



ANNUAL FINANCIAL REPORT 2022

FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2022

CITY OF
MAGNOLIA, TEXAS

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ANNUAL FINANCIAL REPORT

of the

City of Magnolia, Texas

**For the Year Ended
September 30, 2022**

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City of Magnolia, Texas

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September 30, 2022

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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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, discretely presented component units, and each major fund of the City of Magnolia, Texas, as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Magnolia, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 (asset) and related ratios, schedule of

employer contributions to pension plan, schedule of changes in the other postemployment benefits liability and the budgetary comparison information for the general fund 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 Balances – Budget and Actual for the debt service fund and Magnolia Ridge PID 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.



Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
July 11, 2023

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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, 2022

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, 2022. 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 \$33,691,017 at September 30, 2022. Of this, \$15,532,540 (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 \$8,783,764, an increase of \$3,209,033.
- As of the end of the year, the unassigned fund balance of the general fund was \$5,031,138 or 98% of total general fund expenditures.
- The City had an overall increase in net position of \$9,445,421, 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, 2022

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, 2022

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 the general fund.

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, 2022

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 \$33,691,017 as of September 30, 2022, in the primary government. Total current assets increased by \$20,919,694. The increase is primarily due to greater cash on hand as a result of the issuance of bonds, in addition to operating surplus during the year. Total capital assets increased by \$10,908,784. The increase was primarily attributable to the partial utilization of the bond project funds during the year. Long term liabilities reflected an increase of \$21,412,736, as a result of the issuance of new bonds during the year.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2022			2021		
	Governmental	Business-Type		Governmental	Business-Type	
	Activities	Activities	Total	Activities	Activities	Total
Current and						
other assets	\$ 9,229,535	\$ 33,260,525	\$ 42,490,060	\$ 6,701,332	\$ 14,869,034	\$ 21,570,366
Capital assets, net	4,029,429	34,626,613	38,656,042	4,002,857	23,744,401	27,747,258
Long term receivables	1,475,000	-	1,475,000	1,505,000	-	1,505,000
Net pension asset	293,141	8,532	301,673	154,084	2,165	156,249
Total Assets	15,027,105	67,895,670	82,922,775	12,363,273	38,615,600	50,978,873
Total Deferred Outflows	125,326	167,462	292,788	127,061	180,322	307,383
Other liabilities	618,748	5,025,079	5,643,827	1,156,699	3,664,375	4,821,074
Long-term liabilities	2,763,582	40,755,165	43,518,747	2,707,777	19,398,234	22,106,011
Total Liabilities	3,382,330	45,780,244	49,162,574	3,864,476	23,062,609	26,927,085
Total Deferred Inflows	169,399	192,573	361,972	112,002	1,573	113,575
Net Position:						
Net investment						
in capital assets	1,272,607	12,977,016	14,249,623	747,280	12,356,139	13,103,419
Restricted	3,902,491	6,363	3,908,854	3,211,851	1,907	3,213,758
Unrestricted	6,425,604	9,106,936	15,532,540	4,554,725	3,373,694	7,928,419
Total Net Position	\$ 11,600,702	\$ 22,090,315	\$ 33,691,017	\$ 8,513,856	\$ 15,731,740	\$ 24,245,596

City of Magnolia, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2022

Statement of Activities:

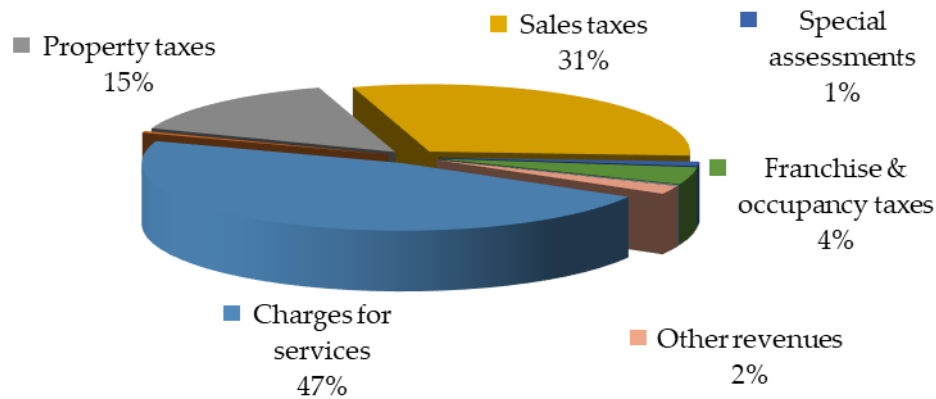
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2022			For the Year Ended September 30, 2021		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 4,027,864	\$ 4,309,794	\$ 8,337,658	\$ 1,651,100	\$ 3,207,272	\$ 4,858,372
Grants & contributions	37,010	4,840,073	4,877,083	287,281	1,773,532	2,060,813
General revenues:						
Property taxes	1,246,738	-	1,246,738	1,102,552	-	1,102,552
Sales taxes	2,632,823	-	2,632,823	2,340,653	-	2,340,653
Franchise & local taxes	300,686	-	300,686	287,427	-	287,427
Hotel occupancy taxes	54,122	-	54,122	36,579	-	36,579
Special assessments	93,982	-	93,982	104,195	-	104,195
Investment income	12,954	36,743	49,697	2,025	1,003	3,028
Other revenues	171,535	259,234	430,769	90,671	670,804	761,475
Total Revenues	8,577,714	9,445,844	18,023,558	5,902,483	5,652,611	11,555,094
Expenses						
General government	1,917,485	-	1,917,485	1,240,261	-	1,240,261
Public safety	2,113,053	-	2,113,053	1,836,377	-	1,836,377
Public works	1,156,670	-	1,156,670	856,904	-	856,904
Culture & recreation	42,544	-	42,544	71,757	-	71,757
Interest and fiscal charges	118,632	1,392,307	1,510,939	133,210	721,957	855,167
Water/sewer/sanitation	-	1,837,446	1,837,446	-	1,719,023	1,719,023
Total Expenses	5,348,384	3,229,753	8,578,137	4,138,509	2,440,980	6,579,489
Change in Net Position						
Before Transfers	3,229,330	6,216,091	9,445,421	1,763,974	3,211,631	4,975,605
Transfers	(142,484)	142,484	-	(409,556)	409,556	-
Total	(142,484)	142,484	-	(409,556)	409,556	-
Change in Net Position	3,086,846	6,358,575	9,445,421	1,354,418	3,621,187	4,975,605
Beginning Net Position	8,513,856	15,731,740	24,245,596	7,159,438	12,110,553	19,269,991
Ending Net Position	\$ 11,600,702	\$ 22,090,315	\$ 33,691,017	\$ 8,513,856	\$ 15,731,740	\$ 24,245,596

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2022

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

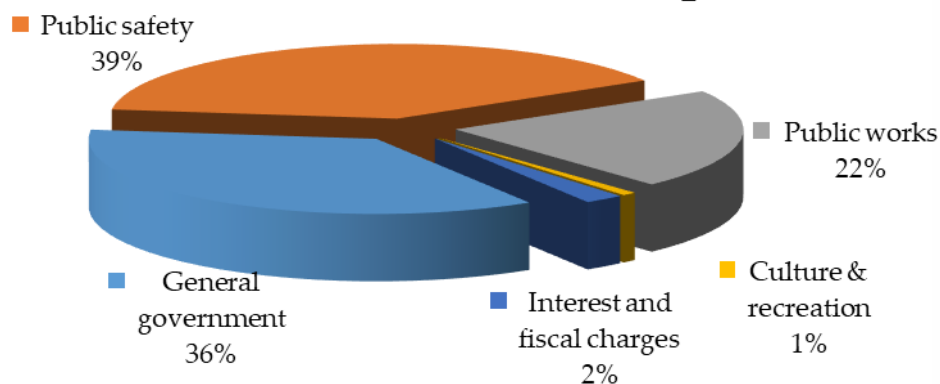
Governmental Activities - Revenues



For the year ended September 30, 2022, revenues from governmental activities totaled \$8,577,714, an increase of \$2,675,231 or 45%. Property tax, sales tax and charges for services are the City's largest revenue sources. Charges for services increased by \$2,376,764 or 144% primarily due to permit fees associated with the numerous development projects within the City during the current year. Grants and contributions decreased by \$250,271 or 87% due primarily to a higher number of funds received from ongoing grants in the previous year. Sales taxes increased by \$292,170 or 12%, primarily due to economic growth and development within the City. Investment income increased by \$10,929 or 540% due to higher interest earned in the HB 445 fund. Hotel occupancy taxes increased by \$17,543 or 48% due to an increase in rates and revenue. Other revenues increased by \$80,864 due to nonrecurring receipt of project cost recoveries and insurance recoveries in the current year. 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

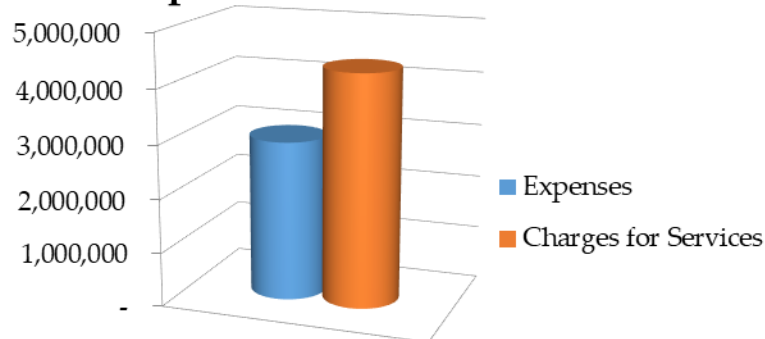
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2022

For the year ended September 30, 2022, expenses for governmental activities totaled \$5,348,384. This represents an increase of \$1,209,875 or 29% from the previous year. The City's largest functional expense is public safety of \$2,113,053, which is primarily the City's police department and municipal court. Public safety expenses experienced an increase of \$276,676 or 15% as a result of additional officers resulting in higher personnel costs, in addition to repairs and maintenance expenses in the current year. General government increased by \$677,224 or 55%, which is mainly attributed to an increase in engineering expenses related to multiple projects and personnel changes. Public works expenses increased by \$299,766 or 35%, which is attributed to purchases of new vehicles and increase in personnel related expenses. Culture and recreation expenses decreased \$29,213 due to nonrecurring maintenance costs in the prior year. Interest and fiscal charges decreased by \$14,578 or 11% which is consistent with debt service schedules.

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, 2022, charges for services by business-type activities totaled \$4,309,794. This is an increase of \$1,102,522 or 34% from the previous year, due to increased consumption and utility rates. Grants and contributions increased by \$3,066,541. The increase is a result of additional impact fees received, consistent with the increase in development within the City. Investment income increased by \$35,740 due to increased amount of cash held in interest bearing accounts. Other revenues decreased by \$411,570 or 61% primarily due to nonrecurring grants and bond proceeds received in the prior year.

Total expenses had an overall increase of \$788,773 when compared to the prior year. Interest and fiscal charges increased by \$670,350 or 93% due to an increase in bond issuance costs related to the new bond issuances in the current year, in addition to an increase in interest on new and existing bonds.

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2022

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$5,080,150. There was an increase in the general fund balance of \$2,578,547 over the prior year. The increase was primarily related to the higher permit and sales tax revenues received during the year as a result of the economic growth within the area.

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 \$22,090,315. This represents an increase of \$6,358,575, primarily due to higher utility revenues as a result of increased consumption, additional impact fees, and the capital contributions received during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were various budget amendments approved during the year. Final budgeted revenue was \$2,833,870 more than originally budgeted due to the anticipation of greater sales tax revenues and licenses and permit revenues. Final budgeted expenditures was \$871,870 more than originally budgeted due to the anticipation of more general government expenditures and public works expenditures than originally expected.

There was a total overall positive budget variance of \$196,454 in the general fund. Planned revenue had a positive variance of \$252,310. Planned expenditures were \$196,772 over budget. The sales tax, licenses and permits, intergovernmental, and other revenue categories received more revenue than anticipated, while property tax, franchise tax, and fines and forfeitures categories received less than budgeted. All expenditures were less than budgeted with the exception of general government, public works and capital outlay. Planned other financing sources and uses had a positive budget variance of \$140,916, due primarily to unbudgeted lease related issuances of \$225,403.

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2022

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$4,029,429 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 \$34,626,613 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Capital improvements to the City Hall totaling \$41,300.
- Lift station improvements for \$14,065.
- The purchase of new vehicles totaling \$324,190.
- Purchased land near FM 149 for \$70,225.
- Purchased land on Commerce Street for \$375,000.
- Various construction projects totaling \$10,512,979.
- Water plant improvements for \$89,720.
- Meter expansion project totaling \$447,528.
- Building improvements totaling \$124,574.
- Various equipment purchases totaling \$187,585.
- Purchased equipment for City Hall and pavilions for \$54,111.

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 \$43,728,118. The City entered into four note payables for various vehicles totaling \$225,403 during the current year. The City issued series 2022 certificates of obligation in the amount of \$20,005,000. In addition, the City issued a SIB loan in the amount of \$2,803,158. There were principal payments totaling \$1,520,252 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 steady growth and anticipated continued growth as part of the preparation of the fiscal year 2022 budget.

City of Magnolia, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2022

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.

FINANCIAL STATEMENTS

City of Magnolia, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 8,394,597	\$ 31,860,616	\$ 40,255,213
Investments	43,300	455,100	498,400
Receivables, net	712,626	942,961	1,655,587
Special assessments receivable - current	30,000	-	30,000
Prepays and other assets	49,012	1,848	50,860
Total Current Assets	9,229,535	33,260,525	42,490,060
Capital assets:			
Non-depreciable	144,873	20,108,396	20,253,269
Net depreciable capital assets	3,884,556	14,518,217	18,402,773
Special assessments receivable - noncurrent	1,475,000	-	1,475,000
Net pension asset	293,141	8,532	301,673
Total Noncurrent Assets	5,797,570	34,635,145	40,432,715
Total Assets	15,027,105	67,895,670	82,922,775
<u>Deferred Outflows of Resources</u>			
Charge on refunding	30,419	164,700	195,119
Pension outflows	69,896	2,034	71,930
OPEB outflows	25,011	728	25,739
Total Deferred Outflows of Resources	\$ 125,326	\$ 167,462	\$ 292,788

Component Units			
4A Economic Development		4B Community Development	
\$	2,537,290	\$	649,356
	-		-
	193,536		96,768
	-		-
	750		-
	<u>2,731,576</u>		<u>746,124</u>
	936,489		449,626
	2,239,697		99,651
	-		-
	-		-
	<u>3,176,186</u>		<u>549,277</u>
	<u>5,907,762</u>		<u>1,295,401</u>
	-		-
	-		-
	-		-
\$	<u>-</u>	\$	<u>-</u>

City of Magnolia, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 291,284	\$ 2,263,604	\$ 2,554,888
Customer deposits	-	431,595	431,595
Accrued interest payable	12,055	475,417	487,472
Compensated absences - current	137,277	25,839	163,116
Long-term debt - current	178,132	1,828,624	2,006,756
	<u>618,748</u>	<u>5,025,079</u>	<u>5,643,827</u>
Noncurrent liabilities:			
OPEB liability	139,220	4,052	143,272
Compensated absences - noncurrent	15,253	2,871	18,124
Long-term debt - noncurrent	2,609,109	40,748,242	43,357,351
Total Liabilities	<u>3,382,330</u>	<u>45,780,244</u>	<u>49,162,574</u>
<u>Deferred Inflows of Resources</u>			
Pension inflows	165,268	4,811	170,079
OPEB inflows	4,131	120	4,251
Deferred grant revenue	-	187,642	187,642
Total Deferred Inflows of Resources	<u>169,399</u>	<u>192,573</u>	<u>361,972</u>
<u>Net Position</u>			
Net investment in capital assets	1,272,607	12,977,016	14,249,623
Restricted for:			
Debt service	663,078	-	663,078
Municipal court	71,136	-	71,136
Tourism	134,042	-	134,042
Capital projects	16,765	-	16,765
Road improvement	2,772,746	-	2,772,746
Red light camera	10	-	10
PID activities	5,473	-	5,473
Tree mitigation	9,600	-	9,600
Seized property	31,872	-	31,872
Economic development	-	-	-
Community development	-	-	-
Pensions	197,769	6,363	204,132
Unrestricted	6,425,604	9,106,936	15,532,540
Total Net Position	<u>\$ 11,600,702</u>	<u>\$ 22,090,315</u>	<u>\$ 33,691,017</u>

See Notes to Financial Statements.

Component Units	
4A Economic Development	4B Community Development
\$ 15,990	\$ 11,456
-	-
-	-
-	-
-	-
15,990	11,456
-	-
-	-
-	-
15,990	11,456
-	-
-	-
-	-
-	-
3,176,181	549,276
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
2,715,591	-
-	734,669
-	-
-	-
\$ 5,891,772	\$ 1,283,945

City of Magnolia, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,917,485	\$ 3,660,309	\$ 37,010	\$ -
Public safety	2,113,053	367,555	-	-
Public works	1,156,670	-	-	-
Culture and recreation	42,544	-	-	-
Interest and fiscal charges	118,632	-	-	-
Total Governmental Activities	5,348,384	4,027,864	37,010	-
Business-Type Activities				
Water, Sewer, & Sanitation	3,229,753	4,309,794	421,739	4,418,334
Total Business-Type Activities	3,229,753	4,309,794	421,739	4,418,334
Total Primary Government	\$ 8,578,137	\$ 8,337,658	\$ 458,749	\$ 4,418,334
Component Units				
4A Economic Development	471,887	-	-	-
4B Community Development	459,158	-	-	-
Total Component Units	\$ 931,045	\$ -	\$ -	\$ -

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

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	4A Economic Development	4B Community Development
\$ 1,779,834	\$ -	\$ 1,779,834	\$ -	\$ -
(1,745,498)	-	(1,745,498)	-	-
(1,156,670)	-	(1,156,670)	-	-
(42,544)	-	(42,544)	-	-
(118,632)	-	(118,632)	-	-
(1,283,510)	-	(1,283,510)	-	-
-	5,920,114	5,920,114	-	-
-	5,920,114	5,920,114	-	-
(1,283,510)	5,920,114	4,636,604	-	-
			(471,887)	-
			-	(459,158)
			(471,887)	(459,158)
1,246,738	-	1,246,738	-	-
2,632,823	-	2,632,823	1,243,548	621,774
300,686	-	300,686	-	-
54,122	-	54,122	-	-
93,982	-	93,982	-	-
12,954	36,743	49,697	12,680	4,101
171,535	259,234	430,769	17,736	500
(142,484)	142,484	-	-	-
4,370,356	438,461	4,808,817	1,273,964	626,375
3,086,846	6,358,575	9,445,421	802,077	167,217
8,513,856	15,731,740	24,245,596	5,089,695	1,116,728
\$ 11,600,702	\$ 22,090,315	\$ 33,691,017	\$ 5,891,772	\$ 1,283,945

City of Magnolia, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2022

	General	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 4,832,667	\$ 3,561,930	\$ 8,394,597
Investments	-	43,300	43,300
Receivables, net	581,007	131,619	712,626
Special assessments receivable	-	1,505,000	1,505,000
Prepaid items	49,012	-	49,012
Due from other funds	963	34,434	35,397
Total Assets	\$ 5,463,649	\$ 5,276,283	\$ 10,739,932
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 259,429	\$ 31,855	\$ 291,284
Due to other funds	34,434	963	35,397
Total Liabilities	293,863	32,818	326,681
<u>Deferred Inflows of Resources</u>			
Unavailable revenue			
Property taxes	26,876	34,851	61,727
Property special assessments	-	1,505,000	1,505,000
Franchise taxes	27,974	-	27,974
Grants	34,786	-	34,786
Total Deferred Inflows of Resources	89,636	1,539,851	1,629,487
<u>Fund Balances</u>			
Nonspendable:			
Prepaid	49,012	-	49,012
Restricted for:			
Debt service	-	663,078	663,078
Municipal court	-	71,136	71,136
Tourism	-	134,042	134,042
Capital projects	-	16,765	16,765
Road improvement	-	2,772,746	2,772,746
Tree mitigation	-	9,600	9,600
Red light camera	-	10	10
Seized property	-	31,872	31,872
PID activities	-	5,473	5,473
Unrestricted	5,031,138	(1,108)	5,030,030
Total Fund Balances	5,080,150	3,703,614	8,783,764
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 5,463,649	\$ 5,276,283	\$ 9,110,445

See Notes to Financial Statements.

City of Magnolia, Texas

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

September 30, 2022

Fund Balances - Total Governmental Funds	\$ 8,783,764
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	144,873
Capital assets - net depreciable	3,884,556
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	61,727
Property special assessments receivable	1,505,000
Franchise tax receivable	27,974
Fines receivable	34,786
Net pension asset	293,141
Deferred outflows of resources represent a consumption of net position that applies to a future period and is not recongized as an outflow of resources until then.	
Deferred charge on refunding	30,419
Pension contributions	68,059
Pension changes in assumptions	1,837
OPEB contributions	1,915
OPEB changes in assumptions	23,096
Deferred inflows of resources represent a consumption of net position that applies to a future period and is not recongized as an inflow of resources until then.	
Pension difference expected and actual experience	(37,843)
Pension investment returns	(127,425)
OPEB difference expected and actual experience	(4,131)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(12,055)
Compensated absences	(152,530)
Bond premium	(55,293)
Bond discount	96,455
OPEB liability	(139,220)
Non-current liabilities due in one year	(178,132)
Non-current liabilities due in more than one year	(2,650,271)
Net Position of Governmental Activities	<u><u>\$ 11,600,702</u></u>

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, 2022

	General	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues</u>			
Property tax	\$ 441,114	\$ 805,623	\$ 1,246,737
Sales tax	2,011,049	621,774	2,632,823
Franchise tax	285,201	7,735	292,936
Hotel occupancy tax	-	54,122	54,122
Special assessments	-	123,982	123,982
Licenses and permits	3,660,309	-	3,660,309
Fines and forfeitures	334,347	33,208	367,555
Intergovernmental	121,498	-	121,498
Investment income	-	12,954	12,954
Other revenue	93,402	34,787	128,189
Total Revenues	6,946,920	1,694,185	8,641,105
<u>Expenditures</u>			
Current:			
General government	1,999,361	34,570	2,033,931
Public safety	1,603,320	-	1,603,320
Municipal court	187,505	86,766	274,271
Parks and recreation	37,322	-	37,322
Public works	1,031,207	17,363	1,048,570
Tourism	-	18,865	18,865
Debt Service:			
Principal	-	121,500	121,500
Interest and fiscal charges	-	127,212	127,212
Capital outlay	290,423	2,923	293,346
Total Expenditures	5,149,138	409,199	5,558,337
Excess of Revenues Over (Under) Expenditures	1,797,782	1,284,986	3,082,768
<u>Other Financing Sources (Uses)</u>			
Transfers in	512,016	-	512,016
Transfers (out)	-	(654,500)	(654,500)
Sale of capital assets	43,346	-	43,346
Lease related issuance	225,403	-	225,403
Total Other Financing Sources (Uses)	780,765	(654,500)	126,265
Net Change in Fund Balances	2,578,547	630,486	3,209,033
Beginning fund balances	2,501,603	3,073,128	5,574,731
Ending Fund Balances	\$ 5,080,150	\$ 3,703,614	\$ 8,783,764

See Notes to Financial Statements.

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, 2022

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

Net changes in fund balances - total governmental funds	\$ 3,209,033
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	379,555
Depreciation expense	(352,983)
Adjustment for disposal of capital assets	

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(106,737)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(23,524)
Accrued interest	11,662
Pension expense	89,027
OPEB expense	(12,202)

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)
Lease related issuance	(225,403)
Principal payments	121,500

Change in Net Position of Governmental Activities	\$ 3,086,846
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See Notes to Financial Statements.

City of Magnolia, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUND
September 30, 2022

	Utility Fund
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 31,860,616
Investments	455,100
Receivables, net	942,961
Prepaid items	1,848
Total Current Assets	33,260,525
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	20,108,396
Net depreciable	14,518,217
Net pension asset	8,532
Total Noncurrent Assets	34,635,145
Total Assets	67,895,670
<u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	164,700
Pension outflows	2,034
OPEB outflows	728
Total Deferred Outflows of Resources	\$ 167,462

City of Magnolia, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUND
September 30, 2022

	Utility Fund
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	\$ 2,263,604
Customer deposits	431,595
Accrued interest	475,417
Compensated absences - current	25,839
Long term debt - current	1,828,624
Total Current Liabilities	5,025,079
<u>Noncurrent Liabilities</u>	
OPEB liability	4,052
Compensated absences - noncurrent	2,871
Long term debt - noncurrent	40,748,242
Total Liabilities	45,780,244
<u>Deferred Inflows of Resources</u>	
Deferred grant income	187,642
Pension inflows	4,811
OPEB inflows	120
Total Deferred Inflows of Resources	192,573
<u>Net Position</u>	
Net investment in capital assets	12,977,016
Restricted for pensions	6,363
Unrestricted	9,106,936
Total Net Position	\$ 22,090,315

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, 2022

	Utility Fund
<u>Operating Revenues</u>	
Water sales	\$ 2,190,560
Sewer revenue	1,755,437
Garbage collection	363,797
Other revenue	259,234
Total Operating Revenues	4,569,028
<u>Operating Expenses</u>	
Cost of water	558,701
Cost of sewer	499,046
Cost of garbage	211,482
Other	18,682
Depreciation	549,535
Total Operating Expenses	1,837,446
Operating Income	2,731,582
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	36,743
Interest expense	(731,368)
Bond issuance costs	(660,939)
Intergovernmental	421,739
Total Nonoperating Revenues (Expenses)	(933,825)
Income Before Capital Contributions and Transfers	1,797,757
Total Capital Contributions and Transfers	
Capital contributions	295,434
Capital contributions - impact fees	4,122,900
Transfers in	654,500
Transfers (out)	(512,016)
Total Capital Contributions and Transfers	4,560,818
Change in Net Position	6,358,575
Beginning net position	15,731,740
Ending Net Position	\$ 22,090,315

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, 2022

	Utility Fund
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 4,316,453
Payments to suppliers and employees	(631,098)
Net Cash Provided by Operating Activities	3,685,355
<u>Cash Flows from Noncapital Financing Activities</u>	
Intergovernmental contributions	421,739
Transfers in	654,500
Transfers (out)	(512,016)
Net Cash Provided (Used) by Noncapital Financing Activities	564,223
<u>Cash Flows from (to) Capital and Related Financing Activities</u>	
Purchases of capital assets, net	(11,431,747)
Capital contributions	295,434
Impact fees	4,122,900
Proceeds from issuance of debt	23,464,097
Principal paid on debt	(1,398,752)
Interest paid on debt	(538,398)
Loan issuance costs paid	(660,939)
Net Cash Provided (Used) by Capital and Related Financing Activities	13,852,595
<u>Cash Flows from Investing Activities</u>	
Proceeds from sales and maturities of investments	1,151,481
Interest on investments	36,743
Net Cash Provided by Investing Activities	1,188,224
Net Increase in Cash and Cash Equivalents	19,290,397
Beginning cash and cash equivalents	12,570,219
Ending Cash and Cash Equivalents	\$ 31,860,616

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, 2022

	Utility Fund
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 2,731,582
Adjustments to reconcile operating income to net cash provided:	
Depreciation	549,535
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(360,475)
Due from other funds	53,422
Prepaid items	54,478
Deferred outflows:	
Pension contributions	(1,117)
OPEB changes in assumptions	187,642
OPEB contributions	(330)
Deferred inflows:	
Pension difference in experience	3,257
OPEB difference in experience	101
Net pension asset	(6,367)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	301,301
Customer deposits	157,160
Compensated absences	12,984
OPEB liability	2,182
Net Cash Provided by Operating Activities	\$ 3,685,355

See Notes to Financial Statements.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2022

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, 2022

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, 2022

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

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2022

governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants 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 nonmajor fund for reporting purposes.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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 nonmajor fund for reporting purposes.

Capital Project Fund

The capital project fund is used to account for the financial resources used for the acquisition or construction of capital infrastructure. The capital project fund is considered to be a nonmajor fund for reporting purposes.

Special Revenue Funds

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

Proprietary Fund Types

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

The government reports the following major enterprise fund:

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
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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.

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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, 2022

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, 2022

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.

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

7. Deferred outflows/inflows of resources

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

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

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2022

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

8. Net Position Flow Assumption

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

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2022

the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2022

expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

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

Assets acquired under the terms of 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, 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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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.

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

A. Expenditures Over Appropriations

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

General Fund:

General government	\$	47,586
Public works	\$	16,750
Capital outlay	\$	221,944

B. Deficit Fund Equity

As of September 30, 2022, the Municipal Court Technology and Scofflaw funds had a deficit fund balance of \$996 and \$112, 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, 2022

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2022, the primary government had the following investments:

Investment Type	Carrying Value	Average Maturity (Years)
Certificates of deposits	498,400	0.18
Total fair value	\$ 498,400	
Portfolio weighted average maturity		0.18

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, 2022, 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*

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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:

	General	Nonmajor Governmental	Utility	Total
Property taxes	\$ 26,876	\$ 34,851	\$ -	\$ 61,727
Sales tax	387,071	96,768	-	483,839
Intergovernmental	34,786	-	-	34,786
Franchise tax	31,547	-	-	31,547
Mixed beverage	5,228	-	-	5,228
Other receivables	95,499	-	187,642	283,141
Accounts	-	-	910,937	910,937
Allowance	-	-	(155,618)	(155,618)
	<u>\$ 581,007</u>	<u>\$ 131,619</u>	<u>\$ 942,961</u>	<u>\$ 1,655,587</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

	4A Economic Development	4B Community Development	Total
Sales tax	\$ 193,536	\$ 96,768	\$ 290,304
	<u>\$ 193,536</u>	<u>\$ 96,768</u>	<u>\$ 290,304</u>

D. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 144,873	\$ -	\$ -	\$ 144,873
Construction in progress	386,353	-	(386,353)	-
Total capital assets not being depreciated	<u>531,226</u>	<u>-</u>	<u>(386,353)</u>	<u>144,873</u>
Capital assets, being depreciated:				
Buildings and improvements	828,763	41,300	-	870,063
Vehicles and equipment	1,094,645	324,190	-	1,418,835
Infrastructure	6,512,574	14,065	386,353	6,912,992
Total capital assets being depreciated	<u>8,435,982</u>	<u>379,555</u>	<u>386,353</u>	<u>9,201,890</u>
Less accumulated depreciation				
Buildings and improvements	(331,861)	(38,757)	-	(370,618)
Vehicles and equipment	(807,013)	(155,726)	-	(962,739)
Infrastructure	(3,825,477)	(158,500)	-	(3,983,977)
Total accumulated depreciation	<u>(4,964,351)</u>	<u>(352,983)</u>	<u>-</u>	<u>(5,317,334)</u>
Net capital assets being depreciated	<u>3,471,631</u>	<u>26,572</u>	<u>386,353</u>	<u>3,884,556</u>
Total Capital Assets	<u><u>\$ 4,002,857</u></u>	<u><u>\$ 26,572</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,029,429</u></u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Depreciation was charged to governmental functions as follows:

General government	\$ 17,900
Public safety	131,823
Court	8,056
Parks and recreation	1,383
Public works	193,821
Total Governmental Activities Depreciation Expense	\$ 352,983

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 652,361	\$ 70,225	\$ -	\$ 722,586
Construction in progress	11,061,694	10,512,980	(2,188,864)	19,385,810
Total capital assets not being depreciated	<u>11,714,055</u>	<u>10,583,205</u>	<u>(2,188,864)</u>	<u>20,108,396</u>
Capital assets, being depreciated:				
Water and sewer system	482,670	187,153	-	669,823
Vehicles and equipment	16,846,331	661,389	2,188,864	19,696,584
Total capital assets being depreciated	<u>17,329,001</u>	<u>848,542</u>	<u>2,188,864</u>	<u>20,366,407</u>
Less accumulated depreciation				
Water and sewer system	(552,953)	(25,632)	-	(578,585)
Vehicles and equipment	(4,745,702)	(523,903)	-	(5,269,605)
Total accumulated depreciation	<u>(5,298,655)</u>	<u>(549,535)</u>	<u>-</u>	<u>(5,848,190)</u>
Net capital assets being depreciated	<u>12,030,346</u>	<u>299,007</u>	<u>2,188,864</u>	<u>14,518,217</u>
Total Capital Assets	<u><u>\$ 23,744,401</u></u>	<u><u>\$ 10,882,212</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 34,626,613</u></u>

Depreciation expense for business-type activities as of September 30, 2022 was \$549,535.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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The Magnolia 4A Economic Development Corporation's summary of changes in capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 987,199	\$ -	\$ (50,710)	\$ 936,489
Total capital assets not being depreciated	<u>987,199</u>	<u>-</u>	<u>(50,710)</u>	<u>936,489</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	(355,795)	(17,865)	-	(373,660)
Unity Park & Downtown	(907,056)	(90,709)	-	(997,765)
Pavement improvements	(892,548)	(56,197)	-	(948,745)
Equipment	(7,150)	-	-	(7,150)
Total accumulated depreciation	<u>(2,162,549)</u>	<u>(164,771)</u>	<u>-</u>	<u>(2,327,320)</u>
Net capital assets being depreciated	<u>2,404,468</u>	<u>(164,771)</u>	<u>-</u>	<u>2,239,697</u>
Total Capital Assets	<u><u>\$ 3,391,667</u></u>	<u><u>\$ (164,771)</u></u>	<u><u>\$ (50,710)</u></u>	<u><u>\$ 3,176,186</u></u>

Depreciation expense for Magnolia 4A Economic Development Corporation as of September 30, 2022 was \$164,771.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 74,626	\$ 375,000	\$ -	\$ 449,626
Total capital assets not being depreciated	<u>74,626</u>	<u>375,000</u>	<u>-</u>	<u>449,626</u>
Capital assets, being depreciated:				
Buildings and improvements	36,803	17,740	-	54,543
Equipment	14,298	54,111	-	68,409
Total capital assets being depreciated	<u>51,101</u>	<u>71,851</u>	<u>-</u>	<u>122,952</u>
Less accumulated depreciation				
Buildings and improvements	(3,446)	(1,013)	-	(4,459)
Equipment	(13,414)	(5,428)	-	(18,842)
Total accumulated depreciation	<u>(16,860)</u>	<u>(6,441)</u>	<u>-</u>	<u>(23,301)</u>
Net capital assets being depreciated	<u>34,241</u>	<u>65,410</u>	<u>-</u>	<u>99,651</u>
Total Capital Assets	<u><u>\$ 108,867</u></u>	<u><u>\$ 440,410</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 549,277</u></u>

Depreciation expense for Magnolia 4B Community Development Corporation as of September 30, 2022 was \$6,441.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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, 2022.

	Beginning Balance	Additions	Refunding/ Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
General obligation refunding	\$ 1,189,500	\$ -	\$ (91,500)	\$ 1,098,000	\$ 94,500
PID Special assessment bond	1,535,000	-	(30,000)	1,505,000	30,000
Premium	59,272	-	(3,979)	55,293	-
Discount	(100,474)	-	4,019	(96,455)	-
Note payable	-	225,403	-	225,403	53,632
Total Governmental Activities	\$ 2,683,298	\$ 225,403	\$ (121,460)	\$ 2,787,241	\$ 178,132
Long-term liabilities due in more than one year				\$ 2,609,109	
Business-Type Activities:					
General obligation refunding	\$ 12,900,500	\$ -	\$ (818,500)	\$ 12,082,000	\$ 850,500
Certificates of obligation	4,415,000	20,005,000	(115,000)	24,305,000	530,000
TXDOT SIB	1,416,234	2,803,158	(320,606)	3,898,786	299,141
Premium	1,093,633	655,939	(72,421)	1,677,151	-
State infrastructure loan	758,575	-	(144,646)	613,929	148,983
Total Business-Type Activities	\$ 20,583,942	\$ 23,464,097	\$ (1,471,173)	\$ 42,576,866	\$ 1,828,624
Long-term liabilities due in more than one year				\$ 40,748,242	
Magnolia 4A Economic Development Corporation					
Revenue & refunding bonds	\$ 830,000	\$ -	\$ (830,000)	\$ -	\$ -
Total Economic Development Activities	\$ 830,000	\$ -	\$ (830,000)	\$ -	\$ -
Long-term liabilities due in more than one year				\$ -	

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2014 General obligation refunding bonds (30%)	2.00 - 4.00%	\$ 1,758,000	\$ 1,098,000
2018 PID Special Assessments Bond	5.70%	1,665,000	1,505,000
Notes payable:			
2022 Chevy Tahoe 3112C	2.95%	50,356	50,356
2022 Chevy Tahoe 3181C	4.35%	74,333	74,333
2021 Chevy Tahoe 3042	2.75%	50,558	50,558
2021 Chevy Tahoe 3043	2.75%	50,156	50,156
Total Governmental Activities		\$ 3,648,403	\$ 2,828,403
Business-type Activities:			
2014 General obligation refunding bonds (70%)	2.00 - 4.00%	\$ 4,102,000	\$ 2,562,000
2014 Certificates of obligation	2.00 - 4.00%	4,960,000	4,300,000
2021 General obligation refunding bonds	1.75%	10,125,000	9,520,000
State infrastructure loan	3.00%	2,000,000	613,929
2022 Tax and revenue certificates of obligation	3.00%	20,005,000	20,005,000
TXDOT SIB 2017	3.15%	1,000,000	536,696
TXDOT SIB 2021	1.50%	892,141	768,534
TXDOT SIB 2022	1.47%	2,803,158	2,593,556
Total Business-Type Activities		\$ 45,887,299	\$ 40,899,715

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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
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	209,475	70,500	1,410
2042-2046	500,000	88,350	-	-
	<u>\$ 1,505,000</u>	<u>\$ 1,299,315</u>	<u>\$ 1,098,000</u>	<u>\$ 276,833</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.

Governmental Activities	
Note Payable	
Principal	Interest
\$ 53,632	\$ 7,500
55,399	5,728
57,249	3,877
59,123	1,971
<u>\$ 225,403</u>	<u>\$ 19,076</u>

The City entered into a note payable agreement during the current year for a 2022 Chevy Tahoe for a total note of \$50,356. The note carries an interest rate of 2.95% and will be paid off by April 2026.

The City entered into a note payable agreement during the current year for a 2022 Chevy Tahoe for a total note of \$74,333. The note carries an interest rate of 4.35% and will be paid off by September 2026.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

The City entered into a note payable agreement during the current year for a 2021 Chevy Tahoe for a total note of \$50,558. The note carries an interest rate of 2.75% and will be paid off by October 2026.

The City entered into a note payable agreement during the current year for a 2021 Chevy Tahoe for a total note of \$50,157. The note carries an interest rate of 2.75% and will be paid off in October 2026.

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		2022 Certificates of Obligation	
	Principal	Interest	Principal	Interest
2023	\$ 120,000	\$ 167,075	\$ 410,000	\$ 773,951
2024	125,000	163,088	325,000	861,950
2025	130,000	158,625	340,000	845,325
2026	130,000	154,075	360,000	827,825
2027-2031	745,000	686,900	2,085,000	3,844,250
2032-2036	900,000	522,800	2,680,000	3,250,875
2037-2041	1,100,000	324,000	3,380,000	2,547,975
2042-2051	1,050,000	86,400	10,425,000	2,619,488
	<u>\$ 4,300,000</u>	<u>\$ 2,262,963</u>	<u>\$ 20,005,000</u>	<u>\$ 15,571,638</u>

Year ending September 30,	Business -Type Activities					
	2021 GO Refunding Bonds		2014 GO Refunding Bonds		Total GO Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 630,000	\$ 214,349	\$ 220,500	\$ 84,998	\$ 850,500	\$ 299,347
2024	650,000	192,861	231,000	78,225	881,000	271,086
2025	665,000	179,730	231,000	71,295	896,000	251,025
2026	680,000	168,641	238,000	64,260	918,000	232,901
2027	685,000	158,063	248,500	56,963	933,500	215,026
2028 -2032	3,735,000	487,230	633,500	211,873	4,368,500	699,103
2033 -2037	2,475,000	62,934	759,500	78,330	3,234,500	141,264
	<u>\$ 9,520,000</u>	<u>\$ 1,463,808</u>	<u>\$ 2,562,000</u>	<u>\$ 645,944</u>	<u>\$ 12,082,000</u>	<u>\$ 2,109,752</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

The 2022 certificates of obligation were issued June 14, 2022, due in annual installments through 2051, bearing an interest rate of 4.25% payable May 1 and November 1.

The 2021 general obligation refunding bonds were issued April 13, 2021, due in annual installments through 2035, bearing interest of 1.75% payable May 1 and November 1.

Year ending September 30,	Business-Type Activities			
	State Infrastructure Loan		TX DOT SIB 2017	
	Principal	Interest	Principal	Interest
2023	\$ 148,983	\$ 16,183	\$ 49,975	\$ 16,906
2024	153,451	11,646	50,762	15,332
2025	158,052	6,974	51,562	13,732
2026	153,443	2,302	52,374	12,108
2027	-	-	53,199	10,458
2028	-	-	54,037	8,782
2029	-	-	54,888	7,080
2030	-	-	55,752	5,352
2031	-	-	56,630	3,596
2032	-	-	57,518	1,812
	<u>\$ 613,929</u>	<u>\$ 37,105</u>	<u>\$ 536,697</u>	<u>\$ 95,158</u>

Year ending September 30,	Business-Type Activities			
	TX DOT SIB 2021		TX DOT SIB 2022	
	Principal	Interest	Principal	Interest
2023	\$ 61,804	\$ -	\$ 187,362	\$ 22,240
2024	-	1,678	174,231	35,371
2025	56,504	10,177	176,792	32,810
2026	56,927	9,326	179,391	30,211
2027	57,354	8,469	182,028	27,574
2028-2032	293,289	29,263	951,071	96,937
2033-2037	242,656	7,314	742,682	25,973
	<u>\$ 768,534</u>	<u>\$ 66,227</u>	<u>\$ 2,593,556</u>	<u>\$ 271,116</u>

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2022

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.

On April 30, 2021, the City approved the issuance of a SIB loan in the amount of \$892,141. The loan bears an interest rate of 0% to 1.50%. Annual principal payments are due through 2036. Semi-annually interest payments are due in February and August. The funds will to be used to relocate the water utilities due to the widening of FM 1488 to FM 1774.

On May 19, 2022, the City approved the issuance of a SIB loan in the amount of \$2,803,157. The loan bears an interest rate of 1.47%. Annual principal payments are due through 2036. The funds will be used in addition to the SIB 2021 loan to help with relocation costs of water utilities due to the widening of FM 1488.

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 4A Corporation paid the remaining \$830,000 principal and \$4,311 interest amount of the 2012 sales tax and revenue refunding bonds on October 19, 2021.

F. Deferred Charge on Refunding

A deferred charge resulting from the issuance of the 2014 and 2021 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 \$30,419 and \$164,700, respectively. Current year amortization expense for governmental activities and business-type activities totaled \$3,042 and \$14,307, respectively.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Compensated absences	\$ 129,006	\$ 141,907	\$ (118,383)	\$ 152,530	\$ 137,277
Total Governmental Activities	<u>\$ 129,006</u>	<u>\$ 141,907</u>	<u>\$ (118,383)</u>	<u>\$ 152,530</u>	<u>\$ 137,277</u>
Other long-term liabilities due in more than one year				<u>\$ 15,253</u>	
Business-Type Activities:					
Compensated absences	\$ 15,726	\$ 17,299	\$ (4,315)	\$ 28,710	\$ 25,839
Total Business-Type Activities	<u>\$ 15,726</u>	<u>\$ 17,299</u>	<u>\$ (4,315)</u>	<u>\$ 28,710</u>	<u>\$ 25,839</u>
Other long-term liabilities due in more than one year				<u>\$ 2,871</u>	

H. Interfund Transactions

Transfers between the primary government funds during the 2022 year were as follows:

Transfer in:	Transfer out:		
	Debt		
	Service	Utility	Total
General	\$ -	\$ 512,016	\$ 512,016
Utility	654,500	-	654,500
Total	<u>\$ 654,500</u>	<u>\$ 512,016</u>	<u>\$ 1,166,516</u>

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

Due from:	Due to:	
	General	Nonmajor Governmental
General Fund	\$ -	\$ 963
Debt Service Fund	34,434	-
Total	<u>\$ 34,434</u>	<u>\$ 963</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, 2022

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:

	Governmental Activities	Business-Type Activities	Component Units
Restricted for:			
Debt service	\$ 663,078	\$ -	\$ -
* Municipal court	71,136	-	-
* Tourism	134,042	-	-
Capital projects	16,765	-	-
Road improvement	2,772,746	-	-
Red light camera	10	-	-
PID activities	5,473	-	-
Tree mitigation	9,600	-	-
Seized property	31,872	-	-
Pensions	197,769	6,363	-
Economic development	-	-	2,715,591
Community development	-	-	734,669
Total	\$ 3,902,491	\$ 6,363	\$ 3,450,260

*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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2022

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

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

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and 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 in an active litigation with the San Jacinto River Authority "SJRA" over an increase in pumpage fees. SJRA increased the rates during the current year, but the City filed an appeal mentioning a breach of contract. The City is currently not paying the increased rates and has instead set aside the amount in a separate liability account until the Supreme Court comes to a decision. The fees held in the liability account amounted to \$701,426 as of year end.

The City is a defendant or plaintiff in other 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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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.

D. Pension Plans

Texas Municipal Retirement Systems

1. Plan Description

The City of Magnolia, Texas participates as one of 920 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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.

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>Plan Year 2021</u>	<u>Plan Year 2020</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, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	44
Active employees	<u>36</u>
Total	<u>95</u>

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

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 4.81% and 4.62% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2022, were \$90,946.

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2021, 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, 2021 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.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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 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 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public/Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

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

The following presents the net pension liability (asset) of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ (24,375)	\$ (301,673)	\$ (533,308)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/20	\$ 1,828,383	\$ 1,984,632	\$ (156,249)
Changes for the year:			
Service Cost	186,545	-	186,545
Interest	126,960	-	126,960
Change in benefit terms	-	-	-
Difference between expected and actual experience	(15,622)	-	(15,622)
Changes of assumptions	-	-	-
Contributions – employer	-	82,775	(82,775)
Contributions – employee	-	103,254	(103,254)
Net investment income	-	258,467	(258,467)
Benefit payments, including refunds of emp. contributions	(81,536)	(81,536)	-
Administrative expense	-	(1,197)	1,197
Other changes	-	8	(8)
Net changes	216,347	361,771	(145,424)
Balance at 12/31/21	\$ 2,044,730	\$ 2,346,403	\$ (301,673)

Pension Plan Fiduciary Net Position

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

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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

For the year ended September 30, 2022, the City recognized pension income of \$2,362.

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Contributions subsequent to the measurement date	\$ 70,040	\$ -
Difference in expected and actual economic experience	-	(38,945)
Change in actuarial assumptions	1,890	-
Difference between projected and actual investment earnings	-	(131,134)
Total	\$ 71,930	\$ (170,079)

The City reported \$131,134 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2022	\$ (52,096)
2023	(61,466)
2024	(29,723)
2025	(24,904)
2026	-
Thereafter	-
	\$ (168,189)

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

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

The City offers supplemental death to:	Plan Year 2021	Plan Year 2020
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, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	11
Active employees	36
Total	61

The City's contributions to the TMRS SDBF for the years ended 2022, 2021 and 2020 were \$2,449, \$1,533 and \$453, 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
2020	0.03%	0.03%	100.0%
2021	0.11%	0.11%	100.0%
2022	0.13%	0.13%	100.0%

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2021, 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, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5%, including inflation per year
Discount rate	1.84%
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 1.84%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

City of Magnolia, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

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 1.84%, 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 (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

1% Decrease (0.84%)	Current Single Rate Assumption 1.84%	1% Increase (2.84%)
\$ 178,217	\$ 143,272	\$ 117,067

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/20	\$ 134,948
Changes for the year:	
Service Cost	7,228
Interest	2,752
Difference between expected and actual experience	(4,442)
Changes of assumptions	4,679
Benefit payments	(1,893)
Net changes	8,324
Balance at 12/31/21	<u>\$ 143,272</u>

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$16,602.

City of Magnolia, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Contributions subsequent to measurement date	\$ 1,971	\$ -
Differences between expected and actual economic experience	-	(4,251)
Changes in assumptions	23,768	-
Total	\$ 25,739	\$ (4,251)

The City reported \$1,416 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, 2023.

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

Year ended December 31:	
2022	\$ 6,526
2023	5,538
2024	6,046
2025	1,407
2026	-
Thereafter	-
	\$ 19,517

F. Subsequent Events

No material subsequent events occurred prior to July 11, 2023, 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, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 430,140	\$ 455,140	\$ 441,114	\$ (14,026)
Sales tax	1,800,000	1,911,245	2,011,049	99,804
Franchise tax	289,000	294,850	285,201	(9,649)
Licenses and permits	922,000	3,538,775	3,660,309	121,534
Fines and forfeitures	344,500	344,500	334,347	(10,153)
Intergovernmental	69,100	69,100	121,498	52,398
Other revenue	6,000	81,000	93,402	12,402
Total Revenues	3,860,740	6,694,610	6,946,920	252,310
<u>Expenditures</u>				
Current:				
General government	1,313,175	1,951,775	1,999,361	(47,586) *
Public safety	1,610,436	1,673,936	1,603,320	70,616
Municipal court	180,444	205,444	187,505	17,939
Parks and recreation	61,500	38,275	37,322	953
Public works	860,527	1,014,457	1,031,207	(16,750) *
Capital outlay	54,414	68,479	290,423	(221,944) *
Total Expenditures	4,080,496	4,952,366	5,149,138	(196,772)
Revenues Over (Under)				
Expenditures	(219,756)	1,742,244	1,797,782	55,538
<u>Other Financing Sources and Uses</u>				
Transfers in	596,503	596,503	512,016	(84,487)
Lease related issuance	-	-	225,403	225,403
Sale of capital assets	-	43,346	43,346	-
Total Other Financing Sources	596,503	639,849	780,765	140,916
Net Change in Fund Balance	\$ 376,747	\$ 2,382,093	2,578,547	\$ 196,454
Beginning fund balance			2,501,603	
Ending Fund Balance			\$ 5,080,150	

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:

	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Total pension liability				
Service cost	\$ 186,545	\$ 166,381	\$ 172,708	\$ 122,714
Interest	126,960	114,217	106,816	91,715
Changes in benefit terms	-	-	67,532	-
Differences between expected and actual experience	(15,622)	(16,037)	(98,186)	(12,844)
Changes of assumptions	-	-	9,071	-
Benefit payments, including refunds of participant contributions	(81,536)	(90,191)	(65,015)	(75,758)
Net change in total pension liability	<u>216,347</u>	<u>174,370</u>	<u>192,926</u>	<u>125,827</u>
Total pension liability - beginning	<u>1,828,383</u>	<u>1,654,013</u>	<u>1,461,087</u>	<u>1,335,260</u>
Total pension liability - ending (a)	<u>2,044,730</u>	<u>1,828,383</u>	<u>1,654,013</u>	<u>1,461,087</u>
Plan fiduciary net position				
Contributions - employer	\$ 82,775	\$ 81,901	\$ 25,015	\$ 27,709
Contributions - members	103,254	91,001	89,874	91,350
Net investment income	258,467	134,125	230,050	(44,753)
Benefit payments, including refunds of participant contributions	(81,536)	(90,191)	(65,015)	(75,758)
Administrative expenses	(1,198)	(869)	(1,302)	(864)
Other	8	(34)	(40)	(44)
Net change in plan fiduciary net position	<u>361,770</u>	<u>215,933</u>	<u>278,582</u>	<u>(2,360)</u>
Plan fiduciary net position - beginning	<u>1,984,632</u>	<u>1,768,698</u>	<u>1,490,116</u>	<u>1,492,476</u>
Plan fiduciary net position - ending (b)	<u>\$ 2,346,403</u>	<u>\$ 1,984,632</u>	<u>\$ 1,768,698</u>	<u>\$ 1,490,116</u>
Fund's net pension liability (asset) - ending (a) - (b)	<u>\$ (301,673)</u>	<u>\$ (156,249)</u>	<u>\$ (114,685)</u>	<u>\$ (29,029)</u>
 Plan fiduciary net position as a percentage of the total pension liability	 115%	 109%	 107%	 102%
Covered payroll	\$ 1,720,894	\$ 1,516,686	\$ 1,497,901	\$ 1,522,504
Fund's net position as a percentage of covered payroll	(10.31%)	(10.31%)	(1.91%)	(1.91%)

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>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u> ¹
\$ 119,672	\$ 114,422	\$ 96,479	\$ 82,332
84,849	76,723	69,300	62,683
-	-	-	-
(34,753)	(15,923)	(2,727)	4,254
-	-	35,788	-
(63,386)	(51,552)	(70,779)	(52,845)
<u>106,382</u>	<u>123,670</u>	<u>128,061</u>	<u>96,424</u>
<u>1,228,878</u>	<u>1,105,208</u>	<u>977,147</u>	<u>880,723</u>
<u>1,335,260</u>	<u>1,228,878</u>	<u>1,105,208</u>	<u>977,147</u>
\$ 27,697	\$ 19,422	\$ 14,956	\$ -
88,865	84,444	73,555	73,393
175,414	76,847	1,650	59,442
(63,386)	(51,552)	(70,779)	(52,845)
(908)	(868)	(1,005)	(621)
(47)	(47)	(48)	(51)
<u>227,635</u>	<u>128,246</u>	<u>18,329</u>	<u>79,318</u>
<u>1,264,841</u>	<u>1,136,595</u>	<u>1,118,266</u>	<u>1,038,948</u>
<u>\$ 1,492,476</u>	<u>\$ 1,264,841</u>	<u>\$ 1,136,595</u>	<u>\$ 1,118,266</u>
<u>\$ (157,216)</u>	<u>\$ (35,963)</u>	<u>\$ (31,387)</u>	<u>\$ (141,119)</u>
112%	103%	103%	114%
\$ 1,481,084	\$ 1,407,400	\$ 1,225,915	\$ 1,223,213
(10.61%)	(2.56%)	(2.56%)	(11.54%)

City of Magnolia, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	<u>9/30/2022</u>	<u>9/30/2021</u>	<u>9/30/2020</u>	<u>9/30/2019</u>
Actuarially determined contributions	\$ 90,946	\$ 82,952	\$ 67,285	\$ 26,113
Contributions in relation to the actuarially determined contribution	<u>90,946</u>	<u>82,952</u>	<u>67,285</u>	<u>26,113</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Annual covered payroll	\$ 1,950,652	\$ 1,676,807	\$ 1,511,350	\$ 1,526,557
Contributions as a percentage of covered payroll	4.66%	4.95%	4.45%	1.71%

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 scale UMP.

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 basis with scale UMP.

Other Information:

Notes

There were no benefit changes during the year.

<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u> ¹
\$ 27,653	\$ 25,798	\$ 18,541	\$ 10,247
<u>27,653</u>	<u>25,798</u>	<u>18,541</u>	<u>10,247</u>
-	-	-	-
<u>\$ 1,510,115</u>	<u>\$ 1,485,643</u>	<u>\$ 1,388,282</u>	<u>\$ 1,167,468</u>
1.83%	1.74%	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>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
Total OPEB liability				
Service cost	\$ 7,228	\$ 5,915	\$ 4,793	\$ 5,633
Interest	2,752	2,892	3,106	2,835
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	(4,442)	4,647	(5,586)	(3,188)
Changes of assumptions	4,679	19,510	19,015	(6,254)
Benefit payments, including refunds of participant contributions	(1,893)	(455)	(449)	(609)
Net changes	<u>8,324</u>	<u>32,509</u>	<u>20,879</u>	<u>(1,583)</u>
Total OPEB liability - beginning	<u>134,948</u>	<u>102,439</u>	<u>81,560</u>	<u>83,143</u>
Total OPEB liability - ending	<u><u>\$ 143,272</u></u>	<u><u>\$ 134,948</u></u>	<u><u>\$ 102,439</u></u>	<u><u>\$ 81,560</u></u>
 Covered payroll	 \$ 1,720,894	 \$ 1,516,686	 \$ 1,497,901	 \$ 1,522,504
Total OPEB Liability as a percentage of	8.33%	8.90%	6.84%	5.36%

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.

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

<u>12/31/2017</u>	¹
\$ 4,888	
2,689	
-	
-	
7,176	
(592)	
<u>14,161</u>	
<u>68,982</u>	
<u>\$ 83,143</u>	²
\$ 1,481,084	
5.61%	

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OTHER SUPPLEMENTARY INFORMATION

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

City of Magnolia, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2022

	Special Revenue Funds			
	Hotel/Motel Occupancy Tax	HB 445 Fund	Municipal Court Security Fund	Municipal Court Technology Fund
<u>Assets</u>				
Cash and cash equivalents	\$ 134,042	\$ 2,675,978	\$ 66,484	\$ -
Investments				
Receivables, net	-	96,768	-	-
Special assessments receivable	-	-	-	-
Due from other funds	-	-	-	-
Total Assets	\$ 134,042	\$ 2,772,746	\$ 66,484	\$ -
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ 145
Due to other funds	-	-	-	851
Total Liabilities	-	-	-	996
<u>Deferred Inflows of Resources</u>				
Unavailable revenue-property taxes	-	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
<u>Fund Balances</u>				
Restricted for:				
Municipal Court	-	-	66,484	-
Debt service	-	-	-	-
Tourism	134,042	-	-	-
Capital projects	-	-	-	-
Seized Property	-	-	-	-
Tree mitigation	-	-	-	-
Red Light Camera	-	-	-	-
PID activities	-	-	-	-
Road Repairs	-	2,772,746	-	-
Unassigned	-	-	-	(996)
Total Fund Balances	134,042	2,772,746	66,484	(996)
Total Liabilities and Fund Balances	\$ 134,042	\$ 2,772,746	\$ 66,484	\$ -

Special Revenue Funds						
Seized Property	Judicial Efficiency	Local Municipal Jury	Red Light Camera	Scofflaw	In-Kind Franchise Fees	Tree Mitigation
\$ 31,872	\$ 4,369	\$ 283	\$ 10	\$ -	\$ 16,765	\$ 9,600
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 31,872</u>	<u>\$ 4,369</u>	<u>\$ 283</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 16,765</u>	<u>\$ 9,600</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	112	-	-
-	-	-	-	112	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,369	283	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	16,765	-
31,872	-	-	-	-	-	-
-	-	-	-	-	-	9,600
-	-	-	10	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	(112)	-	-
<u>31,872</u>	<u>4,369</u>	<u>283</u>	<u>10</u>	<u>(112)</u>	<u>16,765</u>	<u>9,600</u>
\$ 31,872	\$ 4,369	\$ 283	\$ 10	\$ -	\$ 16,765	\$ 9,600

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City of Magnolia, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2022

Special Revenue Funds				
	Magnolia Ridge PID	Capital Projects	Debt Service Fund	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 37,183	\$ -	\$ 585,344	\$ 3,561,930
Investments	-	-	43,300	43,300
Receivables, net	-	-	34,851	131,619
Special assessments receivable	1,505,000	-	-	1,505,000
Due from other funds	-	-	34,434	34,434
Total Assets	\$ 1,542,183	\$ -	\$ 697,929	\$ 5,276,283
<u>Liabilities</u>				
Accounts payable	\$ 31,710	\$ -	\$ -	\$ 31,855
Due to other funds	-	-	-	963
Total Liabilities	31,710	-	-	32,818
<u>Deferred Inflows of Resources</u>				
Unavailable revenue-property taxes	-	-	34,851	34,851
Unavailable revenue - special assessments	1,505,000	-	-	1,505,000
Total Deferred Inflows of Resources	1,505,000	-	34,851	1,539,851
<u>Fund Balances</u>				
Restricted for:				
Municipal Court	-	-	-	71,136
Debt service	-	-	663,078	663,078
Tourism	-	-	-	134,042
Capital projects	-	-	-	16,765
Seized Property	-	-	-	31,872
Tree mitigation	-	-	-	9,600
Red Light Camera	-	-	-	10
PID activities	5,473	-	-	5,473
Road Repairs	-	-	-	2,772,746
Unassigned	-	-	-	(1,108)
Total Fund Balances	5,473	-	663,078	3,703,614
Total Liabilities and Fund Balances	\$ 1,542,183	\$ -	\$ 697,929	\$ 5,276,283

City of Magnolia, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2022

	Special Revenue Funds			
	Hotel/Motel Occupancy Tax	HB 445 Fund	Municipal Court Security Fund	Municipal Court Technology Fund
<u>Revenues</u>				
Franchise tax	\$ -	\$ -	\$ -	\$ -
Property tax	-	-	-	-
Special assessment	-	-	-	-
Hotel occupancy tax	54,122	-	-	-
Sales tax	-	621,774	-	-
Fines and forfeitures	-	-	8,885	9,873
Investment income	-	12,374	-	-
Other revenues	-	-	-	-
Total Revenues	54,122	634,148	8,885	9,873
<u>Expenditures</u>				
Current:				
General government	-	-	-	-
Municipal court	-	-	7,200	9,875
Public works	-	17,363	-	-
Tourism	18,865	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	18,865	17,363	7,200	9,875
Revenues Over (Under) Expenditures	35,257	616,785	1,685	(2)
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	-	-	-
Total Other Financing (Uses)	-	-	-	-
Net Change in Fund Balances	35,257	616,785	1,685	(2)
Beginning fund balances	98,785	2,155,961	64,799	(994)
Ending Fund Balances	\$ 134,042	\$ 2,772,746	\$ 66,484	\$ (996)

Special Revenue Funds

Seized Property	Judicial Efficiency	Local Municipal Jury	Red Light Camera	Scofflaw	In-Kind Franchise Fees	Tree Mitigation
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,735	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
13,151	1,158	141	-	-	-	-
-	-	-	50	-	-	-
-	-	-	-	-	-	-
<u>13,151</u>	<u>1,158</u>	<u>141</u>	<u>50</u>	<u>-</u>	<u>7,735</u>	<u>-</u>
-	-	-	-	112	-	-
-	-	-	69,691	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,923	-	-	-	-	-	-
<u>2,923</u>	<u>-</u>	<u>-</u>	<u>69,691</u>	<u>112</u>	<u>-</u>	<u>-</u>
10,228	1,158	141	(69,641)	(112)	7,735	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
10,228	1,158	141	(69,641)	(112)	7,735	-
21,644	3,211	142	69,651	-	9,030	9,600
<u>\$ 31,872</u>	<u>\$ 4,369</u>	<u>\$ 283</u>	<u>\$ 10</u>	<u>\$ (112)</u>	<u>\$ 16,765</u>	<u>\$ 9,600</u>

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City of Magnolia, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2022

	Special Revenue Funds			
	Magnolia Ridge PID	Capital Projects	Debt Service Fund	Total
<u>Revenues</u>				
Franchise tax	\$ -	\$ -	\$ -	\$ 7,735
Property tax	-	-	805,623	805,623
Special assessment	123,982	-	-	123,982
Hotel occupancy tax	-	-	-	54,122
Sales tax	-	-	-	621,774
Fines and forfeitures	-	-	-	33,208
Investment income	-	-	530	12,954
Other revenues	-	34,787	-	34,787
Total Revenues	123,982	34,787	806,153	1,694,185
<u>Expenditures</u>				
Current:				
General government	34,458	-	-	34,570
Municipal court	-	-	-	86,766
Public works	-	-	-	17,363
Tourism	-	-	-	18,865
Debt service:				
Principal	30,000	-	91,500	121,500
Interest and fiscal charges	87,495	-	39,717	127,212
Capital outlay	-	-	-	2,923
Total Expenditures	151,953	-	131,217	409,199
Revenues Over (Under) Expenditures	(27,971)	34,787	674,936	1,284,986
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	-	(654,500)	(654,500)
Total Other Financing (Uses)	-	-	(654,500)	(654,500)
Net Change in Fund Balances	(27,971)	34,787	20,436	630,486
Beginning fund balances	33,444	(34,787)	642,642	3,073,128
Ending Fund Balances	\$ 5,473	\$ -	\$ 663,078	\$ 3,703,614

City of Magnolia, Texas
BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNITS
September 30, 2022

	<u>4A Economic Development</u>	<u>4B Community Development</u>	<u>Total</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 2,537,290	\$ 649,356	\$ 3,186,646
Receivables, net	193,536	96,768	290,304
Prepays	750	-	750
Total Current Assets	<u>2,731,576</u>	<u>746,124</u>	<u>3,477,700</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and accrued liabilities	15,990	11,456	27,446
Total Liabilities	<u>15,990</u>	<u>11,456</u>	<u>27,446</u>
<u>Fund Balances</u>			
Restricted for:			
Economic development	2,715,586	-	2,715,586
Municipal development	-	734,668	734,668
Total Fund Balances	<u>2,715,586</u>	<u>734,668</u>	<u>3,450,254</u>
Total Liabilities and Fund Balances	<u>\$ 2,731,576</u>	<u>\$ 746,124</u>	<u>\$ 3,477,700</u>

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

Fund Balances	\$ 3,450,254
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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	1,386,115
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Capital assets - net depreciable	2,339,348
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Net Position of the Discretely Presented Component Units	\$ 7,175,717
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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, 2022

	4A Economic Development	4B Community Development	Total
<u>Revenues</u>			
Sales taxes	\$ 1,243,548	\$ 621,774	\$ 1,865,322
Investment income	12,680	4,101	16,781
Other revenues	68,446	500	68,946
Total Revenues	1,324,674	626,375	1,951,049
<u>Expenditures</u>			
Economic development	305,631	-	305,631
Park development	-	899,568	899,568
Debt Service:			
Principal	830,000	-	830,000
Interest and fiscal charges	4,311	-	4,311
Total Expenditures	1,139,942	899,568	2,039,510
Excess of Revenues Over (Under) Expenditures	184,732	(273,193)	(88,461)
Net Change in Fund Balances	184,732	(273,193)	(88,461)
Beginning fund balances	2,530,854	1,007,861	3,538,715
Ending Fund Balances	\$ 2,715,586	\$ 734,668	\$ 3,450,254

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, 2022

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

Net changes in fund balances	\$	(88,461)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		446,851
Depreciation expense		(171,212)
Adjustment for disposal of capital assets		(50,710)

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		2,826
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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		830,000
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Change in Net Position of the Discretely Presented Component Units	\$	969,294
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