

*ANNUAL FINANCIAL REPORT*

of the

**City of Magnolia, Texas**

For the Year Ended  
September 30, 2014

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**CITY OF MAGNOLIA, TEXAS**  
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**September 30, 2014**

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## *INDEPENDENT AUDITOR'S REPORT*

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Magnolia, Texas (the "City"), as of and for the year ended September 30, 2014, 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*

The City's 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 opinion.

### *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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2014, 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 and budgetary comparison information 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 Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, such as the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual for the debt service fund and the HB 445 fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

A handwritten signature in black ink that reads "Brooks Cardiel, PLLC". The signature is written in a cursive, flowing style.

BrooksCardiel, PLLC  
Certified Public Accountants  
The Woodlands, Texas  
February 25, 2014

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*MANAGEMENT'S DISCUSSION  
AND ANALYSIS*

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# City of Magnolia, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2014

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Magnolia's ("City") financial activities for the year ending September 30, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

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

### **Financial Highlights**

- The City's total combined net position was \$6,643,535 at September 30, 2014. Of this, \$3,476,594 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,301,883, an increase of \$1,292,933.
- As of the end of the year, the unassigned fund balance of the general fund was \$245,939 or 11% of total general fund expenditures.
- The City had an overall increase in net position of \$939,854, which is primarily due to overall revenues exceeding expenses.

### **Government-Wide Statements**

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

# City of Magnolia, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

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

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

The Statement of Net Position and the Statement of Activities divide the City into three classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here, including general government, public safety (police and municipal court); culture and recreation, and transportation. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services. These services, the City's water distribution and wastewater collection/treatment services are reported here.

### FUND FINANCIAL STATEMENTS

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

#### Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By



# City of Magnolia, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Magnolia maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and debt service funds which are considered to be major funds.

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

### **Proprietary Funds**

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, water construction operations and sanitation services. The proprietary fund financial statements provide separate information for the water distribution fund and the wastewater collection/treatment fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

### **Notes to Financial Statements**

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

### **Other Information**

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

**City of Magnolia, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Magnolia, assets exceed liabilities by \$6,643,535 as of September 30, 2014, in the primary government.

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 2,642,091	\$ 3,471,212	\$ 6,113,303	\$ 1,263,538	\$ 3,678,561	\$ 4,942,099
Capital assets, net	2,869,938	5,844,974	8,714,912	3,030,162	5,985,719	9,015,881
<b>Total Assets</b>	<b>5,512,029</b>	<b>9,316,186</b>	<b>14,828,215</b>	<b>4,293,700</b>	<b>9,664,280</b>	<b>13,957,980</b>
<b>Total Deferred Outflows</b>	<b>48,966</b>	<b>133,551</b>	<b>182,517</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other liabilities	321,246	534,835	856,081	176,423	132,849	309,272
Long-term liabilities	1,874,839	5,636,277	7,511,116	1,896,022	6,049,005	7,945,027
<b>Total Liabilities</b>	<b>2,196,085</b>	<b>6,171,112</b>	<b>8,367,197</b>	<b>2,072,445</b>	<b>6,181,854</b>	<b>8,254,299</b>
Net Position:						
Net investment in capital assets	1,107,549	71,562	1,179,111	1,134,140	(63,286)	1,070,854
Restricted	1,987,830	-	1,987,830	887,781	217,115	1,104,896
Unrestricted	269,531	3,207,063	3,476,594	199,334	3,328,597	3,527,931
<b>Total Net Position</b>	<b>\$ 3,364,910</b>	<b>\$ 3,278,625</b>	<b>\$ 6,643,535</b>	<b>\$ 2,221,255</b>	<b>\$ 3,482,426</b>	<b>\$ 5,703,681</b>

# City of Magnolia, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

### September 30, 2014

#### Statement of Activities:

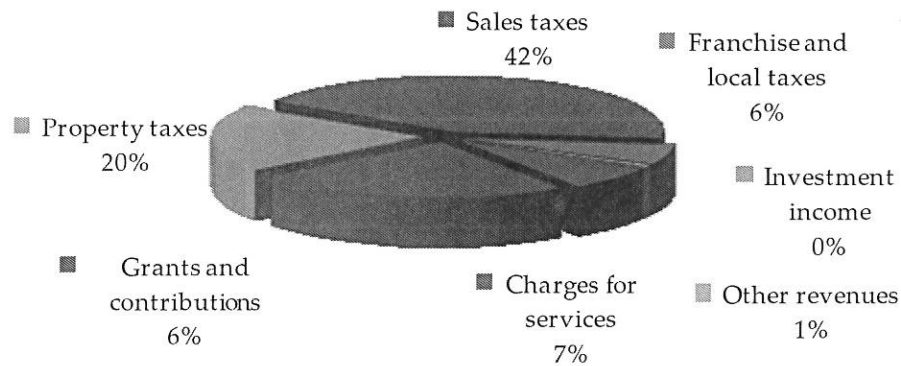
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 253,209	\$ 1,814,472	\$ 2,067,681	\$ 1,182,247	\$ 1,496,451	\$ 2,678,698
Grants and contributions	854,082	-	854,082	-	-	-
General revenues:						
Property taxes	689,951	-	689,951	456,516	-	456,516
Sales taxes	1,498,594	-	1,498,594	1,262,979	-	1,262,979
Franchise and local taxes	207,669	-	207,669	182,405	-	182,405
Investment income	3,663	6,752	10,415	13,588	27,420	41,008
Other revenues	21,071	-	21,071	11,581	-	11,581
<b>Total Revenues</b>	<b>3,528,239</b>	<b>1,821,224</b>	<b>5,349,463</b>	<b>3,109,316</b>	<b>1,523,871</b>	<b>4,633,187</b>
<b>Expenses</b>						
General government	853,073	-	853,073	837,531	-	837,531
Public safety	1,509,408	-	1,509,408	1,595,559	-	1,595,559
Transportation	346,210	-	346,210	425,650	-	425,650
Culture and recreation	9,930	-	9,930	32,523	-	32,523
Interest and fiscal charges	184,103	378,469	562,572	91,939	271,809	363,748
Water & sewer	-	1,128,416	1,128,416	-	1,047,829	1,047,829
<b>Total Expenses</b>	<b>2,902,724</b>	<b>1,506,885</b>	<b>4,409,609</b>	<b>2,983,202</b>	<b>1,319,638</b>	<b>4,302,840</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	<b>625,515</b>	<b>314,339</b>	<b>939,854</b>	<b>126,114</b>	<b>204,233</b>	<b>330,347</b>
Transfers	518,140	(518,140)	-	-	165,756	165,756
<b>Total</b>	<b>518,140</b>	<b>(518,140)</b>	<b>-</b>	<b>-</b>	<b>165,756</b>	<b>165,756</b>
<b>Change in Net Position</b>	<b>1,143,655</b>	<b>(203,801)</b>	<b>939,854</b>	<b>126,114</b>	<b>369,989</b>	<b>496,103</b>
Beginning Net Position	2,221,255	3,482,426	5,703,681	2,095,141	3,112,437	5,207,578
<b>Ending Net Position</b>	<b>\$ 3,364,910</b>	<b>\$ 3,278,625</b>	<b>\$ 6,643,535</b>	<b>\$ 2,221,255</b>	<b>\$ 3,482,426</b>	<b>\$ 5,703,681</b>

**City of Magnolia, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
September 30, 2014

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

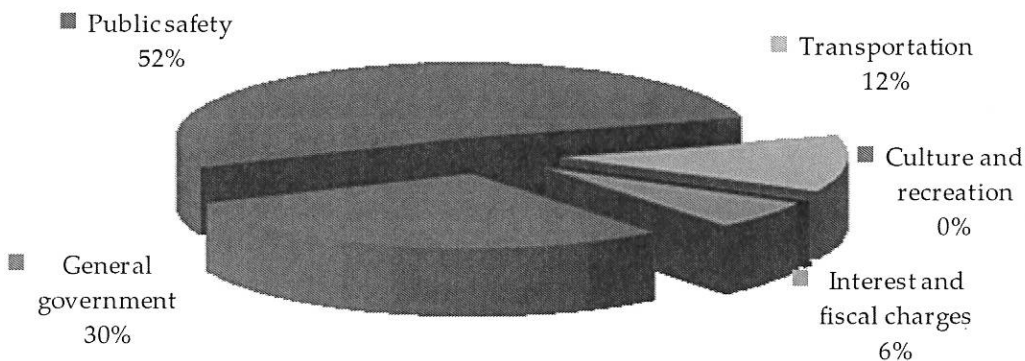
**Governmental Activities - Revenues**



For the year ended September 30, 2014, revenues from governmental activities totaled \$3,528,239. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased \$233,435 or 34% due to an increase in property values. Sales tax revenue also increase by \$235,615 or 16% due to increase retail sales within the City. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

**Governmental Activities - Expenses**

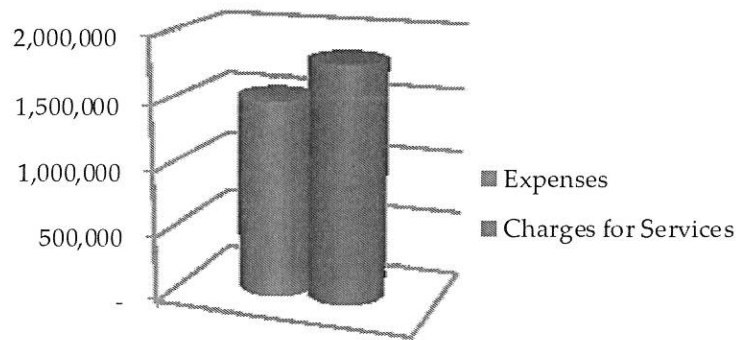


For the year ended September 30, 2014, expenses for governmental activities totaled \$2,902,724. This represents a decrease of \$80,478 or 2% from the prior year. The City's largest functional expense is public safety of \$1,509,408 which is primarily the city's police department and municipal court. All expenditures remained relatively consistent with the previous year.

**City of Magnolia, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

Business-type activities are shown comparing operating costs to revenues generated by related services.

**Business-Type Activities - Revenues and Expenses**



For the year ended September 30, 2014, charges for services by business-type activities totaled \$1,814,472. This is an increase of \$318,021, or 21%, from the previous year.

Total expenses increased \$187,247 due primarily to debt issuance costs incurred during the year. All other expenses remained relatively consistent.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

Governmental Funds - The focus of the City's governmental funds is to provide information of 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 the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$381,044. Of this, \$65,259 is restricted for municipal court and \$69,846 is restricted for tourism. Unassigned fund balance totaled \$245,939 as of year end.

There was an increase in governmental fund balance of \$1,292,933 over the prior year. The increase was related to higher than budgeted revenues than planned.

**City of Magnolia, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

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

The total net position of the water and sewer fund at year end was \$3,278,625. This represents a decrease of \$203,801, mostly related to bond issuance costs.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There was a total positive budget variance of \$286,596 in the general fund. Planned revenue had a positive variance of \$442,897. Planned expenditures were \$141,735 over budget. All revenue sources received more revenue than anticipated with the exception of property taxes and intergovernmental revenue. General government, municipal court, and public works were all over budget.

**CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$2,869,938 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$5,844,974 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- The purchase of a new generator controller in the water & sewer fund for \$16,973
- The purchase of a new Chevy Tahoe for \$11,515

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

**LONG-TERM DEBT**

At the end of the current year, the City had total bonds outstanding of \$5,775,000. During the year, the City refunded the 2004 and 2006 Certificates of Obligation as well as the 2006 Revenue and Refunding bonds. There was a total reduction in the long-term debt of \$459,082. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

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

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Magnolia and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

**City of Magnolia, Texas**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
September 30, 2014

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

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## *FINANCIAL STATEMENTS*

# City of Magnolia, Texas

## STATEMENT OF NET POSITION

September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 1,808,834	\$ 3,563,700	\$ 5,372,534
Investments	224,668	-	224,668
Receivables, net	413,515	93,349	506,864
Internal balances	185,837	(185,837)	-
Due from component unit	9,237	-	9,237
<b>Total Current Assets</b>	<b>2,642,091</b>	<b>3,471,212</b>	<b>6,113,303</b>
Capital assets:			
Non-depreciable	144,873	187,905	332,778
Net depreciable capital assets	2,725,065	5,657,069	8,382,134
	2,869,938	5,844,974	8,714,912
<b>Total Assets</b>	<b>5,512,029</b>	<b>9,316,186</b>	<b>14,828,215</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred charge on refunding	48,966	133,551	182,517
<b>Total Deferred Outflows of Resources</b>	<b>48,966</b>	<b>133,551</b>	<b>182,517</b>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	43,409	80,690	124,099
Due to primary government	-	-	-
Deficit cash balances	162,052	-	162,052
Customer deposits	-	113,605	113,605
Accrued interest payable	22,936	61,675	84,611
Long term debt due within one year	92,849	278,865	371,714
	321,246	534,835	856,081
Noncurrent liabilities:			
Due in more than one year	1,874,839	5,636,277	7,511,116
<b>Total Liabilities</b>	<b>2,196,085</b>	<b>6,171,112</b>	<b>8,367,197</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	1,107,549	71,562	1,179,111
Restricted for:			
Debt service	624,654	-	624,654
Municipal court	65,259	-	65,259
Tourism	69,846	-	69,846
Road improvement	1,228,071	-	1,228,071
Economic development	-	-	-
Community development	-	-	-
Unrestricted	269,531	3,207,063	3,476,594
<b>Total Net Position</b>	<b>\$ 3,364,910</b>	<b>\$ 3,278,625</b>	<b>\$ 6,643,535</b>

See Notes to Financial Statements.

Component Units	
4A Economic Development	4B Community Development
\$ 759,446	\$ 157,521
-	-
110,731	55,365
-	-
-	-
870,177	212,886
990,417	172,305
3,557,876	124,222
4,548,293	296,527
5,418,470	509,413
-	-
-	-
-	-
4,705	4,532
-	-
-	-
9,723	-
511,662	-
526,090	4,532
2,829,102	-
3,355,192	4,532
2,085,042	296,527
-	-
-	-
-	-
-	-
-	-
-	208,354
(21,764)	-
\$ 2,063,278	\$ 504,881

# City of Magnolia, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 853,073	\$ 47,730	\$ 597,268
Public safety	1,509,408	205,479	256,814
Transportation	346,210	-	-
Culture and recreation	9,930	-	-
Interest and fiscal charges	184,103	-	-
<b>Total Governmental Activities</b>	<u>2,902,724</u>	<u>253,209</u>	<u>854,082</u>
<b>Business-Type Activities</b>			
Water & sewer	1,506,885	1,814,472	-
<b>Total Business-Type Activities</b>	<u>1,506,885</u>	<u>1,814,472</u>	<u>-</u>
<b>Total Primary Government</b>	<u>\$ 4,409,609</u>	<u>\$ 2,067,681</u>	<u>\$ 854,082</u>
<b>Component Units</b>			
4A Economic Development	354,500	-	-
4B Community Development	270,278	-	-
<b>Total Component Units</b>	<u>\$ 624,778</u>	<u>\$ -</u>	<u>\$ -</u>
<b>General Revenues:</b>			
Taxes			
Property taxes			
Sales taxes			
Franchise and local taxes			
Investment income			
Other revenues			
<b>Transfers</b>			
<b>Total General Revenues and Transfers</b>			
<b>Change in Net Position</b>			
Beginning Net Position			
<b>Ending Net Position</b>			

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	4A Economic Development	4B Community Development
\$ (208,075)	\$ -	\$ (208,075)	\$ -	\$ -
(1,047,115)	-	(1,047,115)	-	-
(346,210)	-	(346,210)	-	-
(9,930)	-	(9,930)	-	-
(184,103)	-	(184,103)	-	-
(1,795,433)	-	(1,795,433)	-	-
-	307,587	307,587	-	-
-	307,587	307,587	-	-
(1,795,433)	307,587	(1,487,846)	-	-
			(354,500)	-
			-	(270,278)
			(354,500)	(270,278)
689,951	-	689,951	-	-
1,498,594	-	1,498,594	599,859	299,929
207,669	-	207,669	-	-
3,663	6,752	10,415	722	95
21,071	-	21,071	-	14,722
518,140	(518,140)	-	-	-
2,939,088	(511,388)	2,427,700	600,581	314,746
1,143,655	(203,801)	939,854	246,081	44,468
2,221,255	3,482,426	5,703,681	1,817,197	460,413
<u>\$ 3,364,910</u>	<u>\$ 3,278,625</u>	<u>\$ 6,643,535</u>	<u>\$ 2,063,278</u>	<u>\$ 504,881</u>

# City of Magnolia, Texas

## BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2014

	General	Debt Service	HB 445	Nonmajor Capital Projects
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 149,768	\$ 488,243	\$ 985,088	\$ 19,057
Investments	-	42,687	181,981	-
Receivables, net	340,021	18,129	55,365	-
Due from other funds	168,993	241,217	173,130	500
Due from component unit	9,238	-	-	-
<b>Total Assets</b>	<b>\$ 668,020</b>	<b>\$ 790,276</b>	<b>\$ 1,395,564</b>	<b>\$ 19,557</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 2,887	\$ -	\$ -	\$ -
Deficit cash balance	28,557	57,396	-	76,099
Due to other funds	138,913	90,097	167,493	1,500
<b>Total Liabilities</b>	<b>170,357</b>	<b>147,493</b>	<b>167,493</b>	<b>77,599</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue				
Property taxes	18,637	18,129	-	-
Fines and fees	97,982	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>116,619</b>	<b>18,129</b>	<b>-</b>	<b>-</b>
<b><u>Fund Balances</u></b>				
Restricted for:				
Debt service	-	624,654	-	-
Municipal court	65,259	-	-	-
Tourism	69,846	-	-	-
Road improvement	-	-	1,228,071	-
Unassigned reported in:				
General fund	245,939	-	-	(58,042)
<b>Total Fund Balances</b>	<b>381,044</b>	<b>624,654</b>	<b>1,228,071</b>	<b>(58,042)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 551,401</b>	<b>\$ 772,147</b>	<b>\$ 1,395,564</b>	<b>\$ 19,557</b>

See Notes to Financial Statements.

Nonmajor Red Light Camera	Total Governmental Funds
\$ 166,678	\$ 1,808,834
-	224,668
-	413,515
-	583,840
-	9,238
<u>\$ 166,678</u>	<u>\$ 3,040,095</u>

\$ 40,522	\$ 43,409
-	162,052
-	398,003
<u>40,522</u>	<u>603,464</u>

-	36,766
-	97,982
<u>-</u>	<u>134,748</u>

-	624,654
-	65,259
-	69,846
-	1,228,071
<u>126,156</u>	<u>314,053</u>
<u>126,156</u>	<u>2,301,883</u>
<u>\$ 166,678</u>	<u>\$ 2,905,347</u>

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# City of Magnolia, Texas

## RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2014

Fund Balances - Total Governmental Funds	\$ 2,301,883
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**Adjustments for the Statement of Net Position:**

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

Capital assets - non-depreciable	144,873
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Capital assets - net depreciable	2,725,065
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property tax receivable	36,765
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Fines and fees receivable	97,982
---------------------------	--------

Deferred outflows of resources represent a consumption of net position that applies to a future period and is not recognized as an outflow of resources until then.

Deferred charge on refunding	48,966
------------------------------	--------

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

Accrued interest	(22,936)
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Bond premium	(87,125)
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Non-current liabilities due in one year	(92,849)
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Non-current liabilities due in more than one year	(1,787,714)
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<b>Net Position of Governmental Activities</b>	<b>\$ 3,364,910</b>
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See Notes to Financial Statements.

# City of Magnolia, Texas

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	General	Debt Service	HB 445	Nonmajor Capital Projects
<b><u>Revenues</u></b>				
Property tax	\$ 354,230	\$ 333,567	\$ -	\$ -
Sales tax	1,198,665	-	299,929	-
Franchise tax	207,669	-	-	-
Hotel occupancy tax	47,730	-	-	-
Licenses and permits	256,814	-	-	-
Fines and forfeitures	361,154	-	-	-
Intergovernmental	39,774	165,705	-	-
Investment income	-	2,758	710	-
Other	21,071	-	-	-
<b>Total Revenues</b>	<b>2,487,107</b>	<b>502,030</b>	<b>300,639</b>	<b>-</b>
<b><u>Expenditures</u></b>				
Current:				
General government	783,408	500	-	-
Public safety	934,063	-	-	-
Municipal court	174,302	-	-	-
Parks and recreation	9,930	-	-	-
Public works	238,360	-	4,952	-
Tourism	40,728	-	-	-
Debt Service:				
Principal	-	90,500	-	-
Interest and fiscal charges	-	92,159	-	-
Bond issuance costs	-	88,244	-	-
<b>Total Expenditures</b>	<b>2,180,791</b>	<b>271,403</b>	<b>4,952</b>	<b>-</b>
<b>Excess of Revenues</b>				
<b>Over Expenditures</b>	<b>306,316</b>	<b>230,627</b>	<b>295,687</b>	<b>-</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in (out)	(14,566)	350,725	181,981	-
Proceeds from bond issuance	-	1,750,134	-	-
Premium on bonds issued	-	115,230	-	-
Payment to refunded bond escrow agent		(1,845,226)	-	-
<b>Total Other</b>				
<b>Financing Sources (Uses)</b>	<b>(14,566)</b>	<b>370,863</b>	<b>181,981</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>291,750</b>	<b>601,490</b>	<b>477,668</b>	<b>-</b>
Beginning fund balances	89,294	23,164	750,403	(58,042)
<b>Ending Fund Balances</b>	<b>\$ 381,044</b>	<b>\$ 624,654</b>	<b>\$ 1,228,071</b>	<b>\$ (58,042)</b>

See Notes to Financial Statements.

Nonmajor Red Light Camera	Total Governmental Funds
\$ -	\$ 687,797
-	1,498,594
-	207,669
-	47,730
-	256,814
196,943	558,097
-	205,479
195	3,663
-	21,071
<u>197,138</u>	<u>3,486,914</u>
-	783,908
-	934,063
275,113	449,415
-	9,930
-	243,312
-	40,728
-	90,500
-	92,159
-	88,244
<u>275,113</u>	<u>2,732,259</u>
(77,975)	754,655
-	518,140
-	1,750,134
-	115,230
-	(1,845,226)
<u>-</u>	<u>538,278</u>
(77,975)	1,292,933
204,131	1,008,950
<u>\$ 126,156</u>	<u>\$ 2,301,883</u>

**City of Magnolia, Texas**  
***RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,***  
***AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE***  
***STATEMENT OF ACTIVITIES***  
**For the Year Ended September 30, 2014**

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

Net changes in fund balances - total governmental funds	\$ 1,292,933
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	28,103
Depreciation expense	(188,327)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	2,154
Fines and fees	39,171

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

Compensated absences	(97,041)
Accrued interest	(7,679)

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

Issuance and amortization of deferred charges on refunding	48,966
Additions and amortization of premium	(87,125)
Principal payments	112,500

<b>Change in Net Position of Governmental Activities</b>	<b>\$ 1,143,655</b>
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See Notes to Financial Statements.

# City of Magnolia, Texas

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

September 30, 2014

	<u>Water &amp; Sewer Fund</u>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$ 3,563,700
Receivables, net	93,349
Due from other funds	63,401
<b>Total Current Assets</b>	<u>3,720,450</u>
<b><u>Noncurrent Assets</u></b>	
Capital assets:	
Non-depreciable	187,905
Net depreciable capital assets	5,657,069
<b>Total Noncurrent Assets</b>	<u>5,844,974</u>
<b>Total Assets</b>	<u>9,565,424</u>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred charge on refunding	133,551
<b>Total Deferred Outflows of Resources</b>	<u>133,551</u>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts payable and accrued liabilities	80,690
Customer deposits	113,605
Due to other funds	249,238
Accrued interest	61,675
Long term debt due within one year	278,865
<b>Total Current Liabilities</b>	<u>784,073</u>
<b><u>Noncurrent Liabilities</u></b>	
Due in more than one year	5,636,277
<b>Total Liabilities</b>	<u>6,420,350</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	71,562
Unrestricted	3,207,063
<b>Total Net Position</b>	<u>\$ 3,278,625</u>

See Notes to Financial Statements.

# City of Magnolia, Texas

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2014

	<u>Water &amp; Sewer Fund</u>
<b><u>Operating Revenues</u></b>	
Water sales	\$ 910,063
Sewer revenue	407,498
Garbage collection	100,166
Impact fees	312,500
Intergovernmental	84,245
<b>Total Operating Revenues</b>	<u>1,814,472</u>
<b><u>Operating Expenses</u></b>	
Cost of water	416,096
Cost of sewer	364,284
Cost of garbage	99,033
Depreciation	249,003
<b>Total Operating Expenses</b>	<u>1,128,416</u>
<b>Operating Income</b>	<u>686,056</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment income	6,752
Interest expense	(177,780)
Bond issuance expense	(200,689)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(371,717)</u>
<b>Income Before Transfers</b>	314,339
Transfers in (out)	<u>(518,140)</u>
<b>Change in Net Position</b>	(203,801)
Beginning net position	<u>3,482,426</u>
<b>Ending Net Position</b>	<u><u>\$ 3,278,625</u></u>

See Notes to Financial Statements.

**City of Magnolia, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND (Page 1 of 2)**  
**For the Year Ended September 30, 2014**

	<u>Water &amp; Sewer Fund</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 2,177,248
Payments to suppliers and employees	(809,789)
<b>Net Cash Provided by Operating Activities</b>	<u>1,367,459</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Transfers in (out)	(518,140)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>(518,140)</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Capital purchases	(108,258)
Principal paid on debt	(268,582)
Interest paid on debt	(123,116)
Bond issuance expense	(200,689)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(700,645)</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Proceeds from sale of investments	373,483
Interest on investments	6,752
<b>Net Cash Provided by Investing Activities</b>	<u>380,235</u>
<b>Net increase in Cash and Cash Equivalents</b>	528,909
Beginning cash and cash equivalents	<u>3,034,791</u>
<b>Ending Cash and Cash Equivalents</b>	<u><u>\$ 3,563,700</u></u>

See Notes to Financial Statements.

**City of Magnolia, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Page 2 of 2)**  
**For the Year Ended September 30, 2014**

	<u>Water &amp; Sewer Fund</u>
<b><u>Reconciliation of Operating Income</u></b>	
<b><u>to Net Cash Provided by Operating Activities</u></b>	
Operating Income	\$ 686,056
Adjustments to reconcile operating income to net cash provided:	
Depreciation	249,003
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	113,538
Due from other funds	249,238
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	34,061
Customer deposits	27,385
Compensated absences	8,178
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 1,367,459</u></b>

See Notes to Financial Statements.



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2014**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

The City operates under a "General Law" City which provides for a "Mayor-Council" form of government. All powers of the City shall be vested in an elective council, hereinafter referred to as the "Council," which shall enact local legislation, adopt budgets, determine policies, and appoint the City Attorney and the Judge of the Municipal Court. The Council shall also appoint the City Administrator, who shall execute the laws and administer the government of the City. The City provides the following services as authorized by its charter: public safety (police), streets & roads, sanitation, water & sewer, culture-recreation, public improvements and administrative 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 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 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. Based on this, and based upon their significant financial and operational relationships to the City, the City has two discretely presented component units, as follows:

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**Discretely Presented Component Units**

**Economic Development Corporation – 4A:** On September 8, 1997, the City incorporated the “City of Magnolia Economic Development Corporation (the “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 (the “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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**B. Financial Statement Presentation**

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

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

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: invested in capital assets, net of related debt; 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 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, 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 “net investment in capital assets.”

**C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The government reports the following governmental funds:

**Governmental Funds**

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

**General Fund**

The General Fund is the main operating fund of the City. The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government and public safety. The general service fund is considered a major fund for reporting purposes.

**Debt Service Fund**

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

**Capital Projects Fund**

The capital projects fund is used to account for the expenditures of resources accumulated from the sale of bonds and related interest earnings, contributed capital or transfers from other funds, other than those recorded in the enterprise funds, for acquisition of capital facilities. The capital projects fund is considered a major fund for reporting purposes.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**Special Revenue Funds**

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 Fund Types**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. 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 include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

The government reports the following major enterprise fund:

**Water and Sewer Fund**

This fund is used to account for the provision of water, wastewater, and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, and water collection and treatment systems. The fund also accounts for the accumulation of resources for and the payment of long-term debt, principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. 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 and 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 in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All governmental funds and component units 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 in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

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

**E. Estimates**

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

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**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**F. Assets, liabilities, deferred inflows/outflows, and net position/fund balance**

**1. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

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

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

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

**2. Receivables and Interfund Transactions**

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

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

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

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**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**3. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

**4. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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



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Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and equipment	5 to 10 years
Infrastructure	20 to 40 years
Water & sewer system	10 to 40 years
Buildings and improvements	40 years

**6. Deferred outflows/inflows of resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

**7. Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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**8. Fund Balance Flow Assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**9. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**10. Compensated Absences**

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who

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currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

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.

**11. 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. The long-term debt consists primarily of bonds payable and accrued compensated absences.

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

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, and discounts 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.

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

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**G. Revenues and expenditures/expenses**

**1. Program revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Proprietary funds operating and nonoperating revenues and expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.**

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt

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is first issued, whereas these amounts are deferred and amortized in the statement of activities. A reconciliation has been presented in the basic financial statements.

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. One budget amendment was made during the year.

**A. Expenditures Over Appropriations**

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

General Fund:

General government	\$142,420
Municipal court	\$7,855
Public works	\$29,973
Tourism	\$5,728
Transfers	\$14,566

The City has implemented procedures to ensure budgetary compliance. No expenditure can be made unless there is a budget available or an approved budget amendment has been submitted. Department head and management will review the budget variances on a regular basis and the budget will be amended if necessary.

**B. Deficit Fund Equity**

At September 30, 2014, the capital projects fund, a nonmajor fund, has a deficit fund balance of \$58,042. The deficit will be eliminated in the future with transfers from other funds.

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**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2014, the primary government had the following investments:

Investment Type	Fair Value	(Years)
Certificates of deposit	\$ 224,668	1.04
Total fair value	<u>\$ 224,668</u>	
Portfolio weighted average maturity		1.04

*Interest rate risk* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

*Credit risk* The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

*Custodial credit risk – deposits* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2014, the market values of pledged securities and FDIC exceeded bank balances.

*Custodial credit risk – investments* For an investment, this 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 the possession of an outside party. The City's investment policy requires safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

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**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**B. Receivables**

The following comprise receivable balances of the primary government at year end:

	General	Debt Service	HB 445	Water & Sewer	Total
Property taxes	\$ 18,637	\$ 18,129	\$ -	\$ -	\$ 36,766
Sales tax	221,462	-	55,365	-	276,827
Fines	489,912	-	-	-	489,912
Accounts	-	-	-	197,483	197,483
Other	1,939	-	-	-	1,939
Allowance	(391,929)	-	-	(104,134)	(496,063)
	<u>\$ 340,021</u>	<u>\$ 18,129</u>	<u>\$ 55,365</u>	<u>\$ 93,349</u>	<u>\$ 506,864</u>

**C. Capital Assets**

The primary government's summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 144,873	\$ -	\$ -	\$ 144,873
Total capital assets not being depreciated	<u>144,873</u>	<u>-</u>	<u>-</u>	<u>144,873</u>
Capital assets, being depreciated:				
Buildings and improvements	679,865	-	-	679,865
Vehicles and equipment	802,272	11,515	(82,434)	731,353
Infrastructure	4,969,370	16,587	-	4,985,957
Total capital assets being depreciated	<u>6,451,507</u>	<u>28,102</u>	<u>(82,434)</u>	<u>6,397,175</u>
Less accumulated depreciation				
Buildings and improvements	(639,762)	(20,258)	-	(660,020)
Vehicles and equipment	(87,735)	(54,298)	82,434	(59,599)
Infrastructure	(2,838,720)	(113,771)	-	(2,952,491)
Total accumulated depreciation	<u>(3,566,217)</u>	<u>(188,327)</u>	<u>82,434</u>	<u>(3,672,110)</u>
Net capital assets being depreciated	<u>2,885,290</u>	<u>(160,225)</u>	<u>-</u>	<u>2,725,065</u>
Total Capital Assets	<u>\$ 3,030,163</u>	<u>\$ (160,225)</u>	<u>\$ -</u>	<u>\$ 2,869,938</u>



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**NOTES TO FINANCIAL STATEMENTS, Continued**  
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Depreciation was charged to governmental functions as follows:

General government	\$ 8,103
Public safety	65,468
Public works	114,756
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 188,327</b>

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 108,634	\$ -	\$ -	\$ 108,634
Construction in progress	-	79,271	-	79,271
Total capital assets not being depreciated	108,634	79,271	-	187,905
Capital assets, being depreciated:				
Water and sewer system	8,285,862	16,973	-	8,302,835
Vehicles and equipment	156,899	12,014	-	168,913
Total capital assets being depreciated	8,442,761	28,987	-	8,471,748
Less accumulated depreciation				
Water and sewer system	(2,434,772)	(246,469)	-	(2,681,241)
Vehicles and equipment	(130,904)	(2,534)	-	(133,438)
Total accumulated depreciation	(2,565,676)	(249,003)	-	(2,814,679)
Net capital assets being depreciated	5,877,085	(220,016)	-	5,657,069
<b>Total Capital Assets</b>	<b>\$ 5,985,719</b>	<b>\$ (140,745)</b>	<b>\$ -</b>	<b>\$ 5,844,974</b>



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The Magnolia 4A Economic Development Corporation's summary of changes in capital assets for the year end was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 15,845	\$ 974,572	\$ -	\$ 990,417
Total capital assets not being depreciated	<u>15,845</u>	<u>-</u>	<u>-</u>	<u>990,417</u>
Capital assets, being depreciated:				
Buildings and improvements	714,620	-	-	714,620
Unity Park & Downtown	2,719,814	-	-	2,719,814
Pavement improvements	1,125,432	-	-	1,125,432
Equipment	7,150	-	-	7,150
Total capital assets being depreciated	<u>4,567,016</u>	<u>-</u>	<u>-</u>	<u>4,567,016</u>
Less accumulated depreciation				
Buildings and improvements	(212,872)	(17,866)	-	(230,738)
Unity Park & Downtown	(194,246)	(90,711)	-	(284,957)
Pavement improvements	(430,098)	(56,197)	-	(486,295)
Equipment	(7,150)	-	-	(7,150)
Total accumulated depreciation	<u>(844,366)</u>	<u>(164,774)</u>	<u>-</u>	<u>(1,009,140)</u>
Net capital assets being depreciated	<u>3,722,650</u>	<u>(164,774)</u>	<u>-</u>	<u>3,557,876</u>
<b>Total Capital Assets</b>	<u><u>\$ 3,738,495</u></u>	<u><u>\$ (164,774)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,548,293</u></u>

The Magnolia 4B Community Development Corporation's summary of changes in capital assets for the year end was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases/ Reclassifications</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 172,305	\$ -	\$ -	\$ 172,305
Total capital assets not being depreciated	<u>172,305</u>	<u>-</u>	<u>-</u>	<u>172,305</u>
Capital assets, being depreciated:				
Buildings	139,710	-	-	139,710
Equipment	8,832	-	-	8,832
Total capital assets being depreciated	<u>148,542</u>	<u>-</u>	<u>-</u>	<u>148,542</u>
Less accumulated depreciation				
Buildings and improvements	(16,081)	(5,589)	-	(21,670)
Equipment	(1,767)	(883)	-	(2,650)
Total accumulated depreciation	<u>(17,848)</u>	<u>(6,472)</u>	<u>-</u>	<u>(24,320)</u>
Net capital assets being depreciated	<u>130,694</u>	<u>(6,472)</u>	<u>-</u>	<u>124,222</u>
<b>Total Capital Assets</b>	<u><u>\$ 302,999</u></u>	<u><u>\$ (6,472)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 296,527</u></u>

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**D. Long-term Debt**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b>Governmental Activities:</b>					
Certificates of obligation - Series 2004	\$ 430,000	\$ -	\$ (430,000)	\$ -	\$ -
Certificates of obligation - Series 2006	1,415,000	-	(1,415,000)	-	-
General obligation refunding - 2014	-	1,758,000	(25,500)	1,732,500	66,000
Premium	-	91,104	(3,979)	87,125	-
Other liabilities:					
Compensated absences	51,022	137,859	(40,818)	148,063	26,849
<b>Total Governmental Activities</b>	<u>\$ 1,896,022</u>	<u>\$ 1,986,963</u>	<u>\$ (1,915,297)</u>	<u>\$ 1,967,688</u>	<u>\$ 92,849</u>

Long-term liabilities due in more than one year \$ 1,874,839

<b>Business-Type Activities:</b>					
Revenue bonds - Series 2006	\$ 4,275,000	\$ -	\$ (4,275,000)	\$ -	\$ -
General obligation refunding - 2014	-	4,102,000	(59,500)	4,042,500	154,000
Premium	-	213,940	(9,284)	204,656	-
State infrastructure loan	1,774,006	-	(114,082)	1,659,924	117,504
Other liabilities:					
Compensated absences	-	8,062	-	8,062	7,361
<b>Total Business-Type Activities</b>	<u>\$ 6,049,006</u>	<u>\$ 4,324,002</u>	<u>\$ (4,457,866)</u>	<u>\$ 5,915,142</u>	<u>\$ 278,865</u>

Long-term liabilities due in more than one year \$ 5,636,277

<b>Magnolia 4A Economic Development Corporation</b>				0	
Revenue & refunding bonds - 2012	\$ 2,600,000	\$ -	\$ (190,000)	\$ 2,410,000	\$ 200,000
Promissory note	-	700,000	-	700,000	80,898
Real estate lien note	-	230,764	-	230,764	230,764
<b>Total Economic Development Activities</b>	<u>\$ 2,600,000</u>	<u>\$ 930,764</u>	<u>\$ (190,000)</u>	<u>\$ 3,340,764</u>	<u>\$ 511,662</u>

Long-term liabilities due in more than one year \$ 2,829,102

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

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Original Balance	Current Balance
<b>Governmental Activities:</b>			
2014 General obligation refunding bonds (30%)	2.00 - 4.00%	\$ 1,758,000	\$ 1,732,500
<b>Total Governmental Activities</b>		<u>\$ 1,758,000</u>	<u>\$ 1,732,500</u>
<b>Business-type Activities:</b>			
2014 General obligation refunding bonds (70%)	2.00 - 4.00%	\$ 4,102,000	\$ 4,042,500
State infrastructure loan	3.00%	2,000,000	1,659,924
<b>Total Business-Type Activities</b>		<u>\$ 6,102,000</u>	<u>\$ 5,702,424</u>
<b>Total Long-Term Debt</b>			
2014 General obligation refunding bonds	2.00 - 4.00%	\$ 5,860,000	\$ 5,775,000
State infrastructure loan	3.00%	2,000,000	1,659,924
<b>Total</b>		<u><u>\$ 7,860,000</u></u>	<u><u>\$ 7,434,924</u></u>

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Governmental Activities	
	2014 G.O. Refunding Bonds	
	Principal	Interest
2015	\$ 66,000	\$ 54,870
2016	69,000	53,520
2017	70,500	51,773
2018	81,000	49,500
2019	82,500	47,048
2020	85,500	44,528
2021	88,500	41,918
2022	91,500	39,218
2023	94,500	36,428
2024	99,000	33,525
2025	99,000	30,555
2026	102,000	27,540
2027	106,500	24,413
2028	51,000	21,923
2029	52,500	20,111
2030	54,000	18,248
2031	55,500	16,331
2032	58,500	14,190
2033	60,000	11,820
2034	63,000	9,360
2035	64,500	6,810
2036	67,500	4,170
2037	70,500	1,410
	<u>\$ 1,732,500</u>	<u>\$ 659,205</u>

The 2014 general obligation refunding bonds were issued February 1, 2014, due in annual installments through 2037, bearing interest ranging from 2.0% to 4.0% payable May 1 and November 1. The governmental activities portion is 30% or \$1,758,000 of the total \$5,860,000 issue.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Business-Type Activities			
	2014 G.O. Refunding Bonds		State Infrastructure Loan	
	Principal	Interest	Principal	Interest
2015	\$ 154,000	\$ 128,030	\$ 117,504	\$ 48,266
2016	161,000	124,880	121,030	44,688
2017	164,500	120,803	124,660	41,002
2018	189,000	115,500	128,400	37,206
2019	192,500	109,778	132,252	33,298
2020	199,500	103,898	136,220	29,271
2021	206,500	97,808	140,306	25,122
2022	213,500	91,508	144,519	20,850
2023	220,500	84,998	148,851	16,449
2024	231,000	78,225	153,315	11,917
2025	231,000	71,295	157,916	7,248
2026	238,000	64,260	154,951	2,440
2027	248,500	56,963	-	-
2028	119,000	51,153	-	-
2029	122,500	46,926	-	-
2030	126,000	42,578	-	-
2031	129,500	38,106	-	-
2032	136,500	33,110	-	-
2033	140,000	27,580	-	-
2034	147,000	21,840	-	-
2035	150,500	15,890	-	-
2036	157,500	9,730	-	-
2037	164,500	3,290	-	-
	<u>\$ 4,042,500</u>	<u>\$ 1,538,145</u>	<u>\$ 1,659,924</u>	<u>\$ 317,757</u>

The 2014 general obligation refunding bonds were issued February 1, 2014, due in annual installments through 2037, bearing interest ranging from 2.0% to 4.0% payable May 1 and November 1. The business-type activities portion is 70% or \$4,102,000 of the total \$5,860,000 issue.

The State infrastructure bank loan was made in September 2011 through the Texas Department of Transportation. Annual installments are due through 2026, bearing interest at 3.0% payable February 1 and August 1.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

The annual requirements to amortize total government-wide debt issues outstanding at year ending were as follows:

Year ending September 30,	2014 G.O. Refunding Bonds		State Infrastructure Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 220,000	\$ 182,900	\$ 117,504	\$ 48,266	\$ 337,504	231,166
2016	230,000	178,400	121,030	44,688	351,030	223,088
2017	235,000	172,575	124,660	41,002	359,660	213,577
2018	270,000	165,000	128,400	37,206	398,400	202,206
2019	275,000	156,825	132,252	33,298	407,252	190,123
2020	285,000	148,425	136,220	29,271	421,220	177,696
2021	295,000	139,725	140,306	25,122	435,306	164,847
2022	305,000	130,725	144,519	20,850	449,519	151,575
2023	315,000	121,425	148,851	16,449	463,851	137,874
2024	330,000	111,750	153,315	11,917	483,315	123,667
2025	330,000	101,850	157,916	7,248	487,916	109,098
2026	340,000	91,800	154,951	2,440	494,951	94,240
2027	355,000	81,375	-	-	355,000	81,375
2028	170,000	73,075	-	-	170,000	73,075
2029	175,000	67,038	-	-	175,000	67,038
2030	180,000	60,825	-	-	180,000	60,825
2031	185,000	54,438	-	-	185,000	54,438
2032	195,000	47,300	-	-	195,000	47,300
2033	200,000	39,400	-	-	200,000	39,400
2034	210,000	31,200	-	-	210,000	31,200
2035	215,000	22,700	-	-	215,000	22,700
2036	225,000	13,900	-	-	225,000	13,900
2037	235,000	4,700	-	-	235,000	4,700
	<u>\$ 5,775,000</u>	<u>\$ 2,197,351</u>	<u>\$ 1,659,924</u>	<u>\$ 317,757</u>	<u>\$ 7,434,924</u>	<u>\$ 2,515,108</u>

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

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**Current Refunding Bond**

The City issued \$5,860,000 in bonds with interest rates ranging from 2.0-4.0%. The proceeds were used to refund \$365,000 of outstanding 2004 general obligation bonds, \$1,415,000 of outstanding 2006 general obligation bonds, and \$4,180,000 2006 revenue bonds. The net proceeds were used to refund the original bond holders. As a result, the liability for those bonds has been removed from the statement of net position. The result is a reduction in total debt service payments over 23 years of \$1,609,521 and to obtain an economic gain of \$851,653. The effect of the issuance is demonstrated below:

Year Ending Sep 30,	Original Issues		Current Refunding	
	Total		2014 G.O. Refunding Bond	
	Principal	Interest	Principal	Interest
2015	\$ 180,000	\$ 292,827	\$ 220,000	\$ 182,900
2016	190,000	284,336	230,000	178,400
2017	200,000	275,246	235,000	172,575
2018	235,000	265,565	270,000	165,000
2019	245,000	254,205	275,000	156,825
2020	260,000	242,330	285,000	148,425
2021	149,000	229,814	295,000	139,725
2022	285,000	216,702	305,000	130,725
2023	300,000	202,828	315,000	121,425
2024	320,000	187,967	330,000	111,750
2025	330,000	172,045	330,000	101,850
2026	345,000	155,669	340,000	91,800
2027	365,000	138,432	355,000	81,375
2028	190,000	120,160	170,000	73,075
2029	200,000	110,118	175,000	67,038
2030	210,000	99,560	180,000	60,825
2031	220,000	88,487	185,000	54,438
2032	235,000	76,771	195,000	47,300
2033	245,000	64,350	200,000	39,400
2034	260,000	51,220	210,000	31,200
2035	270,000	37,440	215,000	22,700
2036	285,000	23,010	225,000	13,900
2037	300,000	7,801	235,000	4,700
<b>Total</b>	<b>\$ 5,819,000</b>	<b>\$ 3,596,883</b>	<b>\$ 5,775,000</b>	<b>\$ 2,197,351</b>

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

The Magnolia 4A Economic Development Corporation's real estate lien note of \$230,764 is due in full January 2015. The annual requirements to amortize the Magnolia 4A Economic Development Corporation remaining debt issues outstanding at year ending were as follows:

Year ending September 30,	Magnolia 4A EDC Activities			
	2012 Revenue Bonds		Promissory Note	
	Principal	Interest	Principal	Interest
2015	\$ 200,000	\$ 102,425	\$ 61,132	\$ 19,766
2016	205,000	93,925	63,161	17,737
2017	215,000	85,213	65,017	15,881
2018	225,000	76,075	66,876	14,022
2019	235,000	66,513	443,814	11,919
2020	245,000	56,525	-	-
2021	255,000	46,113	-	-
2022	265,000	35,275	-	-
2023	275,000	24,013	-	-
2024	290,000	12,325	-	-
	<u>\$ 2,410,000</u>	<u>\$ 598,402</u>	<u>\$ 700,000</u>	<u>\$ 79,325</u>

**E. Interfund Transactions**

Transfers between the primary government funds during the 2014 year were as follows:

Transfer out	Transfer In	Amount
General	Debt Service	\$ 14,566
Water & Sewer	Debt Service	336,159
Water & Sewer	HB 445	181,981
	<b>Total</b>	<u>\$ 532,706</u>



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

The compositions of interfund balances as of year end were as follows:

<u>Funds</u>	<u>Due from</u>	<u>Due to</u>
General:		
HB 445	\$ 167,493	\$ -
Capital Projects	1,500	-
Debt Service	-	75,512
Water & Sewer	-	63,401
Debt Service:		
Water & Sewer	165,705	-
General	75,512	-
HB 445	-	89,597
Capital Projects	-	500
HB 445:		
Water & Sewer	83,533	-
Debt Service	89,597	-
General	-	167,493
Capital Projects:		
Debt Service	500	-
General	-	1,500
Water & Sewer:		
General	63,401	-
Debt Service	-	165,705
HB 445	-	83,533
	<u>\$ 647,241</u>	<u>\$ 647,241</u>

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

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**E. Restricted Net Position / Fund Balance**

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of restricted net position / fund balance of the City:

	<b>Governmental Activities</b>
Restricted for:	
Debt service	\$ 624,654
*Municipal court	65,259
*Tourism	69,846
Road improvement	1,228,071
<b>Total</b>	<b>\$ 1,987,830</b>

\*Restricted by enabling legislation

**V. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates 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 which exceeded coverage amounts for the past three years.

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 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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

**B. Contingent Liabilities**

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

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 are 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 collectability of any related receivable may be impaired. In the opinion of the City, 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 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.

**C. Commitments**

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.

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

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

Concessionaire agrees to pay the City 10% of the gross monthly receipts, with a minimum guarantee of \$100 per month.

**D. Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage 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 yield 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 at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

**E. Pension Plans**

**Texas Municipal Retirement Systems**

**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 the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	6.0%	6.0%
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	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

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 applicable period for that city. 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. The annual pension cost and net pension obligation/(asset) are as follows:

Three-Year Contribution Information

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Pension Cost (APC)	\$ -	\$ -	\$ 22,927
Actual Contributions Made	\$ -	\$ -	\$ 22,927
Percentage of APC Contributed	n/a	n/a	100%
Net Pension Obligation/Asset	-	-	-
<b>NPO at the End of Period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age - Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	0.0 years; closed period	0.0 years; closed period	25 years; closed period
Amortization Period for new Gains/Losses	25 years	24 years	22 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
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 Cost-of-Living Adjustments	3.00%	3.00%	3.00%
	0.0%	0.0%	0.0%

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Fiscal Year	<u>2014</u>
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 980,565
Actuarial Accrued Liability	\$ 880,723
Percentage Funded	111.3%
Annual Covered Payroll	\$ 1,127,307
Actuarial Accrued Asset	\$ 99,842
AAA % of Covered Payroll	8.9%

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

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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

Supplemental Death Benefits Plan

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

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

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 retiree contribution rates to the TMRS SDBF for the years ended 2014, 2013 and 2012 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.03%	0.03%	100.0%
2013	0.02%	0.02%	100.0%
2014	0.03%	0.03%	100.0%

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
September 30, 2014

**F. Restatement**

The City has restated beginning fund balance/net position within governmental activities, Business-type activities, general, and water/sewer/sanitation funds due for corrections of errors and changes in the reporting as listed below. The restatement of beginning net position/fund balance is as follows:

	<u>Governmental Activities</u>	<u>Debt Service</u>	<u>Non-major Red Light Camera</u>
Prior year ending net position			
fund balance as reported	\$ 2,195,551	\$ 7,906	\$ 271,850
Corrections of errors:			
Restatement for unrecorded liability	(67,719)	-	(67,719)
Restatement for deferred inflows	34,612	-	-
Restatement for fines receivable	58,811	-	-
Changes in reporting:			
Accrued interest	-	15,258	-
Restated beginning net position/fund balance	<u>\$ 2,221,255</u>	<u>\$ 23,164</u>	<u>\$ 204,131</u>

	<u>Business-Type Activities</u>	<u>Water</u>	<u>Sewer</u>	<u>Water &amp; Sewer</u>
Prior year ending net position				
as reported	\$ 3,682,648	\$ 3,391,791	\$ 290,857	\$ -
Corrections of errors:				
Restatement for bond issuance costs	(200,222)	(200,222)	-	-
Combining of funds for accurate reporting				
of capital assets	-	(3,191,569)	(290,857)	3,482,426
Restated beginning net position	<u>\$ 3,482,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,482,426</u>

**G. Subsequent Events**

Subsequent to the year end, the City issued certificates of obligation in the amount of \$4,960,000 for planned infrastructure improvements. No other events occurred prior to February 25, 2015, the date the financial statements were issued.



*REQUIRED SUPPLEMENTARY INFORMATION*

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**City of Magnolia, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended September 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Property tax	\$ 420,150	\$ 420,150	\$ 354,230	\$ (65,920)
Sales tax	1,000,000	1,000,000	1,198,665	198,665
Franchise tax	163,000	163,000	207,669	44,669
Hotel occupancy tax	35,000	35,000	47,730	12,730
Licenses and permits	76,300	76,300	256,814	180,514
Fines and forfeitures	258,160	258,160	361,154	102,994
Intergovernmental	83,400	83,400	39,774	(43,626)
Other	8,200	8,200	21,071	12,871
<b>Total Revenues</b>	<b>2,044,210</b>	<b>2,044,210</b>	<b>2,487,107</b>	<b>442,897</b>
<b><u>Expenditures</u></b>				
Current:				
General government	640,988	640,988	783,408	(142,420) *
Public safety	961,734	961,734	934,063	27,671
Municipal court	166,447	166,447	174,302	(7,855) *
Parks and recreation	26,500	26,500	9,930	16,570
Public works	208,387	208,387	238,360	(29,973) *
Tourism	35,000	35,000	40,728	(5,728) *
<b>Total Expenditures</b>	<b>2,039,056</b>	<b>2,039,056</b>	<b>2,180,791</b>	<b>(141,735)</b>
<b>Revenues Over (Under)</b>	<b>5,154</b>	<b>5,154</b>	<b>306,316</b>	<b>301,162</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in (out)	-	-	(14,566)	(14,566) *
<b>Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(14,566)</b>	<b>(14,566)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 5,154</b>	<b>\$ 5,154</b>	<b>291,750</b>	<b>\$ 286,596</b>
Beginning fund balance			89,294	
<b>Ending Fund Balance</b>			<b>\$ 381,044</b>	

Notes to Required Supplementary Information

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

\*2. Expenditures exceeded appropriations at the legal level of control.

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# City of Magnolia, Texas

## SCHEDULE OF FUNDING PROGRESS- TEXAS MUNICIPAL RETIREMENT SYSTEM

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

Actuarial Valuation Date	12/31/2013	12/31/2013	12/31/2012	12/31/2011
Actuarial Value of Assets	\$ 980,565 (a)	\$ 980,565 (b)	\$ 887,989 (b)	\$ 808,877
Actuarial Accrued Liability	\$ 880,723	\$ 935,807	\$ 856,820	\$ 783,614
Percentage Funded	111.3%	104.8%	103.6%	103.2%
Unfunded Actuarial				
Accrued Liability (Asset)	\$ (99,842)	\$ (44,758)	\$ (31,169)	\$ (25,263)
Annual Covered Payroll	\$ 1,127,307	\$ 1,008,145	\$ 955,295	\$ 955,295
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	-8.9%	-4.4%	-3.3%	-2.6%
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ -	\$ -	\$ -	\$ 22,927
Contributions Made	\$ -	\$ -	\$ -	\$ 22,927
NPO at the End of Period	\$ -	\$ -	\$ -	\$ -

(a) Actuarial valuation performed under the new fund structure

(b) Actuarial valuation performed under the old fund structure

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## *OTHER SUPPLEMENTARY INFORMATION*

**City of Magnolia, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**For the Year Ended September 30, 2014**

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Property tax	\$ 168,912	\$ 333,567	\$ 164,655
Intergovernmental	-	165,705	165,705
Investment income	15	2,758	2,743
<b>Total Revenues</b>	<b>168,927</b>	<b>502,030</b>	<b>333,103</b>
<b><u>Expenditures</u></b>			
Debt Service:			
Principal	194,197	90,500	103,697
Interest and fiscal charges	140,419	92,659	47,760
Bond issuance costs	-	88,244	(88,244)
<b>Total Expenditures</b>	<b>334,616</b>	<b>271,403</b>	<b>63,213</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(165,689)</b>	<b>230,627</b>	<b>396,316</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in (out)	165,705	350,725	185,020
Proceeds from bond issuance	-	1,750,134	1,750,134
Premium on bonds issued	-	115,230	115,230
Payment to refunded bond escrow agent	-	(1,845,226)	(1,845,226)
<b>Total Other Financing Sources (Uses)</b>	<b>165,705</b>	<b>370,863</b>	<b>205,158</b>
<b>Net Change in Fund Balance</b>	<b>\$ 16</b>	<b>601,490</b>	<b>\$ 601,474</b>
Beginning fund balance		23,164	
<b>Ending Fund Balance</b>		<b>\$ 624,654</b>	

Notes to Required Supplementary Information

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



**City of Magnolia, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**HB 445 FUND**  
**For the Year Ended September 30, 2014**

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Sales tax	\$ 225,000	\$ 299,929	\$ 74,929
Investment income	2,000	710	(1,290)
<b>Total Revenues</b>	<b>227,000</b>	<b>300,639</b>	<b>73,639</b>
<b><u>Expenditures</u></b>			
Current:			
Public works	225,000	4,952	220,048
<b>Total Expenditures</b>	<b>225,000</b>	<b>4,952</b>	<b>220,048</b>
<b>Revenues Over (Under) Expenditures</b>	<b>2,000</b>	<b>295,687</b>	<b>293,687</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in (out)	-	181,981	181,981
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>181,981</b>	<b>181,981</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,000</b>	<b>477,668</b>	<b>\$ 475,668</b>
Beginning fund balance		750,403	
<b>Ending Fund Balance</b>		<b>\$ 1,228,071</b>	

Notes to Required Supplementary Information

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

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