

ANNUAL FINANCIAL REPORT

City of Willis, Texas

*Fiscal Year Ended September 30, 2024*





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**City of Willis, Texas  
Annual Financial Report  
For the Year Ended September 30, 2024**

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Supplementary Information

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## **Introductory Section**

For the fiscal year ended  
September 30, 2024



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**CITY OF WILLIS, TEXAS**

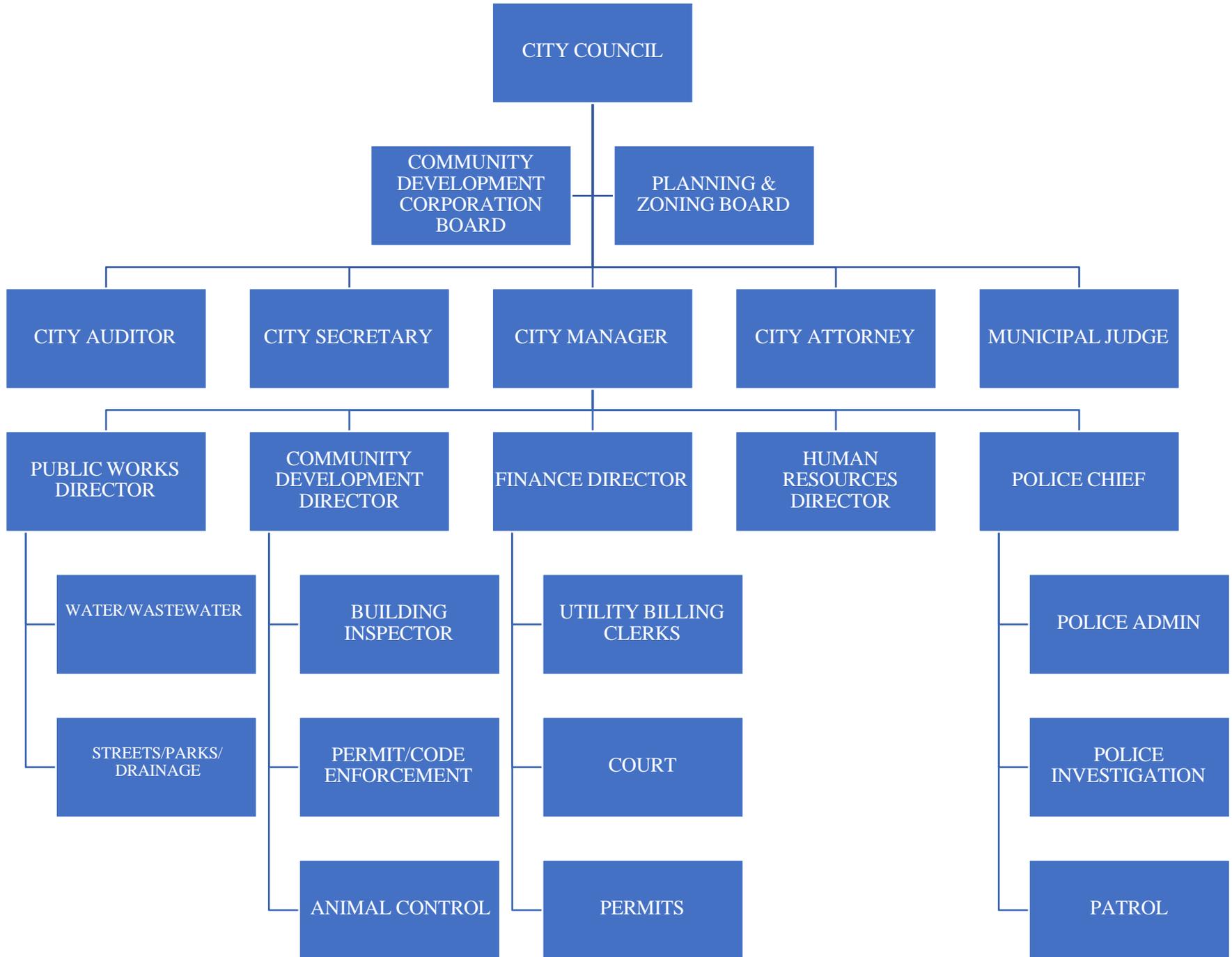
**WILLIS CITY COUNCIL**

Regular Meeting: Third Tuesday of each month at 5:30 p.m.

Willis City Hall, 200 N. Bell, Willis, Texas

<b>POSITION</b>	<b>NAME/ADDRESS</b>	<b>PHONE #</b>	<b>TERM EXP</b>
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 Mayor Pro-Tem	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	William Brown 202 Philpot St Willis, TX 77378 Eldwilliamsbrown@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)	Charles Zech 2500 W. William Cannon Drive, Suite 609 Austin, TX 78745	(512)-279-6431 O	
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



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## **Financial Section**

For the fiscal year ended  
September 30, 2024



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Memberships:

## 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, 2024, 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, 2024, 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's 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's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 11-21), 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 Changes in Postemployment Benefits other than Pension (OPEB) Liability and Related Ratio (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 (pages 79-80) and budgetary comparison information for water and sewer fund (page 73), debt service fund (page 74) and community development corporation fund (page 75) 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.

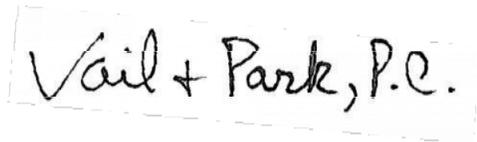
**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2025, on our consideration of the City’s 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’s 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’s internal control over financial reporting and compliance.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the introductory and but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in black ink that reads "Vail + Park, P.C." is enclosed within a dashed rectangular border.

Frisco, Texas  
April 9, 2025



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**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2024**

The purpose of the Management's Discussion and Analysis (MD&A) is to provide readers with an objective and easily understandable overview of the City's financial activities for the year ending September 30, 2024. This analysis is based on currently known facts, decisions, and economic conditions. It offers both short-term and long-term perspectives on the City's activities, comparing the current year's results with those of the prior year, and discussing the positive and negative aspects of that comparison. GASB Statement No. 34 establishes 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 complies with the financial reporting model established by GASB Statement No. 34. This model requires governments to present certain basic financial statements, an MD&A, and 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 \$34,095,254 at September 30, 2024.
- At the close of the current fiscal year, the City's governmental funds reported combined funds balances of \$18,828,874, an increase of \$5,305,723
- As of the end of the year, the unassigned fund balance of the general fund was \$16,183,007 or 287% of total general fund expenditures.
- The City had an overall increase in net position of \$6,785,536.
- The City's total capital assets decreased by \$461,068. The decrease 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 \$1,182,000 to a total outstanding amount of \$19,375,000.

**Government-Wide Statements**

The government-wide statements provide information about the City as a whole, including transactions and balances related to all assets, such as infrastructure capital assets. These statements are designed to offer insights into 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 on the City's activities to help readers understand the financial condition of the City of Willis. These statements are prepared using the accrual basis of accounting, 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, with the difference 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, should also be considered to assess the overall health of the City.

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2024**

**Government-Wide Statements (continued)**

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows—using the accrual method rather than the modified accrual method used in 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 and local taxes, municipal court fees 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, such as 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, and community development corporation (CDC) funds.

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2024**

**Governmental Funds (continued)**

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

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

**Proprietary Funds**

The City maintains one type of proprietary fund. The enterprise fund are 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 discretely 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, schedule of employer contributions for the Texas Municipal Retirement System and schedule of Contributions in Postemployment Benefits Other than Pension RSI can be found after the basic the financial statements .

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2024**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted previously, net position can serve as a useful indicator of the City's financial position over time. As of September 30, 2024, the City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$34,095,254 in the primary government.

The largest portion of the City's net position, \$14,295,638, reflects its investments in capital assets (e.g., land, city hall, police station, streets, drainage systems, and public works facilities), less any outstanding debt used to acquire those assets. 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 come from other sources, as the assets themselves cannot be used to liquidate these liabilities.

Current and other assets for governmental activities increased by \$6,686,001, primarily due to higher cash on hand resulting from operating surpluses, unearned revenue deposits during the current year. Current and other assets for business-type activities increased by \$13,168,526, mainly due to higher cash on hand as the City invested available funds in capital improvements. Total other liabilities increased by \$464,108 primarily due to higher amounts unearned revenue at the end of the current year. Total long-term liabilities decreased by \$1,109,578, primarily due to principal payments made during the fiscal year.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2024	2023	2024	2023	2024	2023
Current & Other Assets	\$ 19,521,819	\$ 26,207,820	\$ 15,483,654	\$ 2,315,128	\$ 35,005,473	\$ 28,522,948
Capital and Noncurrent Assets	8,319,530	8,513,258	24,370,848	24,513,391	32,690,378	33,026,649
Total Assets	<u>27,841,349</u>	<u>34,721,078</u>	<u>39,854,502</u>	<u>26,828,519</u>	<u>67,695,851</u>	<u>61,549,597</u>
Deferred Outflows of Resources	<u>323,995</u>	<u>517,016</u>	<u>96,631</u>	<u>174,764</u>	<u>420,626</u>	<u>691,780</u>
Long Term Liabilities	1,462,382	1,551,686	17,506,851	18,527,125	18,969,233	20,078,811
Other Liabilities	771,243	12,721,099	14,191,344	1,777,380	14,962,587	14,498,479
Total Liabilities	<u>2,233,625</u>	<u>14,272,785</u>	<u>31,698,195</u>	<u>20,304,505</u>	<u>33,931,820</u>	<u>34,577,290</u>
Deferred Inflows of Resources	<u>68,858</u>	<u>264,988</u>	<u>20,545</u>	<u>89,381</u>	<u>89,403</u>	<u>354,369</u>
Net Position:						
Net Investment in Capital Asset	7,293,570	7,320,642	7,002,068	6,081,734	14,295,638	13,402,376
Restricted	2,336,832	1,774,026	-	-	2,336,832	1,774,026
Unrestricted	16,232,459	11,605,653	1,230,325	527,663	17,462,784	12,133,316
Total Net Position	<u>\$ 25,862,861</u>	<u>\$ 20,700,321</u>	<u>\$ 8,232,393</u>	<u>\$ 6,609,397</u>	<u>\$ 34,095,254</u>	<u>\$ 27,309,718</u>

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2024**

Statement of Activities:

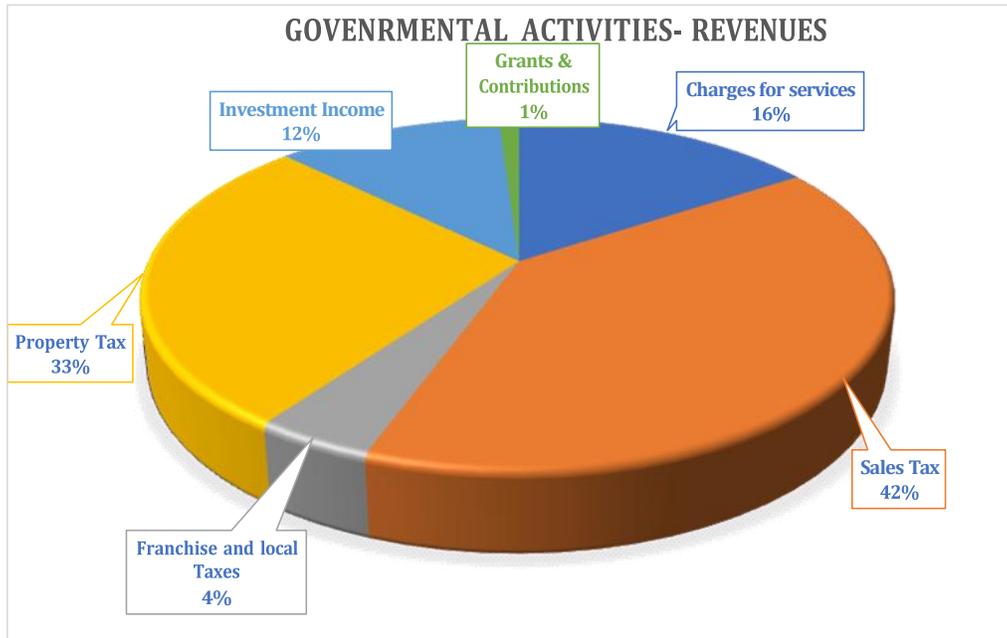
The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 1,841,989	\$ 1,141,285	\$ 5,610,850	\$ 4,300,231	\$ 7,452,839	\$ 5,441,516
Grants & contributions	122,117	176,795	121,654	574,373	243,771	751,168
General Revenues:						
Property tax	3,209,139	3,380,314	-	-	3,209,139	3,380,314
Sales taxes	4,661,893	4,296,521	-	-	4,661,893	4,296,521
Franchise and local taxes	507,953	490,090	-	-	507,953	490,090
Investment income	1,359,816	749,906	-	-	1,359,816	749,906
Other revenues	<u>23,061</u>	<u>28,487</u>	<u>-</u>	<u>-</u>	<u>23,061</u>	<u>28,487</u>
Total Revenues	<u>11,725,968</u>	<u>10,263,398</u>	<u>5,732,504</u>	<u>4,874,604</u>	<u>17,458,472</u>	<u>15,138,002</u>
<b>Expenses</b>						
General government activities	1,241,193	957,750	-	-	1,241,193	957,750
Community development	594,333	530,136	-	-	594,333	530,136
Public safety	2,346,378	1,733,470	-	-	2,346,378	1,733,470
Sanitation	555,416	522,461	-	-	555,416	522,461
Court	126,600	122,196	-	-	126,600	122,196
Street	1,090,424	990,399	-	-	1,090,424	990,399
Water & sewer	-	-	4,279,600	3,855,339	4,279,600	3,855,339
Interest and fiscal charges	<u>29,703</u>	<u>37,421</u>	<u>516,785</u>	<u>540,278</u>	<u>546,488</u>	<u>577,699</u>
Total Expenses	<u>5,984,047</u>	<u>4,893,834</u>	<u>4,796,385</u>	<u>4,395,617</u>	<u>10,780,432</u>	<u>9,289,451</u>
Increase/(Decrease) in Net Position Before Transfers	5,741,921	5,369,564	936,119	478,987	6,678,040	5,848,551
Lease proceeds	-	-	-	-	-	-
Transfers	<u>(579,381)</u>	<u>(611,315)</u>	<u>686,877</u>	<u>611,315</u>	<u>107,496</u>	<u>-</u>
Change in Net Position	5,162,540	4,758,249	1,622,996	1,090,302	6,785,536	5,848,551
Net Position - Beginning	<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>
Net Position - Ending	<u>\$ 25,862,861</u>	<u>\$ 20,700,321</u>	<u>\$ 8,232,393</u>	<u>\$ 6,609,397</u>	<u>\$ 34,095,254</u>	<u>\$ 27,309,718</u>

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2024**

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

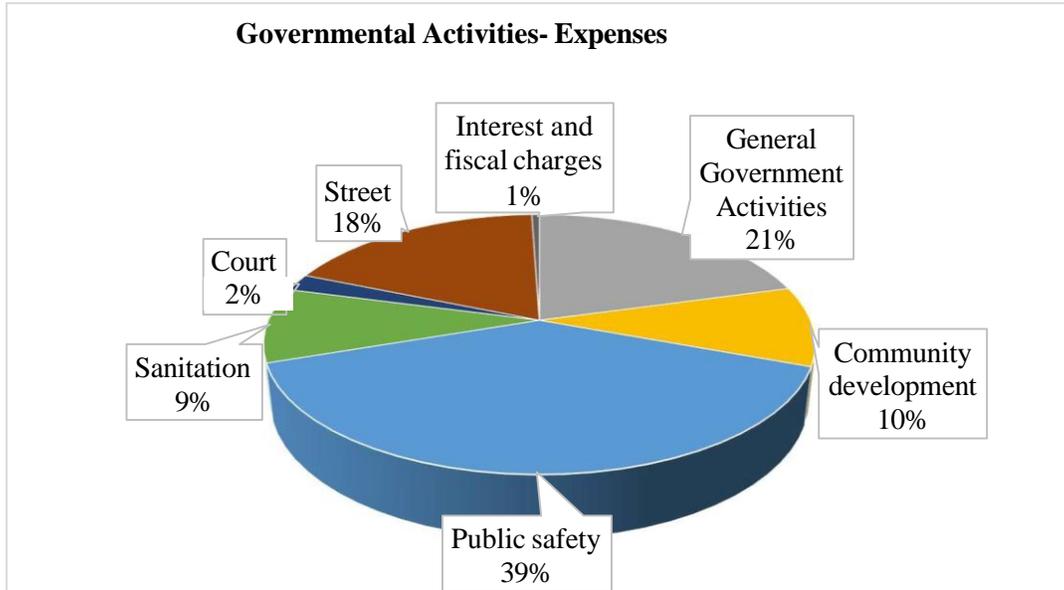
This graph shows the governmental functional revenues of the City:



For the year ended September 30, 2024, revenues from governmental activities totaled \$11,725,968. Charges for service, sales taxes, property taxes, and grants/contributions are the City's largest revenue sources. Overall governmental revenue increased by \$1,462,570. Charges for services revenues increased by \$700,704 or 61.4 %, primarily due to increased license, permits and fees. Grants and contributions revenues increased \$54,678 or 30.9% due to recognition of deferred grant revenue. Investment income increased \$609,910 or 81.3% due to increase in interest rates. All other revenues remained stable when compared to the previous year.

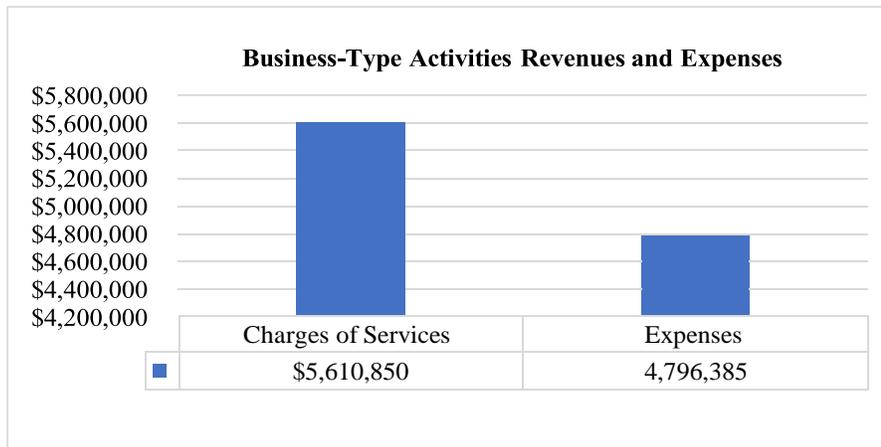
**City of Willis, Texas  
MANAGEMENT'S DISCUSSION AND ANALYSIS,  
September 30, 2024**

This graph shows the governmental functional expenses of the City:



For the year ended September 30, 2024, expenses for governmental activities totaled \$5,984,047. This represents an increase of \$1,090,212 or 22% from the prior year. The City's largest functional expenses are public safety of \$2,346,378, general government of \$1,241,193, and street expenses of \$1,090,424. Public safety expenses increased by \$612,908, or 35%, as a result of increased payroll and wages. General government activities increased by \$283,443, or 30%, as a result of increased payroll and wages. 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, 2024, charges for services by business-type activities totaled \$5,610,850. This is an increase of \$1,310,619 or 30.5% from the previous year due to growth within the city. Grant and contributions decreased \$452,719 or 78.8% due to project being completed in 2023. Total expenses increased \$400,768 or 9.1% compared to the prior year due to growth within the City.

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS,**  
**September 30, 2024**

**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 on 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 \$16,492,042, \$16,183,007 of which is unassigned. Unassigned fund balance equaled 287% of total annual general fund expenditures. The general fund had an increase in fund balance of \$4,742,917 during the year. This increase is primarily a result of greater than expected interest income, project development, and permit and fees.

Overall, the governmental fund balance increased by \$5,305,723 over the prior year. This was primary from the result of \$4,742,917 increases in the general fund, as mentioned above, and an increase in the nonmajor funds of \$562,806.

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 before transfers of \$4,176,578. Revenues had a positive variance for the year of \$2,716,816, and expenditures had a positive variance of \$1,459,762. The difference between actual and budgeted revenues was mainly due to City experiencing above average residential and commercial growth not budgeted for the fiscal year and higher interest income due to higher interest rates. The difference between actual and budgeted expenditures variance relates mainly to purchase of Wells Fargo building (future city hall) purchase budgeted in FY24 but not completed until beginning of FY25.

**WATER AND SEWER BUDGETARY HIGHLIGHTS**

The water and sewer fund had a total positive budget variance of \$361,504. Revenues had a positive variance for the year of \$1,374,004, and expenditures had a negative variance of \$1,012,500. The difference between actual and budgeted revenues was mainly due to City water sales. The difference between actual and budgeted expenditures variance relates mainly depreciation and amortization.

**CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$8,319,530 in a variety of capital assets and infrastructure, net of accumulated depreciation and amortization. Depreciation and amortization is included with the governmental capital assets as required by GASB Statements 34, 87, and 96. The City's business-type activities funds had invested \$24,370,848 in a variety of capital assets and infrastructure, net of accumulated depreciation and amortization.

**City of Willis, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS,**  
**September 30, 2024**

**CAPITAL ASSETS (continued)**

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

- Construction in progress and additions in the governmental activities amounted to \$346,717. This included the public works yard, Pine Circle Park, and Hines Ave, and MLK park.
  
- Construction in progress and additions in the proprietary fund amounted to \$1,005,939. This included the water plants, ARPA Lift Station Improvement and well .
  
- Purchases of motor vehicles for city use, particularly Police Department units, in the amount of vehicles and equipment \$169,500.

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 \$19,375,000. Principal payments on debt obligations totaled \$1,182,000 during the year. 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](http://www.ci.willis.tx.us).



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## **Basic Financial Statements**

For the fiscal year ended  
September 30, 2024



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City of Willis, Texas  
STATEMENT OF NET POSITION  
September 30, 2024

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Community Development Corporation
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 16,629,526	\$ 90,264	\$ 16,719,790	2,963,590
Restricted cash	13,020,810	990,109	14,010,919	-
Investments	2,187,190	154,514	2,341,704	724,487
Receivables, net	1,153,537	723,816	1,877,353	203,966
Inventory	-	41,830	41,830	-
Due from component unit	-	13,877	13,877	-
Internal balances	(13,469,244)	13,469,244	-	-
Total Current Assets	19,521,819	15,483,654	35,005,473	3,892,043
<b>Capital assets :</b>				
Non-depreciable/amortizable	804,912	968,876	1,773,788	-
Depreciable (Net of Accumulated Depreciation/Amortization)	7,514,618	23,401,972	30,916,590	-
Total Capital Assets	8,319,530	24,370,848	32,690,378	-
Total Assets	27,841,349	39,854,502	67,695,851	3,892,043
<b>Deferred Outflows of Resources</b>				
Deferred Outflow - OPEB	4,089	1,221	5,310	-
Deferred Outflow - Pension	319,906	95,410	415,316	-
Total Deferred Outflows of Resources	323,995	96,631	420,626	-
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	493,363	482,309	975,672	9,521
Unearned revenue	52,233	-	52,233	-
Customer deposits	-	174,815	174,815	-
Deferred revenue	-	12,504,220	12,504,220	-
Due to state	28,832	-	28,832	-
Due to primary government	-	-	-	13,877
Long-term debt due within one year	196,815	1,030,000	1,226,815	-
Total Current Liabilities	771,243	14,191,344	14,962,587	23,398
<b>Noncurrent liabilities:</b>				
Compensated absences, noncurrent	182,605	43,511	226,116	-
Long-term debt due in more than one year	829,145	17,328,889	18,158,034	-
Total OPEB liability	115,646	34,544	150,190	-
Net Pension liability	334,986	99,907	434,893	-
Total Liabilities	2,233,625	31,698,195	33,931,820	23,398
<b>Deferred Inflows of Resources:</b>				
Deferred Inflow - OPEB	16,664	4,978	21,642	-
Deferred Inflow - Pension	52,194	15,567	67,761	-
Total Deferred Inflows of Resources	68,858	20,545	89,403	-
<b>Net Position:</b>				
Net investment in capital assets	7,293,570	7,002,068	14,295,638	-
Restricted for:				
Debt service	177,021	-	177,021	-
Tourism	400,646	-	400,646	-
Community development	1,759,165	-	1,759,165	3,868,645
Unrestricted	16,232,459	1,230,325	17,462,784	-
Total Net Position	\$ 25,862,861	\$ 8,232,393	\$ 34,095,254	\$ 3,868,645

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, 2024**

Program Activities	Net (Expense) Revenue and Changes in Net Assets						
	Expenses	Program Revenues		Primary Government			Component Unit
		Fees, Fines and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Community Development Corporation
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 1,241,193	\$ -	\$ -	\$ (1,241,193)	\$ -	\$ (1,241,193)	\$ -
Community development	594,333	1,078,494	122,117	606,278	-	606,278	-
Public safety	2,346,378	158,435	-	(2,187,943)	-	(2,187,943)	-
Sanitation	555,416	605,060	-	49,644	-	49,644	-
Court	126,600	-	-	(126,600)	-	(126,600)	-
Street	1,090,424	-	-	(1,090,424)	-	(1,090,424)	-
Interest and fiscal charges	29,703	-	-	(29,703)	-	(29,703)	-
Total governmental activities	<u>5,984,047</u>	<u>1,841,989</u>	<u>122,117</u>	<u>(4,019,941)</u>	<u>-</u>	<u>(4,019,941)</u>	<u>-</u>
Business-type activities:							
Wastewater utility	4,279,600	5,610,850	121,654	-	1,452,904	1,452,904	-
Interest expense	516,785	-	-	-	(516,785)	(516,785)	-
Total business-type activities	<u>4,796,385</u>	<u>5,610,850</u>	<u>121,654</u>	<u>-</u>	<u>936,119</u>	<u>936,119</u>	<u>-</u>
Total Primary Government	<u>\$ 10,780,432</u>	<u>\$ 7,452,839</u>	<u>\$ 243,771</u>	<u>\$ (4,019,941)</u>	<u>\$ 936,119</u>	<u>\$ (3,083,822)</u>	<u>\$ -</u>
<b>Component Unit</b>							
Community Development Corp.	161,940	-	-				(161,940)
Total Component Units	<u>\$ 161,940</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (161,940)</u>

Change in net position							
General revenues:							
Property tax				3,209,139	-	3,209,139	-
Sales tax				4,661,893	-	4,661,893	1,061,147
Franchise and local taxes				507,953	-	507,953	-
Investment income				1,359,816	-	1,359,816	124,585
Other revenues				23,061	-	23,061	-
Transfers in (out)				(579,381)	686,877	107,496	(107,496)
Total general revenues and transfers				<u>9,182,481</u>	<u>686,877</u>	<u>9,869,358</u>	<u>1,078,236</u>
Change in net position				5,162,540	1,622,996	6,785,536	916,296
Net position - beginning				20,700,321	6,609,397	27,309,718	2,952,349
Net position - ending				<u>\$ 25,862,861</u>	<u>\$ 8,232,393</u>	<u>\$ 34,095,254</u>	<u>\$ 3,868,645</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, 2024**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,259,702	2,369,823	\$ 16,629,526
Restricted cash	13,020,810	-	13,020,810
Investments	2,187,190	-	2,187,190
Receivables (net of allowance for uncollectibles)	1,119,834	33,703	1,153,537
Due from other funds	1,052,928	(14,138)	1,038,790
Total assets	<u>31,640,464</u>	<u>2,389,389</u>	<u>34,029,853</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	481,345	7,345	488,690
Unearned revenue	52,233	-	52,233
Due to other fund	14,496,525	11,509	14,508,034
Due to state	28,832	-	28,832
Total liabilities	<u>15,058,935</u>	<u>18,854</u>	<u>15,077,789</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-property tax	89,487	33,703	123,190
Total deferred inflows of resources	<u>89,487</u>	<u>33,703</u>	<u>123,190</u>
<b>FUND BALANCES</b>			
Restricted for:			
Debt service	-	177,021	177,021
Community development	-	1,759,165	1,759,165
Tourism	-	400,646	400,646
Assigned to:			
PEG fees	70,902	-	70,902
Public safety	238,133	-	238,133
Unrestricted	16,183,007	-	16,183,007
Total fund balances	<u>16,492,042</u>	<u>2,336,832</u>	<u>18,828,874</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 31,640,464</u>	<u>\$ 2,389,389</u>	<u>\$ 34,029,853</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, 2024**

<b>Fund Balances - Total Governmental Funds</b>	\$ 18,828,874
<b>Adjustments for the Statement of Net Position:</b>	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable/amortization	804,912
Capital assets - net depreciable/amortization	7,514,618
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	123,190
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	167,778
Pension assumption changes	152,128
OPEB (gains) losses	1,121
OPEB contributions	2,968
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	(35,002)
Pension investment earnings	(17,192)
OPEB investment earnings	(16,664)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(4,673)
Compensated absences	(182,605)
Net pension liability	(334,986)
Net OPEB liability	(115,646)
Non-current liabilities due in one year	(196,815)
Non-current liabilities due in more than one year	(829,145)
	<u>(829,145)</u>
	<b>Net Position of Governmental Activities</b> <u>\$ 25,862,861</u>

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, 2024**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property tax	\$ 2,546,332	\$ 691,316	\$ 3,237,648
Sales tax	4,628,376	33,517	4,661,893
Grants and contributions	122,117	-	122,117
Franchise and local taxes	507,953	-	507,953
Permits and code enforcement	1,078,494	-	1,078,494
Sanitation	605,060	-	605,060
Fines and forfeitures	158,435	-	158,435
Project development	-	-	-
Interest	1,277,588	82,228	1,359,816
Other	23,061	-	23,061
Total Revenues	<u>10,947,416</u>	<u>807,061</u>	<u>11,754,477</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,034,355	9,890	1,044,245
Community development	582,528	-	582,528
Public safety	2,174,960	-	2,174,960
Sanitation	555,416	-	555,416
Court	126,600	-	126,600
Street	622,615	-	622,615
Debt Service:			
Principal	13,829	180,000	193,829
Interest and fiscal charges	931	33,482	34,413
Capital outlay	534,767	-	534,767
Total Expenditures	<u>5,646,001</u>	<u>223,372.00</u>	<u>5,869,373</u>
Excess of Revenues Over (Under) Expenditures	5,301,415	583,689	5,885,104
Other Financing Sources (Uses)			
Transfers in	-	408,021	408,021
Transfers (out)	(558,498)	(428,904)	(987,402)
Total Other Financing Sources (Uses)	<u>(558,498)</u>	<u>(20,883)</u>	<u>(579,381)</u>
Net Change in Fund Balances	4,742,917	562,806	5,305,723
Beginning Fund balances	11,749,125	1,774,026	13,523,151
Ending Fund Balances	<u>\$ 16,492,042</u>	<u>\$ 2,336,832</u>	<u>\$ 18,828,874</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, 2024**

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

Net change in fund balances - total governmental funds	\$ 5,305,723
<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	534,767
Depreciation expense	(756,710)
<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	180,000
<p>The change in deferred revenue must be eliminated to convert from the modified accrual basis of accounting.</p>	
	(28,509)
<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	4,727
Subscription liability	11,434
Accrued interest	4,710
Pension expense	(86,315)
OPEB liability	(9,903)
Change in net position of governmental activities	\$ 5,162,540

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, 2024**

	<u><b>Water &amp; Sewer Fund</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 90,264
Investments	154,514
Accounts receivable (net of allowance for uncollectibles)	723,816
Inventory	41,830
Due from other funds	13,483,121
Total current assets	<u>14,493,545</u>
Noncurrent assets:	
Restricted cash and cash equivalents	990,109
Capital assets:	
Construction in progress	968,876
Water system	32,440,460
Sewer system	9,240,976
Vehicles & equipment	987,169
Leased equipment	36,723
Right to use lease asset	219,750
Accumulated depreciation/amortization	(19,523,106)
Total capital assets (net of accumulated depreciation)	<u>24,370,848</u>
Total noncurrent assets	<u>25,360,957</u>
Total assets	<u>39,854,502</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflow - OPEB	1,221
Deferred Outflow - Pension	95,410
Total Deferred Outflows of Resources	<u>96,631</u>
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	244,980
Accrued liabilities	237,329
Customer deposits	174,815
Deferred revenue	12,504,220
Notes payable - current	1,030,000
Total current liabilities	<u>14,191,344</u>
Noncurrent liabilities:	
Compensated absences - noncurrent	43,511
Notes payable - noncurrent (net of unamortized bond premium)	17,328,889
Total OPEB liability	34,544
Net Pension liability	99,907
Total noncurrent liabilities	<u>17,506,851</u>
Total liabilities	<u>31,698,195</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflow - OPEB	4,978
Deferred Inflow - Pension	15,567
Total Deferred Inflows of Resources	<u>20,545</u>
 <b>NET POSITION</b>	
Net investment in capital assets	6,011,959
Restricted for capital improvements	990,109
Unrestricted	1,230,325
Total net position	<u>\$ 8,232,393</u>

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, 2024**

	<u>Water &amp; Sewer Fund</u>
<b>OPERATING REVENUES:</b>	
Charges for sales and services:	
Water sales	\$ 2,821,364
Sewer charges	1,860,656
Grant revenue and charges for services	121,654
Project development	867,296
Miscellaneous services	<u>61,534</u>
Total operating revenues	<u>5,732,504</u>
<b>OPERATING EXPENSES:</b>	
Costs of sales and services:	
Wastewater treatment	500,234
Water production	787,397
Water distribution	529,458
Wastewater collections	908,732
Utility billing	204,941
Depreciation and amortization	<u>1,348,838</u>
Total operating expenses	<u>4,279,600</u>
Operating income	<u>1,452,904</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest expense	<u>(516,785)</u>
Total nonoperating revenue (expenses)	<u>(516,785)</u>
Income (loss) before transfers	936,119
Transfers in	686,877
Change in net position	1,622,996
Total net position - beginning	<u>6,609,397</u>
Total net position - ending	<u>\$ 8,232,393</u>

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, 2024**

	<b>Water &amp; Sewer Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 5,152,653
Cash payments to suppliers for goods and services	(1,934,960)
Cash payments to employees and professional contractors for services	(1,262,497)
Net cash provided by operating activities	1,955,196
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	686,877
Net cash used in noncapital financing activities	686,877
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on notes	(1,018,573)
Interest paid on debt	(516,785)
Acquisition and construction	(1,052,469)
Net cash used in capital and related financing activities	(2,587,827)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(5,257)
Net cash provided by investing activities	(5,257)
Net increase (decrease) in cash and cash equivalents	48,989
Cash, cash equivalents, and restricted cash, beginning of year	1,031,384
Cash, cash equivalents, and restricted cash, end of year	1,080,373
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	1,452,904
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,348,838
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	197,589
(Increase) decrease in deferred outflows of resources	78,133
Increase (decrease) in net pension liability	13,395
Increase (decrease) in OPEB liability	2,442
Increase (decrease) in customer deposits	30,209
Increase (decrease) in accounts payable	(236,075)
Increase (decrease) in accrued liabilities	(18,857)
Increase (decrease) in due to other funds	(807,650)
Increase (decrease) in right to use lease	(36,896)
Increase (decrease) in deferred inflows of resources	(68,836)
Net cash provided by operating activities	\$ 1,955,196

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, 2024**

**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, founded in 1870 and named after P.J. and R.S. Willis, grew rapidly after the Great Northern Railroad established a track through the town. The tobacco industry, along with other cash crops like cotton, watermelons, and tomatoes, played a significant role in the City's early growth. The timber industry has been a stable economic engine for over a century.

Since the 1980s, the City's economic base has shifted from agriculture to services, retail, and manufacturing. The City is strategically located near Lake Conroe, with Interstate 45 bisecting it and major transportation routes nearby, including U.S. Highway 75 and the Atchison, Topeka, and Santa Fe rail services. The George Bush Intercontinental Airport is 35 miles south, and the Montgomery County Airport is 10 miles east.

The City operates under a Council-Manager government, where an elected council enacts legislation, adopts budgets, determines policies, and appoints key officials, including the City Manager. The City provides services such as public safety, streets and roads, sanitation, water and 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 considered a primary government for financial reporting purposes. The Willis Community Development Corporation (CDC) and the Tax Increment Reinvestment Zone No. 1 (TIRZ) are included in the City's reporting entity. The City meets the criteria of a primary government, being legally separate, fiscally independent, and having a separately elected governing body.

**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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
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**Discretely Presented Component Unit (Continued)**

Willis Community Development Corporation (Continued)

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% of the sales tax collected by the City from the Comptroller or 0.375% of the 2.00% sales tax collected

**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. Accordingly, 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.

**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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

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

**Governmental funds**

The government reports the following major governmental fund:

**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.

Additionally, the government reports the following fund types:

**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

**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.

**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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

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

**Proprietary Fund Types (Continued)**

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.

**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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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.

**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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

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

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

**4. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

**5. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized. 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, 2024**

**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, 2024**

**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, 2024, the accrued and unpaid compensated absences liability was \$226,116.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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, 2024**

**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, 2024**

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

**A. Investments**

	Amount
Public funds investment pools:	
TexSTAR General	\$ 2,161,490
TexSTAR WC Development Corp	668,859
	\$ 2,830,349

As of September 30, 2024, the primary government and business-type had the following investments:

	Government	Business-type
<b>Investment Type</b>		
Certificates of deposit	\$ 25,700	\$ 154,514
External investment pools	2,161,490	
Total fair value	\$ 2,187,190	\$ 154,514

As of September 30, 2024, the City’s component unit had the following investments:

<b>Investment Type</b>	<b>Value</b>
Certificates of deposit	\$ 55,628
External investment pools	668,859
Total fair value	\$ 724,487

*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, 2024, 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, 2024, the market values of pledged securities and FDIC exceeded of bank balances.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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, 2024 for governmental activities and business-type , the City has \$13,020,810 and \$990,109 for the Development Agreements. 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, 2024**

**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.

**D. 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	Nonmajor Debt Service Fund	Total Governmental Funds	Wastewater Utility Fund
Receivables:				
Property taxes	\$ 149,220	\$ -	\$ 149,220	\$ -
Sales taxes	883,852	-	883,852	-
Franchise fees	86,762	-	86,762	-
Miscellaneous	-	33,703	33,703	-
Customer accounts	-	-	-	1,515,645
Gross receivables	1,119,834	33,703	1,153,537	1,515,645
Less: allowance for uncollectibles	-	-	-	(791,829)
Net total receivables	\$ 1,119,834	\$ 33,703	\$ 1,153,537	\$ 723,816

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

	Community Development <u>Corporation</u>
Sales tax	203,966

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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:

<b>Governmental activities:</b>	<b>Balance September 30, 2023</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2024</b>
Capital assets not being depreciated/amortized:				
Land	\$ 505,074	\$ -	\$ -	\$ 505,074
Construction in progress	69,245	346,717	(116,124)	299,838
Total capital assets not being depreciated /amortized	<u>574,319</u>	<u>346,717</u>	<u>(116,124)</u>	<u>804,912</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	2,175,190	-	-	2,175,190
Vehicles and equipment	2,047,098	169,500	-	2,216,598
Infrastructure	9,524,923	18,550	-	9,543,473
Park Improvements	2,197,359	116,124	-	2,313,483
Leased Equipment	9,181	-	-	9,181
Subscription Assets	-	28,216	-	28,216
Total capital assets being depreciated/amortized	<u>15,953,751</u>	<u>332,390</u>	<u>-</u>	<u>16,286,141</u>
Less: accumulated depreciation/amortization				
Buildings and improvements	(947,240)	(56,329)	-	(1,003,569)
Vehicles and equipment	(1,591,298)	(151,895)	-	(1,743,193)
Infrastructure	(5,165,628)	(457,053)	-	(5,622,681)
Park improvements	(303,188)	(76,417)	-	(379,605)
Leased Equipment	(7,459)	(1,722)	-	(9,181)
Subscription Assets	-	(13,294)	-	(13,294)
Total accumulated depreciation/amortization	<u>(8,014,813)</u>	<u>(756,710)</u>	<u>-</u>	<u>(8,771,523)</u>
Total capital assets being depreciated/amortized, net	<u>7,938,938</u>	<u>(424,320)</u>	<u>-</u>	<u>7,514,618</u>
Total governmental activities, net	<u>\$ 8,513,257</u>	<u>\$ (77,603)</u>	<u>\$ (116,124)</u>	<u>\$ 8,319,530</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:

<b>Governmental activities:</b>	
General government	\$ 181,791
Public safety	117,010
Streets	<u>457,909</u>
Total governmental depreciation/amortization expense	<u>\$ 756,710</u>

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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:

<b>Business-type activities:</b>	<b>Balance September 30, 2023</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2024</b>
Capital assets not being depreciated/amortized:				
Construction in progress	\$ 819,432	\$ 1,005,939	\$ (856,495)	\$ 968,876
Total capital assets not being depreciated/amortized	<u>819,432</u>	<u>1,005,939</u>	<u>(856,495)</u>	<u>968,876</u>
Capital assets being depreciated/amortized:				
Water System	31,558,065	882,395	-	32,440,460
Sewer system	9,220,346	20,630	-	9,240,976
Vehicles & Equipment	987,169	-	-	987,169
Leased Equipment	36,723	-	-	36,723
Subscription Assets	219,750	-	-	219,750
Total capital assets being depreciated/amortized	<u>42,022,053</u>	<u>903,025</u>	<u>-</u>	<u>42,925,078</u>
Less: accumulated depreciation/amortization				
Water System	(10,753,457)	(1,010,220)	-	(11,763,677)
Sewer system	(6,535,589)	(240,449)	-	(6,776,038)
Vehicles & Equipment	(789,460)	(47,333)	-	(836,793)
Leased Equipment	(29,837)	(6,886)	-	(36,723)
Subscription Assets	(65,925)	(43,950)	-	(109,875)
Total accumulated depreciation/amortization	<u>(18,174,268)</u>	<u>(1,348,838)</u>	<u>-</u>	<u>(19,523,106)</u>
Total capital assets being depreciated/amortized, net	<u>23,847,785</u>	<u>(445,813)</u>	<u>-</u>	<u>23,401,972</u>
Total capital assets, net	<u>\$ 24,667,217</u>	<u>\$ 560,126</u>	<u>\$ (856,495)</u>	<u>\$ 24,370,848</u>

Depreciation expense charged to the proprietary funds was \$1,304,888 as of September 30, 2024.

**E. Leases**

Effective October 1, 2021, the City implemented GASB Statement No. 87, Leases, which requires recognizing certain lease assets and liabilities for leases previously classified as operating leases. The City now recognizes a lease liability and an intangible right-to-use lease asset in both the government-wide and business-type financial statements.

At the implementation of GASB 87 and for leases commencing after October 1, 2021, the City initially measures the lease liability at the present value of expected payments during the lease term. This liability is subsequently reduced by the principal portion of lease payments made. The right-to-use lease asset is initially measured as the lease liability amount, adjusted for any payments made at or before the lease commencement date, plus certain initial direct costs. This asset is then amortized on a straight-line basis over its useful life.

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**E. Leases (continued)**

Key estimates and judgments related to leases include determining the discount rate, lease term, and lease payments. The City uses the interest rate charged by the lessor as the discount rate or, if not provided, its estimated incremental borrowing rate. The lease term includes the non-cancellable period, and lease payments include fixed payments and purchase option prices the City is reasonably certain to exercise. 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 City monitors changes that would require re-measurement of lease assets and liabilities if significant changes occur. 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>
<b>Governmental Activities:</b>				
Equipment Leases	4.60%	\$ 5,973	4	<u>\$ -</u>
Total Governmental activities				<u><u>\$ -</u></u>
	<u>Discount Rate</u>	<u>Payable at Commencement</u>	<u>Lease Terms In Years</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>				
Equipment Leases	4.60%	\$ 23,894	4	<u>\$ -</u>
Total Business activities				<u><u>\$ -</u></u>

The annual requirements to amortize leases payable outstanding as of September 30, 2024 were \$0.

**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, 2024, \$876,296 was recognized as revenue for work performed directly associated with development agreements. During the fiscal year ended September 30, 2024, the City received an additional \$1,866,390 related to a 2024 development agreement.

The City has \$1.6 million in ARPA funds and the City has recorded it as unearned revenue. For the year ended September 30, 2024, the City recognized \$67,517 of revenue associated with costs reimbursable under the grant.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**G. Long-Term Liabilities**

The following is a summary of changes in the City’s total long-term liabilities for the year ended September 30, 2024 . In general, the City uses the debt service fund to liquidate certain governmental long-term liabilities.

	<u>Balance September 30, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2024</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Certificates of Obligation-Series 2014	\$ 1,190,000	\$ -	\$ (180,000)	\$ 1,010,000	\$ 185,000
Compensated absences	187,332	182,605	(187,332)	182,605	-
Leases payable	2,616	-	(2,616)	-	-
Subscription liability	-	27,394	(11,434)	15,960	11,815
<b>Total Governmental Obligations</b>	<u>\$ 1,379,948</u>	<u>\$ 209,999</u>	<u>\$ (381,382)</u>	<u>\$ 1,208,565</u>	<u>\$ 196,815</u>
<b>Business-type activities:</b>					
Certificates of Obligation-Series 2005	\$ 90,000	\$ -	\$ (45,000)	\$ 45,000	\$ 45,000
Certificates of Obligation-Series 2010	1,295,000	-	(100,000)	1,195,000	105,000
Revenue Bonds-Series 2012	2,415,000	-	(85,000)	2,330,000	90,000
Certificates of Obligation - Series 2017	8,030,000	-	(280,000)	7,750,000	290,000
General Obligation-Series 2021 - refunding	7,537,000	-	(492,000)	7,045,000	500,000
Total bonded indebtedness	<u>19,367,000</u>	<u>-</u>	<u>(1,002,000)</u>	<u>18,365,000</u>	<u>1,030,000</u>
Compensated absences	(43,511)	-	-	43,511	-
Leases payable	10,462	-	(10,462)	-	-
<b>Total Business-type Obligations</b>	<u>\$ 19,333,951</u>	<u>\$ -</u>	<u>\$ (1,012,462)</u>	<u>\$ 18,408,511</u>	<u>\$ 1,030,000</u>

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.

The principal and interest requirements related to these governmental contractual obligations at September 30, 2024, are as follows:

	<b>Governmental activities:</b>		
	Principal	Interest	Total
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	220,000	6,116	231,954
	<u>\$ 1,010,000</u>	<u>\$ 86,597</u>	<u>\$ 1,123,563</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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**G. Long-Term Liabilities (continued)**

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

**Business-type activities:**

	Principal	Interest	Total
2025	\$ 1,030,000	\$ 505,166	\$ 1,535,166
2026	1,067,000	482,870	1,549,870
2027	943,000	460,851	1,403,851
2028	971,000	441,474	1,412,474
2029	993,000	419,720	1,412,720
2030-2034	5,361,000	1,731,411	7,092,411
2035-2040	5,615,000	928,051	6,543,051
2041-2043	<u>2,385,000</u>	<u>187,880</u>	<u>2,572,880</u>
	<u>\$ 18,365,000</u>	<u>\$ 5,157,422</u>	<u>\$ 23,522,422</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.

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, 2024 was \$182,605 and business type activities was \$43,511.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**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 \$164,752 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.

For the year ended September 30, 2024, the amount required to be deposited in the interest and sinking fund equaled \$37,376. The City's actual account balance of \$83,864 was above this amount and is in compliance with the required covenant.

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, 2024, 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 \$174,815 in the water and sewer fund as of year ended September 30, 2024. 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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**J. Interfund Transactions**

Transfers between funds during the 2024 year were as follows:

	Transfers In		
	TIRZ Fund	Water Sewer	Total
Transfers Out:			
General Fund	\$ -	\$ (558,498)	\$ (558,498)
Debt Service	-	(428,904)	(428,904)
CDC	-	(107,496)	(107,496)
Water & Sewer	1,094,898	-	1,094,898
Total	\$ 1,094,898	\$ (1,094,898)	\$ -

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

**J. Interfund Transactions (continued)**

Due To and Due From between funds during the 2024 year were as follows:

Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water & Sewer	General	\$ 13,454,574
Water & Sewer	Debt Service	11,509
Water & Sewer	TIRZ	14,138
Water & Sewer	CDC	13,877
Payroll	Water & Sewer	10,977

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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (continued)**

**K. Subscription Based Information Technology Arrangements (SBITA)**

The City has entered into multiple SBITAs that allow the right to use the vendor’s information technology software over the subscription term. The City is required to make annual payments at its incremental borrowing rate or the interest rate stated or implied within the SBITAs. The SBITA rate, term, and ending subscription liability are as follows:

<b>GOVERNMENTAL ACTIVITIES:</b>	<b>Balance as of October 1, 2023</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance as of September 30, 2024</b>	<b>Interest Paid</b>	<b>Current</b>	<b>Long Term</b>
Subscription Liability							
Software							
Nexus Cloud	-	6,662	1,235	5,427	253	1,282	4,145
Financial ERP	-	20,732	10,199	10,533	678	10,533	-
Total Software Subscription Liability	-	27,394	11,434	15,960	931	11,815	4,145
Total Subscription Liability	-	27,394	11,434	15,960	931	11,815	4,145
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Subscription Liability							
Software							
Utility Billing Software	160,818	-	43,889	116,929	6,111	43,889	73,040
Total Software Subscription Liability	160,818	-	43,889	116,929	6,111	43,889	73,040
Total Subscription Liability	160,818	-	43,889	116,929	6,111	43,889	73,040

The following is a summary of changes in the City’s total SBITA for the year ended.

<b>GOVERNMENTAL ACTIVITIES:</b>	<b>Balance as of October 1, 2023</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance as of September 30, 2024</b>
Subscription Assets				
Software				
Nexus Cloud	-	8,140	-	8,140
Financial ERP	-	20,076	-	20,076
Total Software Subscription Assets	-	28,216	-	28,216
Total Subscription Assets	-	28,216	-	28,216
Subscription Accumulated Amortization				
Software				
Nexus Cloud	-	3,256	-	3,256
Financial ERP	-	10,038	-	10,038
Total Software Subscription Accumulated Amortization	-	13,294	-	13,294
Total Subscription Accumulated Amortization	-	13,294	-	13,294
Total General Fund Subscription Assets, Net	-	14,922	-	14,922
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Subscription Assets				
Software				
Utility Billing Software	219,750	-	-	219,750
Total Software Subscription Assets	219,750	-	-	219,750
Total Subscription Assets	219,750	-	-	219,750
Subscription Accumulated Amortization				
Software				
Utility Billing Software	65,925	43,950	-	109,875
Total Software Subscription Accumulated Amortization	65,925	43,950	-	109,875
Total Subscription Accumulated Amortization	65,925	43,950	-	109,875
Total Business Fund Subscription Assets, Net	153,825	(43,950)	-	109,875

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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.

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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 4 OTHER INFORMATION (continued)**

**C. Arbitrage (Continued)**

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.tmr.com](http://www.tmr.com).

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

**2. Benefits Provided**

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

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

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 2023</u>	<u>Plan Year 2022</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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 4 OTHER INFORMATION (continued)**

**D. Defined Benefit Pension Plans (continued)**

**Employees covered by benefit terms**

At the December 31, 2023, valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2023</u>
Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>53</u>
Total	<u>92</u>

**3. Contributions**

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

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

Employees for the City of 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 8.58% and 8.86% in calendar years 2024 and 2023, respectively. The City's contributions to TMRS for the year ended September 30, 2024, were \$293,634, and were equal to the required contributions.

**4. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2023, 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, 2023, 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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 4 OTHER INFORMATION (continued)**

**D. Defined Benefit Pension Plans (continued)**

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

**Actuarial assumptions (continued)**

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

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Global Equity	35.0%	6.70%
Core Fixed Income	6.0%	4.70%
Non-Core Fixed Income	20.0%	8.00%
Other Public and Private Markets	12.0%	8.00%
Real Estate	12.0%	7.60%
Hedge Funds	5.0%	6.40%
Private Equity	10.0%	11.60%
Total	100.0%	

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 4 OTHER INFORMATION (continued)**

**D Defined Benefit Pension Plans (continued)**

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

**Discount Rate**

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

**Sensitivity of the Net Pension Liability 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	\$ 1,725,604	\$ 434,893	\$ (612,904)

**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 12/31/2022	\$ 7,740,533	\$ 7,395,570	\$ 344,963
Changes for the year:			
Service cost	422,426	-	422,426
Interest	538,648	-	538,648
Changes in current period benefits	261,719		261,719
Difference between expected and actual experience	184,068	-	184,068
Contributions - employer	-	235,082	(235,082)
Contributions - employee	-	194,283	(194,283)
Net investment income	-	857,752	(857,752)
Change of assumptions	(35,297)	-	(35,297)
Benefit payments, including refunds of employee contributions	(466,984)	(466,984)	-
Administrative expense	-	(5,445)	5,445
Other changes	-	(38)	38
Net changes	904,580	814,650	89,930
Balance at 12/31/2023	\$ 8,645,113	\$ 8,210,220	\$ 434,893

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 4 OTHER INFORMATION (continued)**

**D Defined Benefit Pension Plans (continued)**

**Pension Plan Fiduciary Net Position**

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

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

For the year ended September 30, 2024, the city recognized pension expense of \$395,562.

At September 30, 2024, 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	\$ 197,499	\$ -
Differences between expected and actual economic experience	-	(45,441)
Differences in assumptions changes	-	(22,320)
Contributions subsequent to the measurement date	217,817	-
Total	\$ 415,316	\$ (67,761)

The City reported \$217,817 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, 2025. 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
2024	\$ (45,064)
2025	96,217
2026	150,292
2027	(71,707)
2028	-
Thereafter	-
Total	\$ 129,738

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

	2023
Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	15
Active employees	53
Total	92

The City’s contributions to the TMRS SDBF for the fiscal years ended 2024, 2023 and 2022 were \$5,308, \$8,178, and \$3,157, respectively, which equaled the required contributions each year.

**Schedule of Contribution Rates**

**(Retiree-only portion of the rate)**

Plan/ Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2024	0.46%	0.17%
2023	0.39%	0.17%

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**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, 2023, 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, 2023, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85%, including inflation per year
Discount rate	3.77%
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 3.77% and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

**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 2.77%	Current Discount Rate 3.77%	1% Increase 4.77%
\$ 181,430	\$ 150,190	\$ 126,397

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 4 OTHER INFORMATION (continued)**

**E. Postemployment Benefits Other Than Pensions (continued)**

**Changes in the Total OPEB Liability:**

	<b>Total OPEB Liability</b>
Balance at 12/31/2022	\$ 128,005
Changes for the year:	
Service cost	9,714
Interest	5,285
Difference between expected and actual experience	3,645
Changes in assumptions	8,259
Benefit payments	<u>(4,718)</u>
Net changes	<u>22,185</u>
Balance at 12/31/2023	<u>\$ 150,190</u>

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

For the year ended September 30, 2024, the City recognized OPEB expense of \$7,136.

At September 30, 2024, 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	\$ 1,456	\$ -
Differences in assumptions changes	-	(21,642)
Contributions subsequent to the measurement date	<u>3,854</u>	<u>-</u>
Total	<u>\$ 5,310</u>	<u>\$ (21,642)</u>

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2024**

**NOTE 4 OTHER INFORMATION (continued)**

**E. Postemployment Benefits Other Than Pensions (continued)**

The City reported \$3,854 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, 2025. 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>
2024	\$ (3,917)
2025	(10,511)
2026	(5,758)
2027	-
2028	-
Thereafter	<u>-</u>
Total	<u>\$ (20,186)</u>

**F. Subsequent Events**

There were no other material subsequent events through April 9, 2025, the date the financial statements were issued.



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## **Required Supplementary Information**

For the fiscal year ended  
September 30, 2024



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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, 2024**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 2,250,000	\$ 2,250,000	\$ 2,546,332	\$ 296,332
Sales and beverage	4,300,000	4,300,000	4,628,376	328,376
Franchise	515,000	515,000	507,953	(7,047)
Garbage Collections	500,000	500,000	605,060	105,060
Municipal court fines	46,100	46,100	158,435	112,335
Building permits and fees	368,500	368,500	1,078,494	709,994
Grants and Contributions	-	-	122,117	122,117
Project development	-	-	-	-
Interest	215,000	215,000	1,277,588	1,062,588
Miscellaneous	36,000	36,000	23,061	(12,939)
Total revenues	8,230,600	8,230,600	10,947,416	2,716,816
<b>EXPENDITURES</b>				
Current:				
Administartion	1,078,850	1,078,850	1,034,355	44,495
Police Department	2,198,800	2,198,800	2,174,960	23,840
Streets, Drainage and Parks	661,300	661,300	622,615	38,685
Municipal Court	125,400	125,400	126,600	(1,200)
Community Development	594,300	594,300	582,528	11,772
Sanatation	485,000	485,000	555,416	(70,416)
Debt Service:				
Principal	45,000	45,000	13,829	31,171
Interest	4,613	4,613	931	3,682
Bond Agent Fees	500	500	-	500
Capital outlay:				
General government	1,912,000	1,912,000	534,767	1,377,233
Total expenditures	7,105,763	7,105,763	5,646,001	1,459,762
Excess (deficiency) of revenues over (under) expenditures	1,124,837	1,124,837	5,301,415	4,176,578
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	(558,498)	(558,498)
Total other financing sources and uses	-	-	(558,498)	(558,498)
Net change in fund balances	1,124,837	1,124,837	4,742,917	3,618,080
Fund balances - beginning	11,749,125	11,749,125	11,749,125	-
Fund balances - ending	\$ 12,873,962	\$ 12,873,962	\$ 16,492,042	\$ 3,618,080

**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	2023
<b>A. Total pension liability</b>										
Service cost	\$223,008	\$282,064	\$299,586	\$ 313,021	\$ 309,059	\$ 327,501	\$ 348,615	\$ 372,187	\$ 356,146	\$ 422,426
Interest	293,562	315,305	33,617	356,132	386,761	408,017	443,153	484,637	507,259	538,648
Change of benefit terms	-	-	-	-	-	-	-	-	-	261,719
Difference between expected and actual experience	(68,824)	(25,025)	(58,577)	(12,800)	(174,505)	(27,069)	20,464	(247,790)	(297,950)	184,068
Changes of assumptions	-	108,067	-	-	-	4,647	-	-	-	(35,297)
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)	(466,984)
<b>Net Change in Total Pension Liability</b>	286,509	508,453	244,553	490,866	285,559	517,602	601,499	400,871	241,867	904,580
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	7,740,533
<b>Total Pension Liability - Ending (a)</b>	<b>\$4,449,366</b>	<b>\$4,957,819</b>	<b>\$5,202,372</b>	<b>\$ 5,693,238</b>	<b>\$ 5,978,797</b>	<b>\$ 6,496,399</b>	<b>\$ 7,097,898</b>	<b>\$ 7,498,769</b>	<b>\$ 7,740,533</b>	<b>\$ 8,645,113</b>
<b>B. Plan Fiduciary Net Position</b>										
Contributions - employer	152,679.00	\$ 185,682	\$ 182,582	\$ 205,395	\$ 207,678	\$ 217,387	\$ 215,065	\$ 241,505	\$ 226,965	\$ 235,082
Contributions - employee	\$ 127,080	137,688	139,528	143,776	143,367	152,936	159,185	173,572	167,767	194,283
Net investment income	211,635	5,943	282,671	617,280	(157,381)	805,504	469,186	888,240	(576,766)	857,752
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)	(466,984)
Administrative expense	(2,209)	(\$3,619)	(\$3,191)	(3,197)	(3,039)	(4,546)	(3,035)	(4,107)	(4,990)	(5,445)
Other changes	(182)	(\$179)	(\$172)	(165)	(155)	(137)	(118)	28	5,955	(38)
<b>Net Change in Plan Fiduciary Net Position</b>	\$327,766	153,557	271,345	797,602	(45,286)	975,650	629,550	1,091,077	(504,657)	814,650
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	7,900,226	7,395,569
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 4,026,734.00</b>	<b>\$4,180,292</b>	<b>4,451,637</b>	<b>5,249,239</b>	<b>5,203,953</b>	<b>6,179,603</b>	<b>6,809,153</b>	<b>7,900,226</b>	<b>7,395,569</b>	<b>8,210,219</b>
<b>C. Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 422,632</b>	<b>\$777,527</b>	<b>\$ 750,735</b>	<b>\$ 443,999</b>	<b>\$ 774,844</b>	<b>\$ 316,796</b>	<b>\$ 288,745</b>	<b>\$ (401,457)</b>	<b>\$ 344,964</b>	<b>\$ 434,894</b>
<b>D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	90.50%	84.32%	85.57%	92.20%	87.04%	95.12%	95.93%	105.35%	95.54%	94.97%
<b>E. Covered Employee Payroll</b>	1,815,436	\$ 1,966,971	\$ 1,993,255	\$ 2,053,946	\$ 2,048,105	\$ 2,184,798	\$ 2,274,069	\$ 2,479,594	\$ 2,396,678	\$ 2,523,261
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	23.28%	39.53%	37.66%	21.62%	37.83%	14.50%	12.70%	-16.19%	14.39%	17.24%

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>	<u>2024</u>
Actuarially Determined Contribution	179,618	189,370	199,869	206,803	216,995	206,723	239,320	241,505	226,965	213,720
Contributions in relation to the actuarially determined contribution	<u>(179,618)</u>	<u>(189,370)</u>	<u>(199,869)</u>	<u>(206,803)</u>	<u>(216,995)</u>	<u>(206,723)</u>	<u>(239,320)</u>	<u>(241,505)</u>	<u>(226,965)</u>	<u>(213,720)</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
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	2,592,651
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%	8.24%

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:**

Inflation 2.50%  
Salary Increases 3.60% to 11.85% including inflation  
Investment Rate of Return 6.75%, net of pension plan investment expense, including inflation

**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>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>Total OPEB liability</b>					
Service cost	\$ 5,025	\$ 7,504	\$ 8,927	\$ 12,463	\$ 9,714
Interest	4,017	3,925	3,485	3,522	5,285
Difference between expected and actual experience	2,455	(1,665)	186	(2,293)	3,645
Changes of assumptions	22,746	23,336	6,074	(69,292)	8,259
Refunds of Participant Contributions	(874)	(1,137)	(3,471)	(3,116)	(4,718)
<b>Net Change in Total OPEB Liability</b>	<u>33,369</u>	<u>31,963</u>	<u>15,201</u>	<u>(58,716)</u>	<u>22,185</u>
Total OPEB Liability - Beginning	106,188	139,557	171,520	186,721	128,005
<b>Total OPEB Liability - Ending</b>	<u>\$ 139,557</u>	<u>\$ 171,520</u>	<u>\$ 186,721</u>	<u>\$ 128,005</u>	<u>\$ 150,190</u>
<b>Covered Employee Payroll</b>	\$ 2,184,798	\$ 2,274,069	\$ 2,479,594	\$ 2,396,678	\$ 2,523,261
<b>Total OPEB Liability as a percentage of Covered Payroll</b>	6.39%	7.54%	7.53%	5.34%	5.95%

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, 2024



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**City of Willis, Texas**  
**Water and Sewer**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual**  
**For the Year Ended September 30, 2024**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for sales and services:				
Water sales	\$ 2,625,000	\$ 2,625,000	\$ 2,821,364	\$ 196,364
Sewer charges	1,655,000	1,655,000	1,860,656	205,656
Grant revenue and charges for services	54,000	54,000	121,654	67,654
Project development	-	-	867,296	867,296
Miscellaneous services	24,500	24,500	61,534	37,034
Total Operating Revenue	4,358,500	4,358,500	5,732,504	1,374,004
<b>OPERATING EXPENSES</b>				
Costs of sales and services:				
Wastewater treatment	732,450	732,450	500,234	232,216
Water production	844,300	844,300	787,397	56,903
Water distribution	576,450	576,450	529,458	46,992
Waterwaster collections	895,500	895,500	908,732	(13,232)
Utility billing	218,400	218,400	204,941	13,459
Depreciation and amortization	-	-	1,348,838	(1,348,838)
Total Operating Expenses	3,267,100	3,267,100	4,279,600	(1,012,500)
Operating Income/(Loss)	1,091,400	1,091,400	1,452,904	361,504
<b>NONOPERATING REVENUES/(EXPENSES)</b>				
Interest expense	885,431	885,431	(516,785)	368,646
Total nonoperating revenue (expenses)	885,431	885,431	(516,785)	368,646
Income (loss) before transfers	1,976,831	1,976,831	936,119	1,040,712
Transfers in/(out)	-	-	686,877	686,877
Change in Net Position	1,976,831	1,976,831	1,622,996	(353,835)
Net Position - Beginning	6,609,397	6,609,397	6,609,397	-
Net Position - Ending	\$ 8,586,228	\$ 8,586,228	\$ 8,232,393	\$ (353,835)

**City of Willis, Texas**  
**Debt Service**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual**  
**For the Year Ended September 30, 2024**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Property Tax	\$ 495,000	\$ 495,000	\$ 569,125	\$ 74,125
Interest	5,100	5,100	244	(4,856)
Total revenues	<u>500,100</u>	<u>500,100</u>	<u>569,369</u>	<u>69,269</u>
<b>EXPENDITURES</b>				
Current:				
Principal	492,000	492,000	180,000	(312,000)
Interest	149,986	149,986	33,482	(116,504)
Bond Agent Fees	500	500	-	500
Total expenditures	<u>642,486</u>	<u>642,486</u>	<u>213,482</u>	<u>(428,004)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(142,386)</u>	<u>(142,386)</u>	<u>355,887</u>	<u>(358,735)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(428,904)	(428,904)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(428,904)</u>	<u>(428,904)</u>
Net change in fund balances	(142,386)	(142,386)	(73,017)	(69,369)
Fund balances - beginning	250,038	250,038	250,038	-
Fund balances - ending	<u>\$ 107,652</u>	<u>\$ 107,652</u>	<u>\$ 177,021</u>	<u>\$ (69,369)</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, 2024**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Sales	\$ 1,000,000	\$ 1,000,000	\$ 1,061,147	\$ 61,147
Interest	50,000	50,000	124,585	74,585
Total revenues	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,185,732</u>	<u>135,732</u>
<b>EXPENDITURES</b>				
Current:				
Administration	1,046,995	1,046,995	161,940	885,055
Total expenditures	<u>1,046,995</u>	<u>1,046,995</u>	<u>161,940</u>	<u>885,055</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,005</u>	<u>3,005</u>	<u>1,023,792</u>	<u>1,020,787</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Total other financing sources and uses	<u>(107,496)</u>	<u>(107,496)</u>	<u>(107,496)</u>	<u>-</u>
Net change in fund balances	(104,491)	(104,491)	916,296	1,020,787
Fund balances - beginning	2,952,349	2,952,349	2,952,349	-
Fund balances - ending	<u>\$ 2,847,858</u>	<u>\$ 2,847,858</u>	<u>\$ 3,868,645</u>	<u>\$ 1,020,787</u>



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## **Combining Nonmajor Fund Financial Statements**

For the fiscal year ended  
September 30, 2024



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**City of Willis, Texas  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2024**

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Hotel Tourism Tax</u>	<u>Tax Increment Reinvestment Zone (TIRZ)</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	400,646	1,780,648	\$ 188,530	\$ 2,369,824
Accounts receivable	-	-	33,703	33,703
Due from other funds	-	-14,138	-	(14,138)
Total assets	<u>400,646</u>	<u>1,766,510</u>	<u>222,233</u>	<u>2,389,389</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	-	7,345	-	7,345
Due to other funds	-	-	11,509	11,509
Total liabilities	<u>-</u>	<u>7,345</u>	<u>11,509</u>	<u>18,854</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-property tax	-	-	33,703	33,703
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>33,703</u>	<u>33,703</u>
Fund balances:				
Assigned to:				
Debt service	-	-	177,021	177,021
Tourism	400,646	-	-	400,646
TIRZ	-	1,759,165	-	1,759,165
Total fund balances	<u>400,646</u>	<u>1,759,165</u>	<u>177,021</u>	<u>2,336,832</u>
Total liabilities and fund balances	<u>\$ 400,646</u>	<u>\$ 1,766,510</u>	<u>\$ 222,233</u>	<u>\$ 2,389,389</u>

**City of Willis, Texas**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2024**

	<u>Special Revenues Funds</u>			<u>Total</u>
	<u>Hotel Tourism Tax</u>	<u>Tax Increment Reinvestment Zone (TIRZ)</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>
<b>REVENUES</b>				
Property tax	\$ -	\$ 122,191	\$ 569,125	\$ 691,316
Hotel Tax	33,517	-		33,517
Interest	189	81,795	244	82,228
	<u>33,706</u>	<u>203,986</u>	<u>569,369</u>	<u>807,061</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	9,890	-	9,890
Debt Service:				
Principal	-	-	180,000	180,000
Interest and fiscal charges	-	-	33,482	33,482
Total expenditures	<u>-</u>	<u>9,890</u>	<u>213,482</u>	<u>223,372</u>
Excess (deficiency) of revenues over (under) expenditures	<u>33,706</u>	<u>194,096</u>	<u>355,887</u>	<u>583,689</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	408,021	-	408,021
Transfers out	-		(428,904)	(428,904)
Total other financing sources and uses	<u>-</u>	<u>408,021</u>	<u>(428,904)</u>	<u>(20,883)</u>
Net change in fund balances	33,706	602,117	(73,017)	562,806
Fund balances - beginning	366,940	1,157,048	250,038	1,774,026
Fund balances - ending	<u>\$ 400,646</u>	<u>\$ 1,759,165</u>	<u>\$ 177,021</u>	<u>\$ 2,336,832</u>



## **Compliance and Internal Control Section**

For the fiscal year ended  
September 30, 2024



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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, 2024, 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 April 9, 2025.

### **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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2024-03 that we consider to be a material weakness.

*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. We consider the deficiencies described in the accompanying schedule of findings and responses as items, 2024-01 and 2024-02 to be significant deficiencies.

### **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.

## City of Willis, Texas' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Willis, Texas' response to the findings identified in our audit and described in the accompanying schedule of findings and responses. City of Willis, Texas' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## 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.

A handwritten signature in black ink that reads "Vail + Park, P.C." The signature is written in a cursive style and is enclosed within a dashed rectangular border.

Frisco, Texas  
April 9, 2025

**City of Willis**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2024**

**Finding No. 2024-01: Inadequate internal controls over the Payroll**

**Type of Finding:** Significant Deficiency

**Criteria:** The files of pre-existing employees lack offer letters, as these were only implemented after 2020. During the period when a financial analyst managed onboarding, offer letters were not created for new hires, and only verbal offers were extended.

**Recommendations:** The City should establish a standardized onboarding process that includes the creation and retention of offer letters for all new hires. Additionally, offer letters should be retroactively created and filed for existing employees to ensure complete and consistent documentation.

**Management's responses:** Management acknowledges the significant deficiency in payroll documentation. This finding has been rectified as in early fiscal year 2024 the City established a human resources coordinator position to ensure that proper onboarding takes place. These human resources coordinator position was then reclassified to human resources director in late fiscal year 2024. Having a city staff person dedicated to all human resources functions, processes, and procedures will ensure that this finding does not occur in the future.

**Finding No. 2024-02: Subscription-based Information Technology Arrangements (SBITA)**

**Type of Finding:** Significant Deficiency

**Criteria:** The City has not implemented GASB 96.

**Recommendations:** The City shall evaluate software subscription contracts to determine if they fall under the purview of GASB 96. This involves understanding each element and component of the contract to decide if capitalizing the contract cost is appropriate.

**Management's responses:** Management acknowledges the significant deficiency due to the lack of implementation of GASB 96 and commits to evaluating software subscription contracts to determine their applicability under GASB 96. This evaluation will involve a thorough understanding of each contract's elements and components to decide if capitalizing the contract cost is appropriate. Management will ensure that all relevant personnel are trained on GASB 96 requirements and will establish regular reviews to maintain compliance.

**Finding No. 2024-03: Inadequate internal controls over the inter-fund activities and related accounts**

**Type of Finding:** Material weakness

**Criteria:** Management does not have procedures to ensure inter-fund activities are correctly reconciled, and due to and due from accounts balance at fiscal year-end.

**Recommendations:** We recommend that the management develop clear policies and procedures, including review and approval, to ensure due to and due from accounts balance are properly budgeted for.

**Management's responses:** Management will create an accounting policy to address how inter-fund activities, including transfers in and out and due to and from accounts, will be treated, as well as review and approval of account reconciliation as part of the financial statement close process

**City of Willis**  
**Schedule of Prior Year Findings and Responses**  
**For the Year Ended September 30, 2024**

**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 GASB 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.

**Auditors' responses:** The City addressed this finding so there is no matter to report in this finding.

**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.

**Auditors' responses:** The City addressed this finding so there is no matter to report in this finding.

**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.

**Auditors' responses:** The City addressed this finding so there is no matter to report in this finding.