

ANNUAL FINANCIAL REPORT

For Fiscal Year Ended September 30, 2016



Magnolia, Texas
A community of unity

The City of Magnolia

18111 Buddy Riley Blvd. | Magnolia, Texas 77354

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CITY OF MAGNOLIA, TEXAS

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September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And 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, 2016, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016, 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

Correction of Error

As discussed in Note V.E., to the financial statements, beginning fund balance and net position have been restated to reflect the reclassification of governmental-fund activities to the business-type activities and recognition of additional receivables outstanding. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employee contributions to pension plan, 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 combining and individual fund financial statements and 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, information 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
July 7, 2017

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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, 2016

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, 2016. 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 \$8,781,263 at September 30, 2016. Of this, \$5,199,959 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,277,334, an increase of \$258,634.
- As of the end of the year, the unassigned fund balance of the general fund was \$449,784 or 20% of total general fund expenditures.
- The City had an overall increase in net position of \$979,962, 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, 2016

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, 2016

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 nine 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. Data from other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

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, 2016

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 exceeded liabilities by \$8,781,263 as of September 30, 2016, in the primary government.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2016			2015		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and						
other assets	\$ 2,641,292	\$ 5,306,753	\$ 7,948,045	\$ 2,196,380	\$ 9,473,824	\$ 11,670,204
Capital assets, net	2,626,805	11,438,086	14,064,891	2,783,878	6,952,722	9,736,600
Net pension asset	27,294	4,093	31,387	122,721	18,398	141,119
Total Assets	5,295,391	16,748,932	22,044,323	5,102,979	16,444,944	21,547,923
Total Deferred Outflows	144,425	127,925	272,350	62,092	123,811	185,903
Other liabilities	470,132	1,214,331	1,684,463	164,590	1,334,271	1,498,861
Long-term liabilities	1,670,657	10,180,290	11,850,947	1,860,032	10,573,632	12,433,664
Total Liabilities	2,140,789	11,394,621	13,535,410	2,024,622	11,907,903	13,932,525
Net Position:						
Net investment						
in capital assets	998,809	978,020	1,976,829	957,030	90,729	1,047,759
Restricted	1,586,023	18,452	1,604,475	1,594,109	18,398	1,612,507
Unrestricted	714,195	4,485,764	5,199,959	589,310	4,551,725	5,141,035
Total Net Position	\$ 3,299,027	\$ 5,482,236	\$ 8,781,263	\$ 3,140,449	\$ 4,660,852	\$ 7,801,301

City of Magnolia, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2016

Statement of Activities:

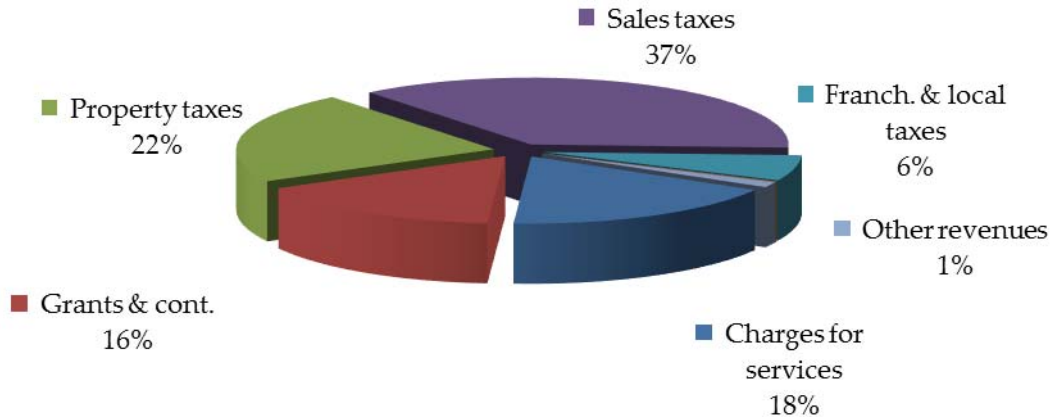
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2016			For the Year Ended September 30, 2015		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities	Primary Government	Activities	Activities	Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,145,420	\$ 2,060,958	\$ 3,206,378	\$ 596,733	\$ 2,044,984	\$ 2,641,717
Grants & cont.	43,817	-	43,817	41,568	-	41,568
General revenues:						
Property taxes	907,152	-	907,152	769,316	-	769,316
Sales taxes	1,516,524	-	1,516,524	1,574,539	-	1,574,539
Franch. & local taxes	267,887	-	267,887	249,805	-	249,805
Hotel occupancy taxes	45,357	-	45,357	46,759	-	46,759
Investment income	6,062	8,273	14,335	1,008	15,330	16,338
Other revenues	52,257	-	52,257	21,399	-	21,399
Total Revenues	3,984,476	2,069,231	6,053,707	3,301,127	2,060,314	5,361,441
Expenses						
General government	912,207	-	912,207	784,286	-	784,286
Public safety	1,736,885	-	1,736,885	1,370,400	-	1,370,400
Public works	755,949	-	755,949	789,484	-	789,484
Culture & recreation	8,102	-	8,102	6,335	-	6,335
Interest	42,650	357,042	399,692	121,627	466,832	588,459
Water/sewer/san.	-	1,260,910	1,260,910	-	1,006,664	1,006,664
Total Expenses	3,455,793	1,617,952	5,073,745	3,072,132	1,473,496	4,545,628
Change in Net Position						
Before Transfers	528,683	451,279	979,962	228,995	586,818	815,813
Transfers	(370,105)	370,105	-	(239,681)	239,681	-
Total	(370,105)	370,105	-	(239,681)	239,681	-
Change in Net Position	158,578	821,384	979,962	(10,686)	826,499	815,813
Beginning Net Position	3,140,449	4,660,852	7,801,301	3,151,135	3,834,353	6,985,488
Ending Net Position	\$ 3,299,027	\$ 5,482,236	\$ 8,781,263	\$ 3,140,449	\$ 4,660,852	\$ 7,801,301

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

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

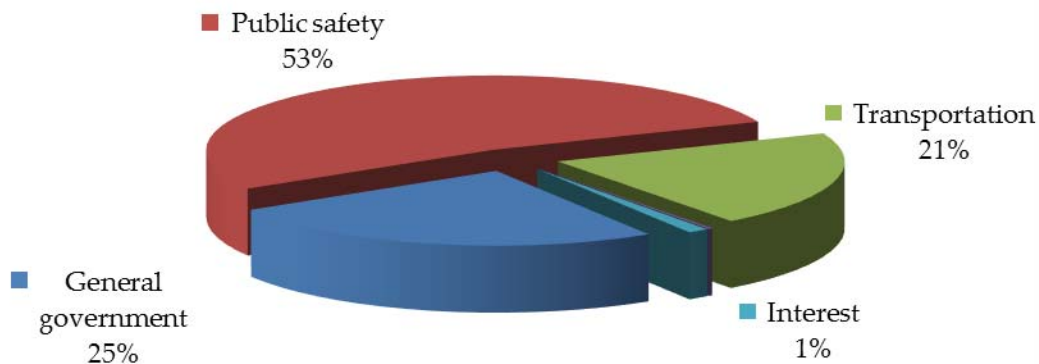
Governmental Activities - Revenues



For the year ended September 30, 2016, revenues from governmental activities totaled \$3,984,476. Property tax, sales tax and charges for services are the City's largest revenue sources. Charges for services increased by \$548,687 or 48% primarily due to the first full year of red light camera operations in 2016. Property tax increased \$137,836 or 18% due to an increase in property values. Other revenue increased by \$30,858 or 144% due to reimbursement for insurance claims. 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



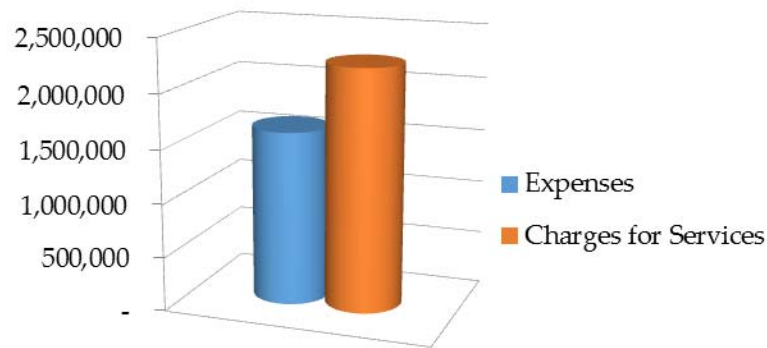
For the year ended September 30, 2016, expenses for governmental activities totaled \$3,455,793. This represents an increase of \$383,661 or 12% from the prior year. The City's largest functional expense is public safety of \$1,736,885 which is primarily the City's police department and municipal court. Public safety increased by \$366,485 or 27% due to an increase in personnel and a full year of operations for the red light camera fund. General government increased by \$127,921 or 16% due to an increase in building permits and inspection fees, as well as pension related expenses. In addition, interest and fiscal charges

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

decreased by \$78,977 or 65% 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, 2016, charges for services by business-type activities totaled \$2,060,958. This is an increase of \$15,974, or 1%, from the previous year.

Total expenses increased \$144,456 due primarily to an increase in personnel, water plan repairs, and meter installations. 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 \$449,784.

There was an increase in the general fund balance of \$116,456 over the prior year. The increase was related to lower than budgeted expenses and higher than budgeted revenues.

The debt service fund ended the year with a fund balance of \$432,913. This is an increase of \$199,781 from the prior year. Activity for the year was in line with amortization schedules.

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Fund HB 445 had a net decrease of \$186,286 bringing fund balance to \$902,902 as of year end. This is a result of an increase repairs and maintenance cost.

The Red Light Camera fund ended the year with a net increase of \$152,594, resulting in an ending fund balance of \$348,824. The increase was a result of the first full year of activity and increased revenues.

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 \$5,482,236. This represents an increase of \$821,384, primarily due to increased water sales and expenditures reduced to approximately 49% of revenues versus 56% in the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$145,827 in the general fund. Planned revenue had a positive variance of \$267,863. Planned expenditures were \$66,639 under budget. All revenue categories received more revenue than anticipated. All expenditures were less than budgeted.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$2,626,805 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 \$11,438,086 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- The purchase of a sound system of Council chambers totaling \$12,553.
- The purchase of various vehicles totaling \$46,550
- The purchase of Nichols Sawmill property totaling \$476,978
- Construction in progress for utility extensions, wastewater treatment addition, and FM1744 utility relocation totaling \$4,006,397
- The purchase of automatic water meters totaling \$240,440

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

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2016

LONG-TERM DEBT

At the end of the current year, the City had total bonds, certificates of obligations, and loans outstanding of \$11,706,153. There was a net decrease in long-term debt of \$351,150 during the year due to principal payments. 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 steady growth in the upcoming year.

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, 77354.

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FINANCIAL STATEMENTS

City of Magnolia, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 2,359,390	\$ 4,641,139	\$ 7,000,529
Investments	10,453	-	10,453
Receivables, net	353,505	511,757	865,262
Internal balances	(82,056)	82,056	-
Due from component unit	-	71,801	71,801
Total Current Assets	2,641,292	5,306,753	7,948,045
Capital assets:			
Non-depreciable	144,873	6,027,880	6,172,753
Net depreciable capital assets	2,481,932	5,410,206	7,892,138
Net pension asset	27,294	4,093	31,387
Total Noncurrent Assets	2,654,099	11,442,179	14,096,278
Total Assets	5,295,391	16,748,932	22,044,323
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	48,671	113,566	162,237
Deferred outflows - pension contributions	12,027	1,804	13,831
Deferred outflows - investment experience	60,240	9,033	69,273
Deferred outflows - actual vs. assumption	23,487	3,522	27,009
Total Deferred Outflows of Resources	\$ 144,425	\$ 127,925	\$ 272,350

Component Units	
4A Economic Development	4B Community Development
\$ 977,066	\$ 253,042
-	-
106,664	53,332
-	-
(71,801)	-
<u>1,011,929</u>	<u>306,374</u>
1,003,044	172,305
3,228,330	127,448
-	-
<u>4,231,374</u>	<u>299,753</u>
<u>5,243,303</u>	<u>606,127</u>
-	-
-	-
-	-
-	-
<u>\$ -</u>	<u>\$ -</u>

City of Magnolia, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 313,322	\$ 527,307	\$ 840,629
Customer deposits	-	149,566	149,566
Accrued interest payable	21,820	135,937	157,757
Long term debt due within one year	134,990	401,521	536,511
	<u>470,132</u>	<u>1,214,331</u>	<u>1,684,463</u>
Noncurrent liabilities:			
Due in more than one year	1,670,657	10,180,290	11,850,947
Total Liabilities	<u>2,140,789</u>	<u>11,394,621</u>	<u>13,535,410</u>
<u>Net Position</u>			
Net investment in capital assets	998,809	978,020	1,976,829
Restricted for:			
Debt service	432,913	-	432,913
Municipal court	54,493	-	54,493
Tourism	72,667	-	72,667
Road improvement	902,902	-	902,902
Economic development	-	-	-
Community development	-	-	-
Pensions	123,048	18,452	141,500
Unrestricted	714,195	4,485,764	5,199,959
Total Net Position	<u>\$ 3,299,027</u>	<u>\$ 5,482,236</u>	<u>\$ 8,781,263</u>

See Notes to Financial Statements.

Component Units	
4A Economic Development	4B Community Development
\$ 5,176	\$ 13,986
-	-
9,722	-
280,017	-
<u>294,915</u>	<u>13,986</u>
2,299,864	-
<u>2,594,779</u>	<u>13,986</u>
1,651,493	299,753
-	-
-	-
-	-
-	-
997,031	-
-	292,388
-	-
-	-
<u>\$ 2,648,524</u>	<u>\$ 592,141</u>

City of Magnolia, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 912,207	\$ 337,596	\$ 43,817	\$ -
Public safety	1,736,885	807,824	-	-
Public works	755,949	-	-	-
Culture and recreation	8,102	-	-	-
Interest and fiscal charges	42,650	-	-	-
Total Governmental Activities	<u>3,455,793</u>	<u>1,145,420</u>	<u>43,817</u>	<u>-</u>
Business-Type Activities				
Water, Sewer, & Sanitation	1,617,952	2,060,958	-	-
Total Business-Type Activities	<u>1,617,952</u>	<u>2,060,958</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 5,073,745</u>	<u>\$ 3,206,378</u>	<u>\$ 43,817</u>	<u>-</u>
Component Units				
4A Economic Development	339,438	-	750	40
4B Community Development	304,261	-	-	-
Total Component Units	<u>\$ 643,699</u>	<u>\$ -</u>	<u>\$ 750</u>	<u>\$ 40</u>

General Revenues:

Taxes
 Property taxes
 Sales taxes
 Franchise and local taxes
 Hotel occupancy 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
\$ (530,794)	\$ -	\$ (530,794)	\$ -	\$ -
(929,061)	-	(929,061)	-	-
(755,949)	-	(755,949)	-	-
(8,102)	-	(8,102)	-	-
(42,650)	-	(42,650)	-	-
(2,266,556)	-	(2,266,556)	-	-
-	443,006	443,006	-	-
-	443,006	443,006	-	-
(2,266,556)	443,006	(1,823,550)	-	-
			(338,648)	-
			-	(304,261)
			(338,648)	(304,261)
907,152	-	907,152	-	-
1,516,524	-	1,516,524	606,609	303,305
267,887	-	267,887	-	-
45,357	-	45,357	-	-
6,062	8,273	14,335	3,658	770
52,257	-	52,257	14,051	27,303
(370,105)	370,105	-	-	-
2,425,134	378,378	2,803,512	624,318	331,378
158,578	821,384	979,962	285,670	27,117
3,140,449	4,660,852	7,801,301	2,362,854	565,024
\$ 3,299,027	\$ 5,482,236	\$ 8,781,263	\$ 2,648,524	\$ 592,141

City of Magnolia, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

	General	Debt Service	HB 445	Red Light Camera
<u>Assets</u>				
Cash and cash equivalents	\$ 329,962	\$ 520,524	\$ 844,338	\$ 521,417
Investments	-	1,986	8,467	-
Receivables, net	282,553	17,620	53,332	-
Due from other funds	13,923	-	89,597	-
Total Assets	\$ 626,438	\$ 540,130	\$ 995,734	\$ 521,417
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 143,638	\$ -	\$ -	\$ 169,446
Due to other funds	-	89,597	92,832	3,147
Total Liabilities	143,638	89,597	92,832	172,593
<u>Deferred Inflows of Resources</u>				
Unavailable revenue				
Property taxes	18,637	17,620	-	-
Fines receivable, net	14,379	-	-	-
Total Deferred Inflows of Resources	33,016	17,620	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	432,913	-	-
Municipal court	-	-	-	-
Tourism	-	-	-	-
Road improvement	-	-	902,902	-
Unassigned reported in:				
General fund	449,784	-	-	348,824
Total Fund Balances	449,784	432,913	902,902	348,824
Total Liabilities and Fund Balances	\$ 593,422	\$ 522,510	\$ 995,734	\$ 521,417

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 143,149	\$ 2,359,390
-	10,453
-	353,505
-	103,520
<u>\$ 143,149</u>	<u>\$ 2,826,868</u>

\$ 238	\$ 313,322
-	185,576
<u>238</u>	<u>498,898</u>

-	36,257
-	14,379
<u>-</u>	<u>50,636</u>

-	432,913
54,493	54,493
72,667	72,667
-	902,902
15,751	814,359
<u>142,911</u>	<u>2,277,334</u>
<u>\$ 143,149</u>	<u>\$ 2,776,232</u>

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City of Magnolia, Texas

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

September 30, 2016

Fund Balances - Total Governmental Funds	\$ 2,277,334
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Adjustments for the Statement of Net Position:

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

Capital assets - non-depreciable	144,873
Capital assets - net depreciable	2,481,932

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

Property tax receivable	36,257
Fines receivable	14,379
Net pension asset	27,294

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

Deferred charge on refunding	48,671
Pension contributions	12,027
Pension investment earnings	60,240
Pension (gains) losses	23,487

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

Accrued interest	(21,820)
Bond premium	(79,167)
Non-current liabilities due in one year	(134,990)
Non-current liabilities due in more than one year	(1,591,490)

Net Position of Governmental Activities	\$ 3,299,027
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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, 2016

	General	Debt Service	HB 445	Red Light Camera
<u>Revenues</u>				
Property tax	\$ 387,754	\$ 504,242	\$ -	\$ -
Sales tax	1,213,219	-	303,305	-
Franchise tax	261,476	-	-	-
Hotel occupancy tax	-	-	-	-
Licenses and permits	337,596	-	-	-
Fines and forfeitures	309,575	-	-	482,675
Intergovernmental	43,817	-	-	-
Investment income	-	739	3,804	1,519
Other	52,257	-	-	-
Total Revenues	2,605,694	504,981	307,109	484,194
<u>Expenditures</u>				
Current:				
General government	798,283	-	-	-
Public safety	1,215,399	-	-	-
Municipal court	131,939	-	-	331,600
Parks and recreation	7,919	-	-	-
Public works	147,023	-	493,395	-
Tourism	-	-	-	-
Debt Service:				
Principal	-	69,000	-	-
Interest and fiscal charges	-	54,770	-	-
Total Expenditures	2,300,563	123,770	493,395	331,600
Excess of Revenues				
Over Expenditures	305,131	381,211	(186,286)	152,594
<u>Other Financing (Uses)</u>				
Transfers in (out)	(188,675)	(181,430)	-	-
Total Other Financing (Uses)	(188,675)	(181,430)	-	-
Net Change in Fund Balances	116,456	199,781	(186,286)	152,594
Beginning fund balances	333,328	233,132	1,089,188	196,230
Ending Fund Balances	\$ 449,784	\$ 432,913	\$ 902,902	\$ 348,824

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 891,996
-	1,516,524
6,411	267,887
45,357	45,357
-	337,596
15,574	807,824
-	43,817
-	6,062
-	52,257
<u>67,342</u>	<u>3,969,320</u>
-	798,283
-	1,215,399
32,650	496,189
-	7,919
-	640,418
58,603	58,603
-	69,000
-	54,770
<u>91,253</u>	<u>3,340,581</u>
(23,911)	628,739
-	(370,105)
<u>-</u>	<u>(370,105)</u>
(23,911)	258,634
166,822	2,018,700
<u>\$ 142,911</u>	<u>\$ 2,277,334</u>

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City of Magnolia, Texas

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

For the Year Ended September 30, 2016

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

Net changes in fund balances - total governmental funds	\$	258,634
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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		61,489
Depreciation expense		(218,562)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		15,156
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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		(18,594)
Accrued interest		570
Pension expense		(20,665)

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		7,571
Issuance and amortization of premium		3,979
Principal payments		69,000

Change in Net Position of Governmental Activities	\$	158,578
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See Notes to Financial Statements.

City of Magnolia, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2016

	<u>Water & Sewer Fund</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 4,641,139
Receivables, net	511,757
Due from other funds	95,979
Due from component unit	71,801
Total Current Assets	<u>5,320,676</u>
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	6,027,880
Net depreciable	5,410,206
Net pension asset	4,093
Total Noncurrent Assets	<u>11,442,179</u>
Total Assets	<u>16,762,855</u>
<u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	113,566
Deferred outflows - pension contributions	1,804
Deferred outflows - investment experience	9,033
Deferred outflows - actual pension exp vs. assumption	3,522
Total Deferred Outflows of Resources	<u>127,925</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	527,307
Customer deposits	149,566
Due to other funds	13,923
Accrued interest	135,937
Long term debt due within one year	401,521
Total Current Liabilities	<u>1,228,254</u>
<u>Noncurrent Liabilities</u>	
Due in more than one year	10,180,290
Total Liabilities	<u>11,408,544</u>
<u>Net Position</u>	
Net investment in capital assets	978,020
Restricted for pensions	18,452
Unrestricted	4,485,764
Total Net Position	<u>\$ 5,482,236</u>

See Notes to Financial Statements.

City of Magnolia, Texas

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

For the Year Ended September 30, 2016

	<u>Water & Sewer Fund</u>
<u>Operating Revenues</u>	
Water sales	\$ 1,158,076
Sewer revenue	433,725
Garbage collection	129,128
Impact fees	157,500
Intergovernmental	165,597
Other revenue	16,932
Total Operating Revenues	<u>2,060,958</u>
<u>Operating Expenses</u>	
Cost of water	551,840
Cost of sewer	349,067
Cost of garbage	121,551
Depreciation	238,452
Total Operating Expenses	<u>1,260,910</u>
Operating Income	<u>800,048</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	8,273
Interest expense	(357,042)
Total Nonoperating Revenues (Expenses)	<u>(348,769)</u>
Income Before Transfers	451,279
Transfers in (out)	<u>370,105</u>
Change in Net Position	821,384
Beginning net position	<u>4,660,852</u>
Ending Net Position	<u><u>\$ 5,482,236</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, 2016

	<u>Water & Sewer Fund</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,674,713
Payments to suppliers and employees	(1,136,589)
Net Cash Provided by Operating Activities	<u>538,124</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating transfers in (out)	370,105
Net Cash Provided (Used) by Noncapital Financing Activities	<u>370,105</u>
<u>Cash Flows from (to) Capital and Related Financing Activities</u>	
Purchases of capital assets	(4,723,816)
Principal paid on debt	(282,150)
Interest paid on debt	(400,436)
Net Cash (Used) by Capital and Related Financing Activities	<u>(5,406,402)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	8,273
Net Cash Provided by Investing Activities	<u>8,273</u>
Net Increase in Cash and Cash Equivalents	(4,489,900)
Beginning cash and cash equivalents	<u>9,131,039</u>
Ending Cash and Cash Equivalents	<u><u>\$ 4,641,139</u></u>

See Notes to Financial Statements.

City of Magnolia, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2016

	<u>Water & Sewer Fund</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 800,048
Adjustments to reconcile operating income to net cash provided:	
Depreciation	238,452
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(148,855)
Due from other funds	(165,589)
Due from component units	(71,801)
Deferred charge on refunding	7,098
Deferred outflows - pension contributions	(468)
Deferred outflows - investment experience	(2,137)
Deferred outflows - actual pension exp vs. assumption	(8,607)
Net pension asset	14,305
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(137,652)
Customer deposits	13,330
Net Cash Provided by Operating Activities	\$ 538,124

See Notes to Financial Statements.

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City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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, 2016

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, 2016

B. Financial Statement Presentation

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

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

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets**—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

C. Government-Wide and Fund Financial Statements

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

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

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

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed and focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance.

General Fund

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

Debt Service Fund

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

HB 445 Fund

The HB445 Fund is used to account for the receipt and expenditure of funds received from additional sales tax within the City. The HB445 fund is considered to be a major fund for reporting purposes.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Red Light Camera Fund

The Red Light Camera fund is used to account for the receipt and expenditure of funds received from red light camera violations. The Red Light Camera fund is considered to be a major fund for reporting purposes.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes such as hotel/motel tax, restricted fines and forfeitures, and grant expenditures. The special revenue funds are considered to be nonmajor for reporting purposes.

Proprietary Fund Types

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

The government reports the following major enterprise fund:

Water and Sewer Fund

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

D. 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, 2016

E. 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. Fair Value Measurement

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. 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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

4. 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.

5. 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.

6. 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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

Property, plant, and equipment of the primary government, 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

7. 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.

8. 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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

9. 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.

10. 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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

11. 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. 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.

12. 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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Pensions

For purposes of measuring the net pension liability, 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 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.

F. 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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt 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 did not exceed appropriations at the legal level of control for any funds reported.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Treasury notes	10,453	2.38
Total fair value	<u>\$ 10,453</u>	
Portfolio weighted average maturity		2.38

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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

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

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2016, 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	\$ 17,620	\$ -	\$ -	\$ 36,257
Sales tax	214,709	-	53,332	-	268,041
Fines	275,918	-	-	-	275,918
Franchise tax	18,510	-	-	-	18,510
Accounts	-	-	-	633,380	633,380
Other	1,939	-	-	-	1,939
Allowance	(247,160)	-	-	(121,623)	(368,783)
	<u>\$ 282,553</u>	<u>\$ 17,620</u>	<u>\$ 53,332</u>	<u>\$ 511,757</u>	<u>\$ 865,262</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 144,873	\$ -	\$ -	\$ 144,873
Total capital assets not being depreciated	<u>144,873</u>	<u>-</u>	<u>-</u>	<u>144,873</u>
Capital assets, being depreciated:				
Buildings and improvements	703,365	-	-	703,365
Vehicles and equipment	782,853	61,489	(52,507)	791,835
Infrastructure	4,991,756	-	-	4,991,756
Total capital assets being depreciated	<u>6,477,974</u>	<u>61,489</u>	<u>(52,507)</u>	<u>6,486,956</u>
Less accumulated depreciation				
Buildings and improvements	(176,765)	(22,801)	-	(199,566)
Vehicles and equipment	(595,732)	(81,575)	52,507	(624,800)
Infrastructure	(3,066,472)	(114,186)	-	(3,180,658)
Total accumulated depreciation	<u>(3,838,969)</u>	<u>(218,562)</u>	<u>52,507</u>	<u>(4,005,024)</u>
Net capital assets being depreciated	<u>2,639,005</u>	<u>(157,073)</u>	<u>-</u>	<u>2,481,932</u>
Total Capital Assets	<u><u>\$ 2,783,878</u></u>	<u><u>\$ (157,073)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,626,805</u></u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Depreciation was charged to governmental functions as follows:

General government	\$	9,536
Public safety		88,727
Court		4,768
Public works		115,531
Total Governmental Activities Depreciation Expense	\$	218,562

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	\$ 476,978	\$ -	\$ 585,612
Construction in progress	1,435,870	4,006,398	-	5,442,268
Total capital assets not being depreciated	1,544,504	4,483,376	-	6,027,880
Capital assets, being depreciated:				
Water and sewer system	8,302,835	240,440	-	8,543,275
Vehicles and equipment	168,913	-	(65,751)	103,162
Total capital assets being depreciated	8,471,748	240,440	(65,751)	8,646,437
Less accumulated depreciation				
Water and sewer system	(2,927,558)	(235,918)	-	(3,163,476)
Vehicles and equipment	(135,972)	(2,534)	65,751	(72,755)
Total accumulated depreciation	(3,063,530)	(238,452)	65,751	(3,236,231)
Net capital assets being depreciated	5,408,218	1,988	-	5,410,206
Total Capital Assets	\$ 6,952,722	\$ 4,485,364	\$ -	\$ 11,438,086

Depreciation expense for business-type activities as of September 30, 2016 was \$238,452.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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	\$ 1,003,044	\$ -	\$ -	\$ 1,003,044
Total capital assets not being depreciated	<u>1,003,044</u>	<u>-</u>	<u>-</u>	<u>1,003,044</u>
Capital assets, being depreciated:				
Buildings and improvements	714,620	-	-	714,620
Unity Park & Downtown	2,719,814	-	-	2,719,814
Pavement improvements	1,125,432	-	-	1,125,432
Equipment	7,150	-	-	7,150
Total capital assets being depreciated	<u>4,567,016</u>	<u>-</u>	<u>-</u>	<u>4,567,016</u>
Less accumulated depreciation				
Buildings and improvements	(248,604)	(17,866)	-	(266,470)
Unity Park & Downtown	(375,668)	(90,711)	-	(466,379)
Pavement improvements	(542,491)	(56,196)	-	(598,687)
Equipment	(7,150)	-	-	(7,150)
Total accumulated depreciation	<u>(1,173,913)</u>	<u>(164,773)</u>	<u>-</u>	<u>(1,338,686)</u>
Net capital assets being depreciated	<u>3,393,103</u>	<u>(164,773)</u>	<u>-</u>	<u>3,228,330</u>
Total Capital Assets	<u><u>\$ 4,396,147</u></u>	<u><u>\$ (164,773)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,231,374</u></u>

Depreciation expense for Magnolia 4A Economic Development Corporation as of September 30, 2016 was \$164,773.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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	<u>172,305</u>	<u>-</u>	<u>-</u>	<u>172,305</u>
Capital assets, being depreciated:				
Buildings	139,710	11,052	8,832	159,594
Equipment	<u>8,832</u>	<u>5,466</u>	<u>(8,832)</u>	<u>5,466</u>
Total capital assets being depreciated	<u>148,542</u>	<u>16,518</u>	<u>-</u>	<u>165,060</u>
Less accumulated depreciation				
Buildings and improvements	(27,259)	(6,640)	(3,533)	(37,432)
Equipment	<u>(3,533)</u>	<u>(180)</u>	<u>3,533</u>	<u>(180)</u>
Total accumulated depreciation	<u>(30,792)</u>	<u>(6,820)</u>	<u>-</u>	<u>(37,612)</u>
Net capital assets being depreciated	<u>117,750</u>	<u>9,698</u>	<u>-</u>	<u>127,448</u>
Total Capital Assets	<u><u>\$ 290,055</u></u>	<u><u>\$ 9,698</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 299,753</u></u>

Depreciation expense for Magnolia 4B Community Development Corporation as of September 30, 2016 was \$6,820.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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:					
General obligation refunding - 2014	\$ 1,666,500	\$ -	\$ (69,000)	\$ 1,597,500	\$ 70,500
Premium	83,146	-	(3,979)	79,167	-
Other liabilities:					
Compensated absences	110,386	18,594	-	128,980	64,490
Total Governmental Activities	\$ 1,860,032	\$ 18,594	\$ (72,979)	\$ 1,805,647	\$ 134,990

Long-term liabilities due in more than one year

\$ 1,670,657

Business-Type Activities:

General obligation refunding - 2014	\$ 3,888,500	\$ -	\$ (161,000)	\$ 3,727,500	\$ 164,500
Certificates of obligation - Series 2014	4,960,000	-	-	4,960,000	105,000
Premium	484,000	-	(18,904)	465,096	-
State infrastructure loan	1,542,303	-	(121,150)	1,421,153	124,660
Other liabilities:					
Compensated absences	8,062	-	-	8,062	7,361
Total Business-Type Activities	\$ 10,882,865	\$ -	\$ (301,054)	\$ 10,581,811	\$ 401,521

Long-term liabilities due in more than one year

\$ 10,180,290

Magnolia 4A Economic Development Corporation

Revenue & refunding bonds - 2012	\$ 2,210,000	\$ -	\$ (205,000)	\$ 2,005,000	\$ 215,000
Promissory note	638,042	-	(63,161)	574,881	65,017
Total Economic Development Activities	\$ 2,848,042	\$ -	\$ (268,161)	\$ 2,579,881	\$ 280,017

Long-term liabilities due in more than one year

\$ 2,299,864

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, 2016

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2014 General obligation refunding bonds (30%)	2.00 - 4.00%	\$ 1,758,000	\$ 1,597,500
Total Governmental Activities		\$ 1,758,000	\$ 1,597,500
Business-type Activities:			
2014 General obligation refunding bonds (70%)	2.00 - 4.00%	\$ 4,102,000	\$ 3,727,500
2014 Certificates of obligation	2.00 - 4.00%	4,960,000	4,960,000
State infrastructure loan	3.00%	2,000,000	1,421,153
Total Business-Type Activities		\$ 11,062,000	\$ 10,108,653
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	5,325,000
State infrastructure loan	3.00%	2,000,000	1,421,153
	Total	\$ 12,820,000	\$ 11,706,153

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

Year ending September 30,	Governmental Activities	
	2014 G.O. Refunding Bonds	
	Principal	Interest
2017	\$ 70,500	\$ 51,773
2018	81,000	49,500
2019	82,500	47,048
2020	85,500	44,528
2021	88,500	41,918
2022	91,500	39,218
2023	94,500	36,428
2024	99,000	33,525
2025	99,000	30,555
2026	102,000	27,540
2027	106,500	24,413
2028	51,000	21,923
2029	52,500	20,111
2030	54,000	18,248
2031	55,500	16,331
2032	58,500	14,190
2033	60,000	11,820
2034	63,000	9,360
2035	64,500	6,810
2036	67,500	4,170
2037	70,500	1,410
	<u>\$ 1,597,500</u>	<u>\$ 550,815</u>

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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 Certificates of Obligation	
	Principal	Interest
2017	\$ 105,000	\$ 187,100
2018	105,000	183,951
2019	110,000	180,725
2020	110,000	177,425
2021	115,000	174,050
2022	115,000	170,600
2023	120,000	167,075
2024	125,000	163,088
2025	130,000	158,625
2026	130,000	154,075
2027	135,000	149,100
2028	145,000	143,500
2029	150,000	137,600
2030	155,000	131,500
2031	160,000	125,200
2032	165,000	118,700
2033	175,000	111,900
2034	180,000	104,800
2035	185,000	97,500
2036	195,000	89,900
2037	200,000	82,000
2038	210,000	73,800
2039	220,000	65,200
2040	230,000	56,200
2041	240,000	46,800
2042	245,000	37,100
2043	255,000	27,100
2044	270,000	16,600
2045	280,000	5,600
	<u>\$ 4,960,000</u>	<u>\$ 3,336,813</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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Year ending September 30,	Business-Type Activities			
	2014 G.O. Refunding Bonds		State Infrastructure Loan	
	Principal	Interest	Principal	Interest
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	154,714	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>\$ 3,727,500</u>	<u>\$ 1,285,235</u>	<u>\$ 1,421,153</u>	<u>\$ 224,803</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, 2016

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
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>\$ 2,005,000</u>	<u>\$ 402,052</u>	<u>\$ 574,881</u>	<u>\$ 41,822</u>

E. Deferred Charge on Refunding

A deferred charge resulting from the issuance of the 2014 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities and business-type activity totaled \$48,671 and \$113,566, respectively. Current year amortization expense for governmental activities and business-type activities totaled \$3,042 and \$7,098, respectively.

F. Interfund Transactions

Transfers between the primary government funds during the 2016 year were as follows:

Transfer out	Transfer In	Amount
General	Water & Sewer	\$ 188,675
Debt Service	Water & Sewer	181,430
	Total	<u>\$ 370,105</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

<u>Funds</u>	<u>Due from</u>	<u>Due to</u>
General:		
Water & Sewer	13,923	-
Debt Service:		
HB 445	-	89,597
Red Light Camera:		
Water & Sewer	-	3,147
HB 445:		
Water & Sewer	-	92,832
Debt Service	89,597	-
Water & Sewer:		
General	-	13,923
HB 445	92,832	-
Red Light Camera	3,147	-
	<u>\$ 199,499</u>	<u>\$ 199,499</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>	<u>Business-Type Activities</u>
Restricted for:		
Debt service	\$ 432,913	\$ -
* Municipal court	54,493	-
* Tourism	72,667	-
Road improvement	902,902	-
Pensions	123,048	18,452
Total	<u>\$ 1,586,023</u>	<u>\$ 18,452</u>

*Restricted by enabling legislation

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 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, it is the City's opinion that, the resolution on these matters will not have a material adverse effect on the financial condition of the City.

C. 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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

D. 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.tmr.com.

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

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:

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>
Employee deposit rate	6.00%	6.00%	6.00%
Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>29</u>
Total	<u>68</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 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 1.22% and 1.38% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$18,541.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75% 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. 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 2015 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis 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:

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. 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.

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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75	1% Increase 7.75%
<u>\$ 126,928</u>	<u>\$ (31,387)</u>	<u>\$ (159,768)</u>

Changes in the Net Pension Liability (Asset)

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balance at 12/31/14	\$ 977,147	\$ 1,118,266	\$ (141,119)
Changes for the year:			
Service cost	96,479	-	96,479
Interest	69,300	-	69,300
Difference between expected and actual experience	(2,727)	-	(2,727)
Changes of assumptions	35,788	-	35,788
Contributions – employer	-	14,956	(14,956)
Contributions – employee	-	73,555	(73,555)
Net investment income	-	1,650	(1,650)
Benefit payments, including refunds of emp. contributions	(70,779)	(70,779)	-
Administrative expense	-	(1,005)	1,005
Other changes	-	(48)	48
Net changes	128,061	18,329	109,732
Balance at 12/31/15	\$ 1,105,208	\$ 1,136,595	\$ (31,387)

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.tmrs.com.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

For the year ended September 30, 2016, the City recognized pension expense of \$42,300.

At September 30, 2016, 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	\$ 27,009	\$ -
Differences between expected and actual economic experience	69,273	-
Contributions subsequent to the measurement date	13,831	-
Total	\$ 110,113	\$ -

The City reported \$13,831 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:		
2016	\$	27,300
2017		27,300
2018		26,357
2019		15,325
2020		-
Thereafter		-
	\$	96,282

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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

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

The City's retiree contribution rates to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$416, \$350, and \$345, respectively, which equaled the required contributions each year.

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.02%	0.02%	100.0%
2015	0.03%	0.03%	100.0%
2016	0.04%	0.04%	100.0%

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

E. Restatement

The City has restated beginning fund balance/net position within governmental activities, business-type activities, general, debt service, capital projects, nonmajor governmental fund and water/sewer/sanitation funds for the reclassification of accounting activity, and recognition of additional receivables outstanding. The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	General	Capital Projects	In-Kind Franchise Fees
Prior year ending net position fund balance as reported	\$ 2,875,585	\$ 500,150	\$ 3,690,581	\$ -
Reclassification of funds	264,864	(166,822)	(3,690,581)	9,340
Restated beginning net	<u>\$ 3,140,449</u>	<u>\$ 333,328</u>	<u>\$ -</u>	<u>\$ 9,340</u>
	MC Technology	MC Security	Hotel/Motel Occupancy Tax	Scofflaw
Prior year ending net position fund balance as reported	\$ -	\$ -	\$ -	\$ -
Reclassification of funds	2,375	69,069	85,913	125
Restated beginning net	<u>\$ 2,375</u>	<u>\$ 69,069</u>	<u>\$ 85,913</u>	<u>\$ 125</u>
	Business-Type Activities	Water & Sewer		
Prior year ending net position as reported	\$ 4,741,991	\$ 4,741,991		
Correction of accrued receivables	183,725	183,725		
Reclassification from governmental funds	(264,864)	(264,864)		
Restated beginning net position	<u>\$ 4,660,852</u>	<u>\$ 4,660,852</u>		

F. Subsequent Events

On May 9, 2017, the City approved the issuance of a SIB loan in the amount of \$1,000,000 for 15 years at a rate of 3.15% to be used to relocate the city water and sewer lines out of the TxDOT right-of-way. No other events occurred prior to July 7, 2017 the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Magnolia, Texas

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

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 366,031	\$ 366,031	\$ 387,754	\$ 21,723
Sales tax	1,200,000	1,200,000	1,213,219	13,219
Franchise tax	233,000	233,000	261,476	28,476
Licenses and permits	233,500	233,500	337,596	104,096
Fines and forfeitures	447,050	250,000	309,575	59,575
Intergovernmental	41,000	41,000	43,817	2,817
Other	14,300	14,300	52,257	37,957
Total Revenues	2,534,881	2,337,831	2,605,694	267,863
<u>Expenditures</u>				
Current:				
General government	813,156	811,779	798,283	13,496
Public safety	1,223,342	1,223,342	1,215,399	7,943
Municipal court	155,581	155,581	131,939	23,642
Parks and recreation	13,500	13,500	7,919	5,581
Public works	163,000	163,000	147,023	15,977
Total Expenditures	2,368,579	2,367,202	2,300,563	66,639
Revenues Over (Under)	166,302	(29,371)	305,131	334,502
<u>Other Financing Sources (Uses)</u>				
Transfers in (out)	-	-	(188,675)	(188,675)
Total Other Financing Sources	-	-	(188,675)	(188,675)
Net Change in Fund Balance	\$ 166,302	\$ (29,371)	116,456	\$ 145,827
Beginning fund balance			333,328	
Ending Fund Balance			\$ 449,784	

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**

	<u>12/31/2015</u>	<u>12/31/2014</u>	¹
Total pension liability			
Service cost	\$ 96,479	\$ 82,332	
Interest	69,300	62,683	
Changes in benefit terms	-	-	
Differences between expected and actual experience	(2,727)	4,254	
Changes of assumptions	35,788	-	
Benefit payments, including refunds of participant contributions	(70,779)	(52,845)	
Net change in total pension liability	<u>128,061</u>	<u>96,424</u>	
Total pension liability - beginning	<u>977,147</u>	<u>880,723</u>	
Total pension liability - ending (a)	1,105,208	977,147	
Plan fiduciary net position			
Contributions - employer	\$ 14,956	\$ -	
Contributions - members	73,555	73,393	
Net investment income	1,650	59,442	
Benefit payments, including refunds of participant contributions	(70,779)	(52,845)	
Administrative expenses	(1,005)	(621)	
Other	(48)	(51)	
Net change in plan fiduciary net position	<u>18,329</u>	<u>79,318</u>	
Plan fiduciary net position - beginning	<u>1,118,266</u>	<u>1,038,948</u>	
Plan fiduciary net position - ending (b)	<u>\$ 1,136,595</u>	<u>\$ 1,118,266</u>	
Fund's net pension liability (asset) - ending (a) - (b)	<u><u>\$ (31,387)</u></u>	<u><u>\$ (141,119)</u></u>	
 Plan fiduciary net position as a percentage of the total pension liability	 103%	 114%	
Covered employee payroll	\$ 1,225,915	\$ 1,223,213	
Fund's net position as a percentage of covered employee payroll	(2.56%)	(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, 2016

	9/30/2016	9/30/2015 ¹
Actuarially determined employer contributions	\$ 18,541	\$ 10,247
Contributions in relation to the actuarially determined contribution	18,541	10,247
Contribution deficiency (excess)	-	-
Annual covered employee payroll	\$ 1,388,282	\$ 1,167,468
Employer contributions as a percentage of covered employee payroll	1.34%	0.88%

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.

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	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
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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***COMBINING STATEMENTS AND
INDIVIDUAL FUND SCHEDULES***

City of Magnolia, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2016

	Hotel/Motel Occupancy Tax	Municipal Court Security Fund	Municipal Court Technology Fund	Scofflaw
<u>Assets</u>				
Cash and cash equivalents	\$ 72,667	\$ 50,992	\$ 3,414	\$ 325
Total Assets	\$ 72,667	\$ 50,992	\$ 3,414	\$ 325
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ 238	\$ -
Total Liabilities	-	-	238	-
<u>Fund Balances</u>				
Restricted for:				
Municipal Court	-	50,992	3,176	325
Tourism	72,667	-	-	-
Unrestricted	-	-	-	-
Total Fund Balances	72,667	50,992	3,176	325
Total Liabilities, Deferred				
Inflows of Resources and Fund	\$ 72,667	\$ 50,992	\$ 3,414	\$ 325

In-Kind Franchise Fees	Total
\$ 15,751	\$ 143,149
\$ 15,751	\$ 143,149
\$ -	\$ 238
-	238
-	54,493
-	72,667
15,751	15,751
15,751	142,911
\$ 15,751	\$ 143,149

City of Magnolia, Texas

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

For the Year Ended September 30, 2016

	Hotel/Motel Occupancy Tax	Municipal Court Security Fund	Municipal Court Technology Fund	Scofflaw
<u>Revenues</u>				
Franchise tax	\$ -	\$ -	\$ -	\$ -
Hotel occupancy tax	45,357	-	-	-
Fines and forfeitures	-	5,551	9,823	200
Total Revenues	45,357	5,551	9,823	200
<u>Expenditures</u>				
Current:				
Municipal court	-	23,628	9,022	-
Tourism	58,603	-	-	-
Total Expenditures	58,603	23,628	9,022	-
Revenues Over (Under)				
Expenditures	(13,246)	(18,077)	801	200
Net Change in Fund Balances	(13,246)	(18,077)	801	200
Beginning fund balances	85,913	69,069	2,375	125
Ending Fund Balances	\$ 72,667	\$ 50,992	\$ 3,176	\$ 325

In-Kind Franchise Fees	Total
\$ 6,411	\$ 6,411
-	45,357
-	15,574
<u>6,411</u>	<u>67,342</u>
-	32,650
-	58,603
<u>-</u>	<u>91,253</u>
<u>6,411</u>	<u>(23,911)</u>
6,411	(23,911)
9,340	166,822
<u>\$ 15,751</u>	<u>\$ 142,911</u>

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OTHER SUPPLEMENTARY INFORMATION

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City of Magnolia, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL DEBT SERVICE FUND

For the Year Ended September 30, 2016

	Original Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 304,450	\$ 504,242	\$ 199,792
Investment income	100	739	639
Total Revenues	304,550	504,981	200,431
<u>Expenditures</u>			
Debt Service:			
Principal	230,000	69,000	161,000
Interest and fiscal charges	178,900	54,770	124,130
Total Expenditures	408,900	123,770	285,130
Revenues Over (Under) Expenditures	(104,350)	381,211	485,561
<u>Other Financing Sources (Uses)</u>			
Transfers in (out)	104,450	(181,430)	(285,880)
Total Other Financing Sources	104,450	(181,430)	(285,880)
Net Change in Fund Balance	\$ 100	199,781	\$ 199,681
Beginning fund balance		233,132	
Ending Fund Balance		\$ 432,913	

Notes to Other Supplementary Information

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

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City of Magnolia, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL HB 445 FUND

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Sales tax	\$ 300,000	\$ 300,000	\$ 303,305	\$ 3,305
Investment income	700	700	3,804	3,104
Total Revenues	300,700	300,700	307,109	6,409
<u>Expenditures</u>				
Current:				
Public works	300,000	500,000	493,395	6,605
Total Expenditures	300,000	500,000	493,395	6,605
Revenues Over (Under)	700	(199,300)	(186,286)	13,014
Net Change in Fund Balance	\$ 700	\$ (199,300)	(186,286)	\$ 13,014
Beginning fund balance			1,089,188	
Ending Fund Balance			\$ 902,902	

Notes to Other Supplementary Information

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

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