

# ANNUAL FINANCIAL REPORT 2020

FOR FISCAL YEAR ENDED  
SEPTEMBER 30, 2020



**CITY OF MAGNOLIA, TEXAS**

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*ANNUAL FINANCIAL REPORT*

of the

**City of Magnolia, Texas**

**For the Year Ended  
September 30, 2020**

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# City of Magnolia, Texas

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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, 2020, 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, 2020, 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*

As discussed in Note V.F., to the financial statements, the City has restated beginning fund balance and net position within governmental activities due to the omission of a special revenue fund in the prior year. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, schedule of changes in the other postemployment benefits liability and related ratios, 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, Balance Sheet – Discretely Presented Component Units, Reconciliation of the Balance Sheet to the Statement of Net Position – Discretely Presented Component Units, Statement of Revenues, Expenditures, and Changes in Fund Balance – Discretely Presented Component Units, Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Discretely Presented Component Units to the Statement of Activities 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 black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

BrooksWatson & Co., PLLC  
Certified Public Accountants  
Houston, Texas  
December 16, 2020

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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, 2020

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, 2020. 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 \$19,288,601 at September 30, 2020. Of this, \$11,660,137 (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 \$4,409,940, an increase of \$552,031.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,853,662 or 61% of total general fund expenditures.
- The City had an overall increase in net position of \$1,598,078, 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, 2020

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 distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type 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

# City of Magnolia, Texas

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

### September 30, 2020

information presented for *governmental activities* in the government-wide financial statements. By 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 twelve 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, debt service, Magnolia ridge PID, and HB 445, 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 water distribution and the wastewater collection/treatment. 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, 2020**

**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 \$19,288,601 as of September 30, 2020, in the primary government.

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2020			2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 5,146,955	\$ 17,487,027	\$ 22,633,982	\$ 4,654,867	\$ 8,737,947	\$ 13,392,814
Capital assets, net	3,935,859	16,479,916	20,415,775	3,902,540	13,355,176	17,257,716
Long term receivables	1,535,000	-	1,535,000	1,560,000	-	1,560,000
Net pension asset	111,909	2,776	114,685	28,324	705	29,029
<b>Total Assets</b>	<b>10,729,723</b>	<b>33,969,719</b>	<b>44,699,442</b>	<b>10,145,731</b>	<b>22,093,828</b>	<b>32,239,559</b>
<b>Total Deferred Outflows</b>	<b>117,400</b>	<b>87,180</b>	<b>204,580</b>	<b>133,782</b>	<b>94,618</b>	<b>228,400</b>
Other liabilities	731,551	2,398,927	3,130,478	920,964	1,302,842	2,223,806
Long-term liabilities	2,793,268	19,543,841	22,337,109	2,885,946	9,632,619	12,518,565
<b>Total Liabilities</b>	<b>3,524,819</b>	<b>21,942,768</b>	<b>25,467,587</b>	<b>3,806,910</b>	<b>10,935,461</b>	<b>14,742,371</b>
<b>Total Deferred Inflows</b>	<b>144,256</b>	<b>3,578</b>	<b>147,834</b>	<b>34,214</b>	<b>851</b>	<b>35,065</b>
Net Position:						
Net investment in capital assets	1,073,588	3,675,781	4,749,369	998,903	3,250,191	4,249,094
Restricted	2,878,100	995	2,879,095	3,117,973	2,267	3,120,240
Unrestricted	3,226,360	8,433,777	11,660,137	2,321,513	7,999,676	10,321,189
<b>Total Net Position</b>	<b>\$ 7,178,048</b>	<b>\$ 12,110,553</b>	<b>\$ 19,288,601</b>	<b>\$ 6,438,389</b>	<b>\$ 11,252,134</b>	<b>\$ 17,690,523</b>



# City of Magnolia, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

### September 30, 2020

#### Statement of Activities:

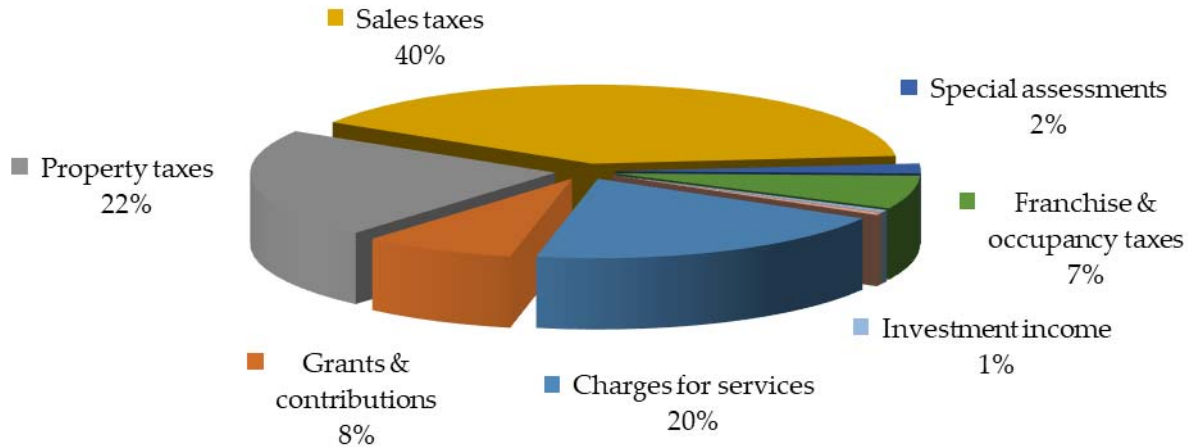
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2020			For the Year Ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 964,673	\$ 2,689,762	\$ 3,654,435	\$ 1,118,475	\$ 5,204,906	\$ 6,323,381
Grants & contributions	392,005	383,462	775,467	53,399	224,173	277,572
General revenues:						
Property taxes	1,088,652	-	1,088,652	996,461	-	996,461
Sales taxes	1,922,358	-	1,922,358	1,572,412	-	1,572,412
Franchise & local taxes	299,550	-	299,550	262,943	-	262,943
Hotel occupancy taxes	33,975	-	33,975	42,515	-	42,515
Special assessments	98,099	-	98,099	100,891	-	100,891
Investment income	27,844	4,574	32,418	48,096	1	48,097
Other revenues	24,407	17,074	41,481	18,776	72,515	91,291
<b>Total Revenues</b>	<b>4,851,563</b>	<b>3,094,872</b>	<b>7,946,435</b>	<b>4,213,968</b>	<b>5,501,595</b>	<b>9,715,563</b>
<b>Expenses</b>						
General government	1,009,603	-	1,009,603	940,192	-	940,192
Public safety	1,673,559	-	1,673,559	1,668,632	-	1,668,632
Public works	1,067,492	-	1,067,492	709,178	-	709,178
Culture & recreation	16,465	-	16,465	4,982	-	4,982
Interest and fiscal charges	137,301	721,075	858,376	154,504	340,424	494,928
Water/sewer/sanitation	-	1,722,862	1,722,862	-	1,633,341	1,633,341
<b>Total Expenses</b>	<b>3,904,420</b>	<b>2,443,937</b>	<b>6,348,357</b>	<b>3,477,488</b>	<b>1,973,765</b>	<b>5,451,253</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	947,143	650,935	1,598,078	736,480	3,527,830	4,264,310
Transfers	(207,484)	207,484	-	(169,006)	169,006	-
<b>Total</b>	<b>(207,484)</b>	<b>207,484</b>	<b>-</b>	<b>(169,006)</b>	<b>169,006</b>	<b>-</b>
<b>Change in Net Position</b>	739,659	858,419	1,598,078	567,474	3,696,836	4,264,310
Beginning Net Position	6,438,389	11,252,134	17,690,523	5,870,915	7,555,298	13,426,213
<b>Ending Net Position</b>	<b>\$ 7,178,048</b>	<b>\$ 12,110,553</b>	<b>\$ 19,288,601</b>	<b>\$ 6,438,389</b>	<b>\$ 11,252,134</b>	<b>\$ 17,690,523</b>

**City of Magnolia, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2020**

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

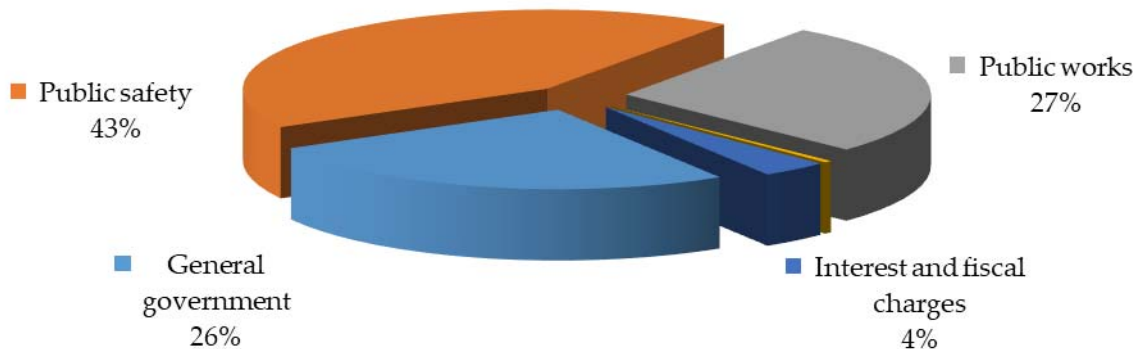
**Governmental Activities - Revenues**



For the year ended September 30, 2020, revenues from governmental activities totaled \$4,851,563, an increase of \$637,595 or 15%. Property tax, sales tax and charges for services are the City's largest revenue sources. Charges for services decreased by \$153,802 or 14% primarily due to a reduction in court fine revenues in the current year. Grants and contributions increased by \$338,606 or 634% due primarily to the receipt of nonrecurring grants in the current year. Property taxes increased by \$92,191 or 9% due to increased appraisal values in the current year. Sales and franchise taxes increased by \$349,946 and \$36,607, respectively, primarily due to economic growth within the City. Investment income decreased by \$20,252 or 42% due to a lower utilization of interest bearing accounts. 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**



# City of Magnolia, Texas

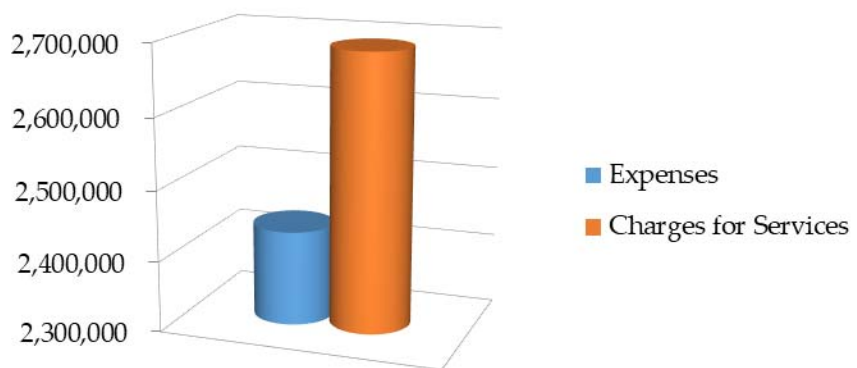
## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

### September 30, 2020

For the year ended September 30, 2020, expenses for governmental activities totaled \$3,904,420. This represents an increase of \$426,932 or 12% from the previous year. The City's largest functional expense is public safety of \$1,673,559, which is primarily the City's police department and municipal court. Public safety expenses remained consistent with the prior year. General government increased by \$69,411 or 7%, which is mainly attributed to an increase in inspection and contract services expenses. Public works expenses increased by \$358,314 or 51%, which is attributed to nonrecurring road repair and maintenance costs. Interest and fiscal charges decreased by \$17,203 or 11% due to long-term obligations approaching maturities.

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, 2020, charges for services by business-type activities totaled \$2,689,762. This is a decrease of \$2,515,144 or 48% from the previous year. The decrease is primarily due to nonrecurring impact fees imposed on new development projects in the prior year.

Total expenses increased by \$470,172 due primarily to nonrecurring grant administration expenses and bond issuance costs recognized, as the City issued new certificates of obligation in the current year.

### 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.

**City of Magnolia, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2020**

As of the end of the year the general fund reflected a total fund balance of \$1,915,704. There was an increase in the general fund balance of \$933,693 over the prior year. The increase was primarily related to revenues and transfers in exceeding current year expenditures.

The debt service fund ended the year with a fund balance of \$625,444. This is a slight decrease of \$555 from the prior year, which is considered minimal.

The HB 445 fund increased by \$82,872, bringing fund balance to \$1,587,338 as of year end. This is a result of sales tax revenues and investment income exceeding public work expenditures.

The Magnolia Ridge PID fund ended the year with an increase of \$4,949, resulting in an ending fund balance of \$20,960. The increase was a result of special assessment revenue exceeding annual expenses.

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 utility fund at year end was \$12,110,553. This represents an increase of \$858,419, primarily due to current year utility revenues exceeding expenses.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

There were various budget amendments approved during the year. Final budgeted revenue was \$610,084 more than originally budgeted due to the anticipation of greater sales tax revenues and licenses and permit revenues. Final budgeted expenditures was \$145,871 more than originally budgeted due to the anticipation of more general government expenditures and fewer public works expenditures than originally expected.

There was a total positive budget variance of \$500,918 in the general fund. Planned revenue had a positive variance of \$285,358. Planned expenditures were \$210,883 under budget. All revenue categories received more revenue than anticipated with the exception of property taxes, fines and forfeitures, and other revenues. All expenditures were less than budgeted.

#### **CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$3,935,859 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 \$16,479,916 in a variety of capital assets and infrastructure, net of accumulated depreciation.

# **City of Magnolia, Texas**

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

### **September 30, 2020**

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

- The purchase of new government-type vehicles and equipment totaling \$153,070.
- Timberbrook Estates drainage improvements totaling \$167,435.
- Nichols sawmill interceptor investments totaling \$1,237,844.
- The purchase of new business-type equipment totaling \$146,725.
- Construction in progress for wastewater treatment plant expansion and sanitation systems replacement totaling \$1,908,782.

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

#### **LONG-TERM DEBT**

At the end of the current year, the City had total bonds, certificates of obligations, and loans outstanding of \$23,138,344. During the year, the City issued Series 2019 certificates of obligation with a principal amount of \$11,255,000. There were principal payments totaling \$854,032 during the year. More detailed information about the City's long-term liabilities is presented in note IV. E 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 considering the impact of the COVID-19 pandemic as part of the preparation of the fiscal year 2021 budget.

#### **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, 2020**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 4,335,356	\$ 16,282,610	\$ 20,617,966
Investments	43,278	706,722	750,000
Receivables, net	677,020	452,407	1,129,427
Special assessments receivable - current	25,000	-	25,000
Prepays	66,301	45,288	111,589
<b>Total Current Assets</b>	<b>5,146,955</b>	<b>17,487,027</b>	<b>22,633,982</b>
Capital assets:			
Non-depreciable	320,116	4,311,599	4,631,715
Net depreciable capital assets	3,615,743	12,168,317	15,784,060
Special assessments receivable - noncurrent	1,535,000	-	1,535,000
Net pension asset	111,909	2,776	114,685
<b>Total Noncurrent Assets</b>	<b>5,582,768</b>	<b>16,482,692</b>	<b>22,065,460</b>
<b>Total Assets</b>	<b>10,729,723</b>	<b>33,969,719</b>	<b>44,699,442</b>
<b><u>Deferred Outflows of Resources</u></b>			
Charge on refunding	36,503	85,174	121,677
Pension contributions	59,397	1,473	60,870
Pension changes in assumptions	6,516	162	6,678
OPEB contributions	330	8	338
OPEB changes in assumptions	14,654	363	15,017
<b>Total Deferred Outflows of Resources</b>	<b>\$ 117,400</b>	<b>\$ 87,180</b>	<b>\$ 204,580</b>



Component Units			
4A Economic Development		4B Community Development	
\$	1,579,413	\$	667,323
	-		-
	150,680		75,340
	-		-
	-		-
	1,730,093		742,663
	987,199		74,626
	2,569,240		5,623
	-		-
	-		-
	3,556,439		80,249
	5,286,532		822,912
	-		-
	-		-
	-		-
	-		-
	-		-
\$	-	\$	-

**City of Magnolia, Texas**  
**STATEMENT OF NET POSITION (Page 2 of 2)**  
**September 30, 2020**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 502,676	\$ 851,155	\$ 1,353,831
Customer deposits	-	221,345	221,345
Accrued interest payable	24,927	158,811	183,738
Compensated absences - current	90,448	17,244	107,692
Long-term debt - current	113,500	1,150,372	1,263,872
	<u>731,551</u>	<u>2,398,927</u>	<u>3,130,478</u>
Noncurrent liabilities:			
OPEB liability	99,960	2,479	102,439
Compensated absences - noncurrent	10,050	1,916	11,966
Long-term debt - noncurrent	2,683,258	19,539,446	22,222,704
<b>Total Liabilities</b>	<u>3,524,819</u>	<u>21,942,768</u>	<u>25,467,587</u>
<b><u>Deferred Inflows of Resources</u></b>			
Pension difference expected and actual experience	86,669	2,150	88,819
Pension investment returns	51,050	1,266	52,316
OPEB difference expected and actual experience	6,537	162	6,699
<b>Total Deferred Inflows of Resources</b>	<u>144,256</u>	<u>3,578</u>	<u>147,834</u>
<b><u>Net Position</u></b>			
Net investment in capital assets	1,073,588	3,675,781	4,749,369
Restricted for:			
Debt service	625,444	-	625,444
Municipal court	63,517	-	63,517
Tourism	80,784	-	80,784
Capital projects	3,983	-	3,983
Road improvement	1,587,338	-	1,587,338
Red light camera	412,909	-	412,909
PID activities	20,960	-	20,960
Tree mitigation	9,600	-	9,600
Seized property	33,462	-	33,462
Economic development	-	-	-
Community development	-	-	-
Pensions	40,103	995	41,098
Unrestricted	3,226,360	8,433,777	11,660,137
<b>Total Net Position</b>	<u>\$ 7,178,048</u>	<u>\$ 12,110,553</u>	<u>\$ 19,288,601</u>

See Notes to Financial Statements.

Component Units	
4A Economic Development	4B Community Development
\$ 1,385	\$ 2,738
-	-
3,694	-
-	-
255,000	-
<u>260,079</u>	<u>2,738</u>
-	-
-	-
830,000	-
<u>1,090,079</u>	<u>2,738</u>
-	-
-	-
-	-
<u>-</u>	<u>-</u>
2,471,439	80,249
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
1,725,014	-
-	739,925
-	-
-	-
<u>\$ 4,196,453</u>	<u>\$ 820,174</u>

# City of Magnolia, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 1,009,603	\$ 684,237	\$ 392,005	\$ -
Public safety	1,673,559	280,436	-	-
Public works	1,067,492	-	-	-
Culture and recreation	16,465	-	-	-
Interest and fiscal charges	137,301	-	-	-
<b>Total Governmental Activities</b>	<u>3,904,420</u>	<u>964,673</u>	<u>392,005</u>	<u>-</u>
<b>Business-Type Activities</b>				
Water, Sewer, & Sanitation	2,443,937	2,689,762	205,362	178,100
<b>Total Business-Type Activities</b>	<u>2,443,937</u>	<u>2,689,762</u>	<u>205,362</u>	<u>178,100</u>
<b>Total Primary Government</b>	<u>\$ 6,348,357</u>	<u>\$ 3,654,435</u>	<u>\$ 597,367</u>	<u>\$ 178,100</u>
<b>Component Units</b>				
4A Economic Development	242,663	-	-	-
4B Community Development	288,865	-	-	-
<b>Total Component Units</b>	<u>\$ 531,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### General Revenues:

Taxes  
     Property taxes  
     Sales taxes  
     Franchise and local taxes  
     Hotel occupancy taxes  
     Special assessments  
 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**

<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>4A Economic Development</b>	<b>4B Community Development</b>
\$ 66,639	\$ -	\$ 66,639	\$ -	\$ -
(1,393,123)	-	(1,393,123)	-	-
(1,067,492)	-	(1,067,492)	-	-
(16,465)	-	(16,465)	-	-
(137,301)	-	(137,301)	-	-
(2,547,742)	-	(2,547,742)	-	-
-	629,287	629,287	-	-
-	629,287	629,287	-	-
(2,547,742)	629,287	(1,918,455)	-	-
			(242,663)	-
			-	(288,865)
			(242,663)	(288,865)
1,088,652	-	1,088,652	-	-
1,922,358	-	1,922,358	769,707	384,854
299,550	-	299,550	-	-
33,975	-	33,975	-	-
98,099	-	98,099	-	-
27,844	4,574	32,418	19,529	8,318
24,407	17,074	41,481	-	3,749
(207,484)	207,484	-	-	-
3,287,401	229,132	3,516,533	789,236	396,921
739,659	858,419	1,598,078	546,573	108,056
6,438,389	11,252,134	17,690,523	3,649,880	712,118
\$ 7,178,048	\$ 12,110,553	\$ 19,288,601	\$ 4,196,453	\$ 820,174

# City of Magnolia, Texas

## BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2020

	General	Debt Service	HB 445	Magnolia Ridge PID
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,361,855	\$ 582,166	\$ 1,766,100	\$ 20,960
Investments	-	43,278	-	-
Receivables, net	564,497	37,184	75,339	-
Special assessments receivable	-	-	-	1,560,000
Prepaid items	62,042	-	-	-
Due from other funds	258,654	-	-	-
<b>Total Assets</b>	<b>\$ 2,247,048</b>	<b>\$ 662,628</b>	<b>\$ 1,841,439</b>	<b>\$ 1,580,960</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 159,189	\$ -	\$ 254,101	\$ -
Due to other funds	-	-	-	-
<b>Total Liabilities</b>	<b>159,189</b>	<b>-</b>	<b>254,101</b>	<b>-</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue				
Property taxes	28,856	37,184	-	-
Property special assessments	-	-	-	1,560,000
Franchise taxes	20,224	-	-	-
Grants	123,075	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>172,155</b>	<b>37,184</b>	<b>-</b>	<b>1,560,000</b>
<b><u>Fund Balances</u></b>				
Nonspendable:				
Prepaid	62,042	-	-	-
Restricted for:				
Debt service	-	625,444	-	-
Municipal court	-	-	-	-
Tourism	-	-	-	-
Capital projects	-	-	-	-
Road improvement	-	-	1,587,338	-
Tree mitigation	-	-	-	-
Red light camera	-	-	-	-
Seized property	-	-	-	-
PID activities	-	-	-	20,960
Unrestricted	1,853,662	-	-	-
<b>Total Fund Balances</b>	<b>1,915,704</b>	<b>625,444</b>	<b>1,587,338</b>	<b>20,960</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 2,247,048</b>	<b>\$ 662,628</b>	<b>\$ 1,841,439</b>	<b>\$ 20,960</b>

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 604,275	\$ 4,335,356
-	43,278
-	677,020
-	1,560,000
4,259	66,301
-	258,654
<u>\$ 608,534</u>	<u>\$ 6,940,609</u>

\$ 89,386	\$ 502,676
258,654	258,654
<u>348,040</u>	<u>761,330</u>

-	66,040
-	1,560,000
-	20,224
-	123,075
<u>-</u>	<u>1,769,339</u>

4,259	66,301
-	625,444
63,517	63,517
80,784	80,784
3,983	3,983
-	1,587,338
9,600	9,600
412,909	412,909
33,462	33,462
-	20,960
(348,020)	1,505,642
<u>260,494</u>	<u>4,409,940</u>
<u>\$ 608,534</u>	<u>\$ 5,171,270</u>

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# City of Magnolia, Texas

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

September 30, 2020

<b>Fund Balances - Total Governmental Funds</b>	<b>\$ 4,409,940</b>
<b>Adjustments for the Statement of Net Position:</b>	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	320,116
Capital assets - net depreciable	3,615,743
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	66,040
Property special assessments receivable	1,560,000
Franchise tax receivable	20,224
Fines receivable	123,075
Net pension asset	111,909
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	36,503
Pension contributions	59,397
Pension changes in assumptions	6,516
OPEB contributions	330
OPEB changes in assumptions	14,654
Deferred inflows of resources represent a consumption of net position that applies to a future period and is not recognized as an inflow of resources until then.	
Pension difference expected and actual experience	(86,669)
Pension investment returns	(51,050)
OPEB difference expected and actual experience	(6,537)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(24,927)
Compensated absences	(100,498)
Bond premium	(63,251)
Bond discount	104,493
OPEB liability	(99,960)
Non-current liabilities due in one year	(113,500)
Non-current liabilities due in more than one year	(2,724,500)
<b>Net Position of Governmental Activities</b>	<b>\$ 7,178,048</b>

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, 2020

	General	Debt Service	HB 445	Magnolia Ridge PID
<b><u>Revenues</u></b>				
Property tax	\$ 410,409	\$ 657,218	\$ -	\$ -
Sales tax	1,537,504	-	384,854	-
Franchise tax	295,567	-	-	-
Hotel occupancy tax	-	-	-	-
Special assessments	-	-	-	123,099
Licenses and permits	684,237	-	-	-
Fines and forfeitures	259,777	-	-	-
Intergovernmental	268,930	-	-	-
Investment income	-	1,358	18,151	-
Other	7,828	-	-	-
<b>Total Revenues</b>	<b>3,464,252</b>	<b>658,576</b>	<b>403,005</b>	<b>123,099</b>
<b><u>Expenditures</u></b>				
Current:				
General government	970,134	-	-	2,805
Public safety	1,345,014	-	-	-
Municipal court	161,764	-	-	-
Parks and recreation	5,326	-	-	-
Public works	569,321	-	320,133	-
Tourism	-	-	-	-
Debt Service:				
Principal	-	85,500	-	25,000
Interest and fiscal charges	-	45,027	-	90,345
Capital Outlay	6,937	-	-	-
<b>Total Expenditures</b>	<b>3,058,496</b>	<b>130,527</b>	<b>320,133</b>	<b>118,150</b>
<b>Excess of Revenues</b>				
<b>Over (Under) Expenditures</b>	<b>405,756</b>	<b>528,049</b>	<b>82,872</b>	<b>4,949</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	509,419	-	-	-
Transfers (out)	-	(528,604)	-	-
Proceeds from sale of assets	18,518	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>527,937</b>	<b>(528,604)</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>933,693</b>	<b>(555)</b>	<b>82,872</b>	<b>4,949</b>
Beginning fund balances	982,011	625,999	1,504,466	16,011
<b>Ending Fund Balances</b>	<b>\$ 1,915,704</b>	<b>\$ 625,444</b>	<b>\$ 1,587,338</b>	<b>\$ 20,960</b>

See Notes to Financial Statements.

<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 1,067,627
-	1,922,358
3,983	299,550
33,975	33,975
-	123,099
-	684,237
29,824	289,601
-	268,930
8,335	27,844
-	7,828
<u>76,117</u>	<u>4,725,049</u>
276	973,215
-	1,345,014
161,703	323,467
-	5,326
-	889,454
25,931	25,931
-	110,500
-	135,372
168,836	175,773
<u>356,746</u>	<u>3,984,052</u>
(280,629)	740,997
-	509,419
(188,299)	(716,903)
-	18,518
<u>(188,299)</u>	<u>(188,966)</u>
(468,928)	552,031
729,422	3,857,909
<u>\$ 260,494</u>	<u>\$ 4,409,940</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, 2020**

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

Net changes in fund balances - total governmental funds	\$ 552,031
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	321,906
Depreciation expense	(286,648)
Adjustment for disposal of capital assets	(1,939)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	109,935
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	(4,020)
Accrued interest	1,153
Pension expense	(50,938)
OPEB expense	(9,239)
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	(3,042)
Amortization of premium	3,979
Amortization of discount	(4,019)
Principal payments	110,500
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 739,659</b>

See Notes to Financial Statements.

# City of Magnolia, Texas

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

September 30, 2020

	Utility Fund
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$ 16,282,610
Investments	706,722
Receivables, net	452,407
Prepaid items	45,288
<b>Total Current Assets</b>	<b>17,487,027</b>
<b><u>Noncurrent Assets</u></b>	
Capital assets:	
Non-depreciable	4,311,599
Net depreciable	12,168,317
Net pension asset	2,776
<b>Total Noncurrent Assets</b>	<b>16,482,692</b>
<b>Total Assets</b>	<b>33,969,719</b>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred charge on refunding	85,174
Pension contributions	1,473
Pension changes in assumptions	162
OPEB changes in assumptions	363
OPEB contributions	8
<b>Total Deferred Outflows of Resources</b>	<b>87,180</b>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts payable and accrued liabilities	851,155
Customer deposits	221,345
Accrued interest	158,811
Compensated absences - current	17,244
Long term debt - current	1,150,372
<b>Total Current Liabilities</b>	<b>2,398,927</b>
<b><u>Noncurrent Liabilities</u></b>	
OPEB liability	2,479
Compensated absences - noncurrent	1,916
Long term debt - noncurrent	19,539,446
<b>Total Liabilities</b>	<b>21,942,768</b>
<b><u>Deferred Inflows of Resources</u></b>	
Pension difference expected and actual experience	2,150
Pension investment returns	1,266
OPEB difference expected and actual experience	162
<b>Total Deferred Inflows of Resources</b>	<b>3,578</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	3,675,781
Restricted for pensions	995
Unrestricted	8,433,777
<b>Total Net Position</b>	<b>\$ 12,110,553</b>

See Notes to Financial Statements.

# City of Magnolia, Texas

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

For the Year Ended September 30, 2020

	Utility Fund
<b><u>Operating Revenues</u></b>	
Water sales	\$ 1,365,984
Sewer revenue	1,135,548
Garbage collection	188,230
Other revenue	17,074
<b>Total Operating Revenues</b>	<b>2,706,836</b>
<b><u>Operating Expenses</u></b>	
Cost of water	484,798
Cost of sewer	539,918
Cost of garbage	154,875
Grant administration	71,850
Depreciation	471,421
<b>Total Operating Expenses</b>	<b>1,722,862</b>
<b>Operating Income</b>	<b>983,974</b>
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment income	4,574
Interest expense	(469,875)
Bond issuance costs	(251,200)
Intergovernmental	205,362
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(511,139)</b>
<b>Income Before Capital Contributions and Transfers</b>	<b>472,835</b>
<b>Total Capital Contributions and Transfers</b>	
Capital contributions	178,100
Transfers in	528,604
Transfers (out)	(321,120)
<b>Total Capital Contributions and Transfers</b>	<b>385,584</b>
<b>Change in Net Position</b>	<b>858,419</b>
Beginning net position	11,252,134
<b>Ending Net Position</b>	<b>\$ 12,110,553</b>

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, 2020

	Utility Fund
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 2,629,596
Payments to suppliers and employees	(769,509)
<b>Net Cash Provided by Operating Activities</b>	<b>1,860,087</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Intergovernmental contributions	205,362
Transfers in	528,604
Transfers (out)	(321,120)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>412,846</b>
<b><u>Cash Flows from (to) Capital and Related Financing Activities</u></b>	
Purchases of capital assets, net	(3,596,161)
Cash paid for trade-in of capital assets	4,620
Capital contributions	178,100
Proceeds from issuance of debt	11,255,000
Principal paid on debt	(743,532)
Interest paid on debt	(452,494)
Loan issuance costs paid	(251,200)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>6,394,333</b>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest on investments	4,574
<b>Net Cash Provided by Investing Activities</b>	<b>4,574</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>8,671,840</b>
Beginning cash and cash equivalents	8,317,492
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 16,989,332</b>

See Notes to Financial Statements.



# City of Magnolia, Texas

## STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2020

	<u>Utility Fund</u>
<b><u>Reconciliation of Operating Income</u></b>	
<b><u>to Net Cash Provided by Operating Activities</u></b>	
Operating Income	\$ 983,974
Adjustments to reconcile operating income to net cash provided:	
Depreciation	471,421
Gain from sale of capital assets	(4,618)
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	(36,523)
Prepaid items	(40,717)
Deferred outflows:	
Pension contributions	(1,021)
OPEB changes in assumptions	(374)
Pension changes in assumption	(162)
Deferred inflows:	
Pension difference in experience	1,374
Pension investment returns	3,152
OPEB difference in experience	98
Net pension asset	(2,071)
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	452,900
Customer deposits	32,155
OPEB liability	499
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 1,860,087</u></b>
<b><u>Schedule of Non-Cash Capital and Related Financing Activities:</u></b>	
Trade-in of capital assets	\$ 81,252

See Notes to Financial Statements.

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**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2020**

**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.

# City of Magnolia, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2020

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:

#### **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. The EDC does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. 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. The CDC does not provide services entirely, or almost entirely to the City, nor does it maintain debt of any type that are repaid using City resources. The CDC does not issue separate financial statements.

#### **Blended Component Unit**

**Public Improvement District No. 1:** The City of Magnolia Ridge Phase 1 Public Improvement District (the “PID”) was created pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the “PID Act”) and a resolution of the City Council. The PID was organized to finance certain public improvement District No. 1 Special Assessment Revenue Bonds to assist in the acquisition, construction and maintenance of the public improvements provided for the benefit of the property in the PID. The PID is governed by the City Council, and accordingly has been reported as a blended component unit.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**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, 2020**

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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**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 for street improvements. The HB445 fund is considered to be a major fund for reporting purposes.

**Magnolia Ridge PID Fund**

The Magnolia Ridge PID fund is used to account for the receipt of assessed property taxes and expenditure for the Public Improvement District. The Magnolia Ridge PID 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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

The government reports the following major enterprise fund:

**Utility 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.

**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.



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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.

**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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**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 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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**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. 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.

<b>Asset Description</b>	<b>Estimated Useful Life</b>
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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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.

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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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.

**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

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

**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.

**14. Other Postemployment Benefits (OPEB)**

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits plan, with retiree coverage. The TMRS Supplemental Death Benefits Fund (SDBF) covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**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 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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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

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

**A. Expenditures Over Appropriations**

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

HB 445 Fund:

Public works	\$ 20,133
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Magnolia Ridge PID:

General government:	\$ 2,805
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**B. Deficit Fund Equity**

As of September 30, 2020, the Capital Projects and Municipal Court Technology funds had a deficit fund balance of \$347,013 and \$1,007, respectively. These deficits will be eliminated in the future with transfers from other funds, reduction in expenses, or increased revenues.



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2020, the primary government had the following investments:

<b>Investment Type</b>	<b>Carrying Value</b>	<b>Average Maturity (Years)</b>
Certificates of deposits	750,000	0.17
Total fair value	<u>\$ 750,000</u>	
Portfolio weighted average maturity		0.17

*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, 2020, the market value of a letter of credit 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.

# City of Magnolia, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2020

#### B. Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are remeasured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City's financial instruments consist of cash and cash equivalents, investments in certificates of deposit, and accounts receivable. The estimated fair value of cash, cash equivalents, investments, and accounts receivable approximate their carrying amounts due to the short-term nature of these instruments.

#### C. Receivables

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

	<b>General</b>	<b>Debt Service</b>	<b>HB 445</b>	<b>Utility</b>	<b>Total</b>
Property taxes	\$ 28,856	\$ 37,184	\$ -	\$ -	\$ 66,040
Sales tax	301,271	-	75,339	-	376,610
Grants	123,075	-	-	36,500	159,575
Franchise tax	71,933	-	-	-	71,933
Mixed beverage	5,228	-	-	-	5,228
Other receivables	34,134	-	-	-	34,134
Accounts	-	-	-	472,334	472,334
Allowance	-	-	-	(56,427)	(56,427)
	<u>\$ 564,497</u>	<u>\$ 37,184</u>	<u>\$ 75,339</u>	<u>\$ 452,407</u>	<u>\$ 1,129,427</u>

The following comprise receivable balances of the component units at year end:

	<b>4A Economic Development</b>	<b>4B Community Development</b>	<b>Total</b>
Sales tax	\$ 150,680	\$ 75,340	\$ 226,020
	<u>\$ 150,680</u>	<u>\$ 75,340</u>	<u>\$ 226,020</u>

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**D. Capital Assets**

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

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases/ Reclassifications</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 144,873	\$ -	\$ -	\$ 144,873
Construction in progress	7,808	167,435	-	175,243
Total capital assets not being depreciated	<u>152,681</u>	<u>167,435</u>	<u>-</u>	<u>320,116</u>
Capital assets, being depreciated:				
Buildings and improvements	771,541	-	-	771,541
Vehicles and equipment	975,021	153,071	(113,765)	1,014,327
Infrastructure	6,511,174	1,400	-	6,512,574
Total capital assets being depreciated	<u>8,257,736</u>	<u>154,471</u>	<u>(113,765)</u>	<u>8,298,442</u>
Less accumulated depreciation				
Buildings and improvements	(279,396)	(28,532)	-	(307,928)
Vehicles and equipment	(700,830)	(108,428)	111,826	(697,432)
Infrastructure	(3,527,651)	(149,688)	-	(3,677,339)
Total accumulated depreciation	<u>(4,507,877)</u>	<u>(286,648)</u>	<u>111,826</u>	<u>(4,682,699)</u>
Net capital assets being depreciated	<u>3,749,859</u>	<u>(132,177)</u>	<u>(1,939)</u>	<u>3,615,743</u>
<b>Total Capital Assets</b>	<u><u>\$ 3,902,540</u></u>	<u><u>\$ 35,258</u></u>	<u><u>\$ (1,939)</u></u>	<u><u>\$ 3,935,859</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 13,907
Public safety	97,373
Court	6,288
Public works	169,080
<b>Total Governmental Activities Depreciation Expense</b>	<u><u>\$ 286,648</u></u>

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 652,361	\$ -	\$ -	\$ 652,361
Construction in progress	1,366,394	2,292,844	-	3,659,238
Total capital assets not being depreciated	<u>2,018,755</u>	<u>2,292,844</u>	<u>-</u>	<u>4,311,599</u>
Capital assets, being depreciated:				
Water and sewer system	15,519,701	1,293,864	(16,400)	16,797,165
Vehicles and equipment	177,771	90,705	(91,140)	177,336
Total capital assets being depreciated	<u>15,697,472</u>	<u>1,384,569</u>	<u>(107,540)</u>	<u>16,974,501</u>
Less accumulated depreciation				
Water and sewer system	(4,288,691)	(463,766)	16,400	(4,736,057)
Vehicles and equipment	(72,360)	(7,655)	9,888	(70,127)
Total accumulated depreciation	<u>(4,361,051)</u>	<u>(471,421)</u>	<u>26,288</u>	<u>(4,806,184)</u>
Net capital assets being depreciated	<u>11,336,421</u>	<u>913,148</u>	<u>(81,252)</u>	<u>12,168,317</u>
<b>Total Capital Assets</b>	<u><u>\$ 13,355,176</u></u>	<u><u>\$ 3,205,992</u></u>	<u><u>\$ (81,252)</u></u>	<u><u>\$ 16,479,916</u></u>

Depreciation expense for business-type activities as of September 30, 2020 was \$471,421.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 987,199	\$ -	\$ -	\$ 987,199
Total capital assets not being depreciated	<u>987,199</u>	<u>-</u>	<u>-</u>	<u>987,199</u>
Capital assets, being depreciated:				
Buildings and improvements	714,620	-	-	714,620
Unity Park & Downtown	2,721,315	-	-	2,721,315
Pavement improvements	1,123,932	-	-	1,123,932
Equipment	7,150	-	-	7,150
Total capital assets being depreciated	<u>4,567,017</u>	<u>-</u>	<u>-</u>	<u>4,567,017</u>
Less accumulated depreciation				
Buildings and improvements	(320,063)	(17,866)	-	(337,929)
Unity Park & Downtown	(725,634)	(90,711)	-	(816,345)
Pavement improvements	(780,157)	(56,196)	-	(836,353)
Equipment	(7,150)	-	-	(7,150)
Total accumulated depreciation	<u>(1,833,004)</u>	<u>(164,773)</u>	<u>-</u>	<u>(1,997,777)</u>
Net capital assets being depreciated	<u>2,734,013</u>	<u>(164,773)</u>	<u>-</u>	<u>2,569,240</u>
<b>Total Capital Assets</b>	<u><u>\$ 3,721,212</u></u>	<u><u>\$ (164,773)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,556,439</u></u>

Depreciation expense for Magnolia 4A Economic Development Corporation as of September 30, 2020 was \$164,773.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases/ Reclassifications</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 74,626	\$ -	\$ -	\$ 74,626
Total capital assets not being depreciated	<u>74,626</u>	<u>-</u>	<u>-</u>	<u>74,626</u>
Capital assets, being depreciated:				
Buildings and improvements	5,425	-	-	5,425
Equipment	14,298	-	-	14,298
Total capital assets being depreciated	<u>19,723</u>	<u>-</u>	<u>-</u>	<u>19,723</u>
Less accumulated depreciation				
Buildings and improvements	(2,121)	(362)	-	(2,483)
Equipment	(9,641)	(1,976)	-	(11,617)
Total accumulated depreciation	<u>(11,762)</u>	<u>(2,338)</u>	<u>-</u>	<u>(14,100)</u>
Net capital assets being depreciated	<u>7,961</u>	<u>(2,338)</u>	<u>-</u>	<u>5,623</u>
<b>Total Capital Assets</b>	<u><u>\$ 82,587</u></u>	<u><u>\$ (2,338)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 80,249</u></u>

Depreciation expense for Magnolia 4B Community Development Corporation as of September 30, 2020 was \$2,338.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**E. Long-term Debt**

The City periodically issues general obligation bonds, certificates of obligations, or other long-term obligations to provide funds for general government purposes. In general, the City uses the debt service fund to liquidate governmental long-term liabilities, except for special assessment bonds which are fully covered by assessment receivables. The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2020.

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due within One Year</b>
<b>Governmental Activities:</b>					
General obligation refunding	\$ 1,363,500	\$ -	\$ (85,500)	\$ 1,278,000	\$ 88,500
PID Special assessment bond	1,585,000	-	(25,000)	1,560,000	25,000
Premium	67,230	-	(3,979)	63,251	-
Discount	(108,512)	-	4,019	(104,493)	-
<b>Total Governmental Activities</b>	<b>\$ 2,907,218</b>	<b>\$ -</b>	<b>\$ (110,460)</b>	<b>\$ 2,796,758</b>	<b>\$ 113,500</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 2,683,258</b>	
<b>Business-Type Activities:</b>					
General obligation refunding	\$ 3,181,500	\$ -	\$ (199,500)	\$ 2,982,000	\$ 206,500
Certificates of obligation	4,640,000	11,255,000	(110,000)	15,785,000	755,000
TXDOT SIB	682,020	-	(47,686)	634,334	48,437
Bridge loan	250,000	-	(250,000)	-	-
Premium	408,379	-	(18,905)	389,474	-
State infrastructure loan	1,035,356	-	(136,346)	899,010	140,435
<b>Total Business-Type Activities</b>	<b>\$ 10,197,255</b>	<b>\$ 11,255,000</b>	<b>\$ (762,437)</b>	<b>\$ 20,689,818</b>	<b>\$ 1,150,372</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 19,539,446</b>	
<b>Magnolia 4A Economic Development Corporation</b>					
Revenue & refunding bonds	\$ 1,330,000	\$ -	\$ (245,000)	\$ 1,085,000	\$ 255,000
<b>Total Economic Development Activities</b>	<b>\$ 1,330,000</b>	<b>\$ -</b>	<b>\$ (245,000)</b>	<b>\$ 1,085,000</b>	<b>\$ 255,000</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 830,000</b>	

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, 2020**

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

Description	Interest Rates	Original Balance	Current Balance
<b>Governmental Activities:</b>			
2014 General obligation refunding bonds (30%)	2.00 - 4.00%	\$ 1,758,000	\$ 1,278,000
2018 PID Special Assessments Bond	5.70%	1,665,000	1,560,000
<b>Total Governmental Activities</b>		<b>\$ 3,423,000</b>	<b>\$ 2,838,000</b>
<b>Business-type Activities:</b>			
2014 General obligation refunding bonds (70%)	2.00 - 4.00%	\$ 4,102,000	\$ 2,982,000
2014 Certificates of obligation	2.00 - 4.00%	4,960,000	4,530,000
2019 Certificates of obligation	2.25%	11,255,000	11,255,000
State infrastructure loan	3.00%	2,000,000	899,010
TXDOT SIB 2017	3.15%	1,000,000	634,334
<b>Total Business-Type Activities</b>		<b>\$ 23,317,000</b>	<b>\$ 20,300,344</b>
<b>Total Long-Term Debt</b>			
2014 Certificates of obligation	2.00 - 4.00%	\$ 4,960,000	\$ 4,530,000
2014 General obligation refunding bonds	2.00 - 4.00%	5,860,000	4,260,000
2019 Certificates of obligation	2.25%	11,255,000	11,255,000
2018 PID Special Assessments Bond	5.70%	1,665,000	1,560,000
State infrastructure loan	3.00%	2,000,000	899,010
TXDOT SIB 2017	3.15%	1,000,000	634,334
<b>Total</b>		<b>\$ 26,740,000</b>	<b>\$ 23,138,344</b>



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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

Year ending September 30,	Governmental Activities			
	2018 PID Special Assessment Bond		2014 G.O. Refunding Bonds	
	Principal	Interest	Principal	Interest
2021	\$ 25,000	\$ 88,920	\$ 88,500	\$ 41,918
2022	30,000	87,495	91,500	39,218
2023	30,000	85,785	94,500	36,428
2024	30,000	84,075	99,000	33,525
2025	35,000	82,365	99,000	30,555
2026	35,000	80,370	102,000	27,540
2027-2031	215,000	368,790	319,500	101,025
2032-2036	285,000	300,105	313,500	46,350
2037-2041	375,000	208,770	70,500	1,410
2042-2046	500,000	88,350	-	-
	<u>\$ 1,560,000</u>	<u>\$ 1,475,025</u>	<u>\$ 1,278,000</u>	<u>\$ 357,968</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.

The Special Assessment Revenue Bonds, Series 2018 (Magnolia Ridge Phase 1 Public Improvement District), were issued on January 1, 2018 in the amount of \$1,665,000 to fund the development of the PID. The interest rate of the bonds is 5.7% and the maturity date is September 1, 2046.

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
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
2026-2030	715,000	715,775
2031-2035	865,000	558,100
2036-2040	1,055,000	367,100
2036-2040	1,290,000	133,200
	<u>\$ 4,530,000</u>	<u>\$ 2,607,613</u>

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

Year ending September 30,	Business -Type Activities	
	2019 Certificates of Obligation	
	Principal	Interest
2021	\$ 640,000	\$ 246,038
2022	655,000	231,469
2023	665,000	216,619
2024	680,000	201,488
2025	700,000	185,963
2026-2030	3,735,000	684,056
2031-2035	4,180,000	239,400
	<u>\$ 11,255,000</u>	<u>\$ 2,005,033</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.

On November 21, 2019, the City issued the Series 2019 certificates of obligation with a principal amount of \$11,255,000, due in annual installments through 2035, bearing an interest rate of 2.25%.

Year ending September 30,	Business-Type Activities					
	2014 G.O. Refunding Bonds		State Infrastructure Loan		TX DOT SIB 2017	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 206,500	\$ 97,808	\$ 140,435	\$ 24,864	\$ 48,437	\$ 19,982
2022	213,500	91,508	144,646	20,588	49,200	18,456
2023	220,500	84,998	148,983	16,183	49,975	16,906
2024	231,000	78,225	153,451	11,646	50,762	15,332
2025	231,000	71,295	158,052	6,974	51,562	13,732
2026	238,000	64,260	153,443	2,302	52,374	12,108
2027	248,500	56,963	-	-	53,199	10,458
2028	119,000	51,153	-	-	54,037	8,782
2029	122,500	46,926	-	-	54,888	7,080
2030	126,000	42,578	-	-	55,752	5,352
2031	129,500	38,106	-	-	56,630	3,596
2032	136,500	33,110	-	-	57,518	1,812
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>\$ 2,982,000</u>	<u>\$ 835,258</u>	<u>\$ 899,010</u>	<u>\$ 82,557</u>	<u>\$ 634,334</u>	<u>\$ 133,596</u>

# City of Magnolia, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2020

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.

On May 9, 2017, the City approved the issuance of a SIB loan in the amount of \$1,000,000. The loan bears an interest rate of 3.15%. Annual principal payments are due through 2032. Semi-annually interest payments are due in December and June. The funds will to be used to relocate the city water and sewer lines out of the TXDOT right-of-way.

The bridge loan was made in January 2019 in the amount of \$250,000, to be used for the purchase of a new utility water treatment plant. The loan bears an interest rate of 4.5%. Payment terms consist of semi-annual interest payments due every 6 months and annual principal payments due through 2021.

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

Year ending September 30,	<u>Magnolia 4A EDC Activities</u>	
	<u>2012 Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 255,000	\$ 46,113
2022	265,000	35,275
2023	275,000	24,013
2024	290,000	12,325
	<u>\$ 1,085,000</u>	<u>\$ 117,726</u>

#### F. 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 \$36,503 and \$85,174, respectively. Current year amortization expense for governmental activities and business-type activities totaled \$3,042 and \$7,098, respectively.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**G. Compensated Absences**

The following summarizes the changes in the compensated absences balances of the primary government during the year. In general, the City uses the general and utility funds to liquidate governmental and business-type activities compensated absences, respectively.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 96,478	\$ 4,020	\$ -	\$ 100,498	\$ 90,448
<b>Total Governmental Activities</b>	<u>\$ 96,478</u>	<u>\$ 4,020</u>	<u>\$ -</u>	<u>\$ 100,498</u>	<u>\$ 90,448</u>
Other long-term liabilities due in more than one year				<u>\$ 10,050</u>	
<b>Business-Type Activities:</b>					
Compensated absences	\$ 19,160	\$ -	\$ -	\$ 19,160	\$ 17,244
<b>Total Business-Type Activities</b>	<u>\$ 19,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,160</u>	<u>\$ 17,244</u>
Other long-term liabilities due in more than one year				<u>\$ 1,916</u>	

**H. Interfund Transactions**

Transfers between the primary government funds during the 2020 year were as follows:

<u>Transfer in:</u>	<u>Transfer out:</u>			<u>Total</u>
	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Utility</u>	
General	\$ -	\$ 188,299	\$ 321,120	\$ 509,419
Utility	528,604	-	-	528,604
<b>Total</b>	<u>\$ 528,604</u>	<u>\$ 188,299</u>	<u>\$ 321,120</u>	<u>\$ 1,038,023</u>

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

<u>Due from:</u>	<u>Due to:</u>	
	<u>Nonmajor Governmental</u>	<u>Total</u>
General Fund	\$ 258,654	\$ 258,654
<b>Total</b>	<u>\$ 258,654</u>	<u>\$ 258,654</u>

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

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**I. 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 and Component Units:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Restricted for:			
Debt service	\$ 625,444	\$ -	\$ -
* Municipal court	63,517	-	-
* Tourism	80,784	-	-
Capital projects	3,983	-	-
Road improvement	1,587,338	-	-
Red light camera	412,909	-	-
PID activities	20,960	-	-
Tree mitigation	9,600	-	-
Seized property	33,462	-	-
Pensions	40,103	995	-
Economic development	-	-	1,725,014
Community development	-	-	739,925
<b>Total</b>	<u><u>\$ 2,878,100</u></u>	<u><u>\$ 995</u></u>	<u><u>\$ 2,464,939</u></u>

\*Restricted by enabling legislation

**V. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 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.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

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 number of payouts, and other economic and social factors.

The City of Magnolia has an agreement with the developer of the Magnolia Ridge TIRZ (Tax Reinvestment Zone) in which the City is to contribute fifty percent (50%) of its Tax Increment generated from ad valorem taxes on real property in the zone since the appraised value baseline of tax year 2016. As there have been no increases in property values since the date of the agreement, no payments have been made or are currently owed to the developer. Assessed value of the properties are reviewed on an annual basis. As assessed values increase, payments to the developer will commence in order to pay the agreed upon not to exceed amount of \$2,450,000.

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 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.

**City of Magnolia, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2020

**D. Pension Plans**

**Texas Municipal Retirement Systems**

**1. Plan Description**

The City of Magnolia, Texas participates as one of 888 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](http://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.

# City of Magnolia, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2020

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

	<u>Plan Year 2019</u>	<u>Plan Year 2018</u>
Employee deposit rate	6.00%	6.00%
Matching ratio (city to employee)	2 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

#### **Employees covered by benefit terms**

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	30
Active employees	<u>31</u>
<b>Total</b>	<b><u>74</u></b>

### **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 1.67% and 5.40% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$67,285.



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**4. Net Pension Liability (Asset)**

The City's Net Pension Liability (Asset) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

**Actuarial assumptions**

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 16 mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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. In determining their best estimate of a

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
<b>Total</b>	<b>100.0%</b>	

**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:

<u>1% Decrease 5.75%</u>	<u>Current Single Rate Assumption 6.75%</u>	<u>1% Increase 7.75%</u>
<u>\$ 108,274</u>	<u>\$ (114,685)</u>	<u>\$ (300,907)</u>

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**Changes in the Net Pension Liability (Asset)**

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
<b>Balance at 12/31/18</b>	\$ 1,461,087	\$ 1,490,116	\$ (29,029)
Changes for the year:			
Service Cost	172,708	-	172,708
Interest	106,816	-	106,816
Change in benefit terms	67,532	-	67,532
Difference between expected and actual experience	(98,186)	-	(98,186)
Changes of assumptions	9,071	-	9,071
Contributions – employer	-	25,015	(25,015)
Contributions – employee	-	89,874	(89,874)
Net investment income	-	230,050	(230,050)
Benefit payments, including refunds of emp. contributions	(65,015)	(65,015)	-
Administrative expense	-	(1,302)	1,302
Other changes	-	(40)	40
Net changes	192,926	278,582	(85,656)
<b>Balance at 12/31/19</b>	<b>\$ 1,654,013</b>	<b>\$ 1,768,698</b>	<b>\$ (114,685)</b>

**Pension Plan Fiduciary Net Position**

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

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

For the year ended September 30, 2020, the City recognized pension expense of \$119,492.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Contributions subsequent to the measurement date	\$ 60,870	\$ -
Difference in expected and actual economic experience	-	(88,819)
Change in actuarial assumptions	6,678	-
Difference between projected and actual investment earnings	-	(52,316)
<b>Total</b>	<b>\$ 67,548</b>	<b>\$ (141,135)</b>

The City reported \$60,870 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>		
2020	\$	(50,087)
2021		(43,109)
2022		(15,366)
2023		(25,895)
2024		-
Thereafter		-
	<b>\$</b>	<b>(134,457)</b>

**E. Postemployment Benefits Other Than Pensions**

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

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

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

The City offers supplemental death to:	Plan Year 2019	Plan Year 2018
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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.

**Employees covered by benefit terms**

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	9
Active employees	31
Total	52

The City's contributions to the TMRS SDBF for the years ended 2020, 2019 and 2018 were \$453, \$499 and \$604, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates  
*(RETIREE-only portion of the rate)*

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2018	0.04%	0.04%	100.0%
2019	0.03%	0.03%	100.0%
2020	0.03%	0.03%	100.0%

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**Total OPEB Liability**

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2019, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

**Actuarial assumptions:**

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	2.75%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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 Tables with Blue Collar Adjustment, 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.

**Discount Rate:**

The discount rate used to measure the Total OPEB Liability was 2.75%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

<b>1% Decrease (1.75%)</b>	<b>Current Single Rate Assumption 2.75%</b>	<b>1% Increase (3.75%)</b>
\$ 126,019	\$ 102,439	\$ 84,537

**Changes in the Total OPEB Liability:**

	<b>Total OPEB Liability</b>
<b>Balance at 12/31/18</b>	\$ 81,560
Changes for the year:	
Service Cost	4,793
Interest	3,106
Difference between expected and actual experience	(5,586)
Changes of assumptions	19,015
Benefit payments	(449)
Net changes	20,879
<b>Balance at 12/31/19</b>	<b>\$ 102,439</b>

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended September 30, 2020, the City recognized OPEB expense of \$9,914.

**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Contributions subsequent to measurement date	\$ 338	\$ -
Differences between expected and actual economic experience	-	(6,699)
Changes in assumptions	15,017	-
<b>Total</b>	<b>\$ 15,355</b>	<b>\$ (6,699)</b>

The City reported \$338 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2021.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year ended December 31:</b>		
2020	\$	2,015
2021		2,015
2022		1,919
2023		931
2024		1,438
Thereafter		-
	<b>\$</b>	<b>8,318</b>



**City of Magnolia, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2020**

**F. Restatement**

The City has restated the beginning fund balance and net position of governmental activities due to the omission of a special revenue fund (Tree Mitigation) in the prior year. The restatement of beginning fund balances and net position are as follows:

	<u>Governmental Activities</u>	<u>Nonmajor Governmental</u>
Prior year ending net position/ fund balance, as reported	\$ 6,428,789	\$ 719,822
Addition of special revenue fund	9,600	9,600
Restated beginning net position/fund balance	<u>\$ 6,438,389</u>	<u>\$ 729,422</u>

**G. Subsequent Events**

No subsequent events occurred prior to December 16, 2020, the date the financial statements were issued.

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## ***REQUIRED SUPPLEMENTARY INFORMATION***

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**City of Magnolia, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended September 30, 2020**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>				
Property tax	\$ 411,310	\$ 411,310	\$ 410,409	\$ (901)
Sales tax	1,205,000	1,323,712	1,537,504	213,792
Franchise tax	263,000	263,000	295,567	32,567
Licenses and permits	182,500	652,500	684,237	31,737
Fines and forfeitures	452,000	290,924	259,777	(31,147)
Intergovernmental	47,000	229,448	268,930	39,482
Other	8,000	8,000	7,828	(172)
<b>Total Revenues</b>	<b>2,568,810</b>	<b>3,178,894</b>	<b>3,464,252</b>	<b>285,358</b>
<b><u>Expenditures</u></b>				
Current:				
General government	877,247	1,046,876	970,134	76,742
Public safety	1,406,997	1,408,802	1,345,014	63,788
Municipal court	190,441	190,441	161,764	28,677
Parks and recreation	23,900	14,400	5,326	9,074
Public works	624,923	601,923	569,321	32,602
Capital outlay	-	6,937	6,937	-
<b>Total Expenditures</b>	<b>3,123,508</b>	<b>3,269,379</b>	<b>3,058,496</b>	<b>210,883</b>
<b>Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>(554,698)</b>	<b>(90,485)</b>	<b>405,756</b>	<b>496,241</b>
<b><u>Other Financing Sources</u></b>				
Transfers in	548,034	513,260	509,419	(3,841)
Proceeds from sale of assets	10,000	10,000	18,518	8,518
<b>Total Other Financing Sources</b>	<b>558,034</b>	<b>523,260</b>	<b>527,937</b>	<b>4,677</b>
<b>Net Change in Fund Balance</b>	<b>\$ 3,336</b>	<b>\$ 432,775</b>	<b>933,693</b>	<b>\$ 500,918</b>
Beginning fund balance			982,011	
<b>Ending Fund Balance</b>			<b>\$ 1,915,704</b>	

Notes to Required Supplementary Information

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

**City of Magnolia, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**HB 445 FUND**  
**For the Year Ended September 30, 2020**

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Sales tax	\$ 300,000	\$ 384,854	\$ 84,854
Investment income	10,000	18,151	8,151
<b>Total Revenues</b>	<b>310,000</b>	<b>403,005</b>	<b>93,005</b>
<b><u>Expenditures</u></b>			
Current:			
Public works	300,000	320,133	(20,133) *
<b>Total Expenditures</b>	<b>300,000</b>	<b>320,133</b>	<b>(20,133)</b>
<b>Revenues Over (Under) Expenditures</b>	<b>10,000</b>	<b>82,872</b>	<b>72,872</b>
<b>Net Change in Fund Balance</b>	<b>\$ 10,000</b>	<b>82,872</b>	<b>\$ 72,872</b>
Beginning fund balance		1,504,466	
<b>Ending Fund Balance</b>		<b>\$ 1,587,338</b>	

Notes to Required Supplementary Information

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

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

**City of Magnolia, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**MAGNOLIA RIDGE PID FUND**  
**For the Year Ended September 30, 2020**

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Special assessments	124,315	\$ 123,099	\$ (1,216)
<b>        Total Revenues</b>	<b>124,315</b>	<b>123,099</b>	<b>(1,216)</b>
<b><u>Expenditures</u></b>			
Current:			
General government	-	2,805	(2,805) *
Debt service:			
Principal	25,000	25,000	-
Interest and fiscal charges	90,345	90,345	-
<b>        Total Expenditures</b>	<b>115,345</b>	<b>118,150</b>	<b>(2,805)</b>
<b>Revenues Over (Under) Expenditures</b>	<b>8,970</b>	<b>4,949</b>	<b>(4,021)</b>
<b>Net Change in Fund Balance</b>	<b>8,970</b>	<b>4,949</b>	<b>\$ (4,021)</b>
Beginning fund balance		16,011	
<b>Ending Fund Balance</b>		<b>\$ 20,960</b>	

Notes to Required Supplementary Information

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

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

# City of Magnolia, Texas

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS

Years Ended:

	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Total pension liability				
Service cost	\$ 172,708	\$ 122,714	\$ 119,672	\$ 114,422
Interest	106,816	91,715	84,849	76,723
Changes in benefit terms	67,532	-	-	-
Differences between expected and actual experience	(98,186)	(12,844)	(34,753)	(15,923)
Changes of assumptions	9,071	-	-	-
Benefit payments, including refunds of participant contributions	(65,015)	(75,758)	(63,386)	(51,552)
<b>Net change in total pension liability</b>	<b>192,926</b>	<b>125,827</b>	<b>106,382</b>	<b>123,670</b>
<b>Total pension liability - beginning</b>	<b>1,461,087</b>	<b>1,335,260</b>	<b>1,228,878</b>	<b>1,105,208</b>
<b>Total pension liability - ending (a)</b>	<b>1,654,013</b>	<b>1,461,087</b>	<b>1,335,260</b>	<b>1,228,878</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 25,015	\$ 27,709	\$ 27,697	\$ 19,422
Contributions - members	89,874	91,350	88,865	84,444
Net investment income	230,050	(44,753)	175,414	76,847
Benefit payments, including refunds of participant contributions	(65,015)	(75,758)	(63,386)	(51,552)
Administrative expenses	(1,302)	(864)	(908)	(868)
Other	(40)	(44)	(47)	(47)
<b>Net change in plan fiduciary net position</b>	<b>278,582</b>	<b>(2,360)</b>	<b>227,635</b>	<b>128,246</b>
<b>Plan fiduciary net position - beginning</b>	<b>1,490,116</b>	<b>1,492,476</b>	<b>1,264,841</b>	<b>1,136,595</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 1,768,698</b>	<b>\$ 1,490,116</b>	<b>\$ 1,492,476</b>	<b>\$ 1,264,841</b>
<b>Fund's net pension liability (asset) - ending (a) - (b)</b>	<b>\$ (114,685)</b>	<b>\$ (29,029)</b>	<b>\$ (157,216)</b>	<b>\$ (35,963)</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>107%</b>	<b>102%</b>	<b>112%</b>	<b>103%</b>
<b>Covered payroll</b>	<b>\$ 1,497,901</b>	<b>\$ 1,522,504</b>	<b>\$ 1,481,084</b>	<b>\$ 1,407,400</b>
<b>Fund's net position as a percentage of covered payroll</b>	<b>(1.91%)</b>	<b>(1.91%)</b>	<b>(10.61%)</b>	<b>(2.56%)</b>

### 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.



<u>12/31/2015</u>	<u>12/31/2014</u> <sup>1</sup>
\$ 96,479	\$ 82,332
69,300	62,683
-	-
(2,727)	4,254
35,788	-
(70,779)	(52,845)
<u>128,061</u>	<u>96,424</u>
<u>977,147</u>	<u>880,723</u>
<u>1,105,208</u>	<u>977,147</u>
\$ 14,956	\$ -
73,555	73,393
1,650	59,442
(70,779)	(52,845)
(1,005)	(621)
(48)	(51)
<u>18,329</u>	<u>79,318</u>
<u>1,118,266</u>	<u>1,038,948</u>
<u>\$ 1,136,595</u>	<u>\$ 1,118,266</u>
<u>\$ (31,387)</u>	<u>\$ (141,119)</u>
103%	114%
\$ 1,225,915	\$ 1,223,213
(2.56%)	(11.54%)

# City of Magnolia, Texas

## SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>
Actuarially determined contributions	\$ 67,285	\$ 26,113	\$ 27,653	\$ 25,798
Contributions in relation to the actuarially determined contribution	<u>67,285</u>	<u>26,113</u>	<u>27,653</u>	<u>25,798</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Annual covered payroll	\$ 1,511,350	\$ 1,526,557	\$ 1,510,115	\$ 1,485,643
Contributions as a percentage of covered payroll	4.45%	1.71%	1.83%	1.74%

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	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018

Mortality

Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational

#### Other Information:

Notes

- 1) Increased municipal matching ratio from 1-1 to 2-1
- 2) Increased statutory max to 12.50% due to plan changes.

<u>9/30/2016</u>	<u>9/30/2015</u> <sup>1</sup>
\$ 18,541	\$ 10,247
<u>18,541</u>	<u>10,247</u>
<u>-</u>	<u>-</u>
\$ 1,388,282	\$ 1,167,468
1.34%	0.88%

# City of Magnolia, Texas

## ***SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) LIABILITY AND RELATED RATIOS TEXAN MUNICIPAL RETIREMENT SYSTEM***

**Years Ended:**

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u> <sup>1</sup>
Total OPEB liability			
Service cost	\$ 4,793	\$ 5,633	\$ 4,888
Interest	3,106	2,835	2,689
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(5,586)	(3,188)	-
Changes of assumptions	19,015	(6,254)	7,176
Benefit payments, including refunds of participant contributions	(449)	(609)	(592)
<b>Net changes</b>	<u>20,879</u>	<u>(1,583)</u>	<u>14,161</u>
<b>Total OPEB liability - beginning</b>	<u>81,560</u>	<u>83,143</u>	<u>68,982</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 102,439</u></u>	<u><u>\$ 81,560</u></u>	<u><u>\$ 83,143</u></u> <sup>2</sup>
 <b>Covered payroll</b>	 \$ 1,497,901	 \$ 1,522,504	 \$ 1,481,084
<b>Total OPEB Liability as a percentage of covered payroll</b>	6.84%	5.36%	5.61%

**Notes to schedule:**

<sup>1</sup> 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.

<sup>2</sup> No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

***COMBINING STATEMENTS AND  
INDIVIDUAL FUND SCHEDULES***

**City of Magnolia, Texas**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**September 30, 2020**

	Hotel/Motel Occupancy Tax	Municipal Court Security Fund	Municipal Court Technology Fund	In-Kind Franchise Fees
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 80,804	\$ 60,648	\$ -	\$ 3,983
Prepaid expenses	-	-	-	-
<b>Total Assets</b>	<b>\$ 80,804</b>	<b>\$ 60,648</b>	<b>\$ -</b>	<b>\$ 3,983</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 20	\$ -	\$ -	\$ -
Due to other funds	-	-	1,007	-
<b>Total Liabilities</b>	<b>20</b>	<b>-</b>	<b>1,007</b>	<b>-</b>
<b><u>Fund Balances</u></b>				
Nonspendable:				
Prepaid	-	-	-	-
Restricted for:				
Municipal Court	-	60,648	-	-
Tourism	80,784	-	-	-
Capital projects	-	-	-	3,983
Seized Property	-	-	-	-
Tree mitigation	-	-	-	-
Red Light Camera	-	-	-	-
Unassigned	-	-	(1,007)	-
<b>Total Fund Balances</b>	<b>80,784</b>	<b>60,648</b>	<b>(1,007)</b>	<b>3,983</b>
<b>Total Liabilities and Fund</b>	<b>\$ 80,804</b>	<b>\$ 60,648</b>	<b>\$ -</b>	<b>\$ 3,983</b>

Seized Property	Judicial Efficiency	Red Light Camera	Capital Projects	Tree Mitigation	Total
\$ 33,462	\$ 2,869	\$ 412,909	\$ -	\$ 9,600	\$ 604,275
-	-	4,259	-	-	4,259
<u>\$ 33,462</u>	<u>\$ 2,869</u>	<u>\$ 417,168</u>	<u>\$ -</u>	<u>\$ 9,600</u>	<u>\$ 608,534</u>
\$ -	\$ -	\$ -	\$ 89,366	\$ -	\$ 89,386
-	-	-	257,647	-	258,654
<u>-</u>	<u>-</u>	<u>-</u>	<u>347,013</u>	<u>-</u>	<u>348,040</u>
-	-	4,259	-	-	4,259
-	2,869	-	-	-	63,517
-	-	-	-	-	80,784
-	-	-	-	-	3,983
33,462	-	-	-	-	33,462
-	-	-	-	9,600	9,600
-	-	412,909	-	-	412,909
-	-	-	(347,013)	-	(348,020)
<u>33,462</u>	<u>2,869</u>	<u>417,168</u>	<u>(347,013)</u>	<u>9,600</u>	<u>260,494</u>
<u>\$ 33,462</u>	<u>\$ 2,869</u>	<u>\$ 417,168</u>	<u>\$ -</u>	<u>\$ 9,600</u>	<u>\$ 608,534</u>

**City of Magnolia, Texas**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2020**

	Hotel/Motel Occupancy Tax	Municipal Court Security Fund	Municipal Court Technology Fund	In-Kind Franchise Fees
<b><u>Revenues</u></b>				
Franchise tax	\$ -	\$ -	\$ -	\$ 3,983
Hotel occupancy tax	33,975	-	-	-
Fines and forfeitures	-	5,495	7,345	-
Investment income	-	-	-	-
<b>Total Revenues</b>	<u>33,975</u>	<u>5,495</u>	<u>7,345</u>	<u>3,983</u>
<b><u>Expenditures</u></b>				
Current:				
General government	-	-	-	-
Municipal court	-	4,653	13,009	-
Tourism	25,931	-	-	-
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<u>25,931</u>	<u>4,653</u>	<u>13,009</u>	<u>-</u>
<b>Revenues Over (Under)</b>	<u>8,044</u>	<u>842</u>	<u>(5,664)</u>	<u>3,983</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers (out)	-	-	-	-
<b>Total Other Financing (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	8,044	842	(5,664)	3,983
Beginning fund balances	72,740	59,806	4,657	-
<b>Ending Fund Balances</b>	<u>\$ 80,784</u>	<u>\$ 60,648</u>	<u>\$ (1,007)</u>	<u>\$ 3,983</u>



<u>Seized Property</u>	<u>Judicial Efficiency</u>	<u>Red Light Camera</u>	<u>Capital Projects</u>	<u>Tree Mitigation</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,983
-	-	-	-	-	33,975
14,117	516	2,351	-	-	29,824
-	-	8,335	-	-	8,335
<u>14,117</u>	<u>516</u>	<u>10,686</u>	<u>-</u>	<u>-</u>	<u>76,117</u>
276	-	-	-	-	276
-	-	144,041	-	-	161,703
-	-	-	-	-	25,931
-	-	-	168,836	-	168,836
<u>276</u>	<u>-</u>	<u>144,041</u>	<u>168,836</u>	<u>-</u>	<u>356,746</u>
<u>13,841</u>	<u>516</u>	<u>(133,355)</u>	<u>(168,836)</u>	<u>-</u>	<u>(280,629)</u>
-	-	(188,299)	-	-	(188,299)
<u>-</u>	<u>-</u>	<u>(188,299)</u>	<u>-</u>	<u>-</u>	<u>(188,299)</u>
13,841	516	(321,654)	(168,836)	-	(468,928)
19,621	2,353	738,822	(178,177)	9,600	729,422
<u>\$ 33,462</u>	<u>\$ 2,869</u>	<u>\$ 417,168</u>	<u>\$ (347,013)</u>	<u>\$ 9,600</u>	<u>\$ 260,494</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, 2020**

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Property tax	\$ 659,132	\$ 657,218	\$ (1,914)
Investment income	1,500	1,358	(142)
<b>Total Revenues</b>	<u>660,632</u>	<u>658,576</u>	<u>(2,056)</u>
<b><u>Expenditures</u></b>			
Debt Service:			
Principal	85,500	85,500	-
Interest and fiscal charges	45,028	45,027	1
<b>Total Expenditures</b>	<u>130,528</u>	<u>130,527</u>	<u>1</u>
<b>Revenues Over (Under) Expenditures</b>	<u>530,104</u>	<u>528,049</u>	<u>(2,055)</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	(528,604)	(528,604)	-
<b>Total Other Financing Sources</b>	<u>(528,604)</u>	<u>(528,604)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>\$ 1,500</u>	<u>(555)</u>	<u>\$ (2,055)</u>
Beginning fund balance		625,999	
<b>Ending Fund Balance</b>		<u>\$ 625,444</u>	

Notes to Other Supplementary Information

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

**City of Magnolia, Texas**  
**BALANCE SHEET**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**September 30, 2020**

	<b>4A Economic Development</b>	<b>4B Community Development</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b><u>Current Assets</u></b>			
Cash and cash equivalents	\$ 1,579,413	\$ 667,323	\$ 2,246,736
Receivables, net	150,680	75,340	226,020
<b>Total Current Assets</b>	<b>1,730,093</b>	<b>742,663</b>	<b>2,472,756</b>
<b><u>Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Accounts payable and accrued liabilities	1,385	2,738	4,123
<b>Total Liabilities</b>	<b>1,385</b>	<b>2,738</b>	<b>4,123</b>
<b><u>Fund Balances</u></b>			
Restricted for:			
Economic development	1,728,708	-	1,728,708
Municipal development	-	739,925	739,925
<b>Total Fund Balances</b>	<b>1,728,708</b>	<b>739,925</b>	<b>2,468,633</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,730,093</b>	<b>\$ 742,663</b>	<b>\$ 2,472,756</b>

See Notes to Financial Statements.

# City of Magnolia, Texas

## RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION DISCRETELY PRESENTED COMPONENT UNITS

September 30, 2020

<b>Fund Balances</b>	\$ 2,468,633
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### Adjustments for the Statement of Net Position:

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

Capital assets - non-depreciable	1,061,825
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Capital assets - net depreciable	2,574,863
----------------------------------	-----------

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

Accrued interest payable	(3,694)
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Non-current liabilities due in one year	(255,000)
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Non-current liabilities due in more than one year	(830,000)
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<b>Net Position of the Discretely Presented Component Units</b>	<u><u>\$ 5,016,627</u></u>
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# City of Magnolia, Texas

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES DISCRETELY PRESENTED COMPONENT UNITS

For the Year Ended September 30, 2020

	4A Economic Development	4B Community Development	Total
<b><u>Revenues</u></b>			
Sales taxes	\$ 769,707	\$ 384,854	\$ 1,154,561
Investment income	19,529	8,318	27,847
Other revenues	-	3,749	3,749
<b>Total Revenues</b>	<b>789,236</b>	<b>396,921</b>	<b>1,186,157</b>
<b><u>Expenditures</u></b>			
Economic development	22,174	-	22,174
Park development	-	286,527	286,527
Debt Service:			
Principal	245,000	-	245,000
Interest and fiscal charges	56,525	-	56,525
<b>Total Expenditures</b>	<b>323,699</b>	<b>286,527</b>	<b>610,226</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>465,537</b>	<b>110,394</b>	<b>575,931</b>
<b>Net Change in Fund Balances</b>	<b>465,537</b>	<b>110,394</b>	<b>575,931</b>
Beginning fund balances	1,263,171	629,531	1,892,702
<b>Ending Fund Balances</b>	<b>\$ 1,728,708</b>	<b>\$ 739,925</b>	<b>\$ 2,468,633</b>

See Notes to Financial Statements.



**City of Magnolia, Texas**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE DISCRETELY PRESENTED**  
**COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2020**

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

Net changes in fund balances	\$	575,931
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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.

Depreciation expense		(167,111)
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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.

Accrued interest		809
------------------	--	-----

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.

Principal payments		245,000
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<b>Change in Net Position of the Discretely Presented Component Units</b>	<b>\$</b>	<b>654,629</b>
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