

ANNUAL FINANCIAL REPORT

of the

City of Willis, Texas

**For the Year Ended
September 30, 2018**

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City of Willis, Texas

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September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Willis, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.G. to the financial statements, the City has restated beginning fund balance/net position within governmental and business-type activities due to the implementation of GASB No. 75. In addition, the City also restated beginning net position/fund balance within governmental activities and business-type activities to correct accounting errors. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, schedule of changes in other postemployment benefits liability and related ratios, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Willis, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, slightly stylized font.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
April 11, 2019

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2018

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Willis's financial activities for the year ending September 30, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as an MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Financial Highlights

- The City's total combined net position was \$9,630,915 at September 30, 2018.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,104,074, an increase of \$455,849.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,072,635 or 27% of total general fund expenditures.
- The City had an overall increase in net position of \$1,505,175.
- The City's net pension liability totaled \$443,896 at yearend.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City of Willis. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City of Willis's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

position may serve as a useful indicator of whether the financial position of the City of Willis is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

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

1. Governmental Activities - Most of the City's basic services are reported here, including general government, public safety (police, municipal court); and culture and recreation. Sales tax, property tax, franchise & local taxes, municipal court fee and fines, permit fees and code enforcement fines, and sanitation fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services. These services, the City's water distribution, construction, and wastewater collection/treatment are reported here.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

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, which is considered to be the only major fund.

The City of Willis adopts an annual appropriated budget for its general, debt service, hotel tax, economic development corporation, and community development corporation funds. Budgetary comparison schedules have been provided for the general and major special revenue funds to demonstrate compliance with each budget.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, 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 three component units. The Willis Community Development Corporation and the Willis Economic Development Corporation are both discretely presented component units displayed on the government-wide financial statements. The Willis Tax Increment Financing Zone No. 1 is considered a blended component unit and presented as a special revenue fund of the City.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund, schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System. RSI can be found after the basic financial statements.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Willis, assets exceed liabilities by \$9,630,915 as of September 30, 2018, in the primary government.

The largest portion of the City's net position, \$8,673,065, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 2,526,981	\$ 10,281,551	\$ 12,808,532	\$ 1,925,083	\$ 10,885,422	\$ 12,810,505
Capital assets, net	8,027,942	17,659,291	25,687,233	8,608,286	17,223,780	25,832,066
Total Assets	10,554,923	27,940,842	38,495,765	10,533,369	28,109,202	38,642,571
Deferred Outflows of Resources	161,019	94,750	255,769	316,269	142,412	458,681
Other liabilities	332,614	340,326	672,940	208,640	826,587	1,035,227
Long-term liabilities	4,296,266	23,951,079	28,247,345	5,003,698	24,848,609	29,852,307
Total Liabilities	4,628,880	24,291,405	28,920,285	5,212,338	25,675,196	30,887,534
Deferred Inflows of Resources	154,728	45,606	200,334	68,623	19,355	87,978
Net Position:						
Net investment in capital assets	5,432,942	3,240,123	8,673,065	5,844,807	2,356,125	8,200,932
Restricted	645,014	-	645,014	462,794	-	462,794
Unrestricted	(145,622)	458,458	312,836	(738,924)	200,938	(537,986)
Total Net Position	\$ 5,932,334	\$ 3,698,581	\$ 9,630,915	\$ 5,568,677	\$ 2,557,063	\$ 8,125,740

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Current and other assets for governmental activities increased by \$601,898 primarily due to the increased cash on hand, resulting from the increase in net position. Other liabilities for business-type activities decreased by \$486,261 primarily due to the decrease in unearned revenue relating to advanced funding. Total long-term liabilities decreased by \$1,604,962 primarily due to principal payments made in the current year.

Statement of Activities:

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

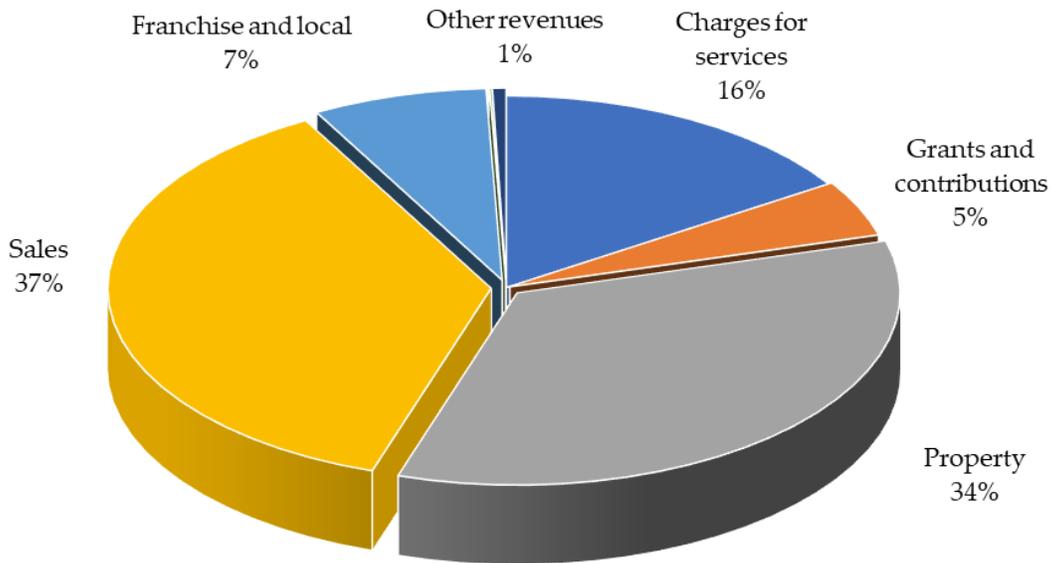
	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 802,671	\$ 2,994,285	\$ 3,796,956	\$ 1,041,996	\$ 2,231,579	\$ 3,273,575
Grants and contributions	238,823	878,185	1,117,008	395,668	1,792,722	2,188,390
General revenues:						
Property	1,735,697	-	1,735,697	1,534,867	-	1,534,867
Sales	1,865,197	-	1,865,197	1,715,227	-	1,715,227
Franchise and local	371,939	-	371,939	350,038	-	350,038
Interest	5,138	160,144	165,282	1,950	34,285	36,235
Other revenues	28,863	146,880	175,743	41,054	16,137	57,191
Total Revenues	5,048,328	4,179,494	9,227,822	5,080,800	4,074,723	9,155,523
Expenses						
General government	755,996	-	755,996	668,939	-	668,939
Community development	284,368	-	284,368	281,231	-	281,231
Public safety	1,722,965	-	1,722,965	1,698,489	-	1,698,489
Sanitation	280,079	-	280,079	265,394	-	265,394
Street	1,100,977	-	1,100,977	947,998	-	947,998
Water & sewer	-	2,599,059	2,599,059	-	2,760,117	2,760,117
Interest and fiscal charges	139,467	839,736	979,203	177,077	628,215	805,292
Total Expenses	4,283,852	3,438,795	7,722,647	4,039,128	3,388,332	7,427,460
Change in Net Position						
Before Transfers	764,476	740,699	1,505,175	1,041,672	686,391	1,728,063
Transfers	(400,819)	400,819	-	581,831	(581,831)	-
Total	(400,819)	400,819	-	581,831	(581,831)	-
Change in Net Position	363,657	1,141,518	1,505,175	1,623,503	104,560	1,728,063
Beginning Net Position	5,568,677	2,557,063	8,125,740	3,945,174	2,452,503	6,397,677
Ending Net Position	\$ 5,932,334	\$ 3,698,581	\$ 9,630,915	\$ 5,568,677	\$ 2,557,063	\$ 8,125,740

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

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 function revenues of the City:

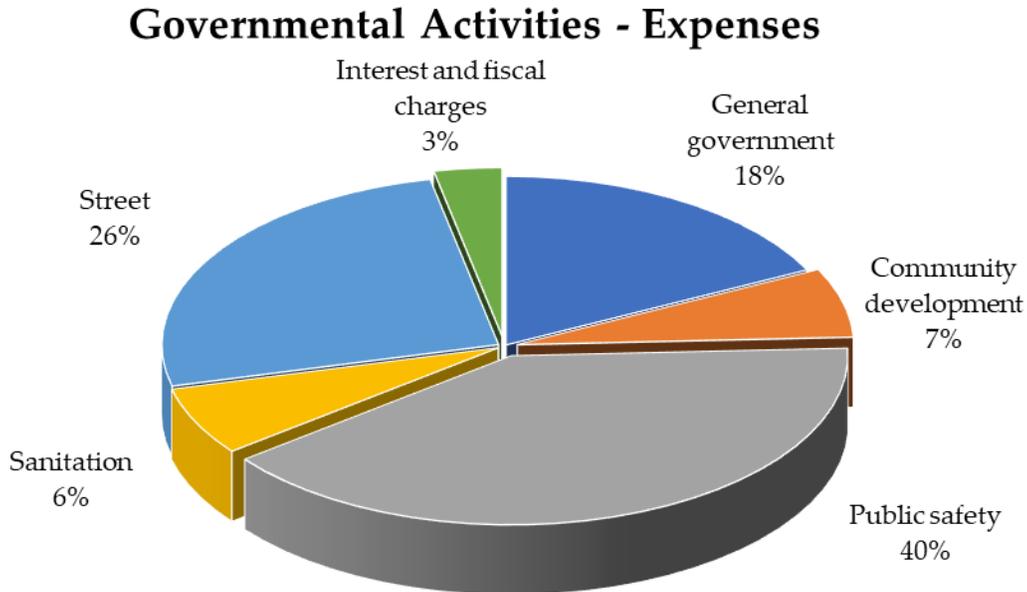
Governmental Activities - Revenues



For the year ended September 30, 2018, revenues from governmental activities totaled \$5,048,328. Sales taxes, property taxes, and charges for services are the City's largest revenue sources. Property tax revenue increased \$200,830 or 13% due to an increase in property tax rates and assessed values of the local properties. Sales tax revenue increased by \$149,970 or 9% due to increased economic growth. Charges for services decreased by \$239,325 or 23% as a result of significant nonrecurring federal seizure revenue recognized in the prior year. Grants and contributions decreased by \$156,845 or 40% due to several nonrecurring grants received in the prior year. All other revenues remained relatively stable when compared to the previous year.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

This graph shows the governmental function expenses of the City:

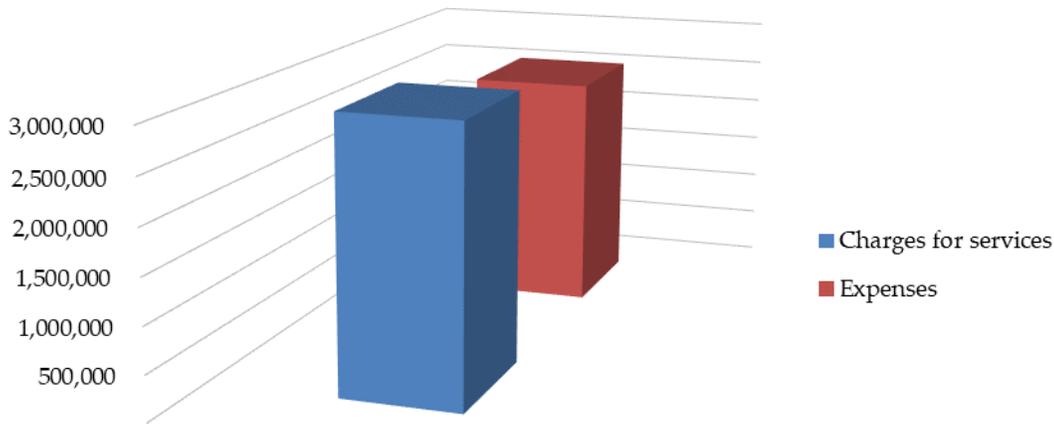


For the year ended September 30, 2018, expenses for governmental activities totaled \$4,283,852. This represents an increase of \$244,724 or 6% from the prior year. The City's largest functional expenses are general government of \$755,996, public safety of \$1,722,965, and street expenditures of \$1,100,977. General government expenses increased by \$87,057 or 13% due primarily to an increase in salaries, office operations, and local election related expenses. Street expenses increased by \$152,979 or 16% primarily due to depreciation on capital assets. Interest expenses decreased by \$37,610 or 21% primarily as a result long-term debt approaching maturity dates. All other expenses remained relatively consistent with the previous year.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

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

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2018, charges for services by business-type activities totaled \$2,994,285. This is an increase of \$762,706 or 34% from the previous year. The primary reason for this increase is due to an increase in the utility rates. Grants and contributions decreased by \$914,537 or 51% due to increased funding from the San Jacinto River Authority for the construction of cooling towers in the prior year.

Total expenses increased \$50,463 or 1%. This slight increase is due to a combination of a decrease in legal, salaries, and water distribution expenses. In addition, interest and fiscal charges increased by \$211,521 as a result of new bond issuances in the prior year. All other expenses remained relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$1,604,629, \$1,072,635 of which is unassigned. Unassigned fund balance equaled 27% of total annual general fund expenditures.

City of Willis, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

The general fund had an increase in fund balance of \$419,198 during the year. This increase is primarily a result of revenues exceeding expenditures and transfers out during the current year.

Overall there was an increase in governmental fund balance of \$455,849 over the prior year. This was the result of increases in the general fund, as mentioned above, an increase in the nonmajor hotel tax fund of \$28,141, a decrease in the nonmajor TIRZ fund of \$1,698, and an increase in the nonmajor debt service fund of \$10,208.

Proprietary Funds - 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

There was a total positive budget variance of \$540,692 in the general fund. Revenues had a positive variance for the year of \$533,399, combined with a negative expenditure variance of \$11,937. Other financing sources had a positive budget variance of \$19,230.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$8,027,942 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$17,659,291 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Improvements to MLK Park pavilion for \$67,679.
- Addition to CDBG water plant of \$74,497.
- Purchase of meter registers for \$62,858.
- Purchase of new vehicles and equipment totaling \$197,969.
- Wastewater treatment plant expansion and rehabilitation totaling \$466,369.
- US 75 North lift station of \$677,789.
- The City sold an old museum building for \$134,964 during the year. The net book value of the building at the time of sale was \$99,917.

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

City of Willis, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

LONG-TERM DEBT

At the end of the current year, the City had total bonds and notes payables outstanding of \$27,423,775. Principal payments on debt obligations totaled \$1,303,395 during the year. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Willis and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of 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.

FINANCIAL STATEMENTS

City of Willis, Texas
STATEMENT OF NET POSITION
September 30, 2018

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,843,295	\$ 7,797	\$ 1,851,092
Restricted cash	-	9,520,664	9,520,664
Investments	143,591	214,295	357,886
Receivables, net	539,795	463,423	1,003,218
Inventory	-	75,372	75,372
Deposits	300	-	300
Total Current Assets	<u>2,526,981</u>	<u>10,281,551</u>	<u>12,808,532</u>
Capital assets:			
Non-depreciable	501,913	773,086	1,274,999
Depreciable, net	7,526,029	16,886,205	24,412,234
Total Noncurrent Assets	<u>8,027,942</u>	<u>17,659,291</u>	<u>25,687,233</u>
Total Assets	<u>10,554,923</u>	<u>27,940,842</u>	<u>38,495,765</u>
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	-	47,290	47,290
OPEB contributions	360	106	466
OPEB (gains) losses	5,745	1,693	7,438
Pension contributions	121,528	35,820	157,348
Pension assumption changes	33,386	9,841	43,227
Total Deferred Outflows of Resources	<u>161,019</u>	<u>94,750</u>	<u>255,769</u>
<u>Liabilities</u>			
Accounts payable and accrued liabilities	332,614	233,354	565,968
Customer deposits	-	106,972	106,972
Total Current Liabilities	<u>332,614</u>	<u>340,326</u>	<u>672,940</u>
Noncurrent liabilities:			
Pension liability	342,843	101,053	443,896
OPEB liability	87,243	25,715	112,958
Due within one year	450,838	928,345	1,379,183
Due in more than one year	3,415,342	22,895,966	26,311,308
	<u>4,296,266</u>	<u>23,951,079</u>	<u>28,247,345</u>
Total Liabilities	<u>4,628,880</u>	<u>24,291,405</u>	<u>28,920,285</u>
<u>Deferred Inflows of Resources</u>			
Pension investment earnings	103,422	30,484	133,906
Pension (gains) losses	51,306	15,122	66,428
Total Deferred Inflows of Resources	<u>154,728</u>	<u>45,606</u>	<u>200,334</u>
<u>Net Position</u>			
Net investment in capital assets	5,432,942	3,240,123	8,673,065
Restricted for:			
Debt service	79,289	-	79,289
Tourism	309,565	-	309,565
Community development	110,591	-	110,591
PEG fees	79,289	-	79,289
Public safety	66,280	-	66,280
Economic development	-	-	-
Unrestricted	(145,622)	458,458	312,836
Total Net Position	<u>\$ 5,932,334</u>	<u>\$ 3,698,581</u>	<u>\$ 9,630,915</u>

See Notes to Financial Statements.

Component Units	
Community Development Corporation	Economic Development Corporation
\$ 942,666	\$ 467,957
-	-
822,894	550,171
109,650	109,650
-	-
-	-
<u>1,875,210</u>	<u>1,127,778</u>
-	-
-	-
<u>-</u>	<u>-</u>
<u>1,875,210</u>	<u>1,127,778</u>
-	-
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
3,062	4,367
-	-
<u>3,062</u>	<u>4,367</u>
-	-
-	-
23,377	23,377
156,707	156,707
<u>180,084</u>	<u>180,084</u>
<u>183,146</u>	<u>184,451</u>
-	-
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
-	-
-	-
1,692,064	-
-	-
-	-
-	943,327
<u>-</u>	<u>-</u>
<u>\$ 1,692,064</u>	<u>\$ 943,327</u>

City of Willis, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 755,996	\$ -	\$ 238,823
Community development	284,368	187,668	-
Public safety	1,722,965	308,823	-
Sanitation	280,079	306,180	-
Street	1,100,977	-	-
Interest and fiscal charges	139,467	-	-
Total Governmental Activities	4,283,852	802,671	238,823
Business-Type Activities			
Water & Sewer	3,438,795	2,994,285	878,185
Total Business-Type Activities	3,438,795	2,994,285	878,185
Total Primary Government	\$ 7,722,647	\$ 3,796,956	\$ 1,117,008
Component Units			
Community development	566,182	-	-
Economic development	578,189	-	-
Total Component Units	\$ 1,144,371	-	\$ -

General Revenues:

Taxes:
Property
Sales
Franchise and local
Interest
Insurance proceeds
Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Community Development Corporation	Economic Development Corporation
\$ (517,173)	\$ -	\$ (517,173)	\$ -	\$ -
(96,700)	-	(96,700)	-	-
(1,414,142)	-	(1,414,142)	-	-
26,101	-	26,101	-	-
(1,100,977)	-	(1,100,977)	-	-
(139,467)	-	(139,467)	-	-
<u>(3,242,358)</u>	<u>-</u>	<u>(3,242,358)</u>	<u>-</u>	<u>-</u>
-	433,675	433,675	-	-
-	433,675	433,675	-	-
<u>(3,242,358)</u>	<u>433,675</u>	<u>(2,808,683)</u>	<u>-</u>	<u>-</u>
			(566,182)	-
			-	(578,189)
			<u>(566,182)</u>	<u>(578,189)</u>
1,735,697	-	1,735,697	-	-
1,865,197	-	1,865,197	548,343	548,343
371,939	-	371,939	-	-
5,138	160,144	165,282	13,736	7,779
22,374	-	22,374	-	-
6,489	146,880	153,369	134,964	2,124
(400,819)	400,819	-	-	-
<u>3,606,015</u>	<u>707,843</u>	<u>4,313,858</u>	<u>697,043</u>	<u>558,246</u>
363,657	1,141,518	1,505,175	130,861	(19,943)
5,568,677	2,557,063	8,125,740	1,561,203	963,270
<u>\$ 5,932,334</u>	<u>\$ 3,698,581</u>	<u>\$ 9,630,915</u>	<u>\$ 1,692,064</u>	<u>\$ 943,327</u>

City of Willis, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General	Nonmajor	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 1,463,829	\$ 379,466	\$ 1,843,295
Investments	23,612	119,979	143,591
Receivables, net	532,547	7,248	539,795
Deposits	300	-	300
Total Assets	\$ 2,020,288	\$ 506,693	\$ 2,526,981
 <u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 312,537	\$ -	\$ 312,537
Total Liabilities	312,537	-	312,537
 <u>Deferred Inflows of Resources</u>			
Unavailalbe revenue-property tax	103,122	7,248	110,370
Total Deferred Inflows of Resources	103,122	7,248	110,370
 <u>Fund Balances</u>			
Restricted for:			
Tourism	-	309,565	309,565
Community development	-	110,591	110,591
Debt service	-	79,289	79,289
PEG fees	66,280	-	66,280
Public safety	465,714	-	465,714
Unassigned reported in:			
General fund	1,072,635	-	1,072,635
Total Fund Balances	1,604,629	499,445	2,104,074
Total Liabilities, Deferred Inflows and Fund Balances	\$ 1,917,166	\$ 499,445	\$ 2,416,611

See Notes to Financial Statements.

City of Willis, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2018

Fund Balances - Total Governmental Funds

\$ 2,104,074

Adjustments for the Statement of Net Position:

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

Capital assets - non-depreciable	501,913
Capital assets - net depreciable	7,526,029

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	110,370
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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	121,528
Pension assumption changes	33,386
OPEB contributions	360
OPEB (gains) losses	5,745

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 assumption changes and (gains) losses	(51,306)
Pension investment earnings	(103,422)

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

Accrued interest	(20,077)
Compensated absences	(137,405)
Net pension liability	(342,843)
OPEB liability	(87,243)
Non-current liabilities due in one year	(327,174)
Non-current liabilities due in more than one year	(3,401,601)

Net Position of Governmental Activities	\$ 5,932,334
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See Notes to Financial Statements.

City of Willis, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General	Nonmajor	Total Governmental Funds
Revenues			
Property tax	\$ 1,632,410	\$ 88,236	\$ 1,720,646
Sales tax	1,865,197	-	1,865,197
Franchise and local taxes	339,975	31,964	371,939
Permits and code enforcement	187,668	-	187,668
Sanitation	306,180	-	306,180
Intergovernmental	-	238,823	238,823
Fines and forfeitures	308,823	-	308,823
Interest	4,637	501	5,138
Other	6,489	-	6,489
Total Revenues	4,651,379	359,524	5,010,903
Expenditures			
Current:			
General government	561,866	1,041	562,907
Community development	293,117	-	293,117
Public safety	1,838,963	-	1,838,963
Sanitation	280,079	-	280,079
Court	100,053	-	100,053
Street	472,409	-	472,409
Debt Service:			
Principal	303,395	175,000	478,395
Interest and fiscal charges	58,234	88,257	146,491
Capital outlay	-	4,195	4,195
Total Expenditures	3,908,116	268,493	4,176,609
Excess of Revenues Over (Under) Expenditures	743,263	91,031	834,294
Other Financing Sources (Uses)			
Insurance proceeds	22,374	-	22,374
Transfers in	-	23,860	23,860
Transfers (out)	(346,439)	(78,240)	(424,679)
Total Other Financing Sources (Uses)	(324,065)	(54,380)	(378,445)
Net Change in Fund Balances	419,198	36,651	455,849
Beginning fund balances	1,185,431	462,794	1,648,225
Ending Fund Balances	\$ 1,604,629	\$ 499,445	\$ 2,104,074

See Notes to Financial Statements.

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, 2018

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

Net changes in fund balances - total governmental funds	\$ 455,849
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	288,353
Depreciation expense	(765,804)
Adjustment for sale of capital assets	(102,893)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	15,051
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(798)
Accrued interest	7,024
Pension expense	(4,328)
SDB OPEB liability	(7,192)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	<u>478,395</u>
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Change in Net Position of Governmental Activities	\$ <u><u>363,657</u></u>
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See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2018

		<u>Water & Sewer</u>
<u>Assets</u>		
Cash and cash equivalents	\$	7,797
Restricted cash		9,520,664
Investments		214,295
Receivables, net		463,423
Inventory		75,372
Capital assets:		
Non-depreciable capital assets		773,086
Depreciable capital assets, net		16,886,205
Total Capital Assets		<u>17,659,291</u>
Total Assets		<u>27,940,842</u>
<u>Deferred Outflows of Resources</u>		
Deferred charge on refunding		47,290
Pension contributions		35,820
Pension changes in assumptions		9,841
OPEB contributions		106
OPEB (gains) losses		1,693
Total Deferred Outflows of Resources		<u>94,750</u>
<u>Liabilities</u>		
Accounts payable and accrued liabilities		92,623
Accrued interest		140,731
Customer deposits		106,972
Noncurrent Liabilities:		
Pension liability		101,053
OPEB liability		25,715
Due within one year		928,345
Due in more than one year		22,895,966
Total Liabilities		<u>24,291,405</u>
<u>Deferred Inflows of Resources</u>		
Pension investment earnings		30,484
Pension (gains) losses		15,122
Total Deferred Inflows of Resources		<u>45,606</u>
<u>Net Position</u>		
Net investment in capital assets		3,240,123
Unrestricted		458,458
Total Net Position	\$	<u><u>3,698,581</u></u>

See Notes to Financial Statements.

City of Willis, Texas

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

For the Year Ended September 30, 2018

	<u>Water & Sewer</u>
<u>Operating Revenues</u>	
Water sales	\$ 1,758,594
Sewer revenue	1,054,756
Penalties and service charges	104,253
Tap fees	76,682
Intergovernmental revenue	146,880
Total Operating Revenues	<u>3,141,165</u>
 <u>Operating Expenses</u>	
Cost of water	399,864
Cost of sewer	556,053
Operating expenses	
Salary and wages	651,406
Depreciation	991,736
Total Operating Expenses	<u>2,599,059</u>
Operating Income (Loss)	<u>542,106</u>
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	160,144
Interest expense	(839,736)
Total Nonoperating Revenues (Expenses)	<u>(679,592)</u>
Income (Loss) Before Capital Contributions and Transfers	(137,486)
Capital contributions	878,185
Transfers in	420,786
Transfers (out)	(19,967)
Change in Net Position	<u>1,141,518</u>
Beginning net position	<u>2,557,063</u>
Ending Net Position	<u>\$ 3,698,581</u>

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2018

	Water & Sewer
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,799,933
Payments to employees	(643,713)
Payments to suppliers	(1,126,289)
Net Cash Provided (Used) by Operating Activities	1,029,931
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer in	420,786
Transfer (out)	(19,967)
Net Cash Provided (Used) by Noncapital Financing Activities	400,819
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital asset purchases	(1,427,247)
Capital contributions	878,185
Principal paid on debt	(825,000)
Interest paid on debt	(846,046)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,220,108)
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	(221)
Interest on investments	160,144
Net Cash Provided (Used) by Investing Activities	159,923
Net Increase (Decrease) in Cash and Cash Equivalents	(629,435)
Beginning cash and cash equivalents	10,157,896
Ending Cash and Cash Equivalents	\$ 9,528,461

See Notes to Financial Statements.

City of Willis, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2018

	Water & Sewer
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income (Loss)	\$ 542,106
Adjustments to reconcile operating income to net cash provided (used):	
Depreciation	991,736
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(6,565)
Inventory	(18,778)
Deferred Outflows of Resources:	
Pension contributions	(1,513)
Assumption changes	4,424
OPEB contributions	36
OPEB (gains)/losses	(1,693)
Increase (Decrease) in:	
Accounts payable	(153,452)
Customer deposits	1,858
Net pension liability	(64,086)
OPEB liability	3,778
Deferred Inflows of Resources:	
Actual experience vs. assumption	(4,233)
Investment experience	70,980
Advance funding	(334,667)
Net Cash Provided (Used) by Operating Activities	\$ 1,029,931

See Notes to Financial Statements.

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City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

I. 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 of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

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

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

The City operates under a "Council-Manager" government. All powers of the City shall be vested in an elective council, hereinafter referred to as the "Council," which shall enact local legislation, adopt budgets, determine policies, and appoint the City Attorney and the Judge of the Municipal Court. The Council shall also appoint the City Manager, who shall execute the laws and administer the government of the City. The City provides the following services as authorized by its charter: public safety (police), streets & roads, sanitation, water & sewer, culture-recreation, public improvements and administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities,

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

organizations, or functions as part of the City's financial reporting entity. The Willis Community Development Corporation ("CDC"), the Willis Economic Development Corporation ("EDC"), and the Tax Increment Reinvestment Zone No. 1 ("TIRZ") although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units

Willis Community Development Corporation

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

Willis Economic Development Corporation

The Willis Economic Development Corporation is governed by a board of five directors, all of whom are appointed by the City Council at its will. The EDC fund was incorporated in the state of Texas as a nonprofit industrial development corporation under Section 4A of the

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

Development Corporation Act of 1979. The purpose of the EDC is to promote economic and community development within the City of Willis. The Willis Economic Development Corporation also receives one half of one percent sales tax. The mission of the Willis Economic Development Corporation is to enhance and strengthen the local economy of Willis through the support and expansion of local businesses and the attraction of new businesses that will increase the tax basis of the local area, which is defined as land within the city limits and within one mile outside the city limits. This mission will be accomplished through (a) providing financial assistance as may be required, and permissible, to promote business opportunities and to provide expeditious assistance for expansion and entry into the Willis economy and (b) providing and supporting programs that enhance the quality of life for all Willis citizens.

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.

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

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

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 enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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 and public safety. The general service fund is considered a major fund for reporting purposes.

Proprietary Fund Types

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

Additionally, the government reports the following fund types:

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. These funds consist of the tax increment reinvestment zone no. 1, and hotel/motel tax.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Debt Service Fund

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

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., the enterprise 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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

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

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

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

2. Fair Value

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

3. Receivables and Interfund Transactions

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

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

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

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

City of Willis, Texas
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approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<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 FINANCIAL STATEMENTS, Continued
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7. Deferred Outflows/Inflows of Resources

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

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

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

8. Net Position Flow Assumption

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

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.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance.

Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

11. 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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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, 2018, the accrued and unpaid compensated absences liability was \$163,344.

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, 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.

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

13. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Other Postemployment Benefits (“OPEB”)

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (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.

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

General fund:	
Sanitation	\$ 10,079
Principal	\$ 303,395
Interest and fiscal charges	\$ 58,234
Transfers (out)	\$ 3,144
Debt service fund:	
Principal	\$ 72,050

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Interest and fiscal charges	\$ 57,015
Transfers (out)	\$ 78,240
Community development corporation fund:	
Community development	\$ 30,388
Economic development corporation fund:	
Economic development	\$ 228,791

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the primary government had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 357,886	0.59
External investment pools	341,857	0.12
Total fair value	\$ 699,743	
Portfolio weighted average maturity		0.36

As of September 30, 2018, the City's component units had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 1,373,065	0.15
External investment pools	764,350	0.12
Total fair value	\$ 2,137,415	
Portfolio weighted average maturity		0.14

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

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

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, 2018, the City's investment in TexSTAR was rated AAAM 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, 2018, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires 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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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B. Fair Value Measurement

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

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

The City's financial instruments consist of cash and cash equivalents, investments in certificates of deposits maturing in greater than three months, accounts receivable and accrued payables. The estimated fair value approximate their carrying amounts due to the short-term nature of these instruments.

C. Receivables

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

	General	Debt Service	Water & Sewer	Total
Property taxes	\$ 103,122	\$ 7,248	\$ -	\$ 110,370
Sales tax	378,580	-	-	378,580
Franchise taxes	50,845	-	-	50,845
Accounts	-	-	909,111	909,111
Allowance	-	-	(445,688)	(445,688)
	<u>\$ 532,547</u>	<u>\$ 7,248</u>	<u>\$ 463,423</u>	<u>\$ 1,003,218</u>

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

	Community Development Corporation	Economic Development Corporation	Total
Sales tax	\$ 109,650	\$ 109,650	\$ 219,300
	<u>\$ 109,650</u>	<u>\$ 109,650</u>	<u>\$ 219,300</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

D. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 482,044	\$ -	\$ -	\$ 482,044
Construction in process	9,999	9,870	-	19,869
Total capital assets not being depreciated	<u>492,043</u>	<u>9,870</u>	<u>-</u>	<u>501,913</u>
Capital assets, being depreciated:				
Buildings and improvements	1,499,333	12,835	(132,633)	1,379,535
Roads	8,955,340	-	-	8,955,340
Vehicles & equipment	1,359,385	197,968	(29,766)	1,527,587
Park improvements	255,108	67,680	-	322,788
Total capital assets being depreciated	<u>12,069,166</u>	<u>278,483</u>	<u>(162,399)</u>	<u>12,185,250</u>
Less accumulated depreciation				
Buildings and improvements	(673,955)	(49,177)	32,717	(690,415)
Roads	(2,065,464)	(632,772)	-	(2,698,236)
Vehicles & equipment	(1,119,166)	(75,140)	26,789	(1,167,517)
Park improvements	(94,338)	(8,715)	-	(103,053)
Total accumulated depreciation	<u>(3,952,923)</u>	<u>(765,804)</u>	<u>59,506</u>	<u>(4,659,221)</u>
Net capital assets being depreciated	<u>8,116,243</u>	<u>(487,321)</u>	<u>(102,893)</u>	<u>7,526,029</u>
Total Net Capital Assets	<u><u>\$ 8,608,286</u></u>	<u><u>\$ (477,451)</u></u>	<u><u>\$ (102,893)</u></u>	<u><u>\$ 8,027,942</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 82,025
Public safety	50,392
Streets	633,387
Total Governmental Activities Depreciation Expense	<u><u>\$ 765,804</u></u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 1,313,606	\$ 686,600	\$ (1,227,120)	\$ 773,086
Total capital assets not being depreciated	<u>1,313,606</u>	<u>686,600</u>	<u>(1,227,120)</u>	<u>773,086</u>
Capital assets, being depreciated:				
Water system	18,099,798	62,858	1,227,120	19,389,776
Sewer system	8,536,643	677,789	-	9,214,432
Equipment and equipment	939,092	-	-	939,092
Total capital assets being depreciated	<u>27,575,533</u>	<u>740,647</u>	<u>1,227,120</u>	<u>29,543,300</u>
Less accumulated depreciation				
Water system	(6,356,012)	(587,423)	-	(6,943,435)
Sewer system	(4,688,762)	(355,424)	-	(5,044,186)
Equipment and equipment	(620,585)	(48,889)	-	(669,474)
Total accumulated depreciation	<u>(11,665,359)</u>	<u>(991,736)</u>	<u>-</u>	<u>(12,657,095)</u>
Net capital assets being depreciated	<u>15,910,174</u>	<u>(251,089)</u>	<u>1,227,120</u>	<u>16,886,205</u>
Total Net Capital Assets	<u><u>\$ 17,223,780</u></u>	<u><u>\$ 435,511</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,659,291</u></u>

All depreciation was charged to the water and sewer fund.

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NOTES TO FINANCIAL STATEMENTS, Continued
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E. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds and other payables:					
Certificates of Obligation	\$ 2,770,000	\$ -	\$ (175,000)	\$ 2,595,000	\$ 180,000
Other liabilities:					
SHTC Developer Agreement	1,437,170	-	(303,395)	1,133,775	147,174
Compensated absences	136,607	798	-	137,405	123,664
Total Governmental Activities	<u>\$ 4,343,777</u>	<u>\$ 798</u>	<u>\$ (478,395)</u>	<u>\$ 3,866,180</u>	<u>\$ 450,838</u>
Long-term liabilities due in more than one year				<u>\$ 3,415,342</u>	
Business-Type Activities:					
Bonds, leases, and other payables:					
Revenue Bonds	\$ 2,880,000	\$ -	\$ (70,000)	\$ 2,810,000	\$ 75,000
General Obligation Refunding	2,965,000	-	(425,000)	2,540,000	440,000
Certificates of Obligation	18,675,000	-	(330,000)	18,345,000	390,000
Deferred amounts:					
Bond premium	115,594	-	(12,222)	103,372	-
Other liabilities:					
Compensated absences	25,939	-	-	25,939	23,345
Total Business-Type Activities	<u>\$ 24,661,533</u>	<u>\$ -</u>	<u>\$ (837,222)</u>	<u>\$ 23,824,311</u>	<u>\$ 928,345</u>
Long-term liabilities due in more than one year				<u>\$ 22,895,966</u>	
Discretely Presented Component Units:					
Other liabilities:					
SHTC Developer Agreement	\$ 635,770	\$ -	\$ (275,602)	\$ 360,168	\$ 46,754
Total Discretely Presented Component Units	<u>\$ 635,770</u>	<u>\$ -</u>	<u>\$ (275,602)</u>	<u>\$ 360,168</u>	<u>\$ 46,754</u>
Long-term liabilities due in more than one year				<u>\$ 313,414</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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
Certificates of Obligation - Series 2012	4.50%	\$ 800,000	\$ 615,000
Certificates of Obligation - Series 2014	2.78%	2,500,000	1,980,000
SHTC Developer Agreement	4.50%	2,029,500	1,133,775
Total Governmental Activities		\$ 5,329,500	\$ 3,728,775
Business-Type Activities:			
Revenue Bonds - Series 2012	0.45% - 3.40%	3,150,000	2,810,000
Certificates of Obligation - Series 2005	5.13%	600,000	275,000
Certificates of Obligation - Series 2010	1.00%	1,355,000	1,320,000
Certificates of Obligation - Series 2012A	3.50%	800,000	565,000
Certificates of Obligation - Series 2013	3.75% - 5.00%	5,800,000	5,800,000
Certificates of Obligation - Series 2016	1.19%	1,165,000	1,075,000
Certificates of Obligation - Series 2017	2.00 - 5.00%	9,500,000	9,310,000
General Obligation Refunding - Series 2013	2.00 - 4.00%	3,920,000	2,540,000
Total Business-Type Activities		\$ 26,290,000	\$ 23,695,000
Discretely Presented Component Units:			
SHTC Developer Agreement	4.50%	1,045,500	360,168
Total Long-Term Debt		\$ 32,665,000	\$ 27,783,943

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The annual requirements to amortize total government-wide debt issues outstanding at year ending were as follows:

Year ending September 30,	Certificates of Obligation Series 2012		Certificates of Obligation Series 2014		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 35,000	\$ 27,676	\$ 145,000	\$ 55,044	\$ 180,000	\$ 82,719
2020	35,000	26,100	150,000	51,014	185,000	77,114
2021	40,000	24,526	160,000	46,844	200,000	71,369
2022	40,000	22,726	165,000	42,396	205,000	65,121
2023	45,000	20,926	170,000	37,808	215,000	58,733
2024	45,000	18,900	180,000	33,082	225,000	51,982
2025	45,000	16,876	185,000	28,078	230,000	44,953
2026	50,000	14,850	195,000	22,936	245,000	37,786
2027	50,000	12,600	200,000	17,514	250,000	30,114
2028	55,000	10,350	210,000	11,954	265,000	22,304
2029	55,000	7,876	220,000	6,116	275,000	13,991
2030	60,000	5,400	-	-	60,000	5,400
2031	60,000	2,700	-	-	60,000	2,700
	<u>\$ 615,000</u>	<u>\$ 211,506</u>	<u>\$ 1,980,000</u>	<u>\$ 352,786</u>	<u>\$ 2,595,000</u>	<u>\$ 564,286</u>

Certificates of Obligation – Series 2012 issued February 2012, due in annual installments through March 2031, bearing interest of 4.50% payable February 1 and August 1.

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.

In 2010, the City entered a developer reimbursement agreement for the development of the Sam Houston Town Center. The total reimbursement amount was \$3,075,000 and was split between the City, EDC, & CDC. Interest accrues at 7.50% through September 1, 2012 and 4.50% thereafter. Payments are based on sales tax and property tax collected on the development. There is no stated allocation between the City, CDC, & EDC. The City's portion represents 50% of the sales tax and 100% of the property tax. The EDC & CDC represent the remaining sales tax reimbursement (50% or 25% each).

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

Year ending September 30,	Sam Houston Town Center		
	Principal	Interest	Total
2019	\$ 147,174	\$ 48,574	\$ 195,748
2020	153,909	41,839	195,748
2021	160,859	34,889	195,748
2022	168,315	27,434	195,749
2023	176,017	19,730	195,747
2024	184,073	11,675	195,748
2025	143,428	3,259	146,687
	<u>\$ 1,133,775</u>	<u>\$ 187,400</u>	<u>\$ 1,321,175</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

Year ending September 30,	Business-Type Activities		
	Revenue Bonds, Series 2012		
	Principal	Interest	Total
2019	\$ 75,000	\$ 85,461	\$ 160,461
2020	75,000	84,201	159,201
2021	80,000	82,753	162,753
2022	80,000	81,009	161,009
2023	85,000	79,129	164,129
2024	85,000	76,996	161,996
2025	90,000	74,752	164,752
2026	95,000	72,286	167,286
2027	95,000	69,607	164,607
2028	100,000	66,880	166,880
2029	105,000	63,960	168,960
2030	105,000	60,831	165,831
2031	110,000	57,671	167,671
2032	115,000	54,305	169,305
2033	115,000	50,728	165,728
2034	120,000	47,083	167,083
2035	125,000	43,195	168,195
2036	130,000	39,082	169,082
2037	135,000	34,753	169,753
2038	140,000	30,204	170,204
2039	140,000	25,472	165,472
2040	145,000	20,726	165,726
2041	150,000	15,810	165,810
2042	155,000	10,702	165,702
2043	160,000	5,446	165,446
	\$ 2,810,000	\$ 1,333,042	\$ 4,143,042

Revenue Bonds – Series 1995A issued February 1996, due in annual installments from August 1, 1997 through August 2016, bearing variable interest from 4.25% to 5.95% payable February 1 and August 1.

Revenue Bonds – Series 1995B issued February 1996, due in annual installments from August 1, 1997 through August 2016, bearing variable interest from 3.70% to 5.40% 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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Year ending September 30,	Business-Type Activities		
	Certificates of Obligation - Series 2005, 2010, 2012A, 2013, 2016, 2017, and GO Refunding 2013		
	Principal	Interest	Total
2019	\$ 830,000	\$ 735,364	\$ 1,565,364
2020	845,000	705,345	1,550,345
2021	875,000	674,675	1,549,675
2022	910,000	642,981	1,552,981
2023	915,000	605,185	1,520,185
2024	820,000	576,807	1,396,807
2025	845,000	557,232	1,402,232
2026	875,000	536,492	1,411,492
2027	755,000	516,113	1,271,113
2028	780,000	494,763	1,274,763
2029	805,000	469,763	1,274,763
2030	830,000	443,713	1,273,713
2031	860,000	416,913	1,276,913
2032	960,000	388,913	1,348,913
2033	995,000	351,938	1,346,938
2034	1,040,000	313,613	1,353,613
2035	1,085,000	272,013	1,357,013
2036	1,130,000	228,613	1,358,613
2037	1,180,000	183,413	1,363,413
2038	1,235,000	136,213	1,371,213
2039	540,000	86,813	626,813
2040	565,000	66,563	631,563
2041	590,000	45,375	635,375
2042	620,000	23,250	643,250
	\$ 20,885,000	\$ 9,472,055	\$ 30,357,055

Certificates of Obligation – Series 2003 issued 2003, due in annual installments from August 1, 2004 through August 2023, bearing variable interest from 0.15% to 3.15% payable February 1 and August 1. This debt issue was partially paid off with the 2014 issuance.

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.

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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Certificates of Obligation – Series 2013 issued July 2013, due in annual installments from August 1, 2027 through August 2038, bearing variable interest from 3.75% to 5.00% payable February 1 and August 1.

Certificates of Obligation – Series 2013A issued January 2014, due in annual installments from August 1, 2014 through August 2026, bearing variable interest from 2.00% to 4.00% payable February 1 and August 1.

Certificates of Obligation – Series 2016 issued March of 2016, due in annual installments from August 1, 2016 through August 2026, bearing an interest rate of 1.91% payable February 1 and August 1.

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% from 5.00% payable February 1 and August 1.

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

Year ending September 30,	Sam Houston Town Center		
	Principal	Interest	Total
2019	\$ 46,754	\$ 15,431	\$ 62,185
2020	48,893	13,291	62,184
2021	51,100	11,083	62,183
2022	53,469	8,715	62,184
2023	55,916	6,268	62,184
2024	58,475	3,709	62,184
2025	45,561	1,035	46,596
	\$ 360,168	\$ 59,532	\$ 419,700

F. Texas Water Development Board Compliance

Revenue Bonds

The City's Waterworks & Sewer System Revenue Bonds, Series 2012 require the City to accumulate and maintain funds as a reserve for the payment of the bonds. The City is required to deposit an amount which amount equals or exceeds the Average Annual Debt Service for the Bonds. All funds deposited in the reserve fund are to be used solely for the payment of the principal of and interest on the bonds when other funds available for such purposes are insufficient. As of September 30, 2018, the amount required to be deposited in the reserve fund equaled \$161,695. The City's actual deposit of \$161,555 was slightly below this amount and out of compliance with the required covenant. The City is working to increase balance to the required amount.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

In addition, for purposes of providing funds to pay the principal of and interest on the bonds as they become due and payable, the City is required to maintain a separate fund known as the "Interest and Sinking Fund". The City should deposit into this fund the amounts required to be made for the payment of Waterworks & Sewer System Revenue Bonds, Series 2012. The City is required to deposit from the net revenues into the fund an amount equal to the amount required to fully pay the interest on and the principal of the bonds prior to each principal and interest payment date falling due and payable. Such deposits and accrued interest shall be made in substantially equal monthly installments on or before the 15th day of each month. As of September 30, 2018, the amount required to be deposited in the interest and sinking fund equaled \$26,743. The City's actual deposit of \$207,101 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, 2018, 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.

G. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2013 certificates of obligation have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding certificates of obligation. Current year balances for business-type activities totaled \$47,290. Current year amortization expense for business-type activities totaled \$5,912.

H. Customer Deposits

The City had customer deposits of \$106,972 in the water and sewer fund as of yearend. 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 FINANCIAL STATEMENTS, Continued
September 30, 2018

I. Interfund Transactions

Transfers between the primary government funds during the 2018 year were as follows:

Transfer Out	Transfer In	Amount
General Fund		\$ (346,439)
Debt Service Fund		(78,240)
Water and Sewer Fund		(19,967)
	Debt Service Fund	282
	TIRZ	23,578
	Water and Sewer Fund	420,786
		<u>\$ -</u>

Transfers between the primary government funds and discretely presented component units during the 2018 year were as follows:

Transfer Out	Transfer In	Amount
Community Development Corporation		\$ (239,780)
Economic Development Corporation		(116,639)
	Economic Development Corporation	2,124
	Debt Service	207,415
	Water and Sewer Fund	146,880
		<u>\$ -</u>

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

V. OTHER INFORMATION

A. Risk Management

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

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

B. Contingent Liabilities

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

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

The City 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.

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Willis, Texas participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided

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

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

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI
Active Employees	Yes	Yes
Supplemental Death Benefit to Retirees	Yes	Yes

Employees covered by benefit terms

At the December 31, 2017, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>40</u>
Total	<u>85</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 10% and 10.14% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$206,803, and were equal to the required contributions.

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including Inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the

City of Willis, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018

area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	<u>5.0%</u>	7.50%
Total	100.0%	

Discount Rate

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

Sensitivity of the Net Pension Liability 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:

<u>1% Decrease</u>	<u>Current Single Rate</u>	<u>1% Increase</u>
<u>5.75%</u>	<u>Assumption 6.75%</u>	<u>7.75%</u>
<u>\$ 1,317,447</u>	<u>\$ 443,896</u>	<u>\$ (266,572)</u>

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/16	\$ 5,202,269	\$ 4,451,637	\$ 750,632
Changes for the year:			
Service cost	313,021	-	313,021
Interest	356,132	-	356,132
Difference between expected and actual experience	(12,800)	-	(12,800)
Contributions – employer	-	205,395	(205,395)
Contributions – employee	-	143,776	(143,776)
Net investment income	-	617,280	(617,280)
Change of assumptions	-	-	-
Benefit payments, including refunds of emp. contributions	(165,487)	(165,487)	-
Administrative expense	-	(3,197)	3,197
Other changes	-	(165)	165
Net changes	490,866	797,602	(306,736)
Balance at 12/31/17	\$ 5,693,135	\$ 5,249,239	\$ 443,896

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.

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

For the year ended September 30, 2018, the city recognized pension expense of \$216,703.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and investment earnings	\$ -	\$ (133,906)
Differences between expected and actual economic experience	-	(66,428)
Differences in assumptions changes	43,227	-
Contributions subsequent to the measurement date	157,348	-
Total	\$ 200,575	\$ (200,334)

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The City reported \$157,348 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, 2019. 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:	
2018	\$ (10,711)
2019	(7,055)
2020	(74,033)
2021	(65,308)
2022	-
Thereafter	-
	\$ (157,107)

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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	7
Active employees	40
Total	64

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The City's contributions to the TMRS SDBF for the fiscal years ended 2018, 2017 and 2016 were \$663, \$768 and \$820, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2016	0.03%	0.03%	100.00%
2017	0.04%	0.04%	100.00%
2018	0.04%	0.04%	100.00%

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.31%
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

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

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 3.31%, 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 (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

1% Decrease (2.31%)	Current Single Rate Assumption 3.31%	1% Increase (4.31%)
\$ 136,263	\$ 112,958	\$ 94,987

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/16	\$ 96,365
Changes for the year:	
Service Cost	4,724
Interest	3,716
Changes of assumptions	8,975
Benefit payments	(822)
Net changes	16,593
Balance at 12/31/17	\$ 112,958

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$9,977.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 7,438
Contributions subsequent to measurement date	466
Total	\$ 7,904

The City reported \$466 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, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Year ended December 31:

2018	\$	1,537
2019		1,537
2020		1,537
2021		1,537
2022		1,290
Thereafter		-
	<u>\$</u>	<u>7,438</u>

F. Tax Abatement Disclosures

The City of Willis negotiates property tax abatement agreements on an individual basis. The City has tax abatement agreements with one entity as of September 30, 2018:

Percentage of Sales Taxes Abated during the Fiscal Year	Amount of Sales Taxes Abated during the Fiscal Year	Percentage of Property Taxes Abated during the Fiscal Year	Amount of Property Taxes Abated during the Fiscal Year	Total
75%	<u>\$ 500,559</u>	n/a	<u>\$ 160,780</u>	<u>\$ 661,339</u>

In 2010 the City, EDC, & CDC entered into a 380 Economic Development agreement with A-S 103 Sam Houston Town Center, LP (Developer) to provide financial incentives to encourage and promote the development of the property thereby enhancing and stimulating business and commercial activity in the City. The developer was responsible for the construction of a mixed-use development known as the Sam Houston Town Center. The developer was responsible for all project improvements. Project Improvements are expenditures required or suitable for infrastructure necessary to promote or develop new or expanded business enterprises (streets and roads, water and sewer utilities, drainage, site improvements, and related improvements). The developer was required to pay all costs estimated to be \$5,565,000. The City, EDC, & CDC are to pay the developer \$3,075,000 plus 7.5% interest, in the form of an economic development grant to reimburse the developer for the cost of the project improvements. Payments are structured as an abatement of property taxes and sales taxes generated from the development. Payments shall be made in installments beginning June 1, 2011 until paid off.

The agreement was negotiated under Article III, Section 52-a, Texas Constitution, and Chapter 380, Texas Local Gov't Code, stating that the City may establish and provide for the administration of a program for making loans and grants of public money to promote state or local economic development and to stimulate business and commercial activity in the municipality. Pursuant to the Development Corporation Act, Chapters 501 and 504, Texas Local Gov't Code, the City has created a 4A Development corporation, the Willis Economic Development Corporation, in order to assist with the development or operation of an economic development programs. Pursuant to the Development Corporation Act, Chapters 501 and 505, Texas Local Gov't Code, the City has created a 4B Development Corporation, the Willis

City of Willis, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Community Development Corporation in order to assist with the development or operation of an economic development programs. The agreement is in accordance with Section 501.103, Texas Local Gov't Code.

The City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governmental entities. The City has chosen to disclose information about its tax abatement agreements individually. It established a quantitative threshold of 100% percent of the total dollar amount of taxes abated during the year.

G. Restatement

Due to the implementation of GASB No. 75, the City restated its beginning net position within governmental activities and business-type activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. This adjustment was recorded at the fund level for proprietary funds only, and recorded at the government-wide level for both governmental and business-type activities. In addition, the City made accounting corrections to cash and franchise receivable balances.

The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	General
Prior year ending net position/fund balance as reported	\$ 5,622,777	\$ 1,165,585
Correction to franchise receivable	19,846	19,846
Impact of implementation of GASB 75	(73,946)	-
Restated beginning net position/fund balance	<u>\$ 5,568,677</u>	<u>\$ 1,185,431</u>

	Business-Type Activities	Water & Sewer
Prior year ending net position/fund balance as reported	\$ 2,600,449	\$ 2,600,449
Impact of implementation of GASB 75	(21,795)	(21,795)
Correction to cash balance	(21,591)	(21,591)
Restated beginning net position/fund balance	<u>\$ 2,557,063</u>	<u>\$ 2,557,063</u>

H. Subsequent Events

On January 15, 2019 the City approved R.P. Constructors, Inc. for the wastewater treatment plant expansion project in the amount of \$5,751,000.

There were other no material subsequent events through April 11, 2019, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Willis, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2018

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Property tax	\$ 1,495,900	\$ 1,632,410	\$ 136,510
Sales tax	1,740,800	1,865,197	124,397
Franchise and local taxes	345,500	339,975	(5,525)
Permits and code enforcement	97,180	187,668	90,488
Sanitation	290,100	306,180	16,080
Fines and forfeitures	137,400	308,823	171,423
Interest	600	4,637	4,037
Other	10,500	6,489	(4,011)
Total Revenues	4,117,980	4,651,379	533,399
Expenditures			
General government	852,997	561,866	291,131
Community development	301,953	293,117	8,836
Public safety	1,860,505	1,838,963	21,542
Sanitation	270,000	280,079	(10,079) *
Court	115,389	100,053	15,336
Street	495,335	472,409	22,926
Debt Service:			
Principal	-	303,395	(303,395) *
Interest and fiscal charges	-	58,234	(58,234) *
Total Expenditures	3,896,179	3,908,116	(11,937)
Revenues Over (Under) Expenditures	221,801	743,263	521,462
Other Financing Sources (Uses)			
Insurance proceeds	-	22,374	22,374
Transfers (out)	(343,295)	(346,439)	(3,144) *
Total Other Financing Sources (Uses)	(343,295)	(324,065)	19,230
Net Change in Fund Balance	\$ (121,494)	419,198	\$ 540,692
Beginning fund balance		1,185,431	
Ending Fund Balance		\$ 1,604,629	

Notes to Required Supplementary Information

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

* Expenditures exceeded appropriations at the legal level of control.

City of Willis, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Total pension liability			
Service cost	\$ 223,008	\$ 282,064	\$ 299,586
Interest	293,562	315,302	333,617
Differences between expected and actual experience	(68,924)	(25,025)	(58,577)
Changes of assumptions	-	108,067	-
Benefit payments, including refunds of participant contributions	(161,237)	(171,958)	(330,073)
Net change in total pension liability	<u>286,409</u>	<u>508,450</u>	<u>244,553</u>
Total pension liability - beginning	<u>4,162,857</u>	<u>4,449,266</u>	<u>4,957,716</u>
Total pension liability - ending (a)	<u>4,449,266</u>	<u>4,957,716</u>	<u>5,202,269</u>
Plan fiduciary net position			
Contributions - employer	\$ 152,679	\$ 185,682	\$ 182,582
Contributions - members	127,081	137,688	139,528
Net investment income	211,635	5,943	282,671
Benefit payments, including refunds of participant contributions	(161,237)	(171,958)	(330,073)
Administrative expenses	(2,209)	(3,619)	(3,191)
Other	(182)	(179)	(172)
Net change in plan fiduciary net position	<u>327,767</u>	<u>153,557</u>	<u>271,345</u>
Plan fiduciary net position - beginning	<u>3,698,968</u>	<u>4,026,735</u>	<u>4,180,292</u>
Plan fiduciary net position - ending (b)	<u>\$ 4,026,735</u>	<u>\$ 4,180,292</u>	<u>\$ 4,451,637</u>
Fund's net pension liability - ending (a) - (b)	<u>\$ 422,531</u>	<u>\$ 777,424</u>	<u>\$ 750,632</u>
Plan fiduciary net position as a percentage of the total pension liability	90.50%	84.32%	85.57%
covered payroll	\$ 1,815,436	\$ 1,966,971	\$ 1,993,255
Fund's net position as a percentage of covered payroll	23.27%	39.52%	37.66%

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.

12/31/2017 ¹

\$ 313,021
356,132

(12,800)

-

(165,487)

490,866

5,202,269

5,693,135

\$ 205,395
143,776
617,280

(165,487)

(3,197)

(165)

797,602

4,451,637

\$ 5,249,239

\$ 443,896

92.20%

\$ 2,053,946

21.61%

City of Willis, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	9/30/2015	9/30/2016	9/30/2017	9/30/2018 ¹
Actuarially determined employer contributions	\$ 179,618	\$ 189,370	\$ 199,869	\$ 206,803
Contributions in relation to the actuarially determined contribution	\$ 179,618	\$ 189,370	\$ 199,869	\$ 206,803
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered payroll	\$ 1,960,661	\$ 2,050,931	\$ 2,038,978	\$ 2,046,303
Employer contributions as a percentage of covered payroll	9.16%	9.23%	9.80%	10.11%

1) This schedule is presented to illustrate the requirement to show information for ten fiscal years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014

Mortality

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

City of Willis, Texas

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

Years Ended:

	12/31/2017	¹
Total OPEB liability		
Service cost	\$ 4,724	
Interest	3,716	
Changes in benefit terms	-	
Differences between expected and actual experience	-	
Changes of assumptions	8,975	
Benefit payments, including refunds of participant contributions	(822)	
Net change in total OPEB liability	16,593	
Total OPEB liability - beginning	96,365	
Total OPEB liability - ending (a)	\$ 112,958	²
Covered payroll	2,053,946	
Total OPEB Liability as a percentage of covered payroll	5.50%	

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.

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***COMBINING STATEMENTS
AND OTHER SUPPLEMENTARY INFORMATION***

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for financial transactions and resources received from specific sources. The City has two special revenue funds:

TAX INCREMENT REINVESTMENT ZONE NO. 1 FUND (TIRZ)

The Tax Increment Reinvestment Zone No. 1 Fund 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. This fund is considered nonmajor for reporting purposes.

HOTEL TAX FUND

The Hotel Tax fund provides publicity for the City and is financed with taxes charged to the local hotels within the city limits.

DEBT SERVICE FUND

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

City of Willis, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2018

	<u>Hotel Tax</u>	<u>TIRZ</u>	<u>Debt Service Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 189,586	\$ 110,591	\$ 79,289	\$ 379,466
Investments	119,979	-	-	119,979
Receivables, net	-	-	7,248	7,248
Total Assets	\$ 309,565	\$ 110,591	\$ 86,537	\$ 506,693
<u>Deferred Inflows of Resources</u>				
Unavailable revenue-property tax	-	-	7,248	7,248
Total Deferred Inflows of Resources	-	-	7,248	7,248
<u>Fund Balances</u>				
Restricted for:				
Tourism	309,565	-	-	309,565
Community development	-	110,591	-	110,591
Debt service	-	-	79,289	79,289
Total Fund Balances	309,565	110,591	79,289	499,445
Total Liabilities, Deferred Inflows and Fund Balances	\$ 309,565	\$ 110,591	\$ 86,537	\$ 506,693

City of Willis, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	Hotel Tax	TIRZ	Debt Service Fund	Total
<u>Revenues</u>				
Property tax	\$ -	\$ -	\$ 88,236	\$ 88,236
Hotel occupancy tax	31,964	-	-	31,964
Intergovernmental	-	31,408	207,415	238,823
Interest	372	59	70	501
Total Revenues	32,336	31,467	295,721	359,524
<u>Expenditures</u>				
General government	-	1,041	-	1,041
Debt service:				
Principal	-	39,200	135,800	175,000
Interest	-	16,502	71,755	88,257
Capital outlay	4,195	-	-	4,195
Total Expenditures	4,195	56,743	207,555	268,493
Revenues Over (Under)				
 Expenditures	28,141	(25,276)	88,166	91,031
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	23,578	282	23,860
Transfers (out)	-	-	(78,240)	(78,240)
Total Other Financing Sources				
 (Uses)	-	23,578	(77,958)	(54,380)
Net Change in Fund Balances	28,141	(1,698)	10,208	36,651
Beginning fund balances	281,424	112,289	69,081	462,794
Ending Fund Balances	\$ 309,565	\$ 110,591	\$ 79,289	\$ 499,445

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City of Willis, Texas

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

For the Year Ended September 30, 2018

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 55,000	\$ 88,236	\$ 33,236
Interest	100	70	(30)
Intergovernmental	-	207,415	207,415
Total Revenues	55,100	295,721	240,621
<u>Expenditures</u>			
Debt Service:			
Principal	63,750	135,800	(72,050) *
Interest and fiscal charges	14,740	71,755	(57,015) *
Total Expenditures	78,490	207,555	(129,065)
Revenues Over (Under) Expenditures	(23,390)	88,166	111,556
<u>Other Financing Sources (Uses)</u>			
Transfers in	-	282	282
Transfers (out)	-	(78,240)	(78,240) *
Total Other Financing Sources (Uses)	-	(77,958)	(77,958)
Net Change in Fund Balance	\$ (23,390)	10,208	\$ 33,598
Beginning fund balance		69,081	
Ending Fund Balance		\$ 79,289	

Notes to Supplementary Information

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

* Expenditures exceeded appropriations at the legal level of control.

City of Willis, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT CORPORATION FUND
For the Year Ended September 30, 2018

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 430,000	\$ 548,343	\$ 118,343
Other revenue	-	134,964	134,964
Interest	2,000	13,736	11,736
Total Revenues	432,000	697,043	265,043
<u>Expenditures</u>			
Community development	525,200	555,588	(30,388) *
Debt Service:			
Principal	68,369	-	68,369
Interest and fiscal charges	46,161	10,594	35,567
Total Expenditures	639,730	566,182	73,548
Net Change in Fund Balance	\$ (207,730)	130,861	\$ 338,591
Beginning fund balance		1,561,203	
Ending Fund Balance		\$ 1,692,064	

Notes to Supplementary Information

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

* Expenditures exceeded appropriations at the legal level of control.

City of Willis, Texas

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT CORPORATION FUND
For the Year Ended September 30, 2018**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 460,000	\$ 548,343	\$ 88,343
Other revenue	-	2,124	2,124
Interest	3,000	7,779	4,779
Total Revenues	463,000	558,246	95,246
<u>Expenditures</u>			
Economic development	338,250	567,041	(228,791) *
Debt service:			
Principal	141,819	-	141,819
Interest	96,099	11,148	84,951
Total Expenditures	576,168	578,189	(2,021)
Revenues Over (Under) Expenditures	(113,168)	(19,943)	93,225
Net Change in Fund Balance	\$ (113,168)	(19,943)	\$ 93,225
Beginning fund balance		963,270	
Ending Fund Balance		\$ 943,327	

Notes to Supplementary Information

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

* Expenditures exceeded appropriations at the legal level of control.

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