

ANNUAL FINANCIAL REPORT

of the

City of Magnolia, Texas

**For the Year Ended
September 30, 2015**

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CITY OF MAGNOLIA, TEXAS

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September 30, 2015

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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, 2015, 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, 2015, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note V.F., to the financial statements, during 2015, the City adopted new accounting guidance Governmental Accounting Standard Board "GASB" Statement No. 68, entitled Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to this matter.

Correction of an Error

As disclosed in Note V.F., in the year ending September 30, 2015, the City restated its net position and fund balances as of September 30, 2014 to correct an error. Our opinion is not modified with respect to this matter.

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 budget comparison schedules described in the preceding paragraph are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
June 10, 2016

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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, 2015

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, 2015. 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 \$7,617,576 at September 30, 2015. Of this, \$4,957,310 (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 \$5,709,282, an increase of \$3,803,129.
- As of the end of the year, the unassigned fund balance of the general fund was \$351,083 or 15% of total general fund expenditures.
- The City had an overall increase in net position of \$815,813, 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, 2015

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, 2015

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, 2015

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 \$7,617,576 as of September 30, 2015, in the primary government.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2015			2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 5,950,377	\$ 5,536,102	\$ 11,486,479	\$ 2,642,091	\$ 3,471,212	\$ 6,113,303
Capital assets, net	4,140,477	5,596,123	9,736,600	2,869,938	5,844,974	8,714,912
Net pension asset	122,721	18,398	141,119	137,597	20,631	158,228
Total Assets	<u>10,213,575</u>	<u>11,150,623</u>	<u>21,364,198</u>	<u>5,649,626</u>	<u>9,336,817</u>	<u>14,986,443</u>
Total Deferred Outflows	<u>62,092</u>	<u>123,811</u>	<u>185,903</u>	<u>48,966</u>	<u>133,551</u>	<u>182,517</u>
Other liabilities	550,731	1,187,597	1,738,328	321,246	534,835	856,081
Long-term liabilities	6,849,351	5,344,846	12,194,197	2,270,570	5,240,546	7,511,116
Total Liabilities	<u>7,400,082</u>	<u>6,532,443</u>	<u>13,932,525</u>	<u>2,591,816</u>	<u>5,775,381</u>	<u>8,367,197</u>
Net Position:						
Net investment						
in capital assets	957,030	90,729	1,047,759	1,107,549	71,562	1,179,111
Restricted	1,594,109	18,398	1,612,507	1,729,696	20,631	1,750,327
Unrestricted	324,446	4,632,864	4,957,310	269,531	3,602,794	3,872,325
Total Net Position	<u>\$ 2,875,585</u>	<u>\$ 4,741,991</u>	<u>\$ 7,617,576</u>	<u>\$ 3,106,776</u>	<u>\$ 3,694,987</u>	<u>\$ 6,801,763</u>

City of Magnolia, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2015

Statement of Activities:

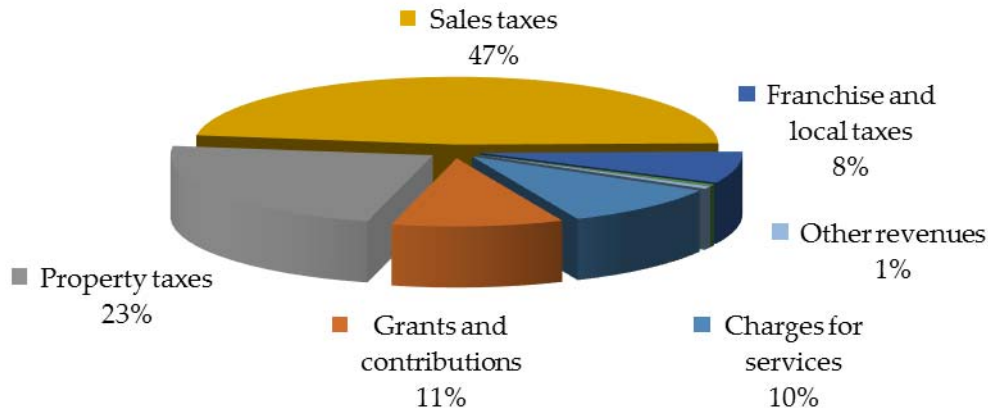
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities	Primary Government	Activities	Activities	Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 334,583	\$ 2,044,984	\$ 2,379,567	\$ 253,209	\$ 1,814,472	\$ 2,067,681
Grants & cont.	350,477	-	350,477	854,082	-	854,082
General revenues:						
Property taxes	769,316	-	769,316	689,951	-	689,951
Sales taxes	1,574,539	-	1,574,539	1,498,594	-	1,498,594
Franch. & local taxes	249,805	-	249,805	207,669	-	207,669
Investment income	15,559	779	16,338	3,663	6,752	10,415
Other revenues	21,399	-	21,399	21,071	-	21,071
Total Revenues	3,315,678	2,045,763	5,361,441	3,528,239	1,821,224	5,349,463
Expenses						
General government	784,286	-	784,286	853,073	-	853,073
Public safety	1,370,400	-	1,370,400	1,509,408	-	1,509,408
Transportation	789,484	-	789,484	346,210	-	346,210
Culture & recreation	6,335	-	6,335	9,930	-	9,930
Interest	408,796	179,663	588,459	184,103	378,469	562,572
Water/sewer/san.	-	1,006,664	1,006,664	-	1,128,416	1,128,416
Total Expenses	3,359,301	1,186,327	4,545,628	2,902,724	1,506,885	4,409,609
Change in Net Position						
Before Transfers	(43,623)	859,436	815,813	625,515	314,339	939,854
Transfers	(187,568)	187,568	-	518,140	(518,140)	-
Total	(187,568)	187,568	-	518,140	(518,140)	-
Change in Net Position	(231,191)	1,047,004	815,813	1,143,655	(203,801)	939,854
Beginning Net Position	3,106,776	3,694,987	6,801,763	1,963,121	3,898,788	5,861,909
Ending Net Position	\$ 2,875,585	\$ 4,741,991	\$ 7,617,576	\$ 3,106,776	\$ 3,694,987	\$ 6,801,763

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

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

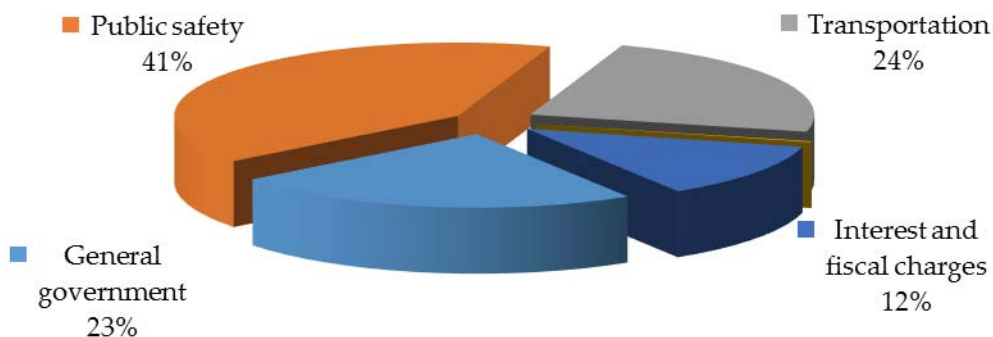
Governmental Activities - Revenues



For the year ended September 30, 2015, revenues from governmental activities totaled \$3,315,678. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased \$79,365 or 10% due to an increase in property values. Sales tax and revenue increase by \$75,945 or 5% due to increase retail sales within the City, and franchise tax revenue increased by \$42,136 or 17% due to growth and development in within the City. There was a decrease of \$503,605 or 144% in grants and contributions due to non-recurring grants. 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



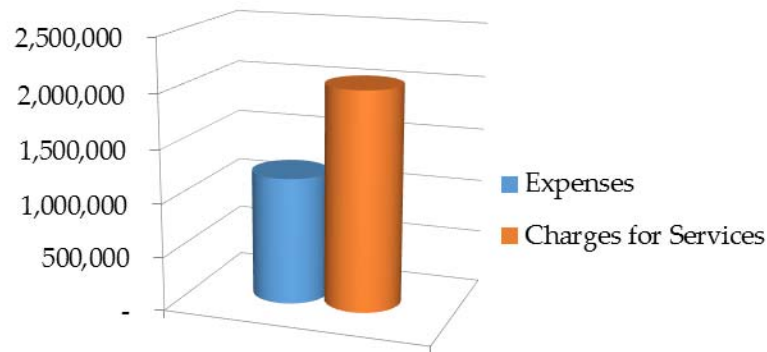
For the year ended September 30, 2015, expenses for governmental activities totaled \$3,359,301. This represents an increase of \$456,577 or 10% from the prior year. The City's largest functional expense is public safety of \$1,370,400 which is primarily the city's police department and municipal court. Public safety decreased by \$139,008 or 10% primarily due to a reduction in personnel costs and depreciation. Transportation expenses increased by \$443,274 or 56% primarily due to additional road repair and

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

maintenance costs. In addition, interest and fiscal charges increased by \$224,693 or 38% in accordance with debt amortization. All other expenditures remained relatively consistent with the previous year.

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, 2015, charges for services by business-type activities totaled \$2,044,984. This is an increase of \$230,512, or 13%, from the previous year.

Total expenses decreased \$320,558 due primarily to nonrecurring debt issuance costs incurred during the previous 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 \$500,150. Of this, \$63,154 is restricted for municipal court and \$85,913 is restricted for tourism. Unassigned fund balance totaled \$351,083 as of year end.

There was an increase in the general fund balance of \$196,205 over the prior year. The increase was related to lower than budgeted expenses than planned.

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2015

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 \$4,741,991. This represents an increase of \$1,047,004, mostly related to a reduction of bond issuance costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$89,242 in the general fund. Planned revenue had a negative variance of \$19,832. Planned expenditures were \$113,074 under budget. Property tax, sales tax, franchise tax, and hotel occupancy tax received more revenue than anticipated. Other revenues were less than budgeted. All expenditures were less than budgeted.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$4,140,477 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 \$5,596,123 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 four new police vehicles totaling \$51,500
- The addition of wastewater treatment plant and waterline construction of \$1,356,599

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, certificates of obligations, and loans outstanding of \$12,057,187. There was a net increase in long-term debt of \$4,859,951 during the year primarily due to a new certificate of obligation borrowing for \$4,960,000. 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, 2015

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 (Page 1 of 2)
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 6,441,860	\$ 4,449,686	\$ 10,891,546
Investments	110,609	-	110,609
Receivables, net	305,147	179,177	484,324
Internal balances	(907,239)	907,239	-
Total Current Assets	5,950,377	5,536,102	11,486,479
Capital assets:			
Non-depreciable	1,501,472	187,905	1,689,377
Net depreciable capital assets	2,639,005	5,408,218	8,047,223
Net pension asset	122,721	18,398	141,119
Total Noncurrent Assets	4,263,198	5,614,521	9,877,719
Total Assets	10,213,575	11,150,623	21,364,198
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	41,100	120,664	161,764
Deferred outflows - pension contributions	8,911	1,336	10,247
Deferred outflows - investment experience	2,839	426	3,265
Deferred outflows - actual vs. assumption	9,242	1,385	10,627
Total Deferred Outflows of Resources	\$ 62,092	\$ 123,811	\$ 185,903

Component Units	
4A Economic Development	4B Community Development
\$ 729,911	\$ 231,237
-	-
97,654	48,827
-	-
827,565	280,064
1,003,044	172,305
3,393,103	117,750
-	-
4,396,147	290,055
5,223,712	570,119
-	-
-	-
-	-
-	-
\$ -	\$ -

City of Magnolia, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 205,615	\$ 664,959	\$ 870,574
Customer deposits	-	136,236	136,236
Accrued interest payable	85,807	97,011	182,818
Long term debt due within one year	259,309	289,391	548,700
	<u>550,731</u>	<u>1,187,597</u>	<u>1,738,328</u>
Noncurrent liabilities:			
Due in more than one year	6,849,351	5,344,846	12,194,197
Total Liabilities	<u>7,400,082</u>	<u>6,532,443</u>	<u>13,932,525</u>
<u>Net Position</u>			
Net investment in capital assets	957,030	90,729	1,047,759
Restricted for:			
Debt service	233,133	-	233,133
Municipal court	63,154	-	63,154
Tourism	85,913	-	85,913
Road improvement	1,089,188	-	1,089,188
Economic development	-	-	-
Community development	-	-	-
Pensions	122,721	18,398	141,119
Capital projects	-	-	-
Unrestricted	324,446	4,632,864	4,957,310
Total Net Position	<u>\$ 2,875,585</u>	<u>\$ 4,741,991</u>	<u>\$ 7,617,576</u>

See Notes to Financial Statements.

Component Units	
4A Economic Development	4B Community Development
\$ 3,094	\$ 5,095
-	-
9,722	-
268,161	-
<u>280,977</u>	<u>5,095</u>
2,579,881	-
<u>2,860,858</u>	<u>5,095</u>
2,454,307	290,055
-	-
-	-
-	-
-	-
(91,453)	-
-	274,969
-	-
-	-
-	-
<u>\$ 2,362,854</u>	<u>\$ 565,024</u>

City of Magnolia, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 784,286	\$ 46,759	\$ 136,415
Public safety	1,370,400	287,824	214,062
Transportation	789,484	-	-
Culture and recreation	6,335	-	-
Interest and fiscal charges	408,796	-	-
Total Governmental Activities	3,359,301	334,583	350,477
Business-Type Activities			
Water, Sewer, & Sanitation	1,186,327	2,044,984	-
Total Business-Type Activities	1,186,327	2,044,984	-
Total Primary Government	\$ 4,545,628	\$ 2,379,567	\$ 350,477
Component Units			
4A Economic Development	338,415	-	3,000
4B Community Development	276,799	-	-
Total Component Units	\$ 615,214	\$ -	\$ 3,000

General Revenues:

Taxes
 Property taxes
 Sales taxes
 Franchise and local taxes
 Investment income
 Other revenues
 Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

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
\$ (601,112)	\$ -	\$ (601,112)	\$ -	\$ -
(868,514)	-	(868,514)	-	-
(789,484)	-	(789,484)	-	-
(6,335)	-	(6,335)	-	-
(408,796)	-	(408,796)	-	-
(2,674,241)	-	(2,674,241)	-	-
-	858,657	858,657	-	-
-	858,657	858,657	-	-
(2,674,241)	858,657	(1,815,584)	-	-
			(335,415)	-
			-	(276,799)
			(335,415)	(276,799)
769,316	-	769,316	-	-
1,574,539	-	1,574,539	632,871	316,435
249,805	-	249,805	-	-
15,559	779	16,338	782	162
21,399	-	21,399	1,338	20,345
(187,568)	187,568	-	-	-
2,443,050	188,347	2,631,397	634,991	336,942
(231,191)	1,047,004	815,813	299,576	60,143
3,106,776	3,694,987	6,801,763	2,063,278	504,881
\$ 2,875,585	\$ 4,741,991	\$ 7,617,576	\$ 2,362,854	\$ 565,024

City of Magnolia, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2015

	General	Debt Service	HB 445	Capital Projects
<u>Assets</u>				
Cash and cash equivalents	\$ 404,885	\$ 301,715	\$ 777,637	\$ 4,681,353
Investments	-	21,015	89,594	-
Receivables, net	244,559	11,761	48,827	-
Due from other funds	-	-	173,130	-
Total Assets	\$ 649,444	\$ 334,491	\$ 1,089,188	\$ 4,681,353
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 125,575	\$ -	\$ -	\$ -
Due to other funds	-	89,597	-	990,772
Total Liabilities	125,575	89,597	-	990,772
<u>Deferred Inflows of Resources</u>				
Unavailable revenue				
Property taxes	23,719	11,761	-	-
Total Deferred Inflows of Resources	23,719	11,761	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	233,133	-	-
Municipal court	63,154	-	-	-
Tourism	85,913	-	-	-
Road improvement	-	-	1,089,188	-
Capital projects	-	-	-	3,690,581
Unassigned reported in:				
General fund	351,083	-	-	-
Total Fund Balances	500,150	233,133	1,089,188	3,690,581
Total Liabilities and Fund Balances	\$ 625,725	\$ 322,730	\$ 1,089,188	\$ 4,681,353

See Notes to Financial Statements.

Nonmajor Red Light Camera	Total Governmental Funds
\$ 276,270	\$ 6,441,860
-	110,609
-	305,147
-	173,130
<u>\$ 276,270</u>	<u>\$ 7,030,746</u>

\$ 80,040	\$ 205,615
-	1,080,369
<u>80,040</u>	<u>1,285,984</u>

-	35,480
-	35,480

-	233,133
-	63,154
-	85,913
-	1,089,188
-	3,690,581
196,230	547,313
<u>196,230</u>	<u>5,709,282</u>
<u>\$ 276,270</u>	<u>\$ 6,995,266</u>

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City of Magnolia, Texas

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

September 30, 2015

Fund Balances - Total Governmental Funds	\$ 5,709,282
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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	1,501,472
Capital assets - net depreciable	2,639,005

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

Property tax receivable	35,480
Net pension asset	122,721

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

Deferred charge on refunding	41,100
Pension contributions	8,911
Pension investment earnings	2,839
Pension (gains) losses	9,242

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

Accrued interest	(85,807)
Bond premium	(371,774)
Non-current liabilities due in one year	(259,309)
Non-current liabilities due in more than one year	(6,477,577)

Net Position of Governmental Activities	\$ 2,875,585
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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, 2015

	General	Debt Service	HB 445	Capital Projects
<u>Revenues</u>				
Property tax	\$ 408,638	\$ 360,678	\$ -	\$ -
Sales tax	1,264,471	-	316,435	-
Franchise tax	249,805	-	-	-
Hotel occupancy tax	46,759	-	-	-
Licenses and permits	214,062	-	-	-
Fines and forfeitures	229,315	-	-	-
Intergovernmental	41,568	-	-	-
Investment income	-	83	776	14,551
Other	21,399	-	-	-
Total Revenues	2,476,017	360,761	317,211	14,551
<u>Expenditures</u>				
Current:				
General government	742,006	-	-	-
Public safety	1,078,431	-	-	-
Municipal court	160,642	-	-	-
Parks and recreation	6,808	-	-	-
Public works	233,733	-	456,095	-
Tourism	30,692	-	-	-
Debt Service:				
Principal	-	66,000	-	-
Interest and fiscal charges	-	54,870	-	63,541
Bond issuance costs	-	-	-	223,628
Capital Outlay	23,500	-	-	1,356,599
Total Expenditures	2,275,812	120,870	456,095	1,643,768
Excess of Revenues Over Expenditures	200,205	239,891	(138,884)	(1,629,217)
<u>Other Financing (Uses)</u>				
Transfers in (out)	(4,000)	(235,681)	-	52,113
Proceeds from bond issuance	-	-	-	4,960,000
Premium on bonds issued	-	-	-	288,628
Total Other Financing (Uses)	(4,000)	(235,681)	-	5,300,741
Net Change in Fund Balances	196,205	4,210	(138,884)	3,671,524
Beginning fund balances	303,945	228,923	1,228,072	19,057
Ending Fund Balances	\$ 500,150	\$ 233,133	\$ 1,089,188	\$ 3,690,581

See Notes to Financial Statements.

Nonmajor Red Light Camera	Total Governmental Funds
\$ -	\$ 769,316
	1,580,906
-	249,805
-	46,759
-	214,062
-	229,315
246,256	287,824
149	15,559
-	21,399
246,405	3,414,945
-	742,006
-	1,078,431
176,331	336,973
-	6,808
-	689,828
-	30,692
-	66,000
-	118,411
-	223,628
	1,380,099
176,331	4,672,876
70,074	(1,257,931)
-	(187,568)
-	4,960,000
-	288,628
-	5,061,060
70,074	3,803,129
126,156	1,906,153
\$ 196,230	\$ 5,709,282

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City of Magnolia, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

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

Net changes in fund balances - total governmental funds	\$	3,803,129
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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		1,437,398
Depreciation expense		(166,859)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(99,267)
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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		37,677
Accrued interest		(62,870)
Pension expense		6,116

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 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.

Amortization of deferred charges on refunding		(7,866)
Issuance and amortization of premium		(284,649)
Principal payments		66,000
Issuance of long-term debt		(4,960,000)

Change in Net Position of Governmental Activities	\$	(231,191)
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See Notes to Financial Statements.

City of Magnolia, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2015

	Water & Sewer Fund
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 4,449,686
Receivables, net	179,177
Due from other funds	990,772
Total Current Assets	5,619,635
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	187,905
Net depreciable capital assets	5,408,218
Net pension asset	18,398
Total Noncurrent Assets	5,614,521
Total Assets	11,234,156
<u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	120,664
Deferred outflows - pension contributions	1,336
Deferred outflows - investment experience	426
Deferred outflows - actual pension exp vs. assumption	1,385
Total Deferred Outflows of Resources	123,811
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	664,959
Customer deposits	136,236
Due to other funds	83,533
Accrued interest	97,011
Long term debt due within one year	289,391
Total Current Liabilities	1,271,130
<u>Noncurrent Liabilities</u>	
Due in more than one year	5,344,846
Total Liabilities	6,615,976
<u>Net Position</u>	
Net investment in capital assets	71,562
Restricted for pensions	18,398
Unrestricted	4,652,031
Total Net Position	\$ 4,741,991

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, 2015

	<u>Water & Sewer Fund</u>
<u>Operating Revenues</u>	
Water sales	\$ 944,843
Sewer revenue	469,663
Garbage collection	128,826
Impact fees	336,000
Intergovernmental	165,652
Total Operating Revenues	<u>2,044,984</u>
<u>Operating Expenses</u>	
Cost of water	320,607
Cost of sewer	353,797
Cost of garbage	83,409
Depreciation	248,851
Total Operating Expenses	<u>1,006,664</u>
Operating Income	<u>1,038,320</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	779
Interest expense	(179,663)
Total Nonoperating Revenues (Expenses)	<u>(178,884)</u>
Income Before Transfers	859,436
Transfers in (out)	<u>187,568</u>
Change in Net Position	1,047,004
Beginning net position	<u>3,694,987</u>
Ending Net Position	<u><u>\$ 4,741,991</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, 2015

	Water & Sewer Fund
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 967,463
Payments to suppliers and employees	(138,827)
Net Cash Provided by Operating Activities	828,636
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating transfers in (out)	187,568
Net Cash Provided (Used) by Noncapital Financing Activities	187,568
<u>Cash Flows from (to) Capital and Related Financing Activities</u>	
Principal paid on debt	(271,737)
Interest paid on debt	(153,611)
Net Cash (Used) by Capital and Related Financing Activities	(425,348)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	781
Net Cash Provided by Investing Activities	781
Net increase in Cash and Cash Equivalents	591,637
Beginning cash and cash equivalents	3,858,049
Ending Cash and Cash Equivalents	\$ 4,449,686

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, 2015

	<u>Water, Sewer & Sanitation</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 1,038,320
Adjustments to reconcile operating income to net cash provided:	
Depreciation	248,851
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(85,828)
Due from other funds	(991,693)
Deferred charge on refunding	12,887
Deferred outflows - pension contributions	(1,336)
Deferred outflows - investment experience	(1,385)
Deferred outflows - actual pension exp vs. assumption	(426)
Net pension asset	2,230
Increase (Decrease) in:	
Accounts payable and accrued liabilities	584,269
Customer deposits	22,631
Compensated absences	116
Net Cash Provided by Operating Activities	<u><u>\$ 828,636</u></u>

See Notes to Financial Statements.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

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, 2015

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, 2015

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 and grants

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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, 2015

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. The HB 455 fund is considered to be a major fund, and the Red Light Camera fund is considered to be a nonmajor fund.

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, 2015

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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

Asset Description	Estimated Useful Life
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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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 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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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.

12. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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 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:

HB 445 Fund:	
Public works	\$168,595

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 100,051	0.04
Treasury notes	10,558	3.38
Total fair value	<u>\$ 110,609</u>	
Portfolio weighted average maturity		0.36

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.

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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, 2015, 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.

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	\$ 11,761	\$ -	\$ -	\$ 30,398
Sales tax	195,308	-	48,827	-	244,135
Fines	235,221	-	-	-	235,221
Franchise tax	18,510	-	-	-	18,510
Accounts	-	-	-	287,530	287,530
Other	1,939	-	-	-	1,939
Allowance	(225,056)	-	-	(108,353)	(333,409)
	<u>\$ 244,559</u>	<u>\$ 11,761</u>	<u>\$ 48,827</u>	<u>\$ 179,177</u>	<u>\$ 484,324</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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
Construction in progress	-	1,356,599	-	1,356,599
Total capital assets not being depreciated	<u>144,873</u>	<u>1,356,599</u>	<u>-</u>	<u>1,501,472</u>
Capital assets, being depreciated:				
Buildings and improvements	679,865	23,500	-	703,365
Vehicles and equipment	731,353	51,500	-	782,853
Infrastructure	4,985,957	5,799	-	4,991,756
Total capital assets being depreciated	<u>6,397,175</u>	<u>80,799</u>	<u>-</u>	<u>6,477,974</u>
Less accumulated depreciation				
Buildings and improvements	(156,320)	(20,445)	-	(176,765)
Vehicles and equipment	(563,273)	(32,459)	-	(595,732)
Infrastructure	(2,952,517)	(113,955)	-	(3,066,472)
Total accumulated depreciation	<u>(3,672,110)</u>	<u>(166,859)</u>	<u>-</u>	<u>(3,838,969)</u>
Net capital assets being depreciated	<u>2,725,065</u>	<u>(86,060)</u>	<u>-</u>	<u>2,639,005</u>
Total Capital Assets	<u><u>\$ 2,869,938</u></u>	<u><u>\$ 1,270,539</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,140,477</u></u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Depreciation was charged to governmental functions as follows:

General government	\$ 8,594
Public safety	43,202
Public works	115,063
Total Governmental Activities Depreciation Expense	\$ 166,859

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	187,905	-	-	187,905
Capital assets, being depreciated:				
Water and sewer system	8,302,835	-	-	8,302,835
Vehicles and equipment	168,913	-	-	168,913
Total capital assets being depreciated	8,471,748	-	-	8,471,748
Less accumulated depreciation				
Water and sewer system	(2,681,241)	(246,317)	-	(2,927,558)
Vehicles and equipment	(133,438)	(2,534)	-	(135,972)
Total accumulated depreciation	(2,814,679)	(248,851)	-	(3,063,530)
Net capital assets being depreciated	5,657,069	(248,851)	-	5,408,218
Total Capital Assets	\$ 5,844,974	\$ (248,851)	\$ -	\$ 5,596,123

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 990,417	\$ 12,627	\$ -	\$ 1,003,044
Total capital assets not being depreciated	990,417	-	-	1,003,044
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	4,567,016	-	-	4,567,016
Less accumulated depreciation				
Buildings and improvements	(230,738)	(17,866)	-	(248,604)
Unity Park & Downtown	(284,957)	(90,711)	-	(375,668)
Pavement improvements	(486,295)	(56,196)	-	(542,491)
Equipment	(7,150)	-	-	(7,150)
Total accumulated depreciation	(1,009,140)	(164,773)	-	(1,173,913)
Net capital assets being depreciated	3,557,876	(164,773)	-	3,393,103
Total Capital Assets	\$ 4,548,293	\$ (164,773)	\$ -	\$ 4,396,147

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 172,305	\$ -	\$ -	\$ 172,305
Total capital assets not being depreciated	172,305	-	-	172,305
Capital assets, being depreciated:				
Buildings	139,710	-	-	139,710
Equipment	8,832	-	-	8,832
Total capital assets being depreciated	148,542	-	-	148,542
Less accumulated depreciation				
Buildings and improvements	(21,670)	(5,589)	-	(27,259)
Equipment	(2,650)	(883)	-	(3,533)
Total accumulated depreciation	(24,320)	(6,472)	-	(30,792)
Net capital assets being depreciated	124,222	(6,472)	-	117,750
Total Capital Assets	\$ 296,527	\$ (6,472)	\$ -	\$ 290,055

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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
Governmental Activities:					
Cert. of obligation - Series 2014	\$ -	\$ 4,960,000	\$ -	\$ 4,960,000	\$ 105,000
General obligation refunding - 2014	1,732,500	-	(66,000)	1,666,500	66,000
Premium	87,125	288,628	(3,979)	371,774	-
Other liabilities:					
Compensated absences	148,063	118,450	(156,127)	110,386	88,309
Total Governmental Activities	\$ 1,967,688	\$ 5,367,078	\$ (226,106)	\$ 7,108,660	\$ 259,309
Long-term liabilities due in more than one year				\$ 6,849,351	
Business-Type Activities:					
General obligation refunding - 2014	\$ 4,042,500	\$ -	\$ (154,000)	\$ 3,888,500	\$ 161,000
Premium	204,656	-	(9,284)	195,372	-
State infrastructure loan	1,660,040	-	(117,737)	1,542,303	121,030
Other liabilities:					
Compensated absences	8,062	8,062	(8,062)	8,062	7,361
Total Business-Type Activities	\$ 5,915,258	\$ 8,062	\$ (289,083)	\$ 5,634,237	\$ 289,391
Long-term liabilities due in more than one year				\$ 5,344,846	
Magnolia 4A Economic Development Corporation					
Revenue & refunding bonds - 2012	\$ 2,410,000	\$ -	\$ (200,000)	\$ 2,210,000	\$ 205,000
Promissory note	700,000	-	(61,958)	638,042	63,161
Real estate lien note	230,764	-	(230,764)	-	-
Total Economic Development Activities	\$ 3,340,764	\$ -	\$ (492,722)	\$ 2,848,042	\$ 268,161
Long-term liabilities due in more than one year				\$ 2,579,881	

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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2014 Certificates of obligation	2.00 - 4.00%	\$ 4,960,000	\$ 4,960,000
2014 General obligation refunding bonds (30%)	2.00 - 4.00%	\$ 1,758,000	\$ 1,666,500
Total Governmental Activities		\$ 6,718,000	\$ 6,626,500
Business-type Activities:			
2014 General obligation refunding bonds (70%)	2.00 - 4.00%	\$ 4,102,000	\$ 3,888,500
State infrastructure loan	3.00%	2,000,000	1,542,187
Total Business-Type Activities		\$ 6,102,000	\$ 5,430,687
Total Long-Term Debt			
2014 Certificates of obligation	2.00 - 4.00%	\$ 4,960,000	\$ 4,960,000
2014 General obligation refunding bonds	2.00 - 4.00%	5,860,000	5,555,000
State infrastructure loan	3.00%	2,000,000	1,542,187
Total		\$ 12,820,000	\$ 12,057,187

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

Year ending September 30,	Governmental Activities			
	2014 Certificates of Obligation		2014 G.O. Refunding Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 105,000	\$ 188,675	\$ 66,000	\$ 53,520
2017	105,000	187,100	70,500	51,773
2018	110,000	183,951	81,000	49,500
2019	110,000	180,725	82,500	47,048
2020	115,000	177,425	85,500	44,528
2021	115,000	174,050	88,500	41,918
2022	120,000	170,600	91,500	39,218
2023	125,000	167,075	94,500	36,428
2024	130,000	163,088	99,000	33,525
2025	130,000	158,625	99,000	30,555
2026	135,000	154,075	102,000	27,540
2027	145,000	149,100	106,500	24,413
2028	150,000	143,500	51,000	21,923
2029	155,000	137,600	52,500	20,111
2030	160,000	131,500	54,000	18,248
2031	165,000	125,200	55,500	16,331
2032	175,000	118,700	58,500	14,190
2033	180,000	111,900	60,000	11,820
2034	185,000	104,800	63,000	9,360
2035	195,000	97,500	64,500	6,810
2036	200,000	89,900	67,500	4,170
2037	210,000	82,000	73,500	1,410
2038	220,000	73,800	-	-
2039	230,000	65,200	-	-
2040	240,000	56,200	-	-
2041	245,000	46,800	-	-
2042	255,000	37,100	-	-
2043	270,000	27,100	-	-
2044	280,000	16,600	-	-
2045	-	5,600	-	-
	<u>\$ 4,960,000</u>	<u>\$ 3,525,488</u>	<u>\$ 1,666,500</u>	<u>\$ 604,335</u>

The 2014 certificates of obligation were issued December 9, 2014, due in annual installments through 2045, bearing interest ranging from 2.0% to 4.0% payable May 1 and November 1.

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, 2015

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
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	154,834	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>\$ 3,888,500</u>	<u>\$ 1,410,115</u>	<u>\$ 1,542,303</u>	<u>\$ 269,491</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, 2015

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.

The annual requirements to amortize the Magnolia 4A Economic Development Corporation debt issues outstanding at year ending are as follows:

Year ending September 30,	Magnolia 4A EDC Activities			
	2012 Revenue Bonds		Promissory Note	
	Principal	Interest	Principal	Interest
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	442,988	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>\$ 2,210,000</u>	<u>\$ 495,977</u>	<u>\$ 638,042</u>	<u>\$ 59,559</u>

E. Interfund Transactions

Transfers between the primary government funds during the 2015 year were as follows:

Transfer out	Transfer In	Amount
General	Water & Sewer	\$ 4,000
Debt Service	Water & Sewer	235,681
Water & Sewer	Capital Projects Fund	52,113
	Total	<u>\$ 239,681</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

<u>Funds</u>	<u>Due from</u>	<u>Due to</u>
Debt Service:		
HB 445	-	89,597
HB 445:		
Water & Sewer	83,533	-
Debt Service	89,597	-
Capital Projects:		
Water & Sewer	-	990,772
Water & Sewer:		
Capital Projects	990,772	-
HB 445	-	83,533
	<u>\$ 1,163,902</u>	<u>\$ 1,163,902</u>

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

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:

	<u>Governmental Activities</u>
Restricted for:	
Debt service	\$ 233,133
*Municipal court	63,154
*Tourism	85,913
Road improvement	1,089,188
Capital projects	3,690,581
Total	<u><u>\$ 5,161,969</u></u>

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

2,800 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.

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 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, 2014 was \$869. Minimum lease payments for the years ending September 30, 2016 through 2017 are \$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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

equipment shall remain with the City. The Concessionaire shall also provide and maintain, at her own expense, vending stand and / or machines in good condition. All such equipment, and the location of such equipment, shall be at the approval of the City. The City shall provide and maintain the utility service for the existing buildings and equipment used in conjunction with the operation of the concession. In consideration for the rights and privileges granted, the Concessionaire agrees to pay the City 10% of the gross monthly receipts, with a minimum guarantee of \$100 per month.

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

1. Plan Description

The City of Magnolia, Texas participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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 2014</u>	<u>Plan Year 2015</u>
Employee deposit rate	6.00%	6.00%
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, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	22
Active employees	<u>24</u>
Total	<u>58</u>

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Magnolia, Texas were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Magnolia, Texas were 0% and 1.22% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$10,247.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability (Asset) in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability (Asset) was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability (Asset).

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
\$ 347	\$ (141,119)	\$ (255,832)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balance at 12/31/13	\$ 880,723	\$ 1,038,948	\$ (158,225)
Changes for the year:			
Service cost	82,332	-	82,332
Interest	62,683	-	62,683
Difference between expected and actual experience	4,254	-	4,254
Contributions – employer	-	-	-
Contributions – employee	-	73,393	(73,393)
Net investment income	-	59,442	(59,442)
Benefit payments, including refunds of emp. contributions	(52,845)	(52,845)	-
Administrative expense	-	(621)	621
Other changes	-	(51)	51
Net changes	96,424	79,318	17,106
Balance at 12/31/14	\$ 977,147	\$ 1,118,266	\$ (141,119)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$3,214.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ 10,627	\$ -
Differences between expected and actual economic experience	3,265	-
Contributions subsequent to the measurement date	10,247	-
Total	\$ 24,139	\$ -

The City reported \$10,247 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension asset for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2015	\$ 3,646
2016	3,646
2017	3,646
2018	2,954
2019	-
2020	-
Thereafter	-
	\$ 13,892

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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 2015, 2014 and 2013 were \$350, \$345, and \$330, respectively, which equaled the required contributions each year.

F. Restatement

Due to the implementation of GASB No. 68, the City restated its beginning net position within government activities and business-type activities to properly reflect the net pension liability and deferred outflows of resources as prescribed by this accounting standard. This adjustment was recorded at the fund level for proprietary funds only, and recorded at the government wide level for both governmental activities and business-type activities. The below tables summarize the changes to net position as a result of this change in accounting method.

In addition to the adjustment for GASB 68, the City restated beginning fund balance/net position within governmental activities, business-type activities, general, debt service, capital projects and water/sewer/sanitation funds for the dissolution of accounting funds that were redundant or nonfunctioning.

The restatement of beginning net position/fund balance is as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Governmental Activities</u>
Prior year ending net position				
fund balance as reported	\$ 381,044	\$ 624,654	\$ (58,042)	\$ 3,364,910
Changes in reporting:				
Dissolution of funds	(77,099)	(395,731)	77,099	(395,731)
Net pension asset	-	-	-	137,597
Restated beginning net	<u>\$ 303,945</u>	<u>\$ 228,923</u>	<u>\$ 19,057</u>	<u>\$ 3,106,776</u>

	<u>Water & Sewer</u>	<u>Business-Type Activities</u>
Prior year ending net position		
fund balance as reported	\$ 3,278,625	\$ 3,278,625
Changes in reporting:		
Dissolution of funds	395,731	395,731
Net pension asset	20,631	20,631
Restatement for fines receivable	-	-
Changes in reporting:		
Accrued interest	-	-
Restated beginning net	<u>\$ 3,694,987</u>	<u>\$ 3,694,987</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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 June 10, 2016 the date the financial statements were issued.

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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, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 395,149	\$ 395,149	\$ 408,638	\$ 13,489
Sales tax	1,150,000	1,150,000	1,264,471	114,471
Franchise tax	209,000	209,000	249,805	40,805
Hotel occupancy tax	45,000	45,000	46,759	1,759
Licenses and permits	249,000	249,000	214,062	(34,938)
Fines and forfeitures	357,750	357,750	229,315	(128,435)
Intergovernmental	61,700	61,700	41,568	(20,132)
Other	28,250	28,250	21,399	(6,851)
Total Revenues	2,495,849	2,495,849	2,476,017	(19,832)
<u>Expenditures</u>				
Current:				
General government	861,441	787,556	742,006	45,550
Public safety	1,094,047	1,112,787	1,078,431	34,356
Municipal court	190,239	173,004	160,642	12,362
Parks and recreation	13,000	13,000	6,808	6,192
Public works	172,766	234,039	233,733	306
Tourism	45,000	45,000	30,692	14,308
Capital outlay	-	23,500	23,500	-
Total Expenditures	2,376,493	2,388,886	2,275,812	113,074
Revenues Over (Under)	119,356	106,963	200,205	93,242
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	-	-	(4,000)	(4,000)
Total Other Financing Sources	-	-	(4,000)	(4,000)
Net Change in Fund Balance	\$ 119,356	\$ 106,963	196,205	\$ 89,242
Beginning fund balance			303,945	
Ending Fund Balance			\$ 500,150	

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 CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS **For the Year Ended December 31, 2014**

	2014	¹
Total pension liability		
Service cost	\$ 82,332	
Interest	62,683	
Changes in benefit terms	-	
Differences between expected and actual experience	4,254	
Changes of assumptions	-	
Benefit payments, including refunds of participant contributions	(52,845)	
Net change in total pension liability	96,424	
Total pension liability - beginning	880,723	
Total pension liability - ending (a)	977,147	
Plan fiduciary net position		
Contributions - employer	\$ -	
Contributions - members	73,393	
Net investment income	59,442	
Benefit payments, including refunds of participant contributions	(52,845)	
Administrative expenses	(621)	
Other	(51)	
Net change in plan fiduciary net position	79,318	
Plan fiduciary net position - beginning	1,038,948	
Plan fiduciary net position - ending (b)	\$ 1,118,266	
Fund's net pension liability (asset) - ending (a) - (b)	\$ (141,119)	
 Plan fiduciary net position as a percentage of the total pension liability	 114%	
Covered employee payroll	1,223,213	
Fund's net position as a percentage of covered employee payroll	-11.54%	

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

City of Magnolia, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

For the Year Ended September 30, 2015

	2015 ¹
Actuarially determined employer contributions	\$ 10,247
Contributions in relation to the actuarially determined contribution	10,247
Contribution deficiency (excess)	-
Annual covered employee payroll	1,223,213
Employer contributions as a percentage of covered employee payroll	0.84%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes	There were no benefit changes during the year.
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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, 2015

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 358,551	\$ 360,678	\$ 2,127
Intergovernmental	-	-	-
Investment income	100	83	(17)
Total Revenues	358,651	360,761	2,110
<u>Expenditures</u>			
Debt Service:			
Principal	337,622	66,000	271,622
Interest and fiscal charges	230,930	54,870	176,060
Total Expenditures	568,552	120,870	447,682
Revenues Over (Under) Expenditures	(209,901)	239,891	449,792
<u>Other Financing Sources (Uses)</u>			
Transfers in (out)	44,848	(235,681)	(280,529)
Total Other Financing Sources	44,848	(235,681)	(280,529)
Net Change in Fund Balance	\$ (165,053)	4,210	\$ 169,263
Beginning fund balance		228,923	
Ending Fund Balance		\$ 233,133	

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, 2015

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 287,500	\$ 316,435	\$ 28,935
Investment income	700	776	76
Total Revenues	288,200	317,211	29,011
<u>Expenditures</u>			
Current:			
Public works	287,500	456,095	(168,595)
Total Expenditures	287,500	456,095	(168,595)
Revenues Over (Under) Expenditures	700	(138,884)	(139,584)
Net Change in Fund Balance	\$ 700	(138,884)	\$ (139,584)
Beginning fund balance		1,228,072	
Ending Fund Balance		\$ 1,089,188	

Notes to Required Supplementary Information

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

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