,519 | 140,000 | 309,678 |
| 2023 | 5.00 | 79,533 | 83,159 | 145,000 | 307,692 |
| 2024 | 5.00 | 75,658 | 79,533 | 155,000 | 310,191 |
| 2025 | 5.10 | 71,451 | 75,658 | 165,000 | 312,109 |
| 2026 | 5.10 | 67,116 | 71,451 | 170,000 | 308,567 |
| 2027 | 5.10 | 62,526 | 67,116 | 180,000 | 309,642 |
| 2028 | 5.15 | 57,634 | 62,526 | 190,000 | 310,160 |
| 2029 | 5.15 | 52,484 | 57,634 | 200,000 | 310,118 |
| 2030 | 5.15 | 47,076 | 52,484 | 210,000 | 309,560 |
| 2031 | 5.15 | 41,411 | 47,076 | 220,000 | 308,487 |
| 2032 | 5.15 | 35,360 | 41,411 | 235,000 | 311,771 |
| 2033 | 5.20 | 28,990 | 35,360 | 245,000 | 309,350 |
| 2034 | 5.20 | 22,230 | 28,990 | 260,000 | 311,220 |
| 2035 | 5.20 | 15,210 | 22,230 | 270,000 | 307,440 |
| 2036 | 5.20 | 7,800 | 15,210 | 285,000 | 308,010 |
| 2037 | 5.20 | - | 7,801 | 300,000 | 307,801 |
| Total Due | | 2,311,597 | 2,429,571 | 4,780,000 | 9,521,168 |
| Retired through 2011 | | 574,080 | 580,543 | 320,000 | 1,474,623 |
| Balance September 2011 | | <u>\$1,737,517</u> | <u>\$1,849,028</u> | <u>\$ 4,460,000</u> | <u>\$ 8,046,545</u> |

**City of Magnolia, Texas
State Infrastructure Loan
Business-Type Activities**

| <u>FYE September</u> | <u>Interest Rate</u> | <u>Interest Due</u> | | <u>Principal August 1</u> | <u>Total</u> |
|--------------------------|--------------------------|---------------------|-------------------|-------------------------------|---------------------|
| | | <u>February 1</u> | <u>August 1</u> | | |
| 2012 | 3.00 | \$ 19,667 | \$ 28,387 | \$ 107,533 | \$ 155,587 |
| 2013 | 3.00 | 28,387 | 26,726 | 110,759 | 165,872 |
| 2014 | 3.00 | 26,726 | 25,014 | 114,082 | 165,822 |
| 2015 | 3.00 | 25,014 | 23,252 | 117,504 | 165,770 |
| 2016 | 3.00 | 23,252 | 21,436 | 121,030 | 165,718 |
| 2017 | 3.00 | 21,436 | 19,566 | 124,660 | 165,662 |
| 2018 | 3.00 | 19,566 | 17,640 | 128,400 | 165,606 |
| 2019 | 3.00 | 17,640 | 15,658 | 132,252 | 165,550 |
| 2020 | 3.00 | 15,658 | 13,613 | 136,220 | 165,491 |
| 2021 | 3.00 | 13,613 | 11,509 | 140,306 | 165,428 |
| 2022 | 3.00 | 11,509 | 9,341 | 144,519 | 165,369 |
| 2023 | 3.00 | 9,341 | 7,108 | 148,851 | 165,300 |
| 2024 | 3.00 | 7,108 | 4,809 | 153,315 | 165,232 |
| 2025 | 3.00 | 4,809 | 2,439 | 157,916 | 165,164 |
| 2026 | 3.00 | 2,440 | - | 162,653 | 165,093 |
| Total Due | | 246,166 | 226,498 | 2,000,000 | 2,472,664 |
| Retired through 2011 | | - | - | - | - |
| Balance September 2011 | | <u>\$ 246,166</u> | <u>\$ 226,498</u> | <u>\$ 2,000,000</u> | <u>\$ 2,472,664</u> |

**Capital Leases
Business-Type Activities**

| <u>FYE September</u> | <u>Interest Rate</u> | <u>Interest Due</u> | | <u>Principal October 16</u> | <u>Total</u> |
|--------------------------|--------------------------|---------------------|-------------------|---------------------------------|---------------|
| | | <u>October 16</u> | <u>October 16</u> | | |
| 2012 | 6.49 | <u>\$ -</u> | <u>\$ 5</u> | <u>\$ 526</u> | <u>\$ 531</u> |

City of Magnolia, Texas
Sales Tax Revenue Bond - Series 2003
4A Corporation

| <u>FYE</u> <u>September</u> | <u>Interest</u> <u>Rate</u> | <u>Interest Due</u> | | <u>Principal</u> <u>September 1</u> | <u>Total</u> |
|--------------------------------|--------------------------------|---------------------|--------------------|----------------------------------------|-------------------|
| | | <u>March 1</u> | <u>September 1</u> | | |
| 2004 | 5.00 | \$ 30,972 | \$ 25,000 | \$ 70,000 | \$ 125,972 |
| 2005 | 5.00 | 23,250 | 23,250 | 85,000 | 131,500 |
| 2006 | 5.00 | 21,125 | 21,125 | 90,000 | 132,250 |
| 2007 | 5.00 | 18,875 | 18,875 | 95,000 | 132,750 |
| 2008 | 5.00 | 16,500 | 16,500 | 95,000 | 128,000 |
| 2009 | 5.00 | 14,125 | 14,125 | 100,000 | 128,250 |
| 2010 | 5.00 | 11,625 | 11,625 | 105,000 | 128,250 |
| 2011 | 5.00 | 9,000 | 9,000 | 115,000 | 133,000 |
| 2012 | 5.00 | 6,125 | 6,125 | 120,000 | 132,250 |
| 2013 | 5.00 | <u>3,125</u> | <u>3,125</u> | <u>125,000</u> | <u>131,250</u> |
| Total Due | | 154,722 | 148,750 | 1,000,000 | 1,303,472 |
| Retired through 2011 | | <u>145,472</u> | <u>139,500</u> | <u>755,000</u> | <u>1,039,972</u> |
| Balance September 2011 | | <u>\$ 9,250</u> | <u>\$ 9,250</u> | <u>\$ 245,000</u> | <u>\$ 263,500</u> |

City of Magnolia, Texas
Sales Tax Revenue Bond - Series 2009
4A Corporation

| <u>FYE</u> <u>September</u> | <u>Interest</u> <u>Rate</u> | <u>Interest Due</u> | | <u>Principal</u> <u>September 1</u> | <u>Total</u> |
|--------------------------------|--------------------------------|---------------------|--------------------|----------------------------------------|---------------------|
| | | <u>March 1</u> | <u>September 1</u> | | |
| 2009 | 6.50 | \$ - | \$ 46,313 | \$ - | \$ 46,313 |
| 2010 | 6.50 | 83,363 | 83,363 | - | 166,726 |
| 2011 | 6.50 | 83,363 | 83,363 | - | 166,726 |
| 2012 | 6.50 | 83,363 | 83,363 | - | 166,726 |
| 2013 | 6.50 | 83,363 | 83,363 | - | 166,726 |
| 2014 | 6.50 | 83,362 | 83,362 | 170,000 | 336,724 |
| 2015 | 6.50 | 77,837 | 77,837 | 180,000 | 335,674 |
| 2016 | 6.50 | 71,987 | 71,987 | 190,000 | 333,974 |
| 2017 | 6.75 | 65,813 | 65,813 | 205,000 | 336,626 |
| 2018 | 6.75 | 61,425 | 61,425 | 210,000 | 332,850 |
| 2019 | 6.75 | 54,337 | 54,337 | 225,000 | 333,674 |
| 2020 | 6.75 | 46,743 | 46,743 | 240,000 | 333,486 |
| 2021 | 6.75 | 38,644 | 38,644 | 260,000 | 337,288 |
| 2022 | 6.75 | 29,868 | 29,868 | 275,000 | 334,736 |
| 2023 | 6.75 | 20,588 | 20,588 | 295,000 | 336,176 |
| 2024 | 6.75 | 10,631 | 10,632 | 315,000 | 336,263 |
| Total Due | | 894,687 | 941,001 | 2,565,000 | 4,400,688 |
| Retired through 2011 | | 166,726 | 213,039 | - | 379,765 |
| Balance September 2011 | | <u>\$ 727,961</u> | <u>\$ 727,962</u> | <u>\$ 2,565,000</u> | <u>\$ 4,020,923</u> |

City of Magnolia, Texas
Total Long-Term Debt Requirements
All Funds and Component Units

| FYE September | Interest Due | | Principal | Total |
|---------------------------|--------------------|--------------------|---------------------|---------------------|
| | First | Second | | |
| 2012 | \$ 266,364 | \$ 276,979 | \$ 393,059 | \$ 936,402 |
| 2013 | 268,226 | 268,607 | 405,759 | 942,592 |
| 2014 | 259,555 | 259,910 | 459,082 | 978,547 |
| 2015 | 248,152 | 248,615 | 477,504 | 974,271 |
| 2016 | 236,213 | 236,785 | 501,030 | 974,028 |
| 2017 | 223,593 | 224,281 | 529,660 | 977,534 |
| 2018 | 212,408 | 213,213 | 573,400 | 999,021 |
| 2019 | 197,655 | 198,522 | 602,252 | 998,429 |
| 2020 | 182,066 | 183,021 | 636,220 | 1,001,307 |
| 2021 | 165,544 | 166,680 | 675,306 | 1,007,530 |
| 2022 | 148,048 | 149,240 | 704,519 | 1,001,807 |
| 2023 | 129,530 | 130,923 | 743,851 | 1,004,304 |
| 2024 | 109,785 | 111,362 | 788,315 | 1,009,462 |
| 2025 | 88,728 | 90,565 | 487,916 | 667,209 |
| 2026 | 78,107 | 80,002 | 507,653 | 665,762 |
| 2027 | 66,921 | 71,511 | 365,000 | 503,432 |
| 2028 | 57,634 | 62,526 | 190,000 | 310,160 |
| 2029 | 52,484 | 57,634 | 200,000 | 310,118 |
| 2030 | 47,076 | 52,484 | 210,000 | 309,560 |
| 2031 | 41,411 | 47,076 | 220,000 | 308,487 |
| 2032 | 35,360 | 41,411 | 235,000 | 311,771 |
| 2033 | 28,990 | 35,360 | 245,000 | 309,350 |
| 2034 | 22,230 | 28,990 | 260,000 | 311,220 |
| 2035 | 15,210 | 22,230 | 270,000 | 307,440 |
| 2036 | 7,800 | 15,210 | 285,000 | 308,010 |
| 2037 | - | 7,801 | 300,000 | 307,801 |
| Total Payable | 3,189,090 | 3,280,938 | 11,265,526 | 17,735,554 |
| Plus-Compensated absences | - | - | 33,280 | 33,280 |
| Less-4A bond discount | - | - | (22,230) | (22,230) |
| Net Long-Term Debt | <u>\$3,189,090</u> | <u>\$3,280,938</u> | <u>\$11,276,576</u> | <u>\$17,746,604</u> |