

**CITY OF MAGNOLIA, TEXAS**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**

**CITY OF MAGNOLIA, TEXAS**

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## **CITY OF MAGNOLIA, TEXAS**

### **List of Officials**

Mayor	Todd Kana
Mayor Pro Tem, Council Member, Position #5	Patsy Williams
Council Member, Position #1	Anne Sundquist
Council Member, Position #2	Jeff Chumley
Council Member, Position #3	Richard Carby
Council Member, Position #4	Jo Ann Schernerhorn
City Administrator	Paul Mendes
City Secretary	Lynne George
City Attorney	Leonard Schneider, Liles & Parker
Finance and Human Resource Administrator	Beverly Standley
Public Works Coordinator	David Coburn
Economic Development Coordinator	Tana Ross
Court Administrator	Victoria Hanson
Police Chief	Domingo Ibarra

City Contact Information:  
18111 Buddy Riley Blvd., Magnolia, Texas  
936-356-2266

**CITY OF MAGNOLIA, TEXAS**  
**Management's Discussion and Analysis**

Our discussion and analysis of the City of Magnolia, Texas' (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the City's financial statements, which begin on page 9.

**FINANCIAL HIGHLIGHTS**

The City's total combined assets decreased by \$136,445 and total combined liabilities decreased by \$635,553. Total combined long-term debt decreased by \$430,786. General capital expenditures were \$92,372.

During the year, the City had governmental revenues that were \$164,020 (6%) higher than the prior year. Total governmental expenses were \$427,543 (17%) higher than in fiscal 2012.

In the City's business-type activities, revenues increased by \$208,667 (8%) and expenses increased by \$189,450 (16%). Water revenue was higher than in fiscal 2012.

Governmental activities reported an increase in net position this year of \$126,114 and the business-type activities (water & sewer utility fund) reported an increase in net position of \$369,989.

In the two component units, the Economic Development Corporation (4A Fund) and the Community Development Corporation (4B Fund), assets decreased by \$86,781 and liabilities decreased by \$212,106. Net position of the two funds increased \$135,755.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position and the Statement of Activities report information about the City 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 position and changes in it. You can think of the City's net position—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 position is 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 Position 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 Position 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 Position 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 decreased by \$136,445. General assets decreased by \$299,869 and business-type assets increased by \$163,424. General liabilities decreased by \$428,988 and business-type liabilities decreased by \$206,565. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

The combined 4A & 4B funds assets decreased by \$86,781 and liabilities decreased by \$212,106. Net position increased by \$135,755 (6%) over last year.

Table 1 - Net Position  
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Current & Other Assets	\$ 1,375,033	\$ 1,170,115	\$ 3,806,331	\$ 3,878,783	\$ 5,181,364	\$ 5,048,898
Capital Assets	3,128,113	3,030,162	5,894,747	5,985,719	9,022,860	9,015,881
Total Assets	4,503,146	4,200,277	9,701,078	9,864,502	14,204,224	14,064,779
Long-Term Debt	1,968,347	1,896,022	6,262,467	6,049,005	8,230,814	7,945,027
Other Liabilities	465,362	108,704	125,952	132,849	591,314	241,553
Total Liabilities	2,433,709	2,004,726	6,388,419	6,181,854	8,822,128	8,186,580
Net Position:						
Invested in Capital						
Assets-Net of Debt	1,159,766	1,134,140	(367,720)	(63,286)	792,046	1,070,854
Restricted	734,779	887,781	229,156	217,115	963,935	1,104,896
Unrestricted	174,892	173,630	3,451,223	3,528,819	3,626,115	3,702,449
Total Net Position	\$ 2,069,437	\$ 2,195,551	\$ 3,312,659	\$ 3,682,648	\$ 5,382,096	\$ 5,878,199

### Component Units

	4A Fund		4B Fund		Total	
	2012	2013	2012	2013	2012	2013
Current & Other Assets	\$ 771,173	\$ 870,647	\$ 176,954	\$ 161,944	\$ 948,127	\$ 1,032,591
Capital Assets	3,903,266	3,738,492	309,471	303,000	4,212,737	4,041,492
Total Assets	4,674,439	4,609,139	486,425	464,944	5,160,864	5,074,083
Long-Term Debt	2,745,000	2,600,000	-	-	2,745,000	2,600,000
Other Liabilities	71,801	14,428	14,264	4,531	86,065	18,959
Total Liabilities	2,816,801	2,614,428	14,264	4,531	2,831,065	2,618,959

	4A Fund		4B Fund		Total	
	2012	2013	2012	2013	2012	2013
Net Position:						
Invested in Capital Assets-Net of Debt	1,158,266	1,138,492	309,471	303,000	1,467,737	1,441,492
Restricted	688,942	856,219	162,690	157,413	851,632	1,013,632
Unrestricted						
Total Net Position	<u>\$ 1,847,208</u>	<u>\$ 1,994,711</u>	<u>\$ 472,161</u>	<u>\$ 460,413</u>	<u>\$ 2,319,369</u>	<u>\$ 2,455,124</u>

Net position of the City's governmental activities increased by 6% (\$2,195,551 compared to \$2,069,437). Unrestricted net position, funds that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from \$174,892 at September 2012 to \$173,630 at the end of this year.

The net position of our business-type activities increased by 11% (\$3,682,648 compared to \$3,312,659). Unrestricted net position increased from \$3,451,223 at September 2012 to \$3,528,819 in 2013.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Revenues						
Program	\$ 995,362	\$ 1,182,247	\$ 1,521,218	\$ 1,703,802	\$ 2,516,580	\$ 2,886,049
Franchise tax	181,074	182,405	-	-	181,074	182,405
Sales tax	1,194,416	1,405,929	-	-	1,194,416	1,405,929
Property tax	539,731	313,566	-	-	539,731	313,566
Other	34,713	25,169	1,337	27,420	36,050	52,589
Total Revenues	<u>2,945,296</u>	<u>3,109,316</u>	<u>1,522,555</u>	<u>1,731,222</u>	<u>4,467,851</u>	<u>4,840,538</u>
Program Expenses						
General government	612,644	837,531	-	-	612,644	837,531
Tourism	22,912	32,523	-	-	22,912	32,523
Public works	290,864	319,482	-	-	290,864	319,482
Water & sewer	-	-	1,096,761	1,255,180	1,096,761	1,255,180
Red light camera	410,080	398,284	-	-	410,080	398,284
Road repair	4,445	106,168	-	-	4,445	106,168
Court	302,391	394,566	-	-	302,391	394,566
Public safety	800,282	802,709	-	-	800,282	802,709
Interest & fees	112,041	91,939	238,085	271,809	350,126	363,748
Transfers	-	-	(163,063)	(165,756)	(163,063)	(165,756)
Total Program Expenses	<u>2,555,659</u>	<u>2,983,202</u>	<u>1,171,783</u>	<u>1,361,233</u>	<u>3,727,442</u>	<u>4,344,435</u>
Change in Net Position	<u>\$ 389,637</u>	<u>\$ 126,114</u>	<u>\$ 350,772</u>	<u>\$ 369,989</u>	<u>\$ 740,409</u>	<u>\$ 496,103</u>

Table 2 (Continued) - Changes in Net Position  
Component Units

	4A Fund		4B Fund		Total	
	2012	2013	2012	2013	2012	2013
Sales tax	\$ 478,130	\$ 505,564	\$ 239,065	\$ 252,782	\$ 717,195	\$ 758,346
Interest & other	986	932	37,297	40,907	38,283	41,839
Total Revenues	479,116	506,496	276,362	293,689	755,478	800,185
Program Expenses	294,040	358,993	161,381	139,681	455,421	498,674
Transfers	-	-	163,063	165,756	163,063	165,756
Total	294,040	358,993	324,444	305,437	618,484	664,430
Change in Net Position	\$ 185,076	\$ 147,503	\$ (48,082)	\$ (11,748)	\$ 136,994	\$ 135,755

### Governmental Activities

Revenues for the City's governmental activities decreased by \$164,020 (6%), while expenses increased \$427,543 (17%).

### Business-Type Activities

Water and sewer revenues of the City's business-type activities increased by \$208,667 (8%) and expenses increased by \$189,450 (16%). Depreciation expense, which is a non-cash outlay, was \$252,953 for fiscal year 2013.

## 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 \$1,061,411. This is \$151,740 higher than last years balance of \$909,671. The City had a restricted fund balance of \$887,781 and an unrestricted fund balance of \$173,630.

**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 position of the Utility Fund at year end were \$3,682,648. This represents an increase of \$369,989. 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 \$92,826 higher than budgeted. Expenses were \$10,549 above the budget amount. This resulted in a positive variance of \$82,277. Debt service revenues were \$24,698 below budget and expenses were \$606 below the budget amount. The result was a negative variance of \$24,092. The HB 445 revenues were \$38,872 higher than expected while its expenses were \$118,832 under budget. This resulted in a positive variance of \$157,704. Red Light Cameras revenues were \$104,730 over budget and expenses were \$190,156 higher than budgeted. The result was a negative variance of \$85,426. The overall general fund budget showed a positive variance of \$130,463. All of the figures shown here include interfund transfers.

	Actual		Budget		Total Variance
	Revenue	Expense	Revenue	Expense	
General Fund	\$ 2,387,569	\$ 2,286,185	\$ 2,294,743	\$ 2,275,636	\$ 82,277
Debt Service	143,017	166,939	167,715	167,545	(24,092)
HB 445	265,872	106,168	227,000	225,000	157,704
Red Light Cameras	365,230	450,656	260,500	260,500	(85,426)
	<u>\$ 3,161,688</u>	<u>\$ 3,009,948</u>	<u>\$ 2,949,958</u>	<u>\$ 2,928,681</u>	<u>\$ 130,463</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of September 2013, the City had \$9,015,881, 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 \$6,979 from last year. The current year depreciation expense was \$190,323 for the General Fund and \$252,953 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	
	2012	2013	2012	2013	2012	2013
Land	\$ 144,873	\$ 144,873	\$ 108,634	\$ 108,634	\$ 253,507	\$ 253,507
Vehicles & equipment	709,900	802,272	-	-	709,900	802,272
Equipment	-	-	130,904	156,899	130,904	156,899
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	-	-	7,967,932	8,285,862	7,967,932	8,285,862
Less depreciation	(3,375,895)	(3,566,218)	(2,312,723)	(2,565,676)	(5,688,618)	(6,131,894)
Total	<u>\$ 3,128,113</u>	<u>\$ 3,030,162</u>	<u>\$ 5,894,747</u>	<u>\$ 5,985,719</u>	<u>\$ 9,022,860</u>	<u>\$ 9,015,881</u>

Table 3 (Continued) - Capital Assets at Year-end  
Component Units

	4A Fund		4B Fund		Total	
	2012	2013	2012	2013	2012	2013
Land	\$ 15,845	\$ 15,845	\$ 172,305	\$ 172,305	\$ 188,150	\$ 188,150
Unity Park & Downtown	2,719,814	2,719,814	-	-	2,719,814	2,719,814
Buildings-improvements	714,620	714,620	139,710	139,710	854,330	854,330
Pavement-streets	1,125,432	1,125,432	-	-	1,125,432	1,125,432
Equipment	7,150	7,150	8,832	8,832	15,982	15,982
Less depreciation	(679,595)	(844,369)	(11,376)	(17,847)	(690,971)	(862,216)
Total	\$ 3,903,266	\$ 3,738,492	\$ 309,471	\$ 303,000	\$ 4,212,737	\$ 4,041,492

The combined 4A & 4B funds showed a decrease in capital assets, net of accumulated depreciation of \$171,245 (1%). Depreciation expense accounted for the entire decrease and was \$171,245.

## Debt

At September 2013, the City of Magnolia, Texas had \$7,945,028 in outstanding debt. This was a decrease of \$285,786 from 2012. The only increase to debt was \$2,675 which is an increase to compensated absences. All regularly scheduled debt 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	
	2012	2013	2012	2013	2012	2013
Cert of Obligation-2004	\$ 1,430,000	\$ 1,415,000	\$ -	\$ -	\$ 1,430,000	\$ 1,415,000
Cert of Obligation-2006	490,000	430,000	-	-	490,000	430,000
Infrastructure Loan	-	-	1,892,467	1,774,006	1,892,467	1,774,006
Compensated Absences	48,347	51,022	-	-	48,347	51,022
Revenue Bonds-2006	-	-	4,370,000	4,275,000	4,370,000	4,275,000
	\$ 1,968,347	\$ 1,896,022	\$ 6,262,467	\$ 6,049,006	\$ 8,230,814	\$ 7,945,028

## Component Units

	4A Fund		4B Fund		Total	
	2012	2013	2012	2013	2012	2013
Refunding Bonds-2012	\$ 2,745,000	\$ 2,600,000	\$ -	\$ -	\$ 2,745,000	\$ 2,600,000
	\$ 2,745,000	\$ 2,600,000	\$ -	\$ -	\$ 2,745,000	\$ 2,600,000

The combined 4A & 4B funds had \$2,600,000 in outstanding debt. This was a decrease of \$145,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The 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 \$3,098,744 for 2013. This represents a less than 1% decrease from 2013 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 promoting 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**

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**Independent Auditors' Report**

The Honorable Todd Kana, Mayor  
Members of City Council  
City of Magnolia, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of City of Magnolia, Texas ("City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the City's pension plan schedule of actuarial liabilities and funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Supplemental and Statistical Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The other supplemental and statistical information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental and statistical information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other supplemental and statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*VanWassehnova & Associates*

VanWassehnova & Associates  
December 9, 2013

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**CITY OF MAGNOLIA, TEXAS**

**Statement of Net Position**

**September 30, 2013**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 734,879	\$ 3,034,790	\$ 3,769,669
Investments	173,130	373,483	546,613
Receivables, net	262,106	206,887	468,993
Deferred charges	-	200,222	200,222
Due from (to) other funds	(54,164)	63,401	9,237
Capital assets, net	3,030,162	5,985,719	9,015,881
<b>Total assets</b>	<b>4,146,113</b>	<b>9,864,502</b>	<b>14,010,615</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	19,928	46,629	66,557
Customer deposits	-	86,220	86,220
Accrued interest payable	-	-	-
Noncurrent liabilities:			
Due within one year	80,000	209,082	289,082
Due in more than one year	1,816,022	5,839,923	7,655,945
<b>Total liabilities</b>	<b>1,915,950</b>	<b>6,181,854</b>	<b>8,097,804</b>
<b>Deferred inflow of resources</b>			
Property tax	34,612	-	34,612
<b>Net Position</b>			
Net invested in capital assets	1,134,140	(63,286)	1,070,854
Restricted for:			
Debt service	7,906	-	7,906
Municipal court	66,628	-	66,628
Tourism	62,844	-	62,844
HB445	750,403	-	750,403
Economic development	-	-	-
Community development	-	-	-
Infrastructure loan	-	217,115	217,115
Unrestricted	173,630	3,528,819	3,702,449
<b>Total net position</b>	<b>\$ 2,195,551</b>	<b>\$ 3,682,648</b>	<b>\$ 5,878,199</b>

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

	Component Units		
	4A Economic Development	4B Community Development	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 602,911	\$ 105,145	\$ 708,056
Investments	-	11,688	11,688
Receivables, net	90,222	45,111	135,333
Deferred charges	177,514	-	177,514
Due from (to) other funds	(4,706)	(4,531)	(9,237)
Capital assets, net	3,738,492	303,000	4,041,492
Total assets	4,604,433	460,413	5,064,846
<b>Liabilities</b>			
Accounts payable	-	-	-
Customer deposits	-	-	-
Accrued interest payable	9,722	-	9,722
Noncurrent liabilities:			
Due within one year	190,000	-	190,000
Due in more than one year	2,410,000	-	2,410,000
Total liabilities	2,609,722	-	2,609,722
<b>Deferred inflow of resources</b>			
Property tax	-	-	-
<b>Net Position</b>			
Net invested in capital assets	1,138,492	303,000	1,441,492
Restricted for:			
Debt service	-	-	-
Municipal court	-	-	-
Tourism	-	-	-
HB445	-	-	-
Economic development	856,219	-	856,219
Community development	-	157,413	157,413
Infrastructure loan	-	-	-
Unrestricted	-	-	-
Total net position	\$ 1,994,711	\$ 460,413	\$ 2,455,124



**CITY OF MAGNOLIA, TEXAS**  
**Statement of Activities**  
**For the Year Ended September 30, 2013**

Function/programs	Program Revenues	
	Expenses	Charges for Services
Primary government:		
Governmental activities:		
General government	\$ 837,531	\$ 137,986
Public safety	802,709	-
Public works	319,482	-
Tourism	32,523	40,925
Court	394,566	638,536
Road repair	106,168	-
Red light camera	398,284	364,800
Interest & fees on long-term debt	91,939	-
Total governmental activities	<u>2,983,202</u>	<u>1,182,247</u>
Business-type activities:		
Water	795,226	1,239,132
Sewer	459,954	464,670
Interest & fees on long-term debt	271,809	-
Total business-type activities	<u>1,526,989</u>	<u>1,703,802</u>
Total primary government	<u>\$ 3,778,428</u>	<u>\$ 2,421,379</u>
Component Units:		
4A Economic Development	\$ 358,993	\$ -
4B Community Development	139,681	-
Total Component Units	<u>\$ 498,674</u>	<u>\$ -</u>

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
	Governmental Activities	Business-type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (699,545)	\$ -	\$ (699,545)
Public safety	(802,709)	-	(802,709)
Public works	(319,482)	-	(319,482)
Tourism	8,402	-	8,402
Court	243,970	-	243,970
Road repair	(106,168)	-	(106,168)
Red light camera	(33,484)	-	(33,484)
Interest & fees on long-term debt	(91,939)	-	(91,939)
Total governmental activities	(1,800,955)	-	(1,800,955)
Business-type activities:			
Water	-	443,906	443,906
Sewer	-	4,716	4,716
Interest & fees on long-term debt	-	(271,809)	(271,809)
Total business-type activities	-	176,813	176,813
Total primary government	\$ (1,800,955)	\$ 176,813	\$ (1,624,142)
Component Units:			
4A Economic development	\$ -	\$ -	\$ -
4B Community development	-	-	-
Total Component Units	\$ -	\$ -	\$ -
General revenues:			
Property tax	313,566	-	313,566
Sales tax	1,405,929	-	1,405,929
Franchise and local tax	182,405	-	182,405
Other	11,581	-	11,581
Investment earnings	13,588	27,420	41,008
Transfers	-	165,756	165,756
Total general revenues and transfers	1,927,069	193,176	2,120,245
Change in net position	126,114	369,989	496,103
Net position-beginning	2,069,437	3,312,659	5,382,096
Net position-ending	\$ 2,195,551	\$ 3,682,648	\$ 5,878,199

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Activities**  
**For the Year Ended September 30, 2013**

	Net (Expense) Revenue and Changes in Net Position		
	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	\$ (358,993)	\$ -	\$ (358,993)
4B Community development	-	(139,681)	(139,681)
Total Component Units	\$ (358,993)	\$ (139,681)	\$ (498,674)
General revenues:			
Property tax	-	-	-
Sales tax	505,564	252,782	758,346
Franchise and local tax	-	-	-
Other	-	40,004	40,004
Investment earnings	932	903	1,835
Transfers	-	(165,756)	(165,756)
Total general revenues and transfers	506,496	127,933	634,429
Change in net position	147,503	(11,748)	135,755
Net position-beginning	1,847,208	472,161	2,319,369
Net position-ending	\$ 1,994,711	\$ 460,413	\$ 2,455,124

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, 2013**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Assets</b>			
Cash on hand and in bank	\$ 134,367	\$ 57,341	\$ 19,057
Receivables, net			
Property tax	34,612	-	-
Sales tax	180,444	-	-
Mixed beverage tax	1,939	-	-
Investments	-	-	-
Due from other funds	91,111	23,218	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 442,473</u>	<u>\$ 80,559</u>	<u>\$ 19,057</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 4,671	\$ 15,257	\$ -
Deficit pooled cash	313,896	57,396	76,099
Due to other funds	-	-	1,000
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>318,567</u>	<u>72,653</u>	<u>77,099</u>
<b>Deferred inflows of resources</b>			
Property tax	<u>34,612</u>	<u>-</u>	<u>-</u>
<b>Fund balances</b>			
Restricted for:			
HB 445	-	-	-
Tourism	62,844	-	-
Debt service	-	7,906	-
Municipal court	66,628	-	-
Unassigned	(40,178)	-	(58,042)
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>89,294</u>	<u>7,906</u>	<u>(58,042)</u>
<b>Total liabilities and fund balances</b>	<u>\$ 442,473</u>	<u>\$ 80,559</u>	<u>\$ 19,057</u>

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

	Governmental Fund Types		
	Nonmajor Funds		
	HB 445	Red Light Camera	Total
<b>Assets</b>			
Cash on hand and in bank	\$ 699,655	\$ 271,850	\$ 1,182,270
Receivables, net			
Property tax	-	-	34,612
Sales tax	45,111	-	225,555
Mixed beverage tax	-	-	1,939
Investments	173,130	-	173,130
Due from other funds	-	-	114,329
Total assets	<u>\$ 917,896</u>	<u>\$ 271,850</u>	<u>\$ 1,731,835</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 19,928
Deficit pooled cash	-	-	447,391
Due to other funds	167,493	-	168,493
Total liabilities	<u>167,493</u>	<u>-</u>	<u>635,812</u>
<b>Deferred inflows of resources</b>			
Property tax	-	-	34,612
<b>Fund balances</b>			
Restricted for:			
HB 445	750,403	-	750,403
Tourism	-	-	62,844
Debt service	-	-	7,906
Municipal court	-	-	66,628
Unassigned	-	271,850	173,630
Total fund balance	<u>750,403</u>	<u>271,850</u>	<u>1,061,411</u>
<b>Total liabilities and fund balances</b>	<u>\$ 917,896</u>	<u>\$ 271,850</u>	<u>\$ 1,731,835</u>

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**CITY OF MAGNOLIA, TEXAS**  
**Reconciliation of Total Governmental Fund Balance**  
**to Net Position of Governmental Activities**  
**September 30, 2013**

Total governmental fund balances	\$ 1,061,411
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore not reported in governmental funds	3,030,162
Long-term liabilities are not reported as liabilities in the governmental funds	<u>(1,896,022)</u>
Net position of governmental activities	<u>\$ 2,195,551</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, 2013**

	Governmental Fund Types		
	General Fund	Debt Service	Capital Projects
<b>Revenues</b>			
Sales tax	\$ 1,010,198	\$ 142,950	\$ -
Fines & forfeitures	638,536	-	-
Property tax	313,566	-	-
Franchise tax	182,405	-	-
Licenses and permits	137,986	-	-
Other	3,108	-	-
Hotel occupancy tax	40,925	-	-
Mixed beverage tax	8,473	-	-
Investment earnings	-	67	-
Total revenues	<u>2,335,197</u>	<u>143,017</u>	<u>-</u>
<b>Expenditures</b>			
General government	879,125	1,000	-
Public safety	784,021	-	-
Public works	200,001	-	-
Tourism	32,523	-	-
Court	390,515	-	-
Road repair & capital assets	-	-	-
Bond interest	-	90,939	-
Bond principal	-	75,000	-
Total expenditures	<u>2,286,185</u>	<u>166,939</u>	<u>-</u>
Revenues over (under) expenses	49,012	(23,922)	-
Transfers	<u>52,372</u>	<u>-</u>	<u>-</u>
Net change in fund balances	101,384	(23,922)	-
Fund balances-beginning	<u>(12,090)</u>	<u>31,828</u>	<u>(58,042)</u>
Fund balances-ending	<u>\$ 89,294</u>	<u>\$ 7,906</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
<b>Revenues</b>			
Sales tax	\$ 252,781	\$ -	\$ 1,405,929
Fines & forfeitures	-	364,800	1,003,336
Property tax	-	-	313,566
Franchise tax	-	-	182,405
Licenses and permits	-	-	137,986
Other	-	-	3,108
Hotel occupancy tax	-	-	40,925
Mixed beverage tax	-	-	8,473
Investment earnings	13,091	430	13,588
Total revenues	265,872	365,230	3,109,316
<b>Expenditures</b>			
General government	-	-	880,125
Police	-	-	784,021
Public works	-	-	200,001
Tourism	-	-	32,523
Court	-	398,284	788,799
Road repair & capital assets	106,168	-	106,168
Bond interest	-	-	90,939
Bond principal	-	-	75,000
Total expenditures	106,168	398,284	2,957,576
Revenues over (under) expenses	159,704	(33,054)	151,740
Transfers	-	(52,372)	-
Net change in fund balances	159,704	(85,426)	151,740
Fund balances-beginning	590,699	357,276	909,671
Fund balances-ending	\$ 750,403	\$ 271,850	\$ 1,061,411

**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, 2013**

Net change in fund balances-total governmental funds	\$ 151,740
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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.	(190,323)
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This is the amount of capital purchases for the year.	92,372
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Increase in compensated absences liability for the year.	(2,675)
--	---------

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.

	<u>75,000</u>
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Change in net position of governmental activities	<u><u>\$ 126,114</u></u>
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The accompanying notes are an integral part of the financial statements.

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2013**

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<b>Operating revenues</b>			
Service revenues	\$ 906,031	\$ 356,383	\$ 1,262,414
Penalties	10,689	4,902	15,591
Lone Star Groundwater District & San Jacinto River Authority	207,351	-	207,351
Garbage collection	-	95,726	95,726
Tap & other fees	27,062	7,659	34,721
Impact fees	87,999	-	87,999
Total operating revenues	1,239,132	464,670	1,703,802
<b>Operating expenses</b>	795,226	459,954	1,255,180
Operating income	443,906	4,716	448,622
Nonoperating revenue (expense)			
Interest & fees	(271,809)	-	(271,809)
Investment earnings	27,420	-	27,420
Total	(244,389)	-	(244,389)
Income before transfers	199,517	4,716	204,233
Transfers in (out)	178,754	(12,998)	165,756
Change in net position	378,271	(8,282)	369,989
Total net position-beginning	3,013,520	299,139	3,312,659
<b>Total net position-ending</b>	<u>\$ 3,391,791</u>	<u>\$ 290,857</u>	<u>\$ 3,682,648</u>

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

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2013**

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 2,791,633	\$ 243,157	\$ 3,034,790
Investments	373,483	-	373,483
Due from other funds	63,401	-	63,401
Receivables, net	158,460	48,427	206,887
Total current assets	3,386,977	291,584	3,678,561
Noncurrent assets			
Deferred charges	200,222	-	200,222
Capital assets, net	5,985,719	-	5,985,719
<b>Total assets</b>	<b>\$ 9,572,918</b>	<b>\$ 291,584</b>	<b>\$ 9,864,502</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 453	\$ 727	\$ 1,180
Customer deposits	86,220	-	86,220
Current portion of long-term debt	209,082	-	209,082
Accrued interest payable	45,449	-	45,449
Total current liabilities	341,204	727	341,931
Noncurrent liabilities			
Long-term debt	5,839,923	-	5,839,923
Total liabilities	6,181,127	727	6,181,854
<b>Net Position</b>			
Invested in capital assets, net	(63,286)	-	(63,286)
Restricted - loan funds	217,115	-	217,115
Unrestricted	3,237,962	290,857	3,528,819
Total net position	3,391,791	290,857	3,682,648
<b>Total Net Position and Liabilities</b>	<b>\$ 9,572,918</b>	<b>\$ 291,584</b>	<b>\$ 9,864,502</b>

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, 2013**

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 1,233,178	\$ 462,156	\$ 1,695,334
Payments to suppliers	(450,474)	(417,462)	(867,936)
Payments to employees	(83,300)	(41,322)	(124,622)
Net cash provided by operating activities	<u>699,404</u>	<u>3,372</u>	<u>702,776</u>
<b>Cash flows from noncapital financing activities</b>			
Transfers from other funds	<u>178,754</u>	<u>(12,998)</u>	<u>165,756</u>
<b>Cash flows from capital and related financing activities</b>			
Purchase of assets	(343,925)	-	(343,925)
Principal paid on debt	(213,461)	-	(213,461)
Interest paid on debt	(271,809)	-	(271,809)
Net cash used by capital and related financing activities	<u>(829,195)</u>	<u>-</u>	<u>(829,195)</u>
Interest received	<u>27,420</u>	<u>-</u>	<u>27,420</u>
Net increase (decrease) in cash and cash equivalents	76,383	(9,626)	66,757
Cash & cash equivalents-beginning of the year	<u>2,715,250</u>	<u>252,783</u>	<u>2,968,033</u>
<b>Cash &amp; cash equivalents-end of the year</b>	<u><u>\$ 2,791,633</u></u>	<u><u>\$ 243,157</u></u>	<u><u>\$ 3,034,790</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 443,906	\$ 4,716	\$ 448,622
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	252,953	-	252,953
Change in net assets and liabilities:			
Receivables, net	(14,743)	(2,514)	(17,257)
Accrued interest payable	(1,183)	-	(1,183)
Deferred charges	8,500	-	8,500
Accounts payable and accrued liabilities	(1,121)	1,170	49
Customer deposits	<u>11,092</u>	<u>-</u>	<u>11,092</u>
Net cash provided by operating activities	<u><u>\$ 699,404</u></u>	<u><u>\$ 3,372</u></u>	<u><u>\$ 702,776</u></u>

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

**CITY OF MAGNOLIA, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**Note 1 – 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 for financial reporting purposes. Its activities are not considered a part of any other governmental or other type of reporting entity. 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, although legally separate, are considered part of the reporting entity. No other entities have been included in the City’s 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.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB).

**Note 2 - Summary of Significant Accounting Policies**

The accompanying financial statements and accounting policies of the City are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City’s significant accounting policies are described in the following notes to the financial statements.

The City applies all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### A. Implementation of New Standards

In the current year, the City implemented the following new GASB pronouncements.

GASB statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City entered into such an agreement in the current fiscal year. The impact of this agreement is immaterial to the City's financial position, results of operations or cash flows.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, amends the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* so as to improve financial reporting for a government financial reporting entity by improving guidance for including, presenting, and disclosing information about component units of a financial reporting entity. This statement is effective for financial statement periods beginning after June, 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, enhances the usefulness of the financial statements by organizing all sources of generally accepted accounting principles for state and local governments into a single source in an effort to reduce the complexity of locating and using authoritative literature needed to prepare State and local government financial reports. This statement is intended to enhance the usefulness of the GASB's Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature, the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- FASB Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure

This statement is effective for financial statement periods beginning after December 15, 2011. Management expects no changes in the City's financial report as a result of implementing this statement.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. This statement provides a new statement of net position format to report all assets, deferred inflows and outflows of resources, liabilities, and net position (which is the residual amount of the other elements). The statement requires that deferred inflows and outflows of resources be reported separately from assets and liabilities and discusses how net position (no longer net assets) should be displayed. Ultimately, this statement will serve to standardize the presentation of deferred balances and their effects on a government's net position and address uncertainty related to their display. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011. This statement has been implemented by the City with significant effect on the presentation of the financial statements.



GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows and also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for financial statement periods beginning after December 15, 2012, but early implementation is encouraged. Given the City's implementation of GASB Statement No. 63 and the presence of deferred inflows and outflows of resources, the City opted to early implement this statement. This statement has been implemented by the City with significant effect on the presentation of the financial statements.

#### B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on this, and based upon their significant financial and operational relationships to the City, the City has two discrete component units, as follows:

**Economic Development Corporation – 4A:** On September 8, 1997, the City incorporated the “City of Magnolia Economic Development Corporation.” (EDC). The purpose of the EDC 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 designated for this purpose. Directors to the EDC are appointed by the governing body of the City. Although the EDC is legally separate from the City, it is reported as if it were a part of the primary government because its sole purpose is to expend the proceeds of any sales tax levied for the City's benefit in order to promote economic development for the City. The EDC does not issue separate financial statements.

**Community Development Corporation – 4B:** On June 21, 1995, the City incorporated the “City of Magnolia Community Development Corporation.” (CDC). The purpose of the CDC 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. Although the CDC is legally separate from the City, it is reported as if it were a part of the primary government because its sole purpose is to expend the proceeds of any sales tax levied for the City's benefit and to take sole title of real property and transfer it to the City in order to promote community development for the City. The CDC does not issue separate financial statements.

#### C. Financial Statement Presentation

These financial statements include implementation of GASB Statement No. 63 and GASB 65, both of which amend GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement No. 34) and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 34, as amended, includes 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 of the City's activities.
- A change in the fund financial statements to focus on the major funds.

Statement No. 34, as amended by Statement No. 63, 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 position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position 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 capital assets.
- Restricted - This component of net position consists of constraints placed on net position 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 position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment 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 position is reported as restricted when there are limitations imposed on its 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. All other net position is reported as unrestricted.

#### D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on 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 Position and the operating statements present increases (revenues) and decreases (expenses) in total net position. 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 property taxes, 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 revenues are recognized when received. Unearned revenue arises when assets are recognized before revenue has been received or recognized.

#### E. Basic Financial Statements-Government-Wide Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information on all of the activities of the City. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and intergovernmental revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Statement of Net Position presents the financial position of the governmental and business-type activities of the City. The Statement of Activities presents a comparison between direct expenses and program revenues for each given program of the City's governmental activities and for each identifiable activity of the business-type activities of the City.

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.

#### F. Basic Financial Statements-Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two fund categories: governmental and proprietary.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are presented for governmental and proprietary funds. These statements present each major and non-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 balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance. The City has presented the following major governmental funds:

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.

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.

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.

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 City has two such funds - the HB445 fund and the Red Light Camera fund. The HB455 fund is used to account for the receipt and expenditure of funds received from additional sales tax within the City. The Red Light Camera fund is used to account for the receipt and expenditure of funds received from red light camera violations. Both of these special revenue funds are considered nonmajor funds for reporting purposes.

**Proprietary Funds** - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. 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. All assets and liabilities are included on the Statement of Net Position. 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### G. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Governmental fund balances represent the difference between the current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. Governmental funds report fund balance 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 balances are classified as follows:

- 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.
- Restricted Fund Balance—includes amounts that are restricted for specific purposes stipulated by external resource 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) to which the assigned amounts are to be used for specific purposes.
- Unassigned Fund Balance—includes all residual amounts in governmental funds that are not otherwise. Unassigned amounts are available for any purpose and may also be used to report negative fund balances in other governmental funds.

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.

#### H. Budgetary Control

The City adopts an annual budget which is prepared 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 Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual— General Fund presents a comparison of budgetary data to actual results of operations for which annual operating budgets are legally adopted. The General Fund uses the same basis of accounting for both budgetary purposes and actual results.

The major differences between budget and GAAP basis in the General Fund are capital expenditures and long term debt proceeds. Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of capital outlays is allocated over their estimated useful lives as depreciation. Depreciation, since it is not a cash expense, is not budgeted. Depreciation for the General Fund for the year ending September 30, 2013 was \$190,323.

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.

#### I. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires City's management to make estimates and assumptions about future events that may affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the allowance for doubtful accounts, the lives of fixed assets, pension assets and obligations, and contingencies. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Adjustments to such estimates and assumptions are made when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

#### J. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Proprietary 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 maturity a date over three months, not be defined as cash equivalents.

#### K. Investments

The City's investment consists of a bank deposit program managed by Raymond James Financial Services. This bank deposit program is a multi-bank cash sweep program that deposits available cash into the City's brokerage account into interest-bearing deposit accounts, U.S. Treasury notes, and certificates of deposits at one or more banks.

#### L. Deposit and Investment Risks

In the case of deposits, credit risk is the risk that in the event of a bank failure, the City's deposits, that exceed federally insured limits (\$250,000 for 2013), may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. The bank deposits of the City, at times, may exceed this federally insured limit. The City has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The cash held at local banks is insured and is collateralized with securities held by the City or its agent in the City's name. These pledged assets had a book value of \$10,322,539 at September 30, 2013.

In the case of investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. According to the City's investment policy, the City shall contract with a financial institution for the safekeeping of securities owned by the City as part of its investment portfolio. The City's investments are insured with the Securities Investor Protection Corporation (SPIC), which protects securities up to \$500,000.

M. Interfund balances, Transfers, Receivables, and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds". These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position.

Any residual balances outstanding between the governmental activities, business-type activities and component units are reported in the government-wide statements. At September 30, 2013, the governmental activities funds owed \$54,164, business type funds were owed \$63,401 and the component units owed \$9,237.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statements. During the year, the Community Development Fund transferred \$165,756 to the Utility Fund.

The City allocates to the Proprietary Fund an indirect cost percentage of information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2013, the City transferred \$134,929 as a transfer for such services.

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Incurred but unbilled charges are accrued as receivables and revenue. Receivables of \$206,887 at September 30, 2013 consisted of utility billings for user charges and are reported net of allowance for doubtful accounts.

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of these funds.

N. Deferred Inflows and Outflows of Resources

The implementation of GASB Statement No. 63 requires that in addition to assets, the Statement of Net Position report separate sections for deferred outflows of resources, which represent a consumption of net position that is applicable to a future reporting period, and deferred inflows of resources, which represent an acquisition of net position that is applicable to a future period. The City has no deferred outflows of resources.

For the City, the deferred inflows of resources are property taxes. The full amount of property taxes receivable that has been recognized is offset against deferred inflows of resources. Revenues will subsequently be recognized in the fiscal year in which they become available to finance expenditures of that fiscal year. For the year ended September 30, 2013, deferred inflows of resources is \$34,612.

O. Property Taxes

All property values are determined by the Montgomery County Tax Assessor/Collector. Property taxes are levied on October 1 and are payable on or before January 31. They attach as an enforceable lien on January 1. Penalties and interest are charged if taxes are not paid by the succeeding January 31.

The tax rates in effect for the years ending September 30, 2013 and September 30, 2012 were \$.4786 and \$.4814 cents per \$100 of valuation for 2012 taxes.

#### P. Capital Assets

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the governmental fund financial statements. Capital assets utilized by enterprise funds are reported in the business-type activities column of the government-wide financial statement of net position and in the enterprise funds' statement of net position.

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 the estimated useful life of each class of depreciable property using the straight-line method 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

#### Q. 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, 2013, the accrued and unpaid compensated absences liability for both governmental and proprietary funds was \$51,022.

#### R. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. For the City, long-term debt consists primarily of bonds payable, bank loan, and accrued compensated absences. The City is not obligated in any manner for special assessment debt.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest is reported as expenditures.

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



Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

### **Note 3 - Cash & Investments**

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

The City maintains and controls cash in 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.

The City's investments are categorized as either:

- Category #1 - Insured or registered for which the securities are held by the government agents in the City's name.
- Category #2 - Uninsured and unregistered for which the securities are held by the dealer's trust department or agent in the City's name.
- Category #3 - Uninsured and unregistered for which the securities are held by the dealer or by its trust department but not in the City's name.

At September 30, 2013, all of the City's investments were in category #1 and consisted of cash on deposit at local banks or investments in a deposit program. All were insured by either the Federal Deposit Insurance Corporation (FDIC), SPIC, or secured by US Government Securities. At September 30, 2013, the carrying amount of cash bank deposits and investments totaled \$4,763,673 and the bank balance was \$5,082,853.

### **Note 4 - Employee Pension Plan**

#### Plan Description

The City provides pension benefits for all of its eligible 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](http://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 2012	Plan Year 2013
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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued benefits.

#### Contributions

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

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2010 valuation is effective for rates beginning January 2012). Additional data is presented in the supplemental information of this report.

#### 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.

#### **Note 5 - Post Employment Retirement Benefits**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The City has not chosen to terminate coverage or discontinue participation. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period proceeding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB.

#### Contributions

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

Schedule of Contribution Rates: (RETIREE-only portion of the rate)			
Plan Year	Annual Required Contribution ARC (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.01%	0.01%	100.00%
2011	0.02%	0.02%	100.00%
2012	0.03%	0.03%	100.00%

TMRS only allowed a Phase-in Rate for the pension contributions. All contributions to the SDBF are paid at the stated rate above and as such, the percentage of ARC contributed will always be 100%.

#### **Note 6 - Long-Term Obligations**

The City enters into loan agreements and issues revenue bonds and certificates of obligation to provide financing for its various operations. Loan agreements, bonds, and certificates of obligations can and have been issued for the governmental activities, business-type activities and the component unit, Economic Development Corporation, 4A.

For each of the bond and certificate of obligation issues, the City is required to establish both a reserve fund and an interest & sinking fund. For each fund, for each bond and certificate of obligation issue, equal monthly payments are to be made into these funds. All required reserve and interest & sinking fund payments and accounts have been properly maintained as of September 30, 2012.

Series 2012 – Sales Tax Revenue Refunding Bonds - the bonds are secured by sales taxes. The proceeds were used to refund the Series 2009-Sales Tax Revenue Bonds and the 2003-Sales Tax Revenue Bonds and to provide revenue for the City's downtown revitalization projects. The revitalization projects are on-going.

State Infrastructure Bank Loan – the loan is with the State of Texas, acting by and through the Texas Department of Transportation, for the purpose of relocating the City's water and sewer line along FM 1774 resulting from a recent road works project. This project was completed in the prior fiscal year.

Series 2006 - Water & Sewer System Revenue and Refunding Bonds - the bonds are secured by a lien on and pledge of the City's net revenues from the operation of its water and sewer facilities. The proceeds of the bonds were used to refund the City's outstanding Utility System Revenue Bonds, Series 1995 and to improve the City's water production, storage, and distribution facilities. The improvement projects are on-going.

Series 2006 - Certificates of Obligation - the certificates are secured by ad valorem taxes and by a lien on and pledge of the City's net revenues from the operation of its water and sewer facilities. The proceeds were used for the acquisition and renovation of City Hall.

Series 2004 - Certificates of Obligation - the certificates are secured by ad valorem taxes and by a lien on and pledge of the City's net revenues from the operation of its water and sewer facilities. The proceeds were used for the expansion to the City's existing wastewater treatment plant.

#### **Note 7 - Operating Leases**

The City has entered into various operating lease agreements for office equipment. The total lease payment for all leases for the year ending September 30, 2013 was \$11,429. Minimum lease payments for the years ending September 30, 2014 through 2017 are \$5,250, \$869, \$710, and \$355.

#### **Note 8 – Service Concession Agreement**

In April 2013, the City entered into a non-exclusive concession agreement with Jenny's Snack Shack ("Concessionaire") to provide snow cones and other refreshments and food services to guests at the City's Unity Park. The initial term of the agreement is six (6) months and may be renewed by the parties. Included in this agreement was a commitment by the Concessionaire to provide, at her own expense, all equipment, stationary or mobile, used in the conduct of the business other than any equipment which has been installed by the City, and title to the City equipment shall remain with the City. The Concessionaire shall also provide and maintain, at her own expense, vending stand and / or machines in good condition. All such equipment, and the location of such equipment, shall be at the approval of the City.

The City shall provide and maintain the utility service for the existing buildings and equipment used in conjunction with the operation of the concession. In consideration for the rights and privileges granted, the Concessionaire agrees to pay the City 10% of the gross monthly receipts, with a minimum guarantee of \$100 per month.

**Note 9 - Federal Audit Requirements**

The City has been awarded Federal Grants. The U.S. Office of Management and Budget (OMB) issued Circular A-133, which establishes uniform audit requirements for non-Federal entities that administer Federal Grant awards and implements the Single Audit Act Amendments of 1996, which were signed into law July 5, 1996 (Public Law 104-156).

The purposes of the Single Audit Act Amendments of 1996 are as follows:

- promote sound financial management, including effective internal controls, with respect to Federal awards;
- promote the efficient and effective use of audit resources;
- reduce burdens on state and local governments, Indian tribes, and nonprofit organizations; and
- ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Chapter 75 of Title 30, United States Code (the "Single Audit Act").

For the year ended September 30, 2013, the City did not require a Single Audit.

**Note 10 - Risk Management**

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injury and death; and natural disasters for which the City participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pools ("Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past several years.

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

**Note 11 - Contingent Liabilities**

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

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs may be subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired.

In the opinion of City's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service ("IRS") at least every five years for applicable bond issues. Accordingly, there is a risk that if such calculations are not performed correctly, it could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

The City is a defendant or plaintiff in various lawsuits. Although the outcome of some of these lawsuits is not presently determinable, in the opinion of the City Attorney, the resolution on these matters will not have a material adverse effect on the financial condition of the City.

#### **Note 12 – Commitments**

The City has entered into various contractual relationships with outside consultants and organizations to provide various administrative, operational, financial, IT, and program services and tasks.

#### **Note 13 - New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued several new statements. A listing follows of those that apply to the City. These statements will be implemented as required by the GASB.

GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement Nos. 25 and 50 (as it relates to pension plans that are administered through trusts). The requirements of this Statement will improve financial reporting by state and local governmental pension plans through improved measurement of the net pension liability and improved notes to the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions administered through pension trusts.

The requirements of this Statement will improve financial reporting through enhanced note disclosures and schedules of required supplementary information. The provisions of this statement are effective for financial statement periods beginning after June 15, 2014. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Other recent GASB pronouncements have also been reviewed and have been determined to be not applicable to the City.

#### **Note 14 – Subsequent Events**

The City has evaluated events, transactions, or pronouncements that may impact the financial statements for the year ended September 30, 2013 through December 9, 2013, the date the financial statements were available to be issued. There were no subsequent events, transactions, or pronouncements that require recognition or disclosure in the financial statements.

## Note 15 - Long-Term Obligations

The following is a summary of the long term obligations for the year ended September 30, 2013:

	Balance 09/30/12	Additions	Reductions	Balance 09/30/13
<b>Governmental Activities</b>				
Certificates of obligation - Series 2004	\$ 490,000	\$ -	\$ 60,000	\$ 430,000
Certificates of obligation - Series 2006	1,430,000	-	15,000	1,415,000
	1,920,000	-	75,000	1,845,000
Other liabilities:				
Compensated absences	48,347	2,675	-	51,022
Total Governmental Activities	1,968,347	2,675	75,000	1,896,022
<b>Business-Type Activities</b>				
Revenue bonds - Series 2006	4,370,000	-	95,000	4,275,000
State Infrastructure Loan	1,892,467	-	118,461	1,774,006
Total Business-Type Activities	6,262,467	-	213,461	6,049,006
<b>4A Corporation</b>				
Revenue & Refunding bonds - Series 2012	2,745,000	-	145,000	2,600,000
Total 4A Corporation	2,745,000	-	145,000	2,600,000
Total	<u>\$10,975,814</u>	<u>\$ 2,675</u>	<u>\$ 433,461</u>	<u>\$10,545,028</u>

Total Long-Term Debt requirements (not including compensated absences) are as follows:

<u>Year Ending</u>	<u>Principal Payment</u>	<u>Interest</u>	<u>Total</u>
September 2014	\$ 479,082	\$ 463,241	\$ 942,323
September 2015	497,504	443,518	941,022
September 2016	516,030	422,949	938,979
September 2017	539,660	401,461	941,121
September 2018	588,400	378,846	967,246
September 2019 & Thereafter	7,873,330	2,866,267	10,739,597
	<u>\$10,494,006</u>	<u>\$ 4,976,281</u>	<u>\$15,470,287</u>

## Note 16 - Changes in Capital Assets

The following is a summary of the capital assets transactions for the year ended September 30, 2013:

	Balance 09/30/12	Increases	Decreases	Balance 09/30/13
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 144,873	\$ -	\$ -	\$ 144,873
Capital assets being depreciated:				
Buildings & improvements	679,865	-	-	679,865
Vehicles & equipment	709,900	92,372	-	802,272
Infrastructure	4,969,370	-	-	4,969,370
Total capital assets being depreciated	6,359,135	92,372	-	6,451,507
Less accumulated depreciation				
Buildings & improvements	(619,504)	(20,258)	-	(639,762)
Vehicles & equipment	(36,165)	(56,769)	-	(92,934)
Infrastructure	(2,720,226)	(113,296)	-	(2,833,522)
Total accumulated depreciation	(3,375,895)	(190,323)	-	(3,566,218)
Total capital assets being depreciated, net	2,983,240	(97,951)	-	2,885,289
Governmental Activities				
Capital Assets, net	<u>\$ 3,128,113</u>	<u>\$ (97,951)</u>	<u>\$ -</u>	<u>\$ 3,030,162</u>
Depreciation expense was charged to functions as follows:				
Governmental activities:				
General government				\$ 8,103
Public safety				58,688
Court				4,051
Public works				119,481
Total governmental activities depreciation expense				<u>\$ 190,323</u>



	Balance 09/30/12	Increases	Decreases	Balance 09/30/13
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 108,634	\$ -	\$ -	\$ 108,634
Capital assets being depreciated:				
Equipment	130,904	25,995	-	156,899
Water system	7,967,932	317,930	-	8,285,862
Total capital assets being depreciated	8,098,836	343,925	-	8,442,761
Less accumulated depreciation:				
Equipment	(126,474)	(4,430)	-	(130,904)
Water system	(2,186,249)	(248,523)	-	(2,434,772)
Total accumulated depreciation	(2,312,723)	(252,953)	-	(2,565,676)
Total capital assets being depreciated, net	5,786,113	90,972	-	5,877,085
Business-Type Activities				
Capital Assets, net	<u>\$ 5,894,747</u>	<u>\$ 90,972</u>	<u>\$ -</u>	<u>\$ 5,985,719</u>
Depreciation expense was charged to functions as follows:				
Business-type activities:				
Water				<u>\$ 252,953</u>

<b>Component Units</b>	<b>Balance 09/30/12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 09/30/13</b>
<b>4A Corporation</b>				
Capital assets not being depreciated:				
Land	\$ 15,845	\$ -	\$ -	\$ 15,845
Capital assets being depreciated:				
Buildings & improvements	714,620	-	-	714,620
Unity Park & Downtown	2,719,814	-	-	2,719,814
Equipment	7,150	-	-	7,150
Pavement improvements	1,125,432	-	-	1,125,432
Total capital assets being depreciated	4,567,016	-	-	4,567,016
Less accumulated depreciation:				
Buildings & improvements	(195,006)	(17,866)	-	(212,872)
Unity Park & Downtown	(103,538)	(90,711)	-	(194,249)
Equipment	(7,150)	-	-	(7,150)
Pavement improvements	(373,901)	(56,197)	-	(430,098)
Total accumulated depreciation	(679,595)	(164,774)	-	(844,369)
Total capital assets being depreciated, net	3,887,421	(164,774)	-	3,722,647
Component Unit				
Capital Assets, net	<u>\$ 3,903,266</u>	<u>\$ (164,774)</u>	<u>\$ -</u>	<u>\$ 3,738,492</u>
<b>4B Corporation</b>				
Capital assets not being depreciated:				
Land	\$ 172,305	\$ -	\$ -	\$ 172,305
Capital assets being depreciated:				
Yellow House	139,710	-	-	139,710
Equipment	8,832	-	-	8,832
Total capital assets being depreciated	148,542	-	-	148,542
Less accumulated depreciation:				
Yellow House	(10,493)	(5,588)	-	(16,081)
Equipment	(883)	(883)	-	(1,766)
Total accumulated depreciation	(11,376)	(6,471)	-	(17,847)
Total capital assets being depreciated, net	137,166	(6,471)	-	130,695
Component Unit				
Capital Assets, net	<u>\$ 309,471</u>	<u>\$ (6,471)</u>	<u>\$ -</u>	<u>\$ 303,000</u>

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## **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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property tax	\$ 379,000	\$ 379,000	\$ 313,566	\$ (65,434)
Sales tax	992,000	992,000	1,010,198	18,198
Franchise tax	150,000	150,000	182,405	32,405
Hotel occupancy tax	35,000	35,000	40,925	5,925
Mixed beverage tax	9,000	9,000	8,473	(527)
Licenses and permits	40,800	40,800	137,986	97,186
Fines and forfeitures	528,886	528,886	638,536	109,650
Other	8,850	8,850	3,108	(5,742)
Total revenues	<u>2,143,536</u>	<u>2,143,536</u>	<u>2,335,197</u>	<u>191,661</u>
<b>Expenditures</b>				
General government	777,445	777,445	879,125	(101,680)
Public safety	924,062	924,062	784,021	140,041
Public works	190,235	190,235	200,001	(9,766)
Tourism	35,000	35,000	32,523	2,477
Court	348,894	348,894	390,515	(41,621)
Total expenditures	<u>2,275,636</u>	<u>2,275,636</u>	<u>2,286,185</u>	<u>(10,549)</u>
<b>Revenues over Expenditures</b>	(132,100)	(132,100)	49,012	181,112
Transfers	<u>151,207</u>	<u>151,207</u>	<u>52,372</u>	<u>(98,835)</u>
Net change in fund balance	19,107	19,107	101,384	<u>\$ 82,277</u>
Fund balance-beginning	<u>(12,090)</u>	<u>(12,090)</u>	<u>(12,090)</u>	
Fund balance-ending	<u>\$ 7,017</u>	<u>\$ 7,017</u>	<u>\$ 89,294</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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property tax	\$ 167,545	\$ 167,545	\$ 142,950	\$ (24,595)
Investment earnings	170	170	67	(103)
Total revenues	<u>167,715</u>	<u>167,715</u>	<u>143,017</u>	<u>(24,698)</u>
<b>Expenditures</b>				
General government	1,000	1,000	1,000	-
Debt service interest	91,545	91,545	90,939	606
Debt service principal	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	-
Total expenditures	<u>167,545</u>	<u>167,545</u>	<u>166,939</u>	<u>606</u>
Net change in fund balance	170	170	(23,922)	<u>\$ (24,092)</u>
Fund balance-beginning	<u>31,828</u>	<u>31,828</u>	<u>31,828</u>	
Fund balance-ending	<u>\$ 31,998</u>	<u>\$ 31,998</u>	<u>\$ 7,906</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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Sales tax	\$ 225,000	\$ 225,000	\$ 252,781	\$ 27,781
Investment earnings	2,000	2,000	13,091	11,091
Total revenues	<u>227,000</u>	<u>227,000</u>	<u>265,872</u>	<u>38,872</u>
<b>Expenditures</b>				
Road repair	<u>225,000</u>	<u>225,000</u>	<u>106,168</u>	<u>118,832</u>
Net change in fund balance	2,000	2,000	159,704	<u>\$ 157,704</u>
Fund balance-beginning	<u>590,699</u>	<u>590,699</u>	<u>590,699</u>	
Fund balance-ending	<u><u>592,699</u></u>	<u><u>\$ 592,699</u></u>	<u><u>\$ 750,403</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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Fines and forfeitures	\$ 260,000	\$ 260,000	\$ 364,800	\$ 104,800
Investment earnings	500	500	430	(70)
Total revenues	<u>260,500</u>	<u>260,500</u>	<u>365,230</u>	<u>104,730</u>
<b>Expenditures</b>				
Administrative	<u>260,500</u>	<u>260,500</u>	<u>450,656</u>	<u>(190,156)</u>
Net change in fund balance	-	-	(85,426)	<u>\$ (85,426)</u>
Fund balance-beginning	<u>357,276</u>	<u>357,276</u>	<u>357,276</u>	
Fund balance-ending	<u>\$ 357,276</u>	<u>\$ 357,276</u>	<u>\$ 271,850</u>	



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

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Fiscal Year End - September	2012	2012	2013
Actuarial Valuation Date	12-31-10	12-31-11	12-31-12
Actuarial Value of Assets	\$ 757,198	\$ 808,877	\$ 887,989
Actuarial Accrued Liability	\$ 749,507	\$ 783,614	\$ 856,820
Percentage Funded	101.0%	103.2%	103.6%
Under/(Over) Funded			
Actuarial Accrued Liability (UAAL)	\$ (7,691)	\$ (25,263)	\$ (31,169)
Annual Covered Payroll	\$ 908,453	\$ 955,295	\$ 1,008,145
UAAL as a Percentage of Covered Payroll	-0.8%	-2.6%	-3.1%

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, follows:

Actuarial Valuation Date	12-31-10	12-31-11	12-31-12
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	0.0 years; closed period	0.0 years; closed period	0.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10 year; Smoothed Mkt	10 year; Smoothed Mkt	10 year; Smoothed Mkt
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost of Living Adjustments	0.0%	0.0%	0.0%

## **OTHER SUPPLEMENTAL INFORMATION**

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Expenses**  
**General Fund**  
**For the Year Ended September 30, 2013**

	General Government	Public Safety	Public Works
Salaries	\$ 274,347	\$ 581,715	\$ 91,378
Salary reimbursements	(67,570)	(67,359)	-
State portion of fines	-	-	-
Health insurance	47,565	104,037	22,219
Payroll taxes	19,787	44,083	7,097
Legal	66,042	-	-
Electric	48,172	-	11,395
Computer software & IT	33,482	5,402	-
Consultant/Contractual	162,571	2,835	-
Engineering	5,570	-	-
Inspection services	87,181	-	-
City Hall lease	12,663	-	-
Repairs & maintenance	11,016	13,533	9,081
Event funding	-	-	-
Supplies	9,402	1,699	6,239
Phone, internet & radios	20,173	7,399	900
Insurance	8,387	13,378	135
Office supplies	8,092	5,718	-
Workers' Comp	4,947	9,404	-
Water	-	-	19,916
Rentals	4,441	4,530	141
Education & travel	4,544	4,914	32
Advertising	9,357	-	-
Vehicle	8,400	-	2,660
Security	-	-	-
Employees retirement fund	511	1,187	190
Uniforms	-	6,185	-
Accounting-Audit	13,650	-	-
Postage	2,204	53	-
Fuel	11,030	77	9,960
Mayor-Council	2,648	-	-
Miscellaneous	3,675	923	34

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Expenses**  
**General Fund**  
**For the Year Ended September 30, 2013**

	General Government	Public Safety	Public Works
Appraisal District	4,844	-	-
Capital assets	52,372	40,000	-
K-9 expense	-	2,725	-
Minor equipment	703	1,230	14,433
Dues & memberships	8,919	353	-
Street signs	-	-	4,191
Total	879,125	784,021	200,001
Adjustments to the Statement of Activities:			
Depreciation	8,103	58,688	119,481
Compensated absences	2,675	-	-
Capital assets	(52,372)	(40,000)	-
Total Primary Government Expenses	<u>\$ 837,531</u>	<u>\$ 802,709</u>	<u>\$ 319,482</u>

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Expenses**  
**General Fund-Continued**  
**For the Year Ended September 30, 2013**

	<u>Tourism</u>	<u>Court</u>	<u>Total</u>
Salaries	\$ -	\$ 91,302	\$1,038,742
Salary reimbursements	-	-	(134,929)
State portion of fines	-	206,366	206,366
Health insurance	-	14,895	188,716
Payroll taxes	-	5,970	76,937
Legal	-	12,000	78,042
Electric	-	-	59,567
Computer software & IT	-	17,196	56,080
Consultant/Contractual	-	29,401	194,807
Engineering	-	-	5,570
Inspection services	-	-	87,181
City Hall lease	-	-	12,663
Repairs & maintenance	-	-	33,630
Event funding	32,523	-	32,523
Supplies	-	276	17,616
Phone, internet & radios	-	-	28,472
Insurance	-	-	21,900
Office supplies	-	3,822	17,632
Workers' Comp	-	185	14,536
Water	-	-	19,916
Rentals	-	-	9,112
Education & travel	-	1,763	11,253
Advertising	-	-	9,357
Vehicle	-	-	11,060
Security	-	4,038	4,038
Employees retirement fund	-	149	2,037
Uniforms	-	-	6,185
Accounting-Audit	-	-	13,650
Postage	-	2,030	4,287
Fuel	-	-	21,067
Mayor-Council	-	-	2,648
Miscellaneous	-	802	5,434

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Expenses**  
**General Fund-Continued**  
**For the Year Ended September 30, 2013**

	<u>Tourism</u>	<u>Court</u>	<u>Total</u>
Appraisal District	-	-	4,844
Capital assets	-	-	92,372
K-9 expense	-	-	2,725
Minor equipment	-	-	16,366
Dues & memberships	-	320	9,592
Street signs	-	-	4,191
Total	32,523	390,515	2,286,185
Adjustments to the Statement of Activities:			
Depreciation	-	4,051	190,323
Compensated absences	-	-	2,675
Capital assets	-	-	(92,372)
Total Primary Government Expenses	<u>\$ 32,523</u>	<u>\$ 394,566</u>	<u>\$2,386,811</u>

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Expenses**  
**Business-Type Activities Fund**  
**For the Year Ended September 30, 2013**

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
<b>Operating Expenses</b>			
Depreciation	\$ 252,953	\$ -	\$ 252,953
Electric	56,284	87,767	144,051
Lone Star GCD & SJRA	215,182	-	215,182
Salaries	83,300	41,322	124,622
Garbage service	-	88,087	88,087
Supplies	32,402	23,718	56,120
Sludge hauling	-	38,490	38,490
Bad debts	25,740	-	25,740
Maintenance	27,841	130,287	158,128
Permits, fees & testing	22,356	3,130	25,486
Miscellaneous	105	463	568
Chemicals	10,233	7,627	17,860
Rentals	-	2,230	2,230
Health insurance	10,531	5,878	16,409
Insurance	9,503	3,722	13,225
Payroll tax	6,083	2,984	9,067
Fuel	8,916	3,707	12,623
Contract services	4,470	8,072	12,542
Telephone	2,474	2,264	4,738
Workers' Comp	3,323	5,201	8,524
Postage	3,968	968	4,936
Engineering	14,893	3,646	18,539
Uniforms	3,042	-	3,042
Bank fees	1,455	306	1,761
Retirement	172	85	257
Total Operating Expenses	<u>\$ 795,226</u>	<u>\$ 459,954</u>	<u>\$ 1,255,180</u>

**CITY OF MAGNOLIA, TEXAS**  
**Statement of Revenues & Expenses**  
**Component Units**  
**For the Year Ended September 30, 2013**

	Economic Development 4A	Community Development 4B	Total
Revenues			
Sales tax	\$ 505,564	\$ 252,782	\$ 758,346
Investment earnings	932	903	1,835
Rent	-	37,025	37,025
Other	-	2,979	2,979
Total Revenues	<u>506,496</u>	<u>293,689</u>	<u>800,185</u>
Expenses			
Interest expense	132,091	-	132,091
Depreciation	164,773	6,472	171,245
Park maintenance	20,000	39,344	59,344
Yellow House	-	1,667	1,667
Downtown revitalization	-	2,253	2,253
Miscellaneous	246	345	591
Business Development Grant	-	11,748	11,748
Legal	1,203	2,645	3,848
Audit-Accounting	2,000	2,000	4,000
Insurance	2,990	2,990	5,980
Contract/Consultants	15,872	14,170	30,042
Farmer's Market	-	1,607	1,607
Salaries	19,818	54,440	74,258
Total Expenses	<u>358,993</u>	<u>139,681</u>	<u>498,674</u>
Net before transfers	147,503	154,008	301,511
Transfers in (out)	<u>-</u>	<u>(165,756)</u>	<u>(165,756)</u>
Change in fund balance	147,503	(11,748)	135,755
Fund balance-beginning	<u>1,847,208</u>	<u>472,161</u>	<u>2,319,369</u>
Fund balance-ending	<u>\$ 1,994,711</u>	<u>\$ 460,413</u>	<u>\$ 2,455,124</u>



## **STATISTICAL INFORMATION**

**City of Magnolia, Texas**  
**Certificates of Obligation - Series 2004**  
**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 2013		148,763	156,035	470,000	774,798
Balance September 2013		<u>\$ 38,454</u>	<u>\$ 38,453</u>	<u>\$ 430,000</u>	<u>\$ 506,907</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>November 1</u>	<u>August 1</u>		
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 2013		244,562	241,819	85,000	571,381
Balance September 2013		<u>\$ 336,380</u>	<u>\$ 336,380</u>	<u>\$ 1,415,000</u>	<u>\$ 2,087,760</u>

**City of Magnolia, Texas**  
**Revenue Bonds - Series 2006**  
**Business-Type 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>		
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 2013		791,278	801,673	505,000	2,097,951
Balance September 2013		<u>\$1,520,319</u>	<u>\$1,627,898</u>	<u>\$ 4,275,000</u>	<u>\$ 7,423,217</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	\$ 115,121	\$ 163,175
2013	3.00	28,387	26,726	110,873	165,986
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	-	154,951	157,391
Total Due		246,166	226,498	2,000,000	2,472,664
Retired through 2013		48,054	55,113	225,994	329,161
Balance September 2013		<u>\$ 198,112</u>	<u>\$ 171,385</u>	<u>\$ 1,774,006</u>	<u>\$ 2,143,503</u>

**City of Magnolia, Texas**  
**Sales Tax Revenue Refunding Bond - Series 2012**  
**4A Corporation**

FYE September	Interest Rate	Interest Due		Principal September 1	Total
		March 1	September 1		
2012	4.25	\$ 12,516	\$ 62,581	\$ 200,000	\$ 275,098
2013	4.25	58,331	58,331	145,000	261,663
2014	4.25	55,250	55,250	190,000	300,500
2015	4.25	51,213	51,213	200,000	302,425
2016	4.25	46,963	46,963	205,000	298,925
2017	4.25	42,606	42,606	215,000	300,213
2018	4.25	38,038	38,038	225,000	301,075
2019	4.25	33,256	33,256	235,000	301,513
2020	4.25	28,263	28,263	245,000	301,525
2021	4.25	23,056	23,056	255,000	301,113
2022	4.25	17,638	17,638	265,000	300,275
2023	4.25	12,006	12,006	275,000	299,013
2024	4.25	6,163	6,163	290,000	302,325
Total Due		425,298	475,363	2,945,000	3,845,660
Retired through 2013		70,848	120,913	345,000	536,760
Balance September 2013		<u>\$ 354,450</u>	<u>\$ 354,450</u>	<u>\$ 2,600,000</u>	<u>\$ 3,308,900</u>

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

FYE September	Interest Due		Principal	Total
	First	Second		
2014	\$ 231,443	\$ 231,798	\$ 479,082	\$ 942,323
2015	221,528	221,991	497,504	941,022
2016	211,189	211,761	516,030	938,979
2017	200,386	201,074	539,660	941,121
2018	189,021	189,826	588,400	967,246
2019	176,574	177,441	612,252	966,268
2020	163,586	164,541	641,220	969,346
2021	149,956	151,092	670,306	971,355
2022	135,818	137,010	694,519	967,346
2023	120,948	122,341	723,851	967,141
2024	105,317	106,893	763,315	975,524
2025	88,728	90,565	487,916	667,209
2026	78,107	80,002	499,951	658,060
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	2,447,715	2,528,566	10,494,006	15,470,287
Plus-Compensated absences	-	-	51,022	51,022
Net Long-Term Debt	<u>\$2,447,715</u>	<u>\$2,528,566</u>	<u>\$10,545,028</u>	<u>\$15,521,309</u>

**CITY OF MAGNOLIA, TEXAS**  
**Ad Valorem Tax Data**

<u>Year September</u>	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>	<u>Valuation</u>	<u>Levy</u>
2006	0.4179	0.0756	0.4935	\$58,747,326	\$ 289,918
2007	0.4055	0.0792	0.4847	67,109,621	325,280
2008	0.2650	0.2264	0.4914	67,783,205	333,087
2009	0.2798	0.2116	0.4914	78,746,846	386,962
2010	0.3119	0.1795	0.4914	91,636,764	450,303
2011	0.3219	0.1695	0.4914	100,019,218	491,494
2012	0.3319	0.1495	0.4814	107,126,405	515,707
2013	0.3371	0.1415	0.4786	103,162,347	493,735

Receivables, by years:

2003 and prior	\$ 3,487
2004	671
2005	904
2006	1,495
2007	1,474
2008	2,324
2009	3,061
2010	4,119
2011	4,828
2012	12,249
	<hr/>
	\$ 34,612
	<hr/>