

ANNUAL FINANCIAL REPORT

City of Willis, Texas

Fiscal Year Ended September 30, 2023





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**City of Willis, Texas
Annual Financial Report
For the year ended September 30, 2023**

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Supplementary Information

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For the fiscal year ended
September 30, 2023



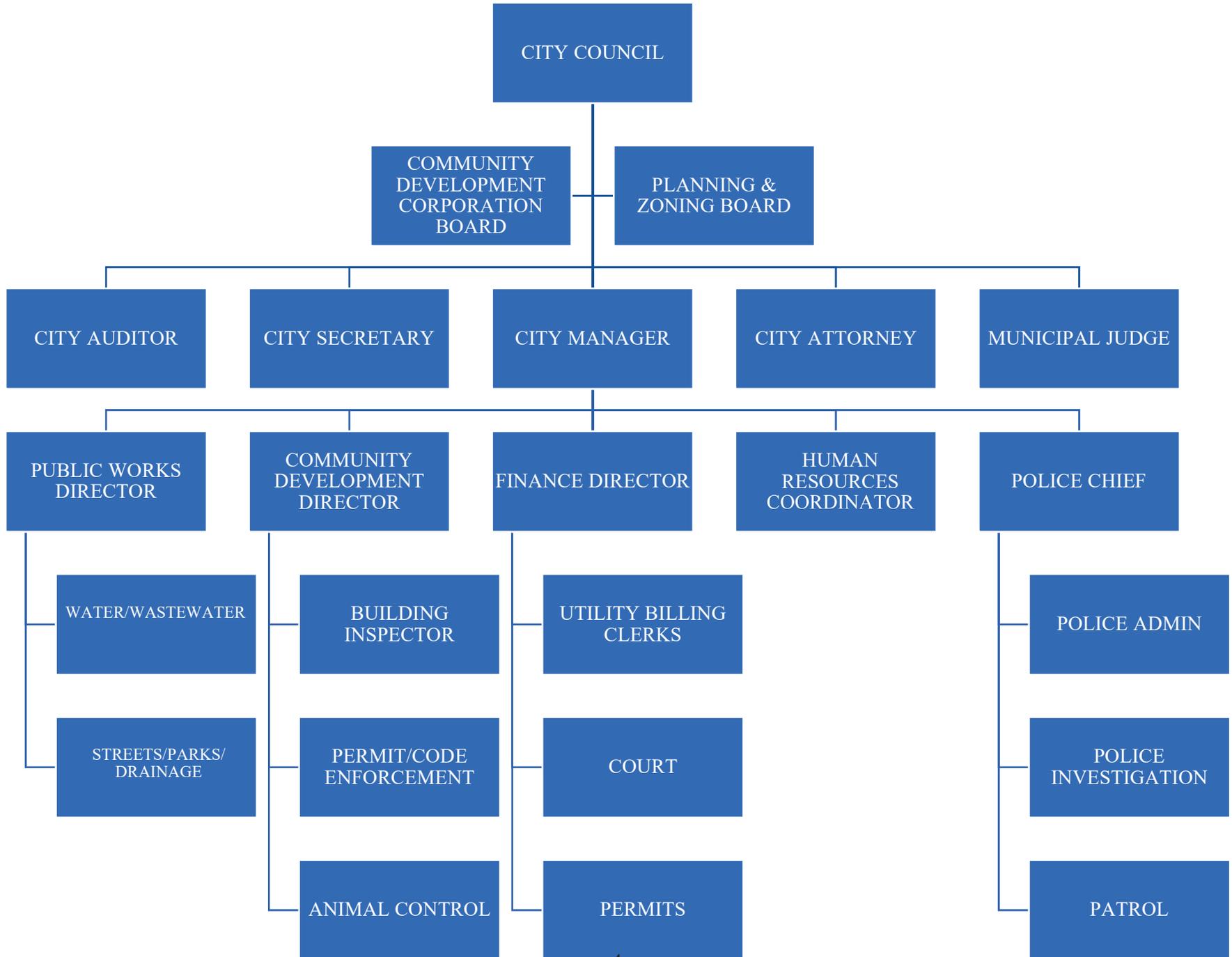
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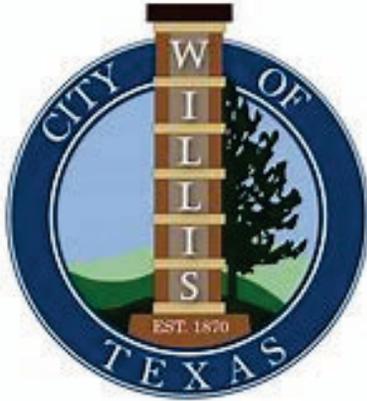
**CITY OF WILLIS, TEXAS
WILLIS CITY COUNCIL**

Regular Meeting: Third Tuesday of each month at 5:30 p.m.
Willis City Hall, 200 N. Bell, Willis, Texas

POSITION	NAME/ADDRESS	PHONE #	TERM EXP
Mayor	Leonard Reed 510 Young Street Willis, TX 77378 lreed@ci.willis.tx.us	(936) 856-3099 H (936) 443-9312 C	May, 2025
Council Member Place No. 1	Ashley Nixon 318 Longstreet Rd Willis, TX 77378 Ashnicolenixon@gmail.com	(936) 701-9689 C anixon@ci.willis.tx.us	May, 2025
Council Member Place No. 2	Johnnie Barney Stone 102 Gerald Street Willis, TX 77378 jstone8814@aol.com	(936) 890-6170 H (281) 380-7115 C	May, 2025
Council Member Place No. 3	Thomas Belinoski 519 S. Campbell Willis, TX 77378 tbelinoski@ci.willis.tx.us	(936) 521-9480	May, 2025
Council Member Place No. 4	Thomas Luster 140 Birchwood Willis, TX 77378 tluster55@gmail.com	(936) 856-7585 H (713) 725-0007 C	May, 2025
Council Member Place No. 5 Mayor Pro-Tem	William Brown 202 Philpot St Willis, TX 77378 Eldwilliambrown@gmail.com	(832) 903-1979 C	May, 2025
City Manager (appointed)	Sheyi I. Ipaye, CPM 200 N. Bell Willis, TX 77378	(936) 856-4611 O (936) 890-1246 F	
City Attorney (appointed)	Larry Foerster 414 West Phillip, Suite 100 Conroe, TX 77301	(936) 756-3337 O (936) 756-2606 F	
Police Chief (appointed)	Brandal Jackson Willis Police Department 200 S. Bell Willis, TX 77378	(936) 856-4039 O (936) 856-5857 F	
City Secretary (appointed)	Marissa Quintanilla Willis City Hall 200 N. Bell Willis, TX 77378	(936) 856-4611 O (936) 890-1246 F	

CITY OF WILLIS ORGANIZATIONAL CHART





Financial Section

For the fiscal year ended
September 30, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City's Council
City of Willis, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Willis, Texas (the "City"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Willis, Texas' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the City 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

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, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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, Texas '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, Texas' 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 11-19), general fund budgetary comparison statement (page 67), schedule of changes in Net Pension Liability and Related Ratios (page 68), Schedule of Contribution -Pensions (page 69), and Schedule of Contribution in Postemployment Benefits other than Pension (page 70) information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Willis, Texas' basic financial statements. The combining nonmajor fund financial statements and budgetary comparison information for debt service fund (page 73) and community development corporation fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion,

the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2024, on our consideration of the City, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City, Texas' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Vail + Park, P.C." The signature is written in a cursive, slightly slanted style. The text is positioned above a faint, horizontal dashed line.

Frisco, Texas
June 10, 2024



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City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2023

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 Willis's financial activities for the year ending September 30, 2023. 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 \$27,309,718 at September 30, 2023.
- At the close of the current fiscal year, the City's governmental funds reported combined funds balances of \$13,523,151, an increase of \$4,187,591.
- As of the end of the year, the unassigned fund balance of the general fund was \$11,444,391 or 219% of total general fund expenditures.
- The City had an overall increase in net position of \$5,848,552.
- The City's total capital assets net of accumulated depreciation increased by \$173,959. The increase is due to the current year additions, continued purchases and construction of capital assets, net of depreciation.
- The City's governmental and business-type activities outstanding general obligation bonds and certificates of obligation decreased \$1,280,263 to a total outstanding amount of \$20,557,000.

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 the cost of services, operating results, and the City's financial position 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 Willis. 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 considered even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City of Willis'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 Willis 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.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2023

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 the modified accrual used in the fund level statements.

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

Governmental Activities - Most of the City's basic services are reported here, including general government, public safety (police, municipal court); and culture and recreation. Sales tax, property tax, franchise & local taxes, municipal court fee and fines, permit fees and code enforcement fines, and sanitation fees finance most of these activities.

Business-Type Activities - Services involving a fee for those services. These services, the City's water distribution, construction, and wastewater collection/treatment, are reported here.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

By 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 Willis maintains four 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 fund.

The City of Willis adopts an annual appropriated budget for its general, debt service, hotel tax, economic development corporation (EDC), and community development corporation (CDC) funds.

Budgetary comparison schedules have been provided for the general and debt service fund to demonstrate compliance with each budget.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2023

The Willis Tax Increment Financing Zone No.1 is presented as a special revenue fund of the City (page 73).

Proprietary Funds

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

Component Units

The City maintains the accounting and financial statements for one component unit. The Willis Community Development Corporation is a discreetly presented component unit displayed on government-wide financial statements.

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 required RSI includes a budgetary comparison schedule for the general fund, schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System. RSI can be found after the basic the financial statements

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2023

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 Willis, assets and deferred outflows exceeded liabilities and deferred inflows by \$27,309,718 as of September 30, 2023, in the primary government.

The largest portion of the City's net position, \$13,402,376 reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current & Other Assets	\$ 26,207,820	\$ 21,676,788	\$ 2,315,128	\$ 1,782,318	\$ 28,522,948	\$ 23,459,106
Capital and Other Assets	8,513,258	8,505,765	24,513,391	24,810,815	33,026,649	33,316,580
Total Assets	<u>34,721,078</u>	<u>30,182,553</u>	<u>26,828,519</u>	<u>26,593,133</u>	<u>61,549,597</u>	<u>56,775,686</u>
Deferred Outflows of Resources	517,016	156,452	174,764	45,276	691,780	201,728
Long Term Liabilities	1,551,686	1,488,283	18,527,125	19,476,313	20,078,811	20,964,596
Other Liabilities	12,721,099	12,401,791	1,777,380	1,496,321	14,498,479	13,898,112
Total Liabilities	<u>14,272,785</u>	<u>13,890,074</u>	<u>20,304,505</u>	<u>20,972,634</u>	<u>34,577,290</u>	<u>34,862,708</u>
Deferred Inflows of Resources	264,988	506,859	89,381	146,680	354,369	653,539
Net Position:						
Net Investment in Capital Assets	7,320,642	6,834,330	6,081,734	5,122,153	13,402,376	11,956,483
Restricted	1,774,026	2,219,052	-	-	1,774,026	2,219,052
Unrestricted	11,605,653	6,888,690	527,663	396,942	12,133,316	7,285,632
Total Net Position	<u>\$ 20,700,321</u>	<u>\$ 15,942,072</u>	<u>\$ 6,609,397</u>	<u>\$ 5,519,095</u>	<u>\$ 27,309,718</u>	<u>\$ 21,461,167</u>

Current and other assets for governmental activities increased by \$4,531,032 primarily due to greater cash on hand, resulting from operating surpluses and unearned revenue deposits in the current year. Current and other assets for business-type activities increased by \$532,810 primarily due to increased cash on hand, as the City invested available funds on capital improvements in the current year. Total other liabilities increased by \$600,364 primarily due to greater vendor payables outstanding at the end of the current year. Total long-term liabilities decreased by \$885,785 primarily due to the current year principal payments.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2023

Statement of Activities:

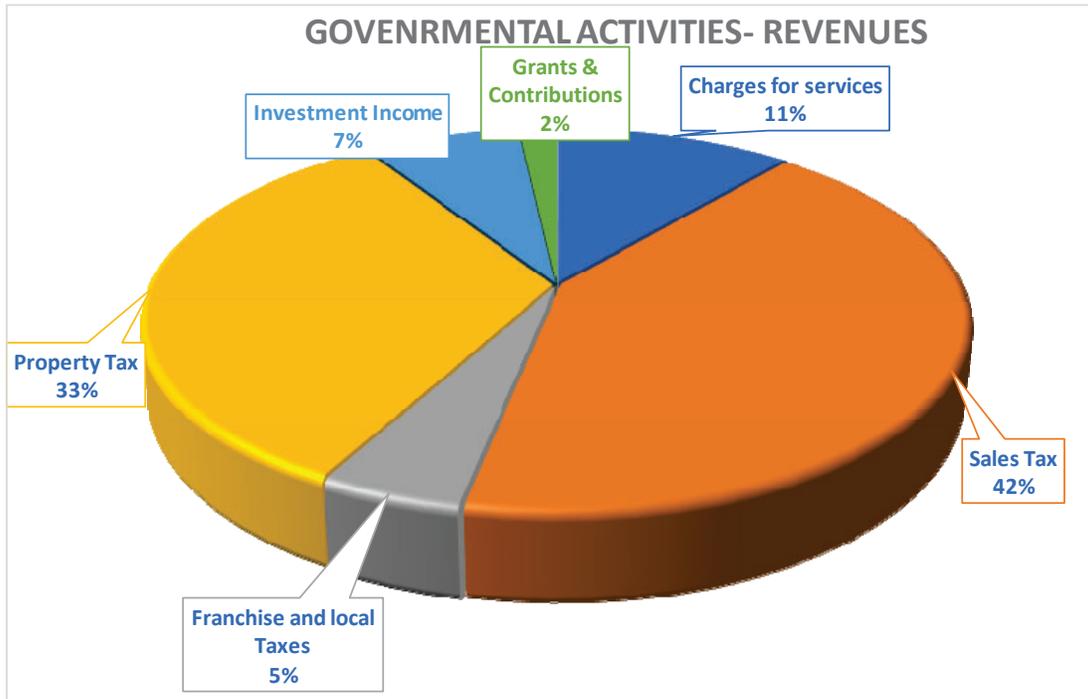
The following table provides a summary of the City's changes in net position:

	City of Willis - Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues						
Program Revenues:						
Charges for services	\$ 1,141,285	\$ 961,286	\$ 4,300,231	\$ 4,110,238	\$ 5,441,516	\$ 5,071,524
Grants & contributions	176,795	869,061	574,373	-	751,168	869,061
General Revenues:						
Property tax	3,380,314	2,439,556	-	-	3,380,314	2,439,556
Sales taxes	4,296,521	3,534,596	-	-	4,296,521	3,534,596
Franchise and local taxes	490,090	449,421	-	-	490,090	449,421
Investment income	749,906	13,754	-	-	749,906	13,754
Other revenues	31,103	97,981	-	5,547	31,103	103,528
Total Revenues	<u>10,266,014</u>	<u>8,365,655</u>	<u>4,874,604</u>	<u>4,115,785</u>	<u>15,140,618</u>	<u>12,481,440</u>
Expenses						
General government activities	957,750	1,203,518	-	-	957,750	1,203,518
Community development	530,136	428,929	-	-	530,136	428,929
Public safety	1,733,470	1,748,404	-	-	1,733,470	1,748,404
Sanitation	522,461	441,008	-	-	522,461	441,008
Court	122,196	113,324	-	-	122,196	113,324
Street	990,399	875,144	-	-	990,399	875,144
Water & sewer	-	-	3,855,339	2,816,604	3,855,339	2,816,604
Bond issuance costs	-	-	-	102,494	-	102,494
Interest and fiscal charges	37,421	33,717	540,278	605,775	577,699	639,492
Total Expenses	<u>4,893,834</u>	<u>4,844,044</u>	<u>4,395,617</u>	<u>3,524,873</u>	<u>9,289,451</u>	<u>8,368,917</u>
Increase/(Decrease) in Net Position Before Transfers	5,372,180	3,521,611	478,987	590,912	5,851,167	4,112,523
Lease proceeds	(2,616)	9,181	-	-	(2,616)	9,181
Transfers	<u>(611,315)</u>	<u>636,458</u>	<u>611,315</u>	<u>(549,457)</u>	<u>-</u>	<u>87,001</u>
Change in Net Position	4,758,249	4,167,250	1,090,302	41,455	5,848,551	4,208,705
Net Position - Beginning	<u>15,942,072</u>	<u>11,774,822</u>	<u>5,519,095</u>	<u>5,477,640</u>	<u>21,461,167</u>	<u>17,252,462</u>
Net Position - Ending	<u>\$ 20,700,321</u>	<u>\$ 15,942,072</u>	<u>\$ 6,609,397</u>	<u>\$ 5,519,095</u>	<u>\$ 27,309,718</u>	<u>\$ 21,461,167</u>

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2023

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

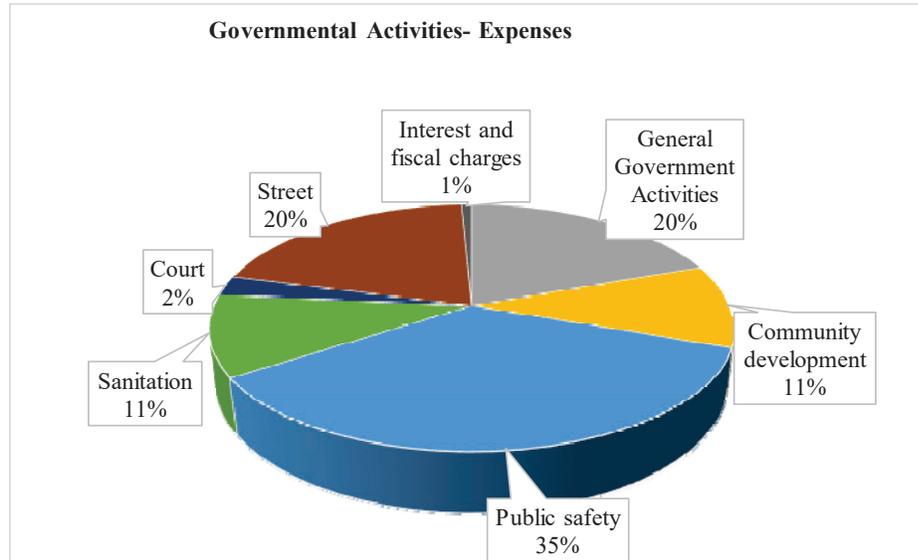
This graph shows the governmental functional revenues of the City:



For the year ended September 30, 2023, revenues from governmental activities totaled \$10,266,014. Charges for service, sales taxes, property taxes, and grants/contributions are the City's largest revenue sources. Overall governmental revenue increased by \$1,900,361. Sales taxes revenues increased by \$761,925 or 22 %, primarily due to the raised development projects. Property tax revenues increased \$940,758 or 39% due to increase in tax rate. All other revenues remained stable when compared to the previous year.

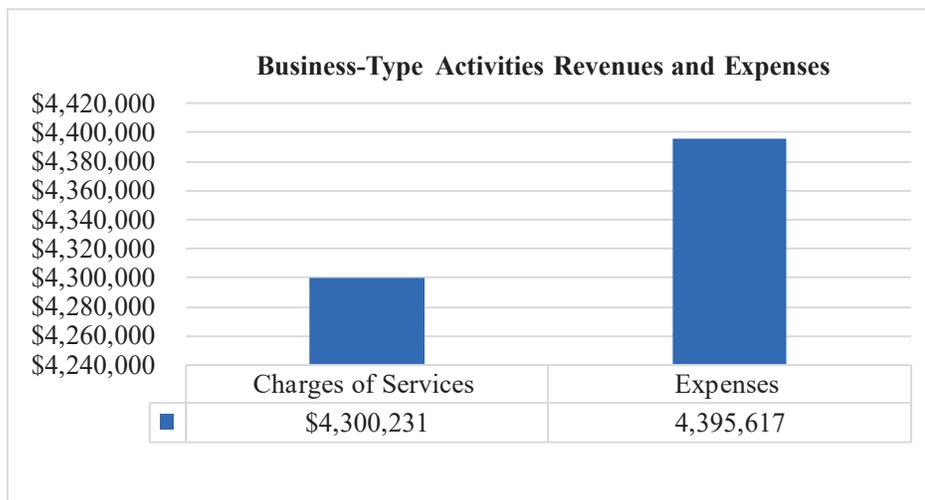
City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS,
September 30, 2023

This graph shows the governmental functional expenses of the City:



For the year ended September 30, 2023, expenses for governmental activities totaled \$4,893,834. This represents an increase of \$49,790 or 1% from the prior year. The City's largest functional expenses are public safety of \$1,733,470, general government of \$957,750, and street expenses of \$990,399. Public safety expenses decreased by \$14,934, or 1%, as a result of decreased pension liabilities. All other expenses remained relatively consistent with the previous year.

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



For the year ended September 30, 2023, charges for services by business-type activities totaled \$4,300,231. This is an increase of \$189,993 or 5% from the previous year due to growth within the city. Total expenses increased \$870,744 or 25% compared to the prior year and is due to growth within the City.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS,
September 30, 2023

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 \$11,749,127, \$11,444,393 of which is unassigned. Unassigned fund balance equaled 219% of total annual general fund expenditures. The general fund had an increase in fund balance of \$3,557,249 during the year. This increase is primarily a result of greater than expected property tax and sales tax revenues.

Overall, the governmental fund balance increased by \$4,187,593 over the prior year. This was the result of \$3,557,248 increases in the general fund, as mentioned above, an increase in the nonmajor hotel tax fund of \$17,142, an increase in the nonmajor TIRZ fund of \$451,129, and an increase in the debt service fund of \$162,073.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund had a total positive budget variance of \$2,905,375. Revenues had a positive variance for the year of \$2,299,084, and expenditures had a positive variance of \$865,104.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$8,513,258 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. Amortization is included with governmental leases as a requirement by GASB Statement No. 87. The City's business-type activities funds had invested \$24,513,391 in a variety of capital assets and infrastructure, net of accumulated depreciation.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS,
September 30, 2023

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

- Construction in progress in the governmental activities amounted to \$135,804. This included the public works yard, Pine Circle Park, and Hines Ave, and MLK park.
- Construction in progress for proprietary fund of water plants, ARPA Lift Station Improvement and well rehab incurred increased \$888,800.
- Purchases of motor vehicles for city use, particularly Police Department units, in the amount of vehicles and equipment \$207,598.

More detailed information about the City's capital assets is presented in Note 3.D to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds and notes payables outstanding of \$20,557,000, including premiums. Principal payments on debt obligations totaled \$1,280,263 during the year. Leases at the end of the current year had a total outstanding of \$13,078 payable. More detailed information about the City's long-term liabilities is presented in Note 3. G 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 Willis and improving services provided to their public citizens.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Willis' 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 City Hall, 200 North Bell Street, Willis, Texas, 77378 or visit the City's website at www.ci.willis.tx.us.



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Basic Financial Statements

For the fiscal year ended
September 30, 2023



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City of Willis, Texas
STATEMENT OF NET POSITION
September 30, 2023

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Community Development Corporation
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 12,754,824	\$ 85,579	\$ 12,840,403	2,090,377
Restricted cash	10,078,399	945,805	11,024,204	-
Investments	2,074,754	149,258	2,224,012	688,127
Receivables, net	1,465,144	921,405	2,386,549	179,796
Inventory	-	41,830	41,830	-
Internal Balances	(171,251)	171,251	-	-
Due from other governments	5,950	-	5,950	-
Total Current Assets	26,207,820	2,315,128	28,522,948	2,958,300
Capital assets:				
Non-depreciable	574,319	819,433	1,393,752	-
Depreciable, net	7,938,939	23,693,958	31,632,897	-
Total Capital Assets	8,513,258	24,513,391	33,026,649	-
Total Assets	34,721,078	26,828,519	61,549,597	2,958,300
Deferred Outflows of Resources				
Deferred Outflow - OPEB	410	1,839	2,249	-
Deferred Outflow - Pension	516,606	172,925	689,531	-
Total Deferred Outflows of Resources	517,016	174,764	691,780	-
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	426,916	620,312	1,047,228	-
Unearned revenue	12,089,233	-	12,089,233	-
Customer deposits	-	144,606	144,606	-
Due to state	22,334	-	22,334	-
Due to other governments	-	-	-	5,950
Lease payable	2,616	10,462	13,078	-
Long-term debt due within one year	180,000	1,002,000	1,182,000	-
Total Current Liabilities	12,721,099	1,777,380	14,498,479	5,950
Noncurrent liabilities:				
Compensated absences, noncurrent	187,332	43,511	230,843	-
Long-term debt due in more than one year	1,010,000	18,365,000	19,375,000	-
Total OPEB liability	95,903	32,102	128,005	-
Net Pension liability	258,451	86,512	344,963	-
Total Liabilities	14,272,785	20,304,505	34,577,290	5,950
Deferred Inflows of Resources:				
Deferred Inflow - OPEB	25,874	9,341	35,215	-
Deferred Inflow - Pension	239,114	80,040	319,154	-
Total Deferred Inflows of Resources	264,988	89,381	354,369	-
Net Position:				
Net investment in capital assets	7,320,642	6,081,734	13,402,376	-
Restricted for:				
Debt service	250,038	-	250,038	-
Tourism	366,940	-	366,940	-
Community development	1,157,048	-	1,157,048	2,952,349
Unrestricted	11,605,653	527,663	12,133,316	-
Total Net Position	\$ 20,700,321	\$ 6,609,397	\$ 27,309,718	\$ 2,952,349

The accompanying notes to the financial statements are an integral part of this statement .

City of Willis, Texas
Statement of Activities
For the Year Ended September 30, 2023

Program Activities	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit Community Development Corporation
		Fees, Fines and Charges for Services	Capital Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
Primary government:							
Governmental activities:							
General government	\$ 957,750	\$ -	\$ 62,752	\$ (894,998)	\$ -	\$ (894,998)	\$ -
Community development	530,136	521,660	114,043	105,567	-	105,567	-
Public safety	1,733,470	86,520	-	(1,646,950)	-	(1,646,950)	-
Sanitation	522,461	533,105	-	10,644	-	10,644	-
Court	122,196	-	-	(122,196)	-	(122,196)	-
Street	990,399	-	-	(990,399)	-	(990,399)	-
Interest and fiscal charges	37,421	-	-	(37,421)	-	(37,421)	-
Total governmental activities	<u>4,893,834</u>	<u>1,141,285</u>	<u>176,795</u>	<u>(3,575,754)</u>	<u>-</u>	<u>(3,575,754)</u>	<u>-</u>
Business-type activities:							
Wastewater utility	3,855,339	4,300,231	574,373	-	1,019,265	1,019,265	-
Interest expense	540,278	-	-	-	(540,278)	(540,278)	-
Total business-type activities	<u>4,395,617</u>	<u>4,300,231</u>	<u>574,373</u>	<u>-</u>	<u>478,987</u>	<u>478,987</u>	<u>-</u>
Total Primary Government	<u>\$ 9,289,451</u>	<u>\$ 5,441,516</u>	<u>\$ 751,168</u>	<u>\$ (3,575,754)</u>	<u>\$ 478,987</u>	<u>\$ (3,096,767)</u>	<u>\$ -</u>
Component Units							
Community Development Corp.	\$ 249,447	\$ -	\$ -				\$ (249,447)
Total Component Units	<u>\$ 249,447</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (249,447)</u>
Change in net position							
General revenues:							
Property tax				3,380,314	-	3,380,314	-
Sales tax				4,296,521	-	4,296,521	975,303
Franchise and local taxes				490,090	-	490,090	-
Investment income				749,906	-	749,906	77,602
Other revenues				31,101	-	31,101	779
Lease proceeds				(2,616)	-	(2,616)	-
Transfers in (out)				(611,315)	611,315	-	-
Total general revenues and transfers				<u>8,334,001</u>	<u>611,315</u>	<u>8,945,316</u>	<u>1,053,684</u>
Change in net position				4,758,247	1,090,302	5,848,549	804,237
Net position - beginning				15,942,072	5,519,095	21,461,167	2,148,112
Net position - ending				<u>\$ 20,700,321</u>	<u>\$ 6,609,397</u>	<u>\$ 27,309,718</u>	<u>\$ 2,952,349</u>

The accompanying notes to the financial statements are an integral part of this statement.

**City of Willis, Texas
Balance Sheet
Governmental Funds
September 30, 2023**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,967,810	\$ 250,265	\$ 1,536,749	\$ 12,754,824
Restricted cash	10,078,399	-	-	10,078,399
Investments	2,074,754	-	-	2,074,754
Receivables (net of allowance for uncollectibles)	1,434,555	30,589	-	1,465,144
Due from other funds	-	-	365,286	365,286
Due from other governments	5,950	-	-	5,950
Total assets	<u>24,561,468</u>	<u>280,854</u>	<u>1,902,035</u>	<u>26,744,357</u>
LIABILITIES				
Accounts payable and accrued liabilities	421,402	-	-	421,402
Unearned revenue	12,089,233	-	-	12,089,233
Due to other fund	158,264	227	378,047	536,538
Due to state	22,334	-	-	22,334
Total liabilities	<u>12,691,233</u>	<u>227</u>	<u>378,047</u>	<u>13,069,507</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property tax	121,110	30,589	-	151,699
Total deferred inflows of resources	<u>121,110</u>	<u>30,589</u>	<u>-</u>	<u>151,699</u>
FUND BALANCES				
Restricted for:				
Debt service	-	250,038	-	250,038
Community development	-	-	1,157,048	1,157,048
Tourism	-	-	366,940	366,940
Assigned to:				
PEG fees	70,549	-	-	70,549
Public safety	234,185	-	-	234,185
Unrestricted	11,444,391	-	-	11,444,391
Total fund balances	<u>11,749,125</u>	<u>250,038</u>	<u>1,523,988</u>	<u>13,523,151</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 24,561,468</u>	<u>\$ 280,854</u>	<u>\$ 1,902,035</u>	<u>\$ 26,744,357</u>

The accompanying notes to the financial statements are an integral part of this statement.

City of Willis, Texas
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Governmental Funds
September 30, 2023

Fund Balances - Total Governmental Funds	\$ 13,523,151
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the	
Capital assets - non-depreciable/amortization	574,319
Capital assets - net depreciable/amortization	7,938,939
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the	
	151,699
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.	
Pension contributions	127,433
Pension assumption changes	388,976
OPEB contributions	2,445
Pension investment earnings	197
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.	
Pension (gains) losses	(239,114)
OPEB (gains) losses	(2,035)
OPEB investment earnings	(25,874)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental	
Lease payable	(2,616)
Accrued interest	(5,514)
Compensated absences	(187,332)
Net pension liability	(258,451)
Total OPEB liability	(95,903)
Non-current liabilities due in one year	(180,000)
Non-current liabilities due in more than one year	(1,010,000)
Net Position of Governmental Activities	\$ 20,700,321

The accompanying notes to the financial statements are an integral part of this statement.

City of Willis, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended September 30, 2023

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property tax	\$ 2,203,536	\$ 1,032,225	\$ 108,592	\$ 3,344,353
Sales tax	4,279,557	-	16,964	4,296,521
Grants and contributions	114,043	-	-	114,043
Franchise and local taxes	490,090	-	-	490,090
Permits and code enforcement	521,660	-	-	521,660
Sanitation	533,105	-	-	533,105
Fines and forfeitures	86,520	-	-	86,520
Project development	62,752	-	-	62,752
Interest	714,018	283	35,605	749,906
Other	31,101	-	-	31,101
Total Revenues	<u>9,036,382</u>	<u>1,032,508</u>	<u>161,161</u>	<u>10,230,051</u>
EXPENDITURES				
Current:				
General government	769,540	-	-	769,540
Community development	541,438	-	-	541,438
Public safety	1,651,273	-	-	1,651,273
Sanitation	522,461	-	-	522,461
Court	122,196	-	-	122,196
Street	542,035	-	-	542,035
Debt Service:				
Principal	-	170,000	-	170,000
Interest and fiscal charges	-	38,208	-	38,208
Capital outlay	1,071,378	-	-	1,071,378
Total Expenditures	<u>5,220,322</u>	<u>208,208</u>	<u>-</u>	<u>5,428,530</u>
Excess of Revenues				
Over (Under) Expenditures	3,816,060	824,300	161,161	4,801,521
Other Financing Sources (Uses)				
Lease proceeds	(2,616)	-	-	(2,616)
Transfers in	214,562	-	307,110	521,672
Transfers (out)	(470,760)	(662,227)	-	(1,132,987)
Total Other Financing Sources (Uses)	<u>(256,198)</u>	<u>(662,227)</u>	<u>307,110</u>	<u>(613,931)</u>
Net Change in Fund Balances	3,557,247	162,073	468,271	4,187,591
Beginning fund balances	8,191,878	87,965	1,055,717	9,335,560
Ending Fund Balances	<u>\$ 11,749,125</u>	<u>\$ 250,038</u>	<u>\$ 1,523,988</u>	<u>\$ 13,523,151</u>

The accompanying notes to the financial statements are an integral part of this statement.

City of Willis, 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, 2023

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

Net change in fund balances - total governmental funds	\$ 4,187,591
<p>Governmental funds report capital outlay 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. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
Capital outlay	1,071,378
Depreciation expense	(752,450)
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is 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.</p>	
Principal payments	170,000
<p>The change in deferred revenue must be eliminated to convert from the modified accrual basis of accounting.</p>	
	35,961
<p>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.</p>	
Leases payable	(2,616)
Compensated absences	(33,862)
Accrued interest	787
Pension expense	80,754
OPEB liability	704
Change in net position of governmental activities	\$ 4,758,247

The accompanying notes to the financial statements are an integral part of this statement.

City of Willis, Texas
Statement of Net Position
Proprietary Fund
September 30, 2023

	Water & Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 85,579
Investments	149,258
Accounts receivable (net of allowance for uncollectibles)	921,405
Inventory	41,830
Due from other funds	171,251
Total current assets	1,369,323
Noncurrent assets:	
Restricted cash and cash equivalents	945,805
Capital assets:	
Construction in progress	819,433
Water system	31,558,063
Sewer system	9,220,347
Vehicles & equipment	987,169
Leased equipment	36,723
Accumulated depreciation/amortization	(18,108,344)
Total capital assets (net of accumulated depreciation)	24,513,391
Total noncurrent assets	25,459,196
Total assets	26,828,519
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow - OPEB	1,839
Deferred Outflow - Pension	172,925
Total Deferred Outflows of Resources	174,764
LIABILITIES	
Current liabilities:	
Accounts payable	481,055
Accrued liabilities	139,257
Customer deposits	144,606
Notes payable - current	1,002,000
Total current liabilities	1,766,918
Noncurrent liabilities:	
Lease liability	10,462
Compensated absences - noncurrent	43,511
Notes payable - noncurrent (net of unamortized bond premium)	18,365,000
Total OPEB liability	32,102
Net Pension liability	86,512
Total noncurrent liabilities	18,537,587
Total liabilities	20,304,505
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow - OPEB	9,341
Deferred Inflow - Pension	80,040
Total Deferred Inflows of Resources	89,381
NET POSITION	
Net investment in capital assets	5,135,929
Restricted for capital improvements	945,805
Unrestricted	527,663
Total net position	\$ 6,609,397

The accompanying notes to the financial statements are an integral part of this statement.

City of Willis, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended September 30, 2023

	Water & Sewer Fund
OPERATING REVENUES:	
Charges for sales and services:	
Water sales	\$ 2,630,942
Sewer charges	1,619,228
Grant revenue and charges for services	574,373
Miscellaneous services	50,061
Total operating revenues	4,874,604
OPERATING EXPENSES:	
Costs of sales and services:	
Wastewater treatment	543,632
Water production	571,914
Water distribution	792,144
Waterwaster collections	574,336
Utility billing	185,401
Depreciation and amortization	1,187,912
Total operating expenses	3,855,339
Operating income	1,019,265
NONOPERATING REVENUES (EXPENSES):	
Interest expense	(540,278)
Total nonoperating revenue (expenses)	(540,278)
Income (loss) before transfers	478,987
Transfers in	611,315
Transfers out	-
Change in net position	1,090,302
Total net position - beginning	5,519,095
Total net position - ending	\$ 6,609,397

The accompanying notes to the financial statements are an integral part of this statement.

City of Willis, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2023

	<u>Water & Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,415,660
Cash payments to suppliers for goods and services	(1,175,875)
Cash payments to employees and professional contractors for services	(1,135,501)
Net cash provided by operating activities	<u>2,104,284</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	<u>611,315</u>
Net cash used in noncapital financing activities	<u>611,315</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on notes	(1,123,695)
Interest paid on debt	(540,278)
Acquisition and construction	(980,614)
Net cash used in capital and related financing activities	<u>(2,644,587)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	<u>(840)</u>
Net cash provided by investing activities	<u>(840)</u>
Net increase (decrease) in cash and cash equivalents	70,172
Cash, cash equivalents, and restricted cash, beginning of year	961,212
Cash, cash equivalents, and restricted cash, end of year	<u><u>1,031,384</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	1,019,265
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,187,912
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(290,547)
(Increase) decrease in deferred outflows of resources	(129,488)
Increase (decrease) in net pension liability	176,638
Increase (decrease) in OPEB liability	(9,806)
Increase (decrease) in customer deposits	2,854
Increase (decrease) in accounts payable	373,206
Increase (decrease) in accrued liabilities	2,800
Increase (decrease) in deferred inflows of resources	(57,299)
Net cash provided by operating activities	<u><u>\$ 2,104,284</u></u>

The accompanying notes to the financial statements are an integral part of this statement.



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City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

The City of Willis, Texas (“City”) was founded in 1870 and is named for P.J. and R.S. Willis. The brothers donated their land to the Great Northern Railroad when the railroad decided to run a track from Houston to Chicago. The City grew in population after the trains began to travel through the town. There were hotels, dry good stores, and many other successful businesses in the 1870's and 1880's. The tobacco industry played a vital role in the City's growth and development during that time. At the peak of the City's tobacco boom, the City kept eight cigar factories in business. Other cash crops of cotton, watermelons, and tomatoes were an important part of the economy through the years. The timber industry, which still plays a role in the City's economic growth, has been its most stable economic engine for over one hundred years.

Since the 1980's, the City has seen its economic base change from agriculture to services, retail, and manufacturing. The City is the gateway to Lake Conroe. Interstate 45 bisects the City. One mile east, U.S. Highway 75 and the Atchison, Topeka and Santa Fe rail services run parallel to Interstate 45. The George Bush Intercontinental Airport is 35 miles south of the City. The Montgomery County Airport is 10 miles east of the City.

The City operates under a “Council-Manager” 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 Manager, 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, community development, 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 as 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 Willis Community Development Corporation (“CDC”) and the Tax Increment Reinvestment Zone No. 1 (“TIRZ”) are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City 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.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

B. Reporting Entity (Continued)

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.

Discretely Presented Component Unit

Willis Community Development Corporation

Based on the criteria above, the city reports the Willis CDC as a component unit. The Willis Community Development Corporation (CDC) is governed by a board of seven directors, all of whom are appointed by the City Council of the City of Willis and any of whom can be removed from office by the City Council at its will. The CDC fund was incorporated in the state of Texas as a non-profit industrial development corporation under Section 4B of the Development Corporation Act of 1979. The purpose of the CDC is to promote economic and community development within the City of Willis. The mission of the Willis Community Development Corporation is to provide leadership in developing and maintaining an aesthetically pleasing living environment, providing opportunities for community activities by developing and improving appropriately related public facilities and neighborhood parks, and by working to promote or develop new or expanded business enterprises for residents of the local area, which is defined as land within the City limits and within one mile outside the City limits. It is funded by 18.75% sales tax.

Blended Component Units

Tax Increment Reinvestment Zone No. 1 Fund

The Tax Increment Reinvestment Zone No. 1 fund ("TIRZ") was created to encourage and accelerate planned development within the City limits. The fund accounts for all tax and expenditure activity associated with the fund's primary purpose. The TIRZ meets the requirement for blending due to a financial benefit/burden relationship with the City and the Board is substantially the same as the City Council. According, the financial statement of the TIRZ are included in the City's basic financial statements as a special revenue fund using the "blended" method of presentation.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

C. Basis of Presentation – Government-Wide and Fund Financial Statements

The basic financial statements are prepared in conformity with GAAP, which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City’s governmental activities, business-type activities and activities of its discretely presented component units on the Statement of Net Position and Statement of Activities. The City’s Statement of Net Position includes both noncurrent assets and noncurrent liabilities of the City. In addition, the Statement of Activities reflects depreciation expense on the City’s capital assets, including infrastructure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government’s water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government’s funds, including its blended component unit. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Governmental funds

The government reports the following major governmental funds:

General Fund

The general fund is the main operating fund of the City and 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, community development, public safety, sanitation, court, and street. The general service fund is considered a major fund for reporting purposes.

Debt Service Fund

The Debt Service fund is the other major fund of the City and 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.

Additionally, the government reports the following fund types:

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. These funds consist of Tax Increment Reinvestment Zone No. 1, and hotel/motel tax.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

C. Basis of Presentation – Government-Wide and Fund Financial Statements (continued)

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 focuses 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 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 proprietary funds as presented by GASB. The government reports the following major proprietary fund:

Water and Sewer Fund

The water and sewer fund is used to account for the provision of water & wastewater collection and wastewater treatment operations activities of the fund include administration, operations and maintenance of the water system, and billing and collection activities. 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 the integrity of the fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., proprietary funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements and relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

E. Estimates

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

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

F. Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance

1. Deposits and Investments

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

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

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code.

In summary, the City is authorized to invest in the following:

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

2. Fair Value

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

3. Receivables and Interfund Transactions

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

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

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

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

F. Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance (continued)

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. Inventories and prepaid items are reflected as non-spendable fund balance in the governmental funds.

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. Leased assets are discussed in Note E below.

Interest costs incurred in connection with construction of proprietary 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 lives.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Machinery & equipment	5 to 10 years
Parks & improvements	5 to 30 years
Water & sewer system	15 to 30 years
Buildings & improvements	30 years
Roads	10 to 30 years

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

F. Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance (continued)

7. Deferred Outflows/Inflows of Resources

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

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred charges on refunding and deferred inflows related to leases, as well as pension and OPEB amounts that arise from differences in expected versus actual experience and projected versus actual earnings. The City 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.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

F. Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance (continued)

10. Fund Balance Policies (continued)

The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

11. Unearned Revenue

Funds received in advance for which all eligibility requirements have not been met are considered unearned revenue.

12. Compensated Absences

The City maintains formal programs for vacation and sick leave. Eligible employees are granted vacation pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's personnel policy permits its eligible employees to accumulate earned but unused vacation pay benefits.

Upon separation from the City, employees will be paid for their accrued and unused vacation pay benefits earned in the year.

Sick leave accrues to eligible employees to specified maximums, including the maximum number of hours that can be carried over from the previous year. Upon separation from the City, employees will not be paid for accumulated sick leave and no liability has been established.

The estimated amount of accrued vacation pay benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it upon maturity. Amounts of accrued vacation pay benefits 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. At September 30, 2023, the accrued and unpaid compensated absences liability was \$230,843.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

F. Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance (continued)

13. 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, capital leases, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service 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, discounts and issuance costs 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. Issuance costs are reported as deferred charges.

14. 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.

15. 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 (SDB) plan, with retiree coverage. The TMRS 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) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary, calculated based on the employee's actual earnings on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer 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.

NOTE 2 RECONCILIATIONS OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Investments

	Amount
Public funds investment pools:	
TexSTAR General	\$ 2,049,894
TexSTAR WC Development Corp	634,326
Total public funds investment pools	\$ 2,684,221

As of September 30, 2023, the primary government had the following investments:

Investment Type	Value
Certificates of deposit	\$ 174,117
External investment pools	2,049,894
Total fair value	\$ 2,224,011

As of September 30, 2023, the City's component unit had the following investments:

Investment Type	Value
Certificates of deposit	\$ 53,800
External investment pools	634,326
Total fair value	\$ 688,126

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. As of September 30, 2023, the City's investment in TexSTAR was rated AAA-m by Standard & Poor's.

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. The City's investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2023, the market values of pledged securities and FDIC exceeded of bank balances.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

A. Investments (continued)

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 that it will seek to 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.

TexSTAR

The Texas Short Term Asset Reserve Fund ("TexSTAR") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR use amortized cost rather than fair value to report net position to compute share prices.

Accordingly, the fair value of the position in TexSTAR is the same as the value of TexSTAR shares. There were no limitations or restrictions on withdrawals.

Restricted Cash

Deposits received that are designated for future periods or restricted for specific purposes are reported as restricted cash. During the fiscal year ended September 30, 2023, the City has \$10,078,399 for the MRSS Development agreement and Woodland Hillis Development TIRZ Agreement. Those amounts are shown as restricted cash in the statement of net position. See Note F Unearned Revenue.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

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 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 deposits maturing in greater than three months, accounts receivable and accrued payables. The estimated fair value approximates their carrying amounts due to the short-term nature of these instruments.

C. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts.

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

	Governmental Funds			Proprietary Fund
	General Fund	Debt Service Fund	Total Governmental Funds	Wastewater Utility Fund
Receivables:				
Property taxes	\$ 121,110	\$ 30,588	\$ 151,698	\$ -
Sales taxes	791,998	-	791,998	-
Franchise fees	84,207	-	84,207	-
Miscellaneous	437,240	-	437,240	-
Customer accounts	-	-	-	1,591,826
Gross receivables	1,434,555	30,588	1,465,143	1,591,826
Less: allowance for uncollectibles	-	-	-	(670,421)
Net total receivables	\$ 1,434,555	\$ 30,588	\$ 1,465,143	\$ 921,405

The following comprise the receivable balance of the component unit at year end:

	Community Development Corporation
Sales tax	\$ 179,796

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

D. Capital Assets

Capital assets used in governmental fund type operations are accounted for in the statement of net position, rather than in governmental funds. The most notable capital additions in FY23 were buildings and improvements. A summary of changes in governmental activities capital assets for the year end was as follows:

Governmental activities:	Balance September 30, 2022	Increases	Decreases	Balance September 30, 2023
Capital assets not being depreciated/amortized:				
Land	\$ 505,074	\$ -	\$ -	\$ 505,074
Construction in progress	66,037	135,804	(132,596)	69,245
Total capital assets not being depreciated /amortized	<u>571,111</u>	<u>135,804</u>	<u>(132,596)</u>	<u>574,319</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	1,447,214	727,976	-	2,175,190
Vehicles and equipment	1,977,875	207,598	(138,375)	2,047,098
Infrastructure	9,524,923	-	-	9,524,923
Park Improvements	2,064,763	132,596	-	2,197,359
Leased Equipment	9,181	-	-	9,181
Total capital assets being depreciated/amortized	<u>15,023,956</u>	<u>1,068,170</u>	<u>(138,375)</u>	<u>15,953,751</u>
Less: accumulated depreciation/amortization				
Buildings and improvements	(883,863)	(63,375)	-	(947,238)
Vehicles and equipment	(1,883,474)	(156,680)	138,375	(1,901,779)
Infrastructure	(4,403,771)	(456,538)	-	(4,860,309)
Park improvements	(224,465)	(73,562)	-	(298,027)
Leased Equipment	(5,164)	(2,295)	-	(7,459)
Total accumulated depreciation/amortization	<u>(7,400,737)</u>	<u>(752,450)</u>	<u>138,375</u>	<u>(8,014,812)</u>
Total capital assets being depreciated/amortized, net	<u>7,623,219</u>	<u>315,720</u>	<u>-</u>	<u>7,938,939</u>
Total governmental activities, net	<u>\$ 8,194,330</u>	<u>\$ 451,524</u>	<u>\$ (132,596)</u>	<u>\$ 8,513,258</u>

Depreciation and amortization for general capital assets is included as an expense for governmental activities on the statement of activities. Depreciation was allocated to each governmental function as follows:

Governmental activities:	
General government	\$ 167,170
Public safety	127,273
Streets	458,007
Total governmental depreciation/amortization expense	<u>\$ 752,450</u>

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

D. Capital Assets (continued)

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

Business-type activities:	Balance September 30, 2022	Increases	Decreases	Balance September 30, 2023
Capital assets not being depreciated/amortized:				
Construction in progress	\$ 884,970	\$ 888,800	\$ (954,337)	\$ 819,433
Total capital assets not being depreciated/amortized	<u>884,970</u>	<u>888,800</u>	<u>(954,337)</u>	<u>819,433</u>
Capital assets being depreciated/amortized:				
Water System	30,596,657	961,406	-	31,558,063
Sewer system	9,220,347	-	-	9,220,347
Vehicles & Equipment	969,387	84,745	(66,963)	987,169
Leased Equipment	36,723	-	-	36,723
Total capital assets being depreciated/amortized	<u>40,823,114</u>	<u>1,046,151</u>	<u>(66,963)</u>	<u>41,802,302</u>
Less: accumulated depreciation/amortization				
Water System	(9,858,312)	(895,145)	-	(10,753,457)
Sewer system	(6,295,311)	(240,278)	-	(6,535,589)
Vehicles & Equipment	(813,115)	(43,308)	66,963	(789,460)
Leased Equipment	(20,657)	(9,181)	-	(29,838)
Total accumulated depreciation/amortization	<u>(16,987,395)</u>	<u>(1,187,912)</u>	<u>66,963</u>	<u>(18,108,344)</u>
Total capital assets being depreciated/amortized, net	<u>23,835,719</u>	<u>(141,761)</u>	<u>-</u>	<u>23,693,958</u>
Total capital assets, net	<u>\$ 24,720,689</u>	<u>\$ 747,039</u>	<u>\$ (954,337)</u>	<u>\$ 24,513,391</u>

Depreciation expense charged to the proprietary funds was \$1,187,912 as of September 30, 2023.

E. Leases

Effective October 1, 2021, The City implemented GASB Statement No. 87, Leases, which required the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City also recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the business-type financial statements.

At implementation of GASB Statement No. 87 and the commencement of leases beginning after October 1, 2021, the City initially measured the lease liability at the present value of payments expected to be made during the remaining lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease right-to-use asset was initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease right-to use asset is amortized on a straight-line basis over its useful life.

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

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

E. Leases (continued)

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term and (3) lease payments.

The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a re-measurement of its lease and will remeasure the lease assets and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

Discount rate, term and ending lease liability are as follows:

	<u>Discount Rate</u>	<u>Payable at Commencement</u>	<u>Lease Terms In Years</u>	<u>Ending Balance</u>
Governmental Activities:				
Equipment Leases	4.60%	\$ 5,973	4	<u>\$ 2,616</u>
Total Governmental activities				<u>\$ 2,616</u>

	<u>Discount Rate</u>	<u>Payable at Commencement</u>	<u>Lease Terms In Years</u>	<u>Ending Balance</u>
Business-type Activities:				
Equipment Leases	4.60%	\$ 23,894	4	<u>\$ 10,462</u>
Total Governmental activities				<u>\$ 10,462</u>

The annual requirements to amortize leases payable outstanding as of September 30, 2023:

Governmental Activities			Business-type Activities		
	<u>Interest</u>	<u>Principal</u>		<u>Interest</u>	<u>Principal</u>
2024	<u>\$ 44</u>	<u>\$ 2,616</u>	2024	<u>\$ 176</u>	<u>\$ 10,462</u>
	<u>\$ 44</u>	<u>\$ 2,616</u>		<u>\$ 176</u>	<u>\$ 10,462</u>

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

F. Unearned Revenue

The City has entered into Developer Agreements with various Municipal Utility Districts (MUDs). These agreements obligate the City to make improvements to the water and sewer systems to ensure sufficient service to the developments. As part of the agreements, the City received \$10 million to fund the estimated cost of improvements outlined within the agreements, and/or other necessary improvements. As of September 30, 2023, \$62,752 was recognized as revenue for work performed directly associated with development agreements. During the fiscal year ended September 30, 2023, the City received an additional \$546,550 related to a 2023 development agreement.

The City has \$1.7m in ARPA funds and the City has recorded it as unearned revenue. At September 30, 2023, the City recognized \$178,796 of revenue associated with costs reimbursable under the grant.

G. Long-Term Liabilities

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

	Balance September 30, 2022	Increases	Decreases	Balance September 30, 2023	Due Within One Year
Governmental activities:					
Certificates of Obligation-Series 2014	1,360,000	-	(170,000)	1,190,000	180,000
Total bonded indebtedness	1,360,000	-	(170,000)	1,190,000	180,000
Compensated absences	153,470	187,332	(153,470)	187,332	-
Leases payable	5,974	-	(3,358)	2,616	2,616
Total Governmental Obligations	1,519,444	187,332	(326,828)	1,379,948	182,616
Business-type activities:					
Certificates of Obligation-Series 2005	130,000	-	(40,000)	90,000	45,000
Certificates of Obligation-Series 2010	1,300,000	-	(5,000)	1,295,000	100,000
Revenue Bonds-Series 2012	2,500,000	-	(85,000)	2,415,000	85,000
Certificates of Obligation-Series 2012-A	4,263	-	(4,263)	-	-
Certificates of Obligation - Series 2017	8,300,000	-	(270,000)	8,030,000	280,000
General Obligation-Series 2021 - refunding	8,243,000	-	(706,000)	7,537,000	492,000
Total bonded indebtedness	20,477,263	-	(1,110,263)	19,367,000	1,002,000
Compensated absences	(43,511)	-	-	43,511	-
Leases payable	23,894	-	(13,432)	10,462	10,462
Total Business-type Obligations	\$ 20,457,646	\$ -	\$ (1,123,695)	\$ 19,420,973	\$ 1,012,462

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

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

G. Long-Term Liabilities (continued)

The principal and interest requirements related to these governmental contractual obligations at September 30, 2023, are as follows:

Governmental activities:

	Principal	Interest	Total
2024	\$ 180,000	33,082	\$ 213,082
2025	185,000	28,078	218,082
2026	195,000	22,935	223,078
2027	200,000	17,514	222,935
2028	210,000	11,954	227,514
2029 - 2033	220,000	6,116	231,954
	<u>\$ 1,190,000</u>	<u>\$ 119,679</u>	<u>\$ 1,336,645</u>

Certificates of Obligation – Series 2014 issued July 2014, due in annual installments through August 2029, bearing interest of 2.78% payable February 1 and August 1.

The following is a schedule of future principal and interest payments as of September 30, 2023.

Business-type activities:

	Principal	Interest	Total
2024	1,002,000	\$ 550,151	\$ 1,552,151
2025	1,030,000	526,106	1,556,106
2026	1,067,000	505,166	1,572,166
2027	943,000	482,869	1,425,869
2028	5,089,000	460,851	5,549,851
2029 - 2033	5,874,000	1,983,567	7,857,567
2034 - 2038	4,202,000	1,274,422	5,476,422
2039 - 2043	160,000	445,106	605,106
	<u>\$ 19,367,000</u>	<u>\$ 6,228,238</u>	<u>\$ 25,595,238</u>

Certificates of Obligation – Series 2005 issued August 2005, due in annual installments from August 1, 2006 through August 2025, bearing interest at 5.13% payable February 1 and August 1.

Certificates of Obligation – Series 2010 issued June 2010, due in annual installments from August 1, 2012 through August 2025, bearing interest at 1.00% payable February 1 and August 1.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

G. Long-term Debt (continued)

Revenue Bonds – Series 2012 issued May 2012, due in annual installments from August 1, 2014, through August 2043, bearing variable interest from 0.45% to 3.40% payable February 1 and August 1.

Certificates of Obligation – Series 2012A issued March 2012, due in annual installments from August 1, 2014 through August 2027, bearing interest at 3.50% payable February 1 and August 1. This Certificates of Obligation was refunded on November 10, 2021 (GO Refunding 2021).

Certificates of Obligation – Series 2017 issued May of 2017, due in annual installments from August 1, 2018, through August 2042, bearing variable interest from 2.00% to 5.00% payable February 1 and August 1.

General Obligation – Series 2021 refunding issued November 10, 2021, due in annual installments from August 1, 2023, through August 2038, bearing interest of 1.99% payable February 1 and August 1.

In general, the City uses the general fund and water and sewer fund to liquidate compensated absences. The accrual of compensated absences for governmental activities at September 30, 2023 was \$187,332 and business type activities was \$43,511.

H. Texas Water Development Board Compliance

Revenue Bonds

The City's Waterworks & Sewer System Revenue Bonds, Series 2012 require the City to maintain funds as a reserve for the payment of the bonds. The City was required to deposit an amount for sixty consecutive months after the bonds were funded to equal the Average Annual Debt Service for the Bonds. All funds deposited in the reserve fund are to be used solely to provide for payment of principal and interest on the bonds in the event the City otherwise does not have the funds sufficient to pay the principal and interest on the bonds as the same become due.

The City complied with the required payments to the reserve fund to establish a reserve balance of \$161,965 and maintains funds sufficient to pay the principal and interest on the bonds as they become due.

In addition, for purposes of providing funds to pay the principal of and interest on the bonds as they become due and payable, the City is required to maintain a separate fund known as the "Interest and Sinking Fund". The City should deposit into this fund the amounts required to be made for the payment of Waterworks & Sewer System Revenue Bonds, Series 2012. The City is required to deposit from the net revenues into the fund an amount equal to the amount required to fully pay the interest on and the principal of the bonds prior to each principal and interest payment date falling due and payable. Such deposits and accrued interest shall be made in substantially equal monthly installments on or before the 15th day of each month.

As of September 30, 2023, the amount required to be deposited in the interest and sinking fund equaled \$27,355. The City's actual deposit of \$83,822 was above this amount and is in compliance with the required covenant.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

H. Texas Water Development Board Compliance (continued)

Public Funds Investment & Collateral Acts

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, 2023, the market values of pledged securities and FDIC exceeded bank balances. In addition, the City is required to adopt certain standards as it relates to the investment and maintenance of public funds. The City was in compliance with the requirement Public Funds Investment Act and the Public Funds Collateral Act.

I. Customer Deposits

The City had customer deposits of \$144,606 in the water and sewer fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued, and all outstanding utility expenses are paid.

J. Interfund Transactions

Transfers between funds during the 2023 year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds			
General Fund	214,562	(470,760)	(256,197)
Debt Service	(662,228)	-	(662,228)
Nonmajor	307,110	-	307,110
	<u>(140,556)</u>	<u>(470,760)</u>	<u>(611,315)</u>
Proprietary Funds:			
Water & Sewer Fund	-	611,315	\$ 611,315
	<u>-</u>	<u>611,315</u>	<u>611,315</u>

Amounts transferred between funds relate to amounts collected by the proprietary funds for various capital expenditures and principal and interest payments.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)

J. Interfund Transactions (continued)

Due To and Due From between funds during the 2023 year were as follows:

	<u>Due To</u>	<u>Due From</u>	<u>Net</u>
Governmental Funds			
General Fund	\$ 9,711,759	\$ (9,882,922)	\$ (171,162)
Payroll	1,248,036	(1,235,137)	12,899
Debt Service	941,862	(942,089)	(227)
Nonmajor	365,286	(378,047)	(12,761)
	<u>\$ 12,266,943</u>	<u>\$ (12,438,195)</u>	<u>\$ (171,251)</u>
Proprietary Funds:			
Water & Sewer Fund	8,937,018	\$ (8,765,767)	\$ 171,251
	<u>\$ 8,937,018</u>	<u>\$ (8,765,767)</u>	<u>\$ 171,251</u>

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as due to/from other funds.

NOTE 4 OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League’s Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums.

The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

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

The City owns and operates motor vehicles and may provide such vehicles 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.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

B. Contingent Liabilities (continued)

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

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired.

In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

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. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Willis, Texas participates as one of 919 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 (ACFR) that can be obtained at www.tmrs.com.

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

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

D. Defined Benefit Pension Plans (continued)

2. Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Plan provisions for the City were as follows:

	<u>Plan Year 2022</u>	<u>Plan Year 2021</u>
Employee deposit rate	7%	7%
Matching ratio (City to Employee)	2 to 1	2 to 1
Years required for vesting	5	5
Retirement Eligibility (Age/Service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating Transfers	100% Repeating Transfers
Annuity to Increase (to retirees)	0% of CPI	0% of CPI
Supplemental Death Benefit to Active Employees	Yes	Yes
Supplemental Death Benefit to Retirees	Yes	Yes

Employees covered by benefit terms

At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2022</u>
Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	47
Active employees	<u>42</u>
Total	<u><u>114</u></u>

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

D. Defined Benefit Pension Plans (continued)

3. Contributions

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

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

Employees for the City of Willis, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Willis, Texas were 8.86% and 9.96% in calendar years 2023 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2023, were \$226,965, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% 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 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.

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

D Defined Benefit Pension Plans (continued)

4. Net Pension Liability (continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing 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 2023 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35.0%	7.70%
Core Fixed Income	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public and Private Markets	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
Total	<u>100.0%</u>	

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 Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

D Defined Benefit Pension Plans (continued)

4. Net Pension Liability (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability 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:

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
	1% Decrease 5.75%	Current Single Discount Rate Assumption 6.75%	1% Increase 7.75%
City's net pension liability	\$ 1,507,352	\$ 344,963	\$ (598,040)

Changes in the Net Pension Liability

	Changes in the Net Pension Liability		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2021	\$ 7,498,666	\$ 7,900,227	\$ (401,561)
Changes for the year:			
Service cost	356,146	-	356,146
Interest	507,259	-	507,259
Difference between expected and actual experience	(297,950)	-	(297,950)
Contributions - employer	-	226,965	(226,965)
Contributions - employee	-	167,767	(167,767)
Net investment income	-	(576,766)	576,766
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(323,588)	(323,588)	-
Administrative expense	-	(4,990)	4,990
Other changes	-	5,955	(5,955)
Net changes	241,867	(504,657)	746,524
Balance at 12/31/2022	\$ 7,740,533	\$ 7,395,570	\$ 344,963

Pension Plan Fiduciary Net Position

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

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

D Defined Benefit Pension Plans (continued)

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

For the year ended September 30, 2023, the city recognized pension expense of \$123,093.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Schedule of Deferred Outflows and Inflows of Resources	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ 519,179	\$ -
Differences between expected and actual economic experience	-	(319,154)
Differences in assumptions changes	263	-
Contributions subsequent to the measurement date	170,089	-
Total	\$ 689,531	\$ (319,154)

The City reported \$170,089 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 liability 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	Amount
2023	\$ (122,215)
2024	(28,049)
2025	128,549
2026	222,003
2027	-
Thereafter	-
Total	\$ 200,288

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

E. Postemployment Benefits Other Than Pensions

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

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

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, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2022</u>
Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	14
Active employees	42
Total	78

The City’s contributions to the TMRS SDBF for the fiscal years ended 2023, 2022 and 2021 were \$8,178, \$3,157, and \$2,897, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

(Retiree-only portion of the rate)

Plan/ Calendar <u>Year</u>	Annual Required Contribution <u>(Rate)</u>	Actual Contribution Made <u>(Rate)</u>	Percentage of ARC <u>Contributed</u>
2019	0.04%	0.04%	100%
2020	0.05%	0.05%	100%
2021	0.14%	0.14%	100%
2022	0.13%	0.13%	100%
2023	0.17%	0.17%	100%

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

E. Postemployment Benefits Other Than Pensions (continued)

Total OPEB Liability

The City’s Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2022, 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, 2022, 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	4.05%
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 4.05%. The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2022.

Sensitivity of the Total OPEB liability to Changes in the Discount Rate

The following presents the OPEB liability of the City, calculated using the discount rate of 4.05%, as well as what the City’s OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.05%) or 1-percentage-point higher (5.05%) than the current rate:

Sensitivity of the Total OPEB liability to Changes in the Discount Rate		
1% Decrease	Current Discount Rate	1% Increase
3.05%	4.05%	5.05%
<u>\$ 154,041</u>	<u>\$ 128,005</u>	<u>\$ 108,174</u>

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

E. Postemployment Benefits Other Than Pensions (continued)

Changes in the Total OPEB Liability:

	<u>Total OPEB Liability</u>
Balance at 12/31/2021	\$ 186,721
Changes for the year:	
Service cost	12,463
Interest	3,522
Difference between expected and actual experience	(2,293)
Changes in assumptions	(69,292)
Benefit payments	<u>(3,116)</u>
Net changes	<u>(58,716)</u>
Balance at 12/31/2022	<u><u>\$ 128,005</u></u>

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

For the year ended September 30, 2023, the City recognized OPEB expense of \$8,706.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Schedule of Deferred Outflows and Inflows of Resources	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	-	(2,716)
Differences in assumptions changes	-	(34,535)
Contributions subsequent to the measurement date	3,264	-
Total	<u><u>\$ 3,264</u></u>	<u><u>\$ (37,251)</u></u>

City of Willis, Texas
Notes to the Basic Financial Statements
September 30, 2023

NOTE 4 OTHER INFORMATION (continued)

E. Postemployment Benefits Other Than Pensions (continued)

The City reported \$3,264 as deferred outflows of resources related to the OPEB liability resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2024. Other amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

<u>Year ended December 31</u>	<u>Amount</u>
2023	\$ (8,153)
2024	(6,909)
2025	(13,503)
2026	(8,686)
2027	-
Thereafter	-
Total	<u>\$ (37,251)</u>

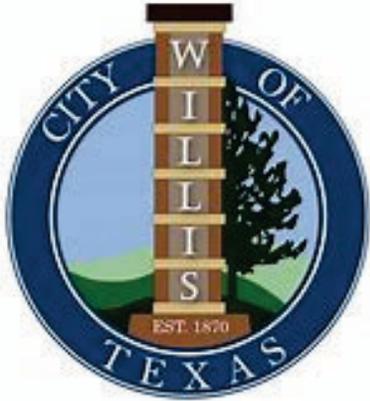
F. Subsequent Events

There were no other material subsequent events through June 10, 2024, the date the financial statements were issued.



Required Supplementary Information

For the fiscal year ended
September 30, 2023



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City of Willis, Texas
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual
For the Year Ended September 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property	\$ 2,210,000	\$ 2,210,000	\$ 2,203,536	\$ (6,464)
Sales and beverage	3,500,000	3,500,000	4,279,557	779,557
Franchise	250,000	250,000	490,090	240,090
Garbage Collections	400,100	400,100	533,105	133,005
Municipal court fines	53,900	53,900	86,520	32,620
Building permits and fees	298,100	298,100	521,660	223,560
Grants and Contributions	-	-	114,043	114,043
Project development	-	-	62,752	62,752
Interest	-	-	714,018	714,018
Miscellaneous	25,200	25,200	31,101	5,901
Total revenues	<u>6,737,300</u>	<u>6,737,300</u>	<u>9,036,382</u>	<u>2,299,082</u>
EXPENDITURES				
Current:				
Administrartion	1,417,663	1,417,663	769,540	648,123
Police Department	2,410,000	2,410,000	1,651,273	758,727
Streets, Drainage and Parks	1,460,700	1,460,700	542,035	918,665
Municipal Court	133,400	133,400	122,196	11,204
Community Development	616,500	616,500	541,438	75,062
Sanatation	-	-	522,461	(522,461)
Debt Service:				
Principal	40,000	40,000	-	40,000
Interest	6,663	6,663	-	6,663
Bond Agent Fees	500	500	-	500
Capital outlay:				
General government	-	-	1,071,378	(1,071,378)
Total expenditures	<u>6,085,426</u>	<u>6,038,263</u>	<u>5,220,322</u>	<u>865,104</u>
Excess (deficiency) of revenues over (under) expenditures	<u>651,874</u>	<u>699,037</u>	<u>3,816,060</u>	<u>3,164,186</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	214,562	214,562
Transfers out	-	-	(470,760)	(470,760)
Total other financing sources and uses	-	-	(258,814)	(258,814)
Net change in fund balances	651,874	699,037	3,557,247	2,905,373
Fund balances - beginning	8,191,878	8,191,878	8,191,878	-
Fund balances - ending	<u>\$ 8,843,752</u>	<u>\$ 8,890,915</u>	<u>\$ 11,749,125</u>	<u>\$ 2,905,373</u>

City of Willis, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Measured Years

	2014	2015	2016	2017	2018	2019	2020	2021	2022
A. Total pension liability									
Service cost	\$223,008	\$282,064	\$299,586	\$ 313,021	\$ 309,059	\$ 327,501	\$ 348,615	\$ 372,187	\$ 356,146
Interest	293,562	315,305	33,617	356,132	386,761	408,017	443,153	484,637	507,259
Difference between expected and actual experience	(68,824)	(25,025)	(58,577)	(12,800)	(174,505)	(27,069)	20,464	(247,790)	(297,950)
Changes of assumptions	-	108,067	-	-	-	4,647	-	-	-
Benefit payments, including refunds of employee contributions	(161,237)	(171,958)	(330,073)	(165,487)	(235,756)	(195,494)	(210,733)	(208,163)	(323,588)
Net Change in Total Pension Liability	286,509	508,453	244,553	490,866	285,559	517,602	601,499	400,871	241,867
Total Pension Liability - Beginning	4,162,857	4,449,366	4,957,819	\$5,202,372	5,693,238	5,978,797	6,496,399	7,097,898	7,498,666
Total Pension Liability - Ending (a)	\$4,449,366	\$4,957,819	\$5,202,372	\$ 5,693,238	\$ 5,978,797	\$ 6,496,399	\$ 7,097,898	\$ 7,498,769	\$ 7,740,533
B. Plan Fiduciary Net Position									
Contributions - employer	152,679.00	\$ 185,682	\$ 182,582	\$ 205,395	\$ 207,678	\$ 217,387	\$ 215,065	\$ 241,505	\$ 226,965
Contributions - employee	\$ 127,080	137,688	139,528	143,776	143,367	152,936	159,185	173,572	167,767
Net investment income	211,635	5,943	282,671	617,280	(157,381)	805,504	469,186	888,240	(576,766)
Benefit payments, including refunds of employee contributions	(161,237)	(171,958)	(330,073)	(165,487)	(235,756)	(195,494)	(210,733)	(208,163)	(323,588)
Administrative expense	(2,209)	(\$3,619)	(\$3,191)	(3,197)	(3,039)	(4,546)	(3,035)	(4,107)	(4,990)
Other changes	(182)	(\$179)	(\$172)	(165)	(155)	(137)	(118)	28	5,955
Net Change in Plan Fiduciary Net Position	\$327,766	153,557	271,345	797,602	(45,286)	975,650	629,550	1,091,077	(504,657)
Plan Fiduciary Net Position - Beginning	3,698,968	4,026,735	4,180,292	4,451,637	5,249,239	5,203,953	6,179,603	6,809,153	7,900,227
Plan Fiduciary Net Position - Ending (b)	\$ 4,026,734.00	\$4,180,292	4,451,637	5,249,239	5,203,953	6,179,603	6,809,153	7,900,226	7,395,570
C. Net Pension Liability - Ending (a) - (b)	\$ 422,632	\$777,527	\$ 750,735	\$ 443,999	\$ 774,844	\$ 316,796	\$ 288,745	\$ (401,457)	\$ 344,963
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	90.50%	84.32%	85.57%	92.20%	87.04%	95.12%	95.93%	105.35%	95.54%
E. Covered Employee Payroll	1,815,436.00	\$ 1,966,971	\$ 1,993,255	\$ 2,053,946	\$ 2,048,105	\$ 2,184,798	\$ 2,274,069	\$ 2,479,594	\$ 2,396,678
F. Net Pension Liability as a Percentage of Covered Employee Payroll	23.28%	39.53%	37.66%	21.62%	37.83%	14.50%	12.70%	-16.19%	14.39%

Notes to schedule: This schedule is presented to illustrate the requirement to show information for ten year. However, until a full ten year trend is compiled, only available information is presented.

**City of Willis, Texas
Required Supplementary Information
Schedule of Contributions
Last Ten Fiscal Years**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Actuarially Determined Contribution	179,618	189,370	199,869	206,803	216,995	206,723	239,320	241,505	226,965
Contributions in relation to the actuarially determined contribution									
Contribution deficiency (excess)	179,618	189,370	199,869	206,803	216,995	206,723	239,320	241,505	226,965
Covered employee payroll	1,960,661	2,050,931	2,038,978	2,046,303	2,171,380	2,158,824	2,475,229	2,479,594	2,396,678
Contributions as a percentage of covered employee payroll	9.16%	9.23%	9.80%	10.11%	9.99%	9.58%	9.67%	9.74%	9.47%

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

Notes to Schedule of Contributions

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	2.50%
Salary Increases	3.50% to 11.50% 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:

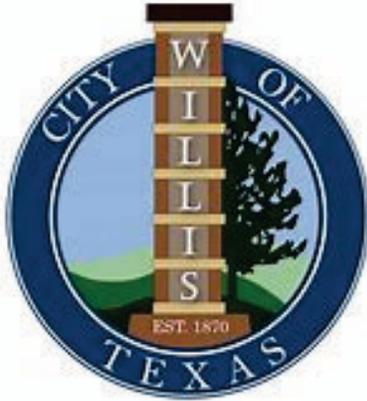
Notes There were no benefit changes during the year.

City of Willis, Texas
Required Supplementary Information
Schedule of Changes in Postemployment Benefits Other Than Pension (OPEB) Liability and Related Ratios
Last Ten Measured Years

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Total OPEB liability						
Service cost	\$ 4,724	\$ 5,325	\$ 5,025	\$ 7,504	\$ 8,927	\$ 12,463
Interest	3,716	3,817	4,017	3,925	3,485	3,522
Difference between expected and actual experience	-	(7,534)	2,455	(1,665)	186	(2,293)
Changes of assumptions	8,975	(7,764)	22,746	23,336	6,074	(69,292)
Refunds of Participant Contributions	(822)	(614)	(874)	(1,137)	(3,471)	(3,116)
Net Change in Total OPEB Liability	<u>16,593</u>	<u>(6,770)</u>	<u>33,369</u>	<u>31,963</u>	<u>15,201</u>	<u>(58,716)</u>
Total OPEB Liability - Beginning	\$96,365	112,958	106,188	139,557	171,520	186,721
Total OPEB Liability - Ending	<u>\$ 112,958</u>	<u>\$ 106,188</u>	<u>\$ 139,557</u>	<u>\$ 171,520</u>	<u>\$ 186,721</u>	<u>\$ 128,005</u>
Covered Employee Payroll	\$ 2,053,946	\$ 2,048,105	\$ 2,184,798	\$ 2,274,069	\$ 2,479,594	\$ 2,396,678
Total OPEB Liability as a percentage of Covered Payroll	5.50%	5.18%	6.39%	7.54%	7.53%	5.34%

Notes to schedule:

- 1 This schedule is presented to illustrate the requirement to show information for ten calendar 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.



Supplementary Information

For the fiscal year ended
September 30, 2023



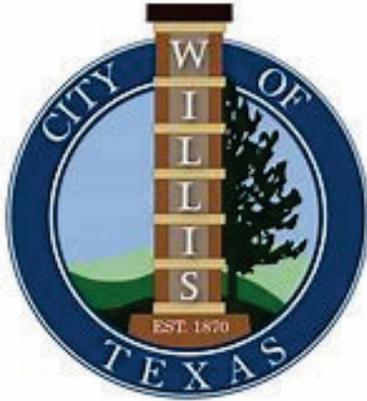
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City of Willis, Texas
Debt Service
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual
For the Year Ended September 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property Tax	\$ 912,036	\$ 912,036	\$ 1,032,225	\$ 120,189
Other Revenue	100	100	-	(100)
Interest	-	-	283	283
Total revenues	<u>912,136</u>	<u>912,136</u>	<u>1,032,508</u>	<u>120,372</u>
EXPENDITURES				
Current:				
Principal	706,000	706,000	170,000	(536,000)
Interest	164,036	164,036	38,208	(125,828)
Bond Agent Fees	500	500	-	500
Total expenditures	<u>870,536</u>	<u>870,536</u>	<u>208,208</u>	<u>(661,328)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,600</u>	<u>41,600</u>	<u>824,300</u>	<u>(540,956)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(662,227)</u>	<u>(662,227)</u>	<u>(662,227)</u>	<u>-</u>
Total other financing sources and uses	<u>(662,227)</u>	<u>(662,227)</u>	<u>(662,227)</u>	<u>-</u>
Net change in fund balances	<u>(620,627)</u>	<u>(620,627)</u>	<u>162,073</u>	<u>(540,956)</u>
Fund balances - beginning	<u>87,965</u>	<u>87,965</u>	<u>87,965</u>	<u>-</u>
Fund balances - ending	<u>\$ (532,662)</u>	<u>\$ (532,662)</u>	<u>\$ 250,038</u>	<u>\$ (540,956)</u>

City of Willis, Texas
COMMUNITY DEVELOPMENT CORPORATION
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual
For the Year Ended September 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Sales	\$ 700,000	\$ 700,000	\$ 975,303	\$ 275,303
Other Revenues	1,000	1,000	779	(221)
Interest	-	-	77,602	77,602
Total revenues	<u>701,000</u>	<u>701,000</u>	<u>1,053,684</u>	<u>352,684</u>
EXPENDITURES				
Current:				
Administration	810,064	810,064	249,447	560,617
Principal	73,300	73,300	-	73,300
Interest	32,186	32,186	-	32,186
Bond Agent Fees	1,000	1,000	-	1,000
Total expenditures	<u>916,550</u>	<u>916,550</u>	<u>249,447</u>	<u>667,103</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(215,550)</u>	<u>(215,550)</u>	<u>804,237</u>	<u>1,019,787</u>
OTHER FINANCING SOURCES (USES)				
Total other financing sources and uses	-	-	-	-
Net change in fund balances	(215,550)	(215,550)	804,237	1,019,787
Fund balances - beginning	2,148,112	2,148,112	2,148,112	-
Fund balances - ending	<u>\$ 1,932,562</u>	<u>\$ 1,932,562</u>	<u>\$ 2,952,349</u>	<u>\$ 1,019,787</u>



Combining Nonmajor Fund Financial Statements

For the fiscal year ended
September 30, 2023



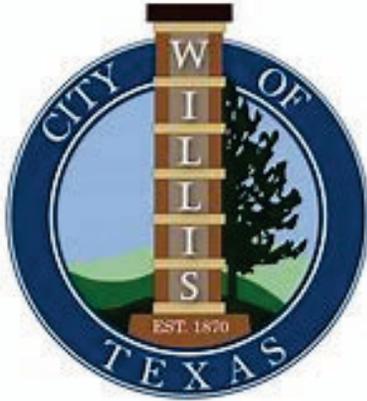
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**City of Willis, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2023**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Hotel Tourism Tax</u>	<u>Tax Increment Reinvestment Zone (TIRZ)</u>	<u>Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 366,940	\$ 1,169,809	\$ 1,536,749
Due from other funds	-	365,286	365,286
Total assets	<u>366,940</u>	<u>1,535,095</u>	<u>1,902,035</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	-	378,047	378,047
Total liabilities	<u>-</u>	<u>378,047</u>	<u>378,047</u>
Fund balances:			
Assigned to:			
Tourism	366,940	-	366,940
TIRZ	-	1,157,048	1,157,048
Total fund balances	<u>366,940</u>	<u>1,157,048</u>	<u>1,523,988</u>
Total liabilities and fund balances	<u>\$ 366,940</u>	<u>\$ 1,535,095</u>	<u>\$ 1,902,035</u>

City of Willis, Texas
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended September 30, 2023

	<u>Special Revenues Funds</u>		<u>Total</u>
	<u>Hotel Tourism Tax</u>	<u>Tax Increment Reinvestment Zone (TIRZ)</u>	<u>Nonmajor Governmental Funds</u>
REVENUES			
Property tax	\$ -	\$ 108,592	\$ 108,592
Hotel Tax	16,964	-	16,964
Interest	178	35,427	35,605
	<u>17,142</u>	<u>144,019</u>	<u>161,161</u>
EXPENDITURES			
Current:			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,142</u>	<u>144,019</u>	<u>161,161</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>-</u>	<u>307,110</u>	<u>307,110</u>
Total other financing sources and uses	<u>-</u>	<u>307,110</u>	<u>307,110</u>
Net change in fund balances	17,142	451,129	468,271
Fund balances - beginning	349,798	705,919	1,055,717
Fund balances - ending	<u>\$ 366,940</u>	<u>\$ 1,157,048</u>	<u>\$ 1,523,988</u>



Compliance and Internal Control Section

For the fiscal year ended
September 30, 2023



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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City’s Council
City of Willis, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Willis, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise City of Willis, Texas’ basic financial statements, and have issued our report thereon dated June 10, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Willis, Texas’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Willis, Texas’ internal control. Accordingly, we do not express an opinion on the effectiveness of City of Willis, Texas’ internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items, 2023-01, 2023-02, and 2023,03 that we consider to be significant deficiencies.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Willis, Texas’ financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vail + Park, P.C.

Frisco, Texas
June 10, 2024

City of Willis
Schedule of Findings and Responses
For the Year Ended September 30, 2023

Finding No. 2023-01: Financial Close

Type of Finding: Significant Deficiency

Criteria: There is currently no process in place to close the books to ensure areas such as fixed assets, debt, pensions, PTO and other GASBV 34 adjustments are properly closed out for the fiscal year.

Recommendations: The City should implement a financial close checklist for all major annual close items with a preparer and review column to ensure financial statement areas are properly adjusted.

Management's responses: As noted, there has been no process in place for financial close. During fiscal year 2023 final fieldwork, finance began the process to develop a financial close process to ensure the audit areas mentioned are properly closed out. This process, including the recommended financial close checklist will be utilized beginning with fiscal year 2024.

Finding No. 2023-02: Utility Billings

Type of Finding: Significant Deficiency

Criteria: There were cases where significant adjustments were made from the AVR Billings system labeled adjustments for water billings to customers from the month. This occurred due to false reads that were erroneously billed out for a significant amount to the customer and later adjusted in the billing software, and the customer would then receive a new invoice with the correct amount.

Recommendations: To implement a process to catch false reads in billing software prior to amounts being billed out to ensure no entries adjustments needs to be made on an ad hoc basis.

Management's responses: During fiscal year 2024, utility billing and finance staff, working with our utility billing software provider, have developed and implemented a process to catch false reads before utility bills are published. Since implementation, we believe that the process currently utilized has mitigated the need for significant adjustments after bills are published.

Finding No. 2023-03: Accruals

Type of Finding: Significant Deficiency

Criteria: The City had several accruals from the prior year that were not reversed out in the current year. This included payroll and A/R amounts for property taxes, franchise A/R, etc.

Recommendations: The City should assess and implement a process in the accounting system where accruals for items like payroll and accrued A/R amounts are set to auto-reverse the next month or a manual process to have a list of accrual entries made to reverse in the next month.

Management's responses: Finance is currently utilizing auto reverse for entries that need to be reversed in a future period. And added checks and balance to ensure any entries that should have been reversed are completed will be included as part of the financial close process.

City of Willis
Schedule of Findings and Responses
For the Year Ended September 30, 2022

Finding No. 2022-01: Lack of Formal Financial Statement Close Procedures

Type of Finding: Material weakness

Criteria: The City should implement a financial statement close process to properly close the books and ensure adjusted journal entries are recorded.

Conditions: The audit resulted in multiple (14) audit adjustments on multiple audit areas.

Cause: Management does not have a formal financial statement close process (FSCP).

Recommendation: We recommend management develop a formal FSCP checklist to properly close books at the fiscal year-end.

Management's responses: Management will develop a formal close-out process to implement during the next fiscal year end.

Finding No. 2022-02: Inadequate internal controls over the inter-fund activities and related accounts

Type of Finding: Material weakness

Criteria: The City should maintain strong internal controls over the inter-fund activities to prevent errors, fraud, and misuse of the resources.

Conditions: Adjustments were required to Inter-fund accounts and prior period adjustments.

Cause: Management does not have procedures to ensure inter-fund activities are correctly reconciled.

Recommendations: We recommend management develop clear policies and procedures, including review and approval, to ensure transfers in and out/due to and from accounts are correctly accounted for and also considered as part of the budgeting process.

Management's responses: Management will exercise a closer review of transfers in and out/due to and from accounts and will consider transfers during the upcoming budgeting process.

Finding No. 2022-03: Lack of controls over tracking construction in progress (CIP)

Type of Finding: Material weakness

Criteria: Construction in progress shall be tracked properly since it could hinder the City's ability to plan and budget. Additionally, once the construction in progress is completed and the asset is placed in service, it should begin to depreciate over its useful life.

Cause: Management's controls are insufficient to track all the projects to ensure all capital costs were being properly captured and to ensure the capital assets begin depreciation once construction is completed.

Recommendations: We recommend management implement a process for regularly reviewing and reconciling construction in progress for all ongoing capital projects to ensure all capital costs are being properly captured and to ensure all completed construction in progress are moved to capital assets from CIP once the construction is completed.

Management's responses: Management has implemented a system to track expenditures by project and ensure all capital costs are properly captured and depreciated once construction is complete.