

# CITY OF WILLIS, TEXAS

## ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2022





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City of Willis, Texas  
Annual Financial Report

For the year ended September 30, 2022

Table of Contents

**INTRODUCTORY SECTION**

List of Elected and Appointed Officials .....	3
Organizational Chart.....	4

**FINANCIAL SECTION**

Report of Independent Auditors .....	7
Management’s Discussion and Analysis .....	11

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position.....	23
Statement of Activities .....	24

Fund Financial Statements

Balance Sheet – Governmental Funds .....	25
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	26
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds .....	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities .....	28
Statement of Net Position – Proprietary Funds .....	29
Statement of Revenues, Expenses, and Changes in Fund Net Position- Proprietary Funds.....	30
Statement of Cash Flows-Proprietary Funds .....	31
Notes to the Basic Financial Statements .....	33

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios .....	69
Schedule of Contributions – Pension .....	70
Schedule of Contributions in Postemployment Benefits Other than Pension.....	71

Combining Nonmajor Fund Financial Statements

Combining Balance Sheet Nonmajor Governmental Funds .....	75
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds .....	76

Budgetary Comparison Information

Statement of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – General Fund .....	79
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service Fund.....	80
Statement of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – Community Development Corporation Fund.....	81

**COMPLIANCE AND INTERNAL CONTROLS SECTION**

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> .....	85
Schedule of Findings and Responses.....	88



## **Introductory Section**

For the fiscal year ended  
September 30, 2022



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CITY OF WILLIS, TEXAS

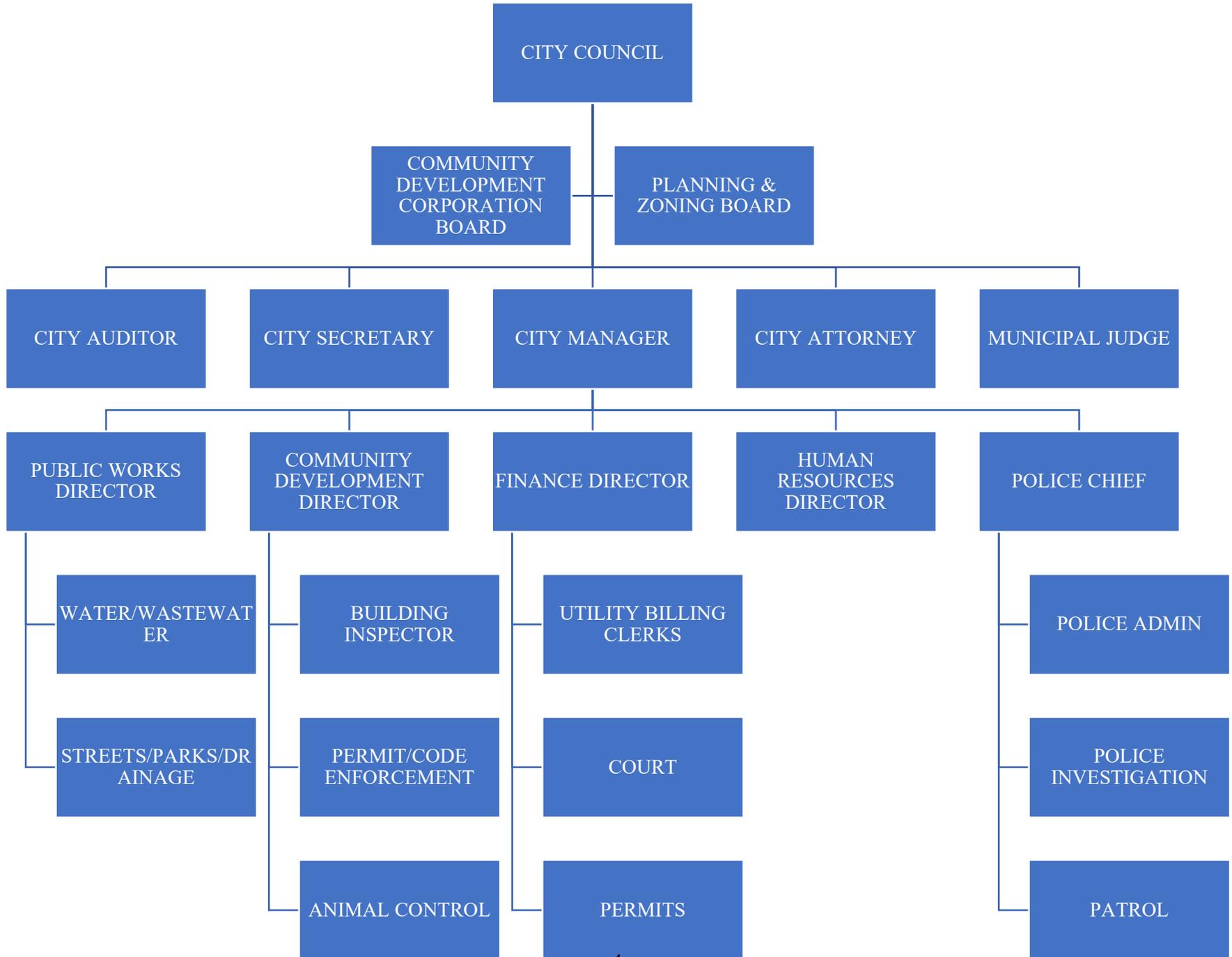
WILLIS CITY COUNCIL

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

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

<b>POSITION</b>	<b>NAME/ADDRESS</b>	<b>PHONE #</b>	<b>TERM EXP</b>
Mayor	Leonard Reed 510 Young Street Willis, TX 77378 lreed@ci.willis.tx.us	(936) 856-3099 H (936) 443-9312 C	May, 2023
Council Member Place No. 1 Mayor Pro-Tem	Ashley Nixon 318 Longstreet Rd Willis, TX 77378 Ashnicolenixon@gmail.com	(936) 701-9689 C anixon@ci.willis.tx.us	May, 2023
Council Member Place No. 2	Johnnie Barney Stone 102 Gerald Street Willis, TX 77378 jstone8814@aol.com	(936) 890-6170 H (281) 380-7115 C	May, 2023
Council Member Place No. 3	Thomas Belinoski 519 S. Campbell Willis, TX 77378 tbelinoski@ci.willis.tx.us	(936) 521-9480	May, 2023
Council Member Place No. 4	Thomas Luster 140 Birchwood Willis, TX 77378 tluster55@gmail.com	(936) 856-7585 H (713) 725-0007 C	May, 2023
Council Member Place No. 5	William Brown 202 Philpot St Willis, TX 77378 Eldwilliambrown@gmail.com	(832) 903-1979 C	May, 2023
City Manager (appointed)	Sheyi I. Ipaye, CPM 200 N. Bell Willis, TX 77378	(936) 856-4611 O (936) 890-1246 F	
City Attorney (appointed)	Larry Foerster 414 West Phillip, Suite 100 Conroe, TX 77301	(936) 756-3337 O (936) 756-2606 F	
Police Chief (appointed)	James Nowak Willis Police Department 200 S. Bell Willis, TX 77378	(936) 856-4039 O (936) 856-5857 F	
City Secretary (appointed)	Marissa Quintanilla Willis City Hall 200 N. Bell Willis, TX 77378	(936) 856-4611 O (936) 890-1246 F	

CITY OF WILLIS ORGANIZATIONAL CHART





## **Financial Section**

For the fiscal year ended  
September 30, 2022



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## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Willis, Texas (the "City"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Willis, Texas 's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Emphasis of Matter*

As described in Note 3 to the financial statements, during the year ended September 30, 2022, the City's adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City, Texas 's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing*

*Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City, Texas 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City, Texas 's ability to continue as a going concern for a reasonable period of time.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 11-19 and 77-79 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted

in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2023, on our consideration of the City, Texas 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City, Texas 's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City, Texas 's internal control over financial reporting and compliance.



Richardson, Texas  
June 5, 2023



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# City of Willis, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS,

### September 30, 2022

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Willis's financial activities for the year ending September 30, 2022. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

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

### **Financial Highlights**

- The City's total combined net position was \$21,461,167 at September 30, 2022.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$9,335,560, an increase of \$2,611,841.
- As of the end of the year, the unassigned fund balance of the general fund was \$7,116,508 or 125% of total general fund expenditures.
- The City had an overall increase in net position of \$3,365,441.
- The City's net pension asset totaled \$ 401,561 at year end.

### **Government-Wide Statements**

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

The Statement of Net Position presents information on all of the City of Willis's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Willis is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

# City of Willis, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS,

### September 30, 2022

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

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

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

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

### **FUND FINANCIAL STATEMENTS**

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

#### **Governmental Funds**

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

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

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Willis maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be the only major fund.

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

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 two component units. The Willis Community Development Corporation is a discretely presented component unit 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,**  
**September 30, 2022**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Willis, assets and deferred outflows exceeded liabilities and deferred inflows by \$21,461,167 as of September 30, 2022, in the primary government.

The largest portion of the City's net position, \$11,956,483, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current & other Assets	\$ 21,676,788	\$ 8,253,998	\$ 1,782,318	\$ 1,704,329	\$ 23,459,106	\$ 9,958,327
Capital and other Assets	8,505,765	7,512,156	24,810,815	25,331,371	33,316,580	32,843,527
Total Assets	<u>30,182,553</u>	<u>15,766,154</u>	<u>26,593,133</u>	<u>27,035,700</u>	<u>56,775,686</u>	<u>42,801,854</u>
Deferred Outflows of Resources	<u>156,452</u>	<u>170,334</u>	<u>45,276</u>	<u>76,654</u>	<u>201,728</u>	<u>246,988</u>
Long Term Liabilities	1,488,283	2,200,840	19,476,313	20,093,451	20,964,596	22,294,291
Other Liabilities	<u>12,401,791</u>	<u>935,267</u>	<u>1,496,321</u>	<u>1,490,857</u>	<u>13,898,112</u>	<u>2,426,124</u>
Total Liabilities	<u>13,890,074</u>	<u>3,136,107</u>	<u>20,972,634</u>	<u>21,584,308</u>	<u>34,862,708</u>	<u>24,720,415</u>
Deferred Inflows of Resources	<u>506,859</u>	<u>182,295</u>	<u>146,680</u>	<u>50,406</u>	<u>653,539</u>	<u>232,701</u>
Net Position:						
Net Invested in Capital Assets	6,834,330	5,339,486	5,122,153	5,012,540	11,956,483	10,352,026
Restricted	2,219,052	1,153,284	-	-	2,219,052	1,153,284
Unrestricted	<u>6,888,690</u>	<u>6,125,316</u>	<u>396,942</u>	<u>465,100</u>	<u>7,285,632</u>	<u>6,590,416</u>
Total Net Position	<u>\$ 15,942,072</u>	<u>\$ 12,618,086</u>	<u>\$ 5,519,095</u>	<u>\$ 5,477,640</u>	<u>\$ 21,461,167</u>	<u>\$ 18,095,726</u>

Current and other assets for governmental activities increased by \$13,422,790 primarily due to greater cash on hand, resulting from operating surpluses and unearned revenue deposits in the current year. Current and other assets for business-type activities increased by \$77,989 primarily due to decreased cash on hand, as the City invested available funds on capital improvements in the current year. Total other liabilities increased by \$11,471,988 primarily due to greater vendor payables outstanding at the end of the current year. Total long-term liabilities decreased by \$1,329,695 primarily due to current year principal payments and only one Certificates of Obligation Series 2021 refunding was issued, while five Certificates of Obligations were refunded during the year.

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

Statement of Activities:

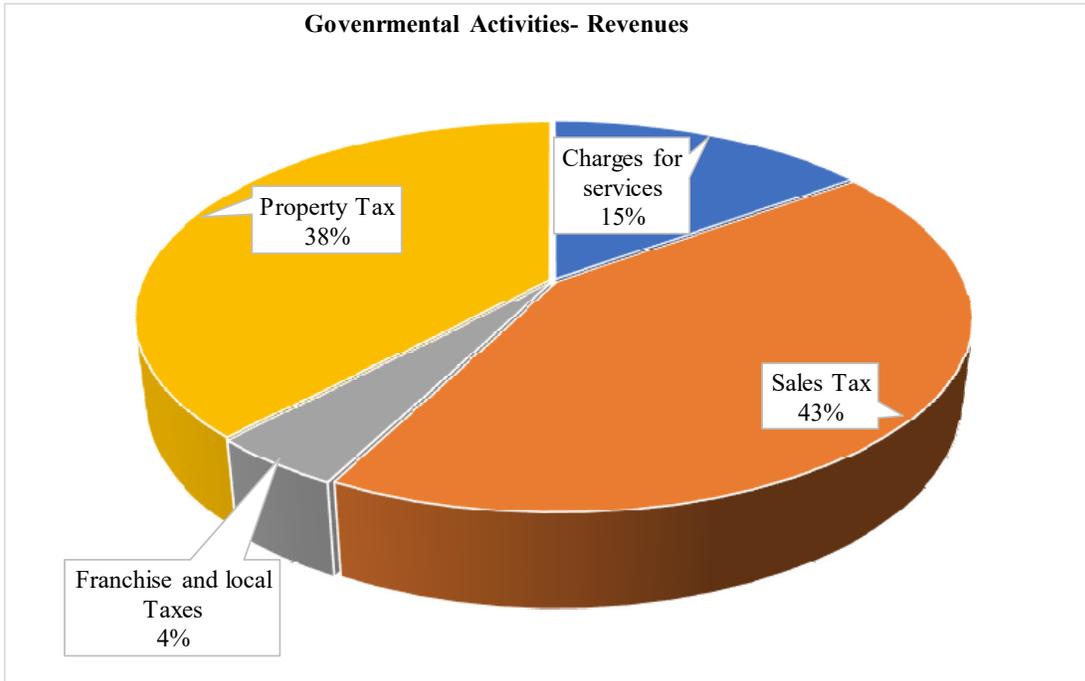
The following table provides a summary of the City's changes in net position:

	<b>City of Willis - Changes in Net Position</b>					
	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 961,286	\$ 1,006,204	\$ 4,110,238	\$ 3,322,637	\$ 5,071,524	\$ 4,328,841
Grants & Contributions	869,061	1,212,603	-	468,822	869,061	1,681,425
General Revenues:						
Property Tax	2,439,556	2,406,391	-	-	2,439,556	2,406,391
Sales taxes	3,534,596	2,850,449	-	-	3,534,596	2,850,449
Franchise and local taxes	449,421	344,999	-	-	449,421	344,999
Investment income	13,754	2,137	-	1,291	13,754	3,428
Other revenues	97,981	116,466	5,547	9,068	103,528	125,534
Total Revenues	<u>8,365,655</u>	<u>7,939,249</u>	<u>4,115,785</u>	<u>3,801,818</u>	<u>12,481,440</u>	<u>11,741,067</u>
<b>Expenses</b>						
General Government Activities	1,203,518	1,366,884	-	-	1,203,518	1,366,884
Community development	428,929	380,173	-	-	428,929	380,173
Public safety	1,748,404	1,968,421	-	-	1,748,404	1,968,421
Sanitation	441,008	425,896	-	-	441,008	425,896
Court	113,324	-	-	-	113,324	-
Street	875,144	870,982	-	-	875,144	870,982
Water & sewer	-	-	2,816,604	2,685,413	2,816,604	2,685,413
Bond issuance costs	-	-	102,494	-	102,494	-
Interest and fiscal charges	33,717	71,955	605,775	745,468	639,492	817,423
Total Expenses	<u>4,844,044</u>	<u>5,084,311</u>	<u>3,524,873</u>	<u>3,430,881</u>	<u>8,368,917</u>	<u>8,515,192</u>
Increase/(Decrease) in Net Position Before Transfers	3,521,611	2,854,938	590,912	370,937	4,112,523	3,225,875
Lease proceed	9,181	-	-	-	9,181	-
Transfers	636,458	(43,413)	(549,457)	43,413	87,001	-
Change in Net Position	4,167,250	2,811,525	41,455	414,350	4,208,705	3,225,875
Net Position - Beginning, As Restated	11,774,822	9,806,561	5,477,640	5,063,290	17,252,462	14,869,851
Net Position - Ending	<u>\$ 15,942,072</u>	<u>\$ 12,618,086</u>	<u>\$ 5,519,095</u>	<u>\$ 5,477,640</u>	<u>\$ 21,461,167</u>	<u>\$ 18,095,726</u>

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

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

This graph shows the governmental function revenues of the City:

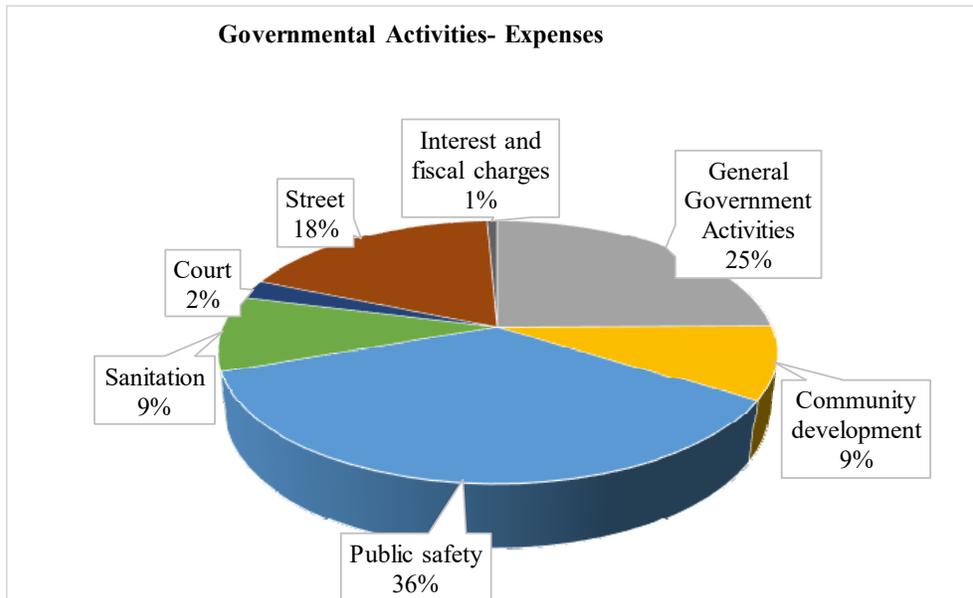


For the year ended September 30, 2022, revenues from governmental activities totaled \$8,365,655. Charges for service, sales taxes, property taxes, and grants/contributions are the City's largest revenue sources. Grants and contributions decreased by \$343,542 or 28.3% due to decreased community development grant revenue. Sales taxes revenues increased by \$684,147 or 24 %, primarily due to the raised development projects. All other revenues remained relatively stable when compared to the previous year.

# City of Willis, Texas

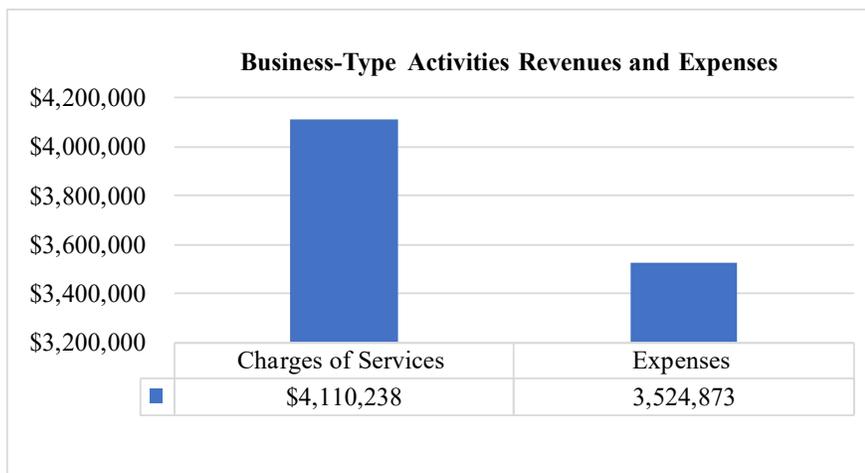
## MANAGEMENT'S DISCUSSION AND ANALYSIS, September 30, 2022

This graph shows the governmental function expenses of the City:



For the year ended September 30, 2022, expenses for governmental activities totaled \$4,844,044. This represents a decrease of \$240,267 or 5% from the prior year. The City's largest functional expenses are public safety of \$1,748,404, general government of \$1,203,518, and street expenses of \$875,144. Public safety expenses decreased by \$220,017, or 11%, as a result of decreased pension liabilities. General government expenses decreased by \$163,366 or 12% due primarily to a reallocation of certain expenses and intergovernmental costs. All other expenses remained relatively consistent with the previous year.

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



For the year ended September 30, 2022, charges for services by business-type activities totaled \$4,110,238. This is an increase of \$787,601 or 24% from the previous year due to growth within the city. Total expenses increased \$93,922 or 3% compared to the prior year and is considered minimal.

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

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

As of the end of the year the general fund reflected a total fund balance of \$8,191,878, \$7,116,508 of which is unassigned. Unassigned fund balance equaled 125% of total annual general fund expenditures. The general fund had an increase in fund balance of \$2,283,705 during the year. This increase is primarily a result of greater than expected revenues.

Overall, the governmental fund balance increased by \$2,611,841 over the prior year. This was the result of \$2,283,705 increases in the general fund, as mentioned above, an increase in the nonmajor hotel tax fund of \$31,658, an increase in the nonmajor TIRZ fund of \$296,435, and a slight increase in the nonmajor debt service fund of \$43.

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**

The general fund had a total positive budget variance of \$873,608. Revenues had a positive variance for the year of \$2,044,790, and expenditures had a negative variance of \$1,171,181. Expenditures exceeded appropriations at the legal level of control for general government, community development, and sanitation.

**CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$8,194,330 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 \$ 24,720,689 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

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

- Lindley Park Improvements for \$744,061.
- Paving Improvements for \$171,618.
- Purchase of Vehicles for \$330,432.

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

**LONG-TERM DEBT**

At the end of the current year, the City had total bonds and notes payables outstanding of \$21,837,263, including premiums. Principal payments on debt obligations totaled \$10,154,737 during the year. More detailed information about the City's long-term liabilities is presented in Note 3. G to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Willis and improving services provided to their public citizens.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City of Willis' finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to City Hall, 200 North Bell Street, Willis, Texas, 77378 or visit the City's website at [www.ci.willis.tx.us](http://www.ci.willis.tx.us).



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## **Basic Financial Statements**

For the fiscal year ended  
September 30, 2022



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**City of Willis, Texas**  
**STATEMENT OF NET POSITION**  
**September 30, 2022**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Community Development Corporation</u>
<b><u>Assets</u></b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 10,708,256	\$ 82,485	\$ 10,790,741	1,938,842
Restricted cash	10,039,350	878,727	10,918,077	-
Investments	24,696	148,418	173,114	53,483
Receivables, net	904,486	630,858	1,535,344	160,502
Inventory	-	41,830	41,830	-
Total Current Assets	<u>21,676,788</u>	<u>1,782,318</u>	<u>23,459,106</u>	<u>2,152,827</u>
Capital assets:				
Non-depreciable	571,111	884,970	1,456,081	-
Depreciable, net	7,623,219	23,835,719	31,458,938	-
Pension assets	311,435	90,126	401,561	-
Total Noncurrent Assets	<u>8,505,765</u>	<u>24,810,815</u>	<u>33,316,580</u>	<u>-</u>
Total Assets	<u>30,182,553</u>	<u>26,593,133</u>	<u>56,775,686</u>	<u>2,152,827</u>
<b><u>Deferred Outflows of Resources</u></b>				
OPEB contributions	1,758	509	2,267	-
OPEB (gains) losses	22,590	6,537	29,127	-
Pension contributions	131,050	37,925	168,975	-
Pension assumption changes	1,054	305	1,359	-
Total Deferred Outflows of Resources	<u>156,452</u>	<u>45,276</u>	<u>201,728</u>	<u>-</u>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	409,127	244,306	653,433	4,715
Unearned revenue	11,784,232	-	11,784,232	-
Customer deposits	-	141,752	141,752	-
Due to state and other liabilities	38,432	-	38,432	-
Long-term debt due within one year	170,000	1,110,263	1,280,263	-
Total Current Liabilities	<u>12,401,791</u>	<u>1,496,321</u>	<u>13,898,112</u>	<u>4,715</u>
<b><u>Noncurrent liabilities:</u></b>				
Lease payable	-	23,894	23,894	-
Compensated absences, noncurrent	153,470	43,511	196,981	-
Long-term debt due in more than one year	1,190,000	19,367,000	20,557,000	-
OPEB liability	144,813	41,908	186,721	-
Total Liabilities	<u>13,890,074</u>	<u>20,972,634</u>	<u>34,862,708</u>	<u>4,715</u>
<b><u>Deferred Inflows of Resources</u></b>				
OPEB investment earnings	1,607	465	2,072	-
Pension investment earnings	351,708	101,781	453,489	-
Pension (gains) losses	153,544	44,434	197,978	-
Total Deferred Inflows of Resources	<u>506,859</u>	<u>146,680</u>	<u>653,539</u>	<u>-</u>
<b><u>Net Position</u></b>				
Net investment in capital assets	6,834,330	5,122,153	11,956,483	-
Restricted for:				
Debt service	87,965	-	87,965	-
Tourism	349,798	-	349,798	-
PEG fees	70,408	-	70,408	-
Public Safety	260,901	-	260,901	-
Community development	1,449,980	-	1,449,980	2,148,112
Unrestricted	6,888,690	396,942	7,285,632	-
Total Net Position	<u>15,942,072</u>	<u>5,519,095</u>	<u>21,461,167</u>	<u>2,148,112</u>

See Notes to Financial Statements.

**City of Willis, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2022**

Program Activities	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit Community Development Corporation
		Fees, Fines and Charges for Services	Capital Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 1,203,518	\$ -	\$ 125,000	\$ (1,078,518)	\$ -	\$ (1,078,518)	\$ -
Community development	428,929	470,745	744,061	785,877	-	785,877	-
Public safety	1,748,404	73,293	-	(1,675,111)	-	(1,675,111)	-
Sanitation	441,008	417,248	-	(23,760)	-	(23,760)	-
Court	113,324	-	-	(113,324)	-	(113,324)	-
Street	875,144	-	-	(875,144)	-	(875,144)	-
Interest and fiscal charges	33,717	-	-	(33,717)	-	(33,717)	-
Total governmental activities	<u>4,844,044</u>	<u>961,286</u>	<u>869,061</u>	<u>(3,013,697)</u>	<u>-</u>	<u>(3,013,697)</u>	<u>-</u>
Business-type activities:							
Wastewater utility	2,816,604	4,110,238	-	-	1,293,634	1,293,634	-
Bond issuance costs	102,494	-	-	-	(102,494)	(102,494)	-
Interest expense	605,775	-	-	-	(605,775)	(605,775)	-
Total business-type activities	<u>3,524,873</u>	<u>4,110,238</u>	<u>-</u>	<u>-</u>	<u>585,365</u>	<u>585,365</u>	<u>-</u>
Total Primary Government	<u>\$ 8,368,918</u>	<u>\$ 5,071,524</u>	<u>\$ 869,061</u>	<u>\$ (3,013,697)</u>	<u>\$ 585,365</u>	<u>\$ (2,428,333)</u>	<u>\$ -</u>
<b>Component Units</b>							
Community Development Corp.	813,658	-	-				(813,658)
Total Component Units	<u>813,658</u>	<u>-</u>	<u>-</u>				<u>(813,658)</u>
Change in net position							
General revenues:							
Property tax				2,439,556	-	2,439,556	-
Sales tax				3,534,596	-	3,534,596	797,643
Franchise and local taxes				449,421	-	449,421	-
Investment income				13,754	-	13,754	8,313
Other revenues				97,981	5,547	103,528	3,300
Lease proceeds				9,181	-	9,181	-
Transfers in (out)				636,458	(549,457)	87,001	(87,001)
Total general revenues and transfers				<u>7,180,947</u>	<u>(543,910)</u>	<u>6,637,037</u>	<u>722,255</u>
Change in net position				4,167,250	41,455	4,208,705	(91,403)
Net position - beginning				12,618,086	5,477,640	18,095,726	2,239,515
Prior period adjustments				(843,264)	-	(843,264)	-
Net position - ending				<u>\$ 15,942,072</u>	<u>\$ 5,519,095</u>	<u>\$ 21,461,167</u>	<u>\$ 2,148,112</u>

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

**City of Willis, Texas  
Balance Sheet  
Governmental Funds  
September 30, 2022**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 9,564,574	\$ 87,965	\$ 1,055,717	\$ 10,708,256
Restricted cash	10,039,350	-	-	10,039,350
Investments	24,696	-	-	24,696
Receivables (net of allowance for uncollectibles)	890,549	13,937	-	904,486
Total assets	<u>20,519,169</u>	<u>101,902</u>	<u>1,055,717</u>	<u>21,676,788</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	402,826	-	-	402,826
Unearned revenue	11,784,232	-	-	11,784,232
Due to state and other liabilities	38,432	-	-	38,432
Total liabilities	<u>12,225,490</u>	<u>-</u>	<u>-</u>	<u>12,225,490</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-property tax	101,801	13,937	-	115,738
Total deferred inflows of resources	<u>101,801</u>	<u>13,937</u>	<u>-</u>	<u>115,738</u>
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	87,965	-	87,965
Community development	744,061	-	705,919	1,449,980
Tourism	-	-	349,798	349,798
Assigned to:				
PEG fees	70,408	-	-	70,408
Public safety	260,901	-	-	260,901
Unassigned	7,116,508	-	-	7,116,508
Total fund balances	<u>8,191,878</u>	<u>87,965</u>	<u>1,055,717</u>	<u>9,335,560</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 20,519,169</u>	<u>\$ 101,902</u>	<u>\$ 1,055,717</u>	<u>\$ 21,676,788</u>

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

**City of Willis, Texas**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**September 30, 2022**

<b>Fund Balances - Total Governmental Funds</b>		\$ 9,335,560
<b>Adjustments for the Statement of Net Position:</b>		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable/amortization		571,111
Capital assets - net depreciable/amortization		7,623,219
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
		115,738
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		131,050
Pension assumption changes		1,054
OPEB contributions		1,758
OPEB (gains) losses		22,590
Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.		
Pension (gains) losses		(153,544)
Pension investment earnings		(351,708)
OPEB investment earnings		(1,607)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(6,301)
Compensated absences		(153,470)
Net pension asset		311,435
OPEB liability		(144,813)
Non-current liabilities due in one year		(170,000)
Non-current liabilities due in more than one year		(1,190,000)
	<b>Net Position of Governmental Activities</b>	<u>\$ 15,942,072</u>

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, 2022**

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>				
Property tax	\$ 1,984,111	\$ 393,754	\$ 55,827	\$ 2,433,692
Sales tax	3,504,634	-	29,962	3,534,596
Grants and Contributions	744,061	-	-	744,061
Franchise and local taxes	449,421	-	-	449,421
Permits and code enforcement	470,745	-	-	470,745
Sanitation	417,248	-	-	417,248
Fines and forfeitures	73,293	-	-	73,293
Project development	125,000	-	-	125,000
Interest	13,266	44	444	13,754
Other	97,981	-	-	97,981
Total Revenues	<u>7,879,760</u>	<u>393,798</u>	<u>86,233</u>	<u>8,359,791</u>
<b><u>Expenditures</u></b>				
Current:				
General government	1,119,336	-	-	1,119,336
Community development	453,083	-	-	453,083
Public safety	1,728,830	-	-	1,728,830
Sanitation	441,008	-	-	441,008
Court	113,324	-	-	113,324
Street	433,202	-	-	433,202
Debt Service:				
Principal	3,207	670,000	-	673,207
Interest and fiscal charges	-	42,357	-	42,357
Capital outlay	1,389,242	-	-	1,389,242
Total Expenditures	<u>5,681,232</u>	<u>712,357</u>	<u>-</u>	<u>6,393,589</u>
Excess of Revenues				
Over (Under) Expenditures	2,198,528	(318,559)	86,233	1,966,202
<b><u>Other Financing Sources (Uses)</u></b>				
Lease proceeds	9,181	-	-	9,181
Transfers in	375,681	515,410	299,920	1,191,011
Transfers (out)	(299,685)	(196,808)	(58,060)	(554,553)
Total Other Financing Sources (Uses)	<u>85,177</u>	<u>318,602</u>	<u>241,860</u>	<u>645,639</u>
Net Change in Fund Balances	2,283,705	43	328,093	2,611,841
Beginning fund balances, as Restated	5,908,173	87,922	727,624	6,723,719
Ending Fund Balances	<u>\$ 8,191,878</u>	<u>\$ 87,965</u>	<u>\$ 1,055,717</u>	<u>\$ 9,335,560</u>

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, 2022**

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

Net change in fund balances - total governmental funds	\$	2,611,841
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay		1,389,242
Depreciation expense		(707,068)
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments		670,000
<p>The change in deferred revenue must be eliminated to convert from the modified accrual basis of accounting.</p>		
		5,864
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		69
Accrued interest		8,640
Pension expense		201,419
OPEB liability		(12,756)
		4,167,250
Change in net position of governmental activities	\$	4,167,250

The accompanying notes are an integral part of this statement

**City of Willis, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2022**

	<b>Proprietary Funds</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 82,485
Investments	148,418
Accounts receivable (net of allowance for uncollectibles)	630,858
Inventory	41,830
Total current assets	903,591
Noncurrent assets:	
Restricted cash and cash equivalents	878,727
Pension asset	90,126
Capital assets:	
Construction in progress	884,970
Water System	30,596,657
Sewer system	9,220,347
Vehicles & Equipment	969,387
Leased Equipment	36,723
Accumulated depreciation	(16,987,395)
Total capital assets (net of accumulated depreciation)	24,720,689
Total noncurrent assets	25,689,542
Total assets	26,593,133
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
OPEB contributions	509
OPEB (gains) losses	6,537
Pension contributions	37,925
Pension assumption changes	305
Total Deferred Outflows of Resources	45,276
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	107,849
Accrued liabilities	136,457
Customer deposits	141,752
Notes payable - current	1,110,263
Total current liabilities	1,496,321
Noncurrent liabilities:	
Lease liability	23,894
Compensated absences - noncurrent	43,511
Notes payable - noncurrent (net of unamortized bond premium)	19,367,000
OPEB liability	41,908
Total noncurrent liabilities	19,476,313
Total liabilities	20,972,634
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
OPEB investments earnings	465
Pension investments earnings	101,781
Pension (gains) losses	44,434
Total Deferred Outflows of Resources	146,680
 <b>NET POSITION</b>	
Net investment in capital assets	4,243,426
Restricted for capital improvements	878,727
Unrestricted	396,942
Total net position	\$ 5,519,095

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

**City of Willis, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2022**

	<b>Proprietary Funds</b>
<b>OPERATING REVENUES:</b>	
Charges for sales and services:	
Water Sales	\$ 2,135,791
Sewer Charges	1,355,199
Grant revenue and charges for Services	619,248
Miscellaneous Services	5,547
Total operating revenues	4,115,785
<b>OPERATING EXPENSES:</b>	
Costs of sales and services:	
Wastewater Treatment	379,613
Water Production	474,228
Water Distribution	335,093
Waterwaste Collections	301,330
Utility Billing	156,935
Administration and other operating expenses	10,830
Depreciation	1,158,575
Total operating expenses	2,816,604
Operating income	1,299,181
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Bond issuance costs	(102,494)
Interest expense	(605,775)
Total nonoperating revenue (expenses)	(708,269)
Income (loss) before transfers	590,912
Transfers in	442,874
Transfers out	(992,331)
Change in net position	41,455
Total net position - beginning	5,477,640
Total net position - ending	\$ 5,519,095

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

**City of Willis, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2022**

	<b>Wastewater Utility Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 4,023,387
Cash payments to suppliers for goods and services	(882,346)
Cash payments to employees and professional contractors for services	(851,268)
Net cash provided by operating activities	2,289,773
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	(992,331)
Net cash used in noncapital financing activities	(992,331)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on notes	(438,843)
Interest paid on debt	(672,480)
Acquisition and construction	(547,893)
Net cash used in capital and related financing activities	(1,761,710)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(183)
Net cash provided by investing activities	(183)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(21,577)
Cash, cash equivalents, and restricted cash, beginning of year	982,789
Cash, cash equivalents, and restricted cash, end of year	961,212
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	1,299,181
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,158,575
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(99,383)
(Increase) decrease in Deferred outflows of Resources	31,378
Increase (decrease) in net pension liability	(152,649)
Increase (decrease) in OPEB liability	4,755
Increase (decrease) in customer deposits	6,985
Increase (decrease) in accounts payable	(83,024)
Increase (decrease) in accrued liabilities	4,866
Increase (decrease) in compensated absences	22,815
Increase (decrease) in Deferred inflows of Resources	96,274
Net cash provided by operating activities	\$ 2,289,773

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



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**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

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

**B. Reporting Entity**

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

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

The City operates under a "Council-Manager" government. All powers of the City shall be vested in an elective council, hereinafter referred to as the "Council," which shall enact local legislation, adopt budgets, determine policies, and appoint the City Attorney and the Judge of the Municipal Court. The Council shall also appoint the City Manager, who shall execute the laws and administer the government of the City. The City provides the following services as authorized by its charter: public safety (police), streets & roads, sanitation, water & sewer, 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, organizations, or functions as part of the City's financial reporting entity. The Willis Community Development Corporation ("CDC") and the Tax Increment Reinvestment Zone No. 1 ("TIRZ") 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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**B. Reporting Entity (Continued)**

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

**Discretely Presented Component Unit**

Willis Community Development Corporation

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 18.75% sales tax.

**Blended Component Units**

Tax Increment Reinvestment Zone No. 1 Fund

The Tax Increment Reinvestment Zone No. 1 fund ("TIRZ") was created to encourage and accelerate planned development within the City limits. The fund accounts for all tax and expenditure activity associated with the fund's primary purpose. The TIRZ meets the requirement for blending due to a financial benefit/burden relationship with the City and the Board is substantially the same as the City Council.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

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

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

The fund financial statements provide information about the government’s funds, including its blended component unit. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and 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.

**Governmental funds**

The government reports the following major governmental funds:

**General Fund**

The general fund is the main operating fund of the City and is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, community development, public safety, sanitation, court, and street. The general service fund is considered a major fund for reporting purposes.

**Debit Service Fund**

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

Additionally, the government reports the following fund types:

**Special Revenue Funds**

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**Proprietary Fund Types**

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

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**D. Measurement Focus and Basis of Accounting**

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

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

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

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

**E. Estimates**

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**1. Deposits and Investments**

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

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

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

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

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

**2. Fair Value**

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

**3. Receivables and Interfund Transactions**

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

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

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**4. Property Taxes**

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

**5. Inventories and Prepaid Items**

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

**6. Capital Assets**

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

Interest costs incurred in connection with construction of 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 the Basic Financial Statements**  
**September 30, 2022**

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

**7. Deferred Outflows/Inflows of Resources**

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

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

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

**8. Net Position Flow Assumption**

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

**9. Fund Balance Flow Assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**10. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**10. Fund Balance Policies (continued)**

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

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

**11. Unearned Revenue**

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

**12. Compensated Absences**

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

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

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

The estimated amount of accrued vacation pay benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it upon maturity. Amounts of accrued vacation pay benefits that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations. At September 30, 2022, the accrued and unpaid compensated absences liability was \$196,981.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**13. Long-Term Obligations**

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

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

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

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.

**14. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**15. Other Postemployment Benefits (“OPEB”)**

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

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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

The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 2 RECONCILIATIONS OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

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

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

<b>Investment Type</b>	<b>Value</b>	<b>Weighted Average Maturity (Years)</b>
Certificates of deposit	\$ 172,813	0.86
External investment pools	1,959,237	0.04
Total fair value	<u>\$ 2,132,050</u>	

As of September 30, 2022, the City’s component unit had the following investments:

<b>Investment Type</b>	<b>Value</b>	<b>Weighted Average Maturity (Years)</b>
Certificates of deposit	\$ 53,483	0.79
External investment pools	606,273	0.04
Total fair value	<u>\$ 659,756</u>	

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**A. Deposits and Investments (continued)**

*Interest rate risk* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

*Credit risk* The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2022, the City's investment in TexSTAR was rated AAA-m by Standard & Poor's.

*Custodial credit risk – deposits* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2022, 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.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**A. Deposits and Investments (continued)**

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

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

**Restricted Cash**

Deposits received that are designated for future periods or restricted for specific purposes are reported as restricted cash. During the fiscal year ended September 30, 2022, the City received \$10 million deposits in connection with the improvement or development of the City's water and sewer systems. Those amounts are shown as restricted cash in the statement of net position. See note F Unearned Revenue.

**B. Fair Value Measurement**

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

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

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**C. Receivables**

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

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

	Governmental Funds			Proprietary Fund
	General Fund	Debt Service Fund	Total Governmental Funds	Wastewater Utility Fund
Receivables:				
Property taxes	\$ 101,803	\$ 13,937	\$ 115,740	\$ -
Sales taxes	708,393	-	708,393	-
Franchise fees	80,353	-	80,353	-
Customer accounts	-	-	-	1,281,356
Gross receivables	890,549	13,937	904,486	1,281,356
Less: allowance for uncollectibles	-	-	-	(650,498)
Net total receivables	\$ 890,549	\$ 13,937	\$ 904,486	\$ 630,858

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

	Community Development Corporation
Sales tax	\$ 160,502

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**D. Capital Assets**

Capital assets used in governmental fund type operations are accounted for in the statement of net position, rather than in governmental funds. The most notable capital additions in FY22 were park improvements. A summary of changes in governmental activities capital assets for the year end was as follows:

<b>Governmental activities:</b>	<b>Balance September 30, 2021</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2022</b>
Capital assets not being depreciated:				
Land	\$ 505,074	\$ -	\$ -	\$ 505,074
Construction in progress	162,245	237,655	(333,863)	66,037
Total capital assets not being depreciated	<u>667,319</u>	<u>237,655</u>	<u>(333,863)</u>	<u>571,111</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	1,447,214	-	-	1,447,214
Vehicles and equipment	1,644,012	333,863	-	1,977,875
Infrastructure	9,126,578	398,345	-	9,524,923
Park Improvements	1,320,702	744,061	-	2,064,763
Leased Equipment	-	9,181	-	9,181
Total capital assets being depreciated/amortized	<u>13,538,506</u>	<u>1,485,450</u>	<u>-</u>	<u>15,023,956</u>
Less: accumulated depreciation/amortization				
Buildings and improvements	(835,661)	(48,202)	-	(883,863)
Vehicles and equipment	(1,428,791)	(454,683)	-	(1,883,474)
Infrastructure	(4,254,405)	(149,366)	-	(4,403,771)
Park improvements	(174,812)	(49,653)	-	(224,465)
Leased Equipment	-	(5,164)	-	(5,164)
Total accumulated depreciation/amortization	<u>(6,693,669)</u>	<u>(707,068)</u>	<u>-</u>	<u>(7,400,737)</u>
Total capital assets being depreciated/amortized, net	<u>6,844,837</u>	<u>778,382</u>	<u>-</u>	<u>7,623,219</u>
Total governmental activities, net	<u>\$ 7,512,156</u>	<u>\$ 1,016,037</u>	<u>\$ (333,863)</u>	<u>\$ 8,194,330</u>

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

<b>Governmental activities:</b>	
General government	\$ 114,443
Public safety	130,112
Streets	462,513
Total governmental depreciation/amortization	<u>\$ 707,068</u>

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**D. Capital Assets (continued)**

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

	<u>Balance September 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2022</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated				
Construction in progress	\$ 524,362	\$ 360,608	\$ -	\$ 884,970
Total capital assets not being depreciated	<u>524,362</u>	<u>360,608</u>	<u>-</u>	<u>884,970</u>
Capital assets being depreciated/amortized:				
Water System	30,476,390	120,267	-	30,596,657
Sewer system	9,220,347	-	-	9,220,347
Vehicles & Equipment	939,092	30,295	-	969,387
Leased Equipment	-	36,723	-	36,723
Total capital assets being depreciated/amortized	<u>40,635,829</u>	<u>187,285</u>	<u>-</u>	<u>40,823,114</u>
Less: accumulated depreciation/amortization				
Water System	(8,991,041)	(867,271)	-	(9,858,312)
Sewer system	(6,055,034)	(240,277)	-	(6,295,311)
Vehicles & Equipment	(782,745)	(30,370)	-	(813,115)
Leased Equipment	-	(20,657)	-	(20,657)
Total accumulated depreciation/amortization	<u>(15,828,820)</u>	<u>(1,158,575)</u>	<u>-</u>	<u>(16,987,395)</u>
Total capital assets being depreciated/amortized, net	<u>24,807,009</u>	<u>(971,290)</u>	<u>-</u>	<u>23,835,719</u>
Total capital assets, net	<u>\$ 25,331,371</u>	<u>\$ (610,682)</u>	<u>\$ -</u>	<u>\$ 24,720,689</u>

All depreciation was charged to the water and sewer fund.

**E. Leases**

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

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

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**E. Leases (continued)**

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

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

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

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

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

	Interest Rate	Payable at Commencement	Lease Terms In Years	Ending Balance
<b>Governmental Activities:</b>				
Equipment Leases	4.60%	\$ 9,181	4	\$ 5,973
Total Governmental activities				\$ 5,973
	Interest Rate	Payable at Commencement	Lease Terms In Years	Ending Balance
<b>Business-type Activities:</b>				
Equipment Leases	4.60%	\$ 36,723	4	\$ 23,894
Total Governmental activities				\$ 23,894

The annual requirements to amortize leases payable outstanding as of September 30, 2022:

<b>Governmental Activities</b>		
	Interest	Principal
2023	\$ 188	\$ 3,358
2024	44	2,615
	\$ 232	\$ 5,973

<b>Business-type Activities</b>		
	Interest	Principal
2023	\$ 751	\$ 13,432
2024	176	10,462
	\$ 927	\$ 23,894

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**F. Unearned Revenue**

The City has entered into Developer Agreements with various Municipal Utility Districts (MUDs). These agreements obligate the City to make improvements to the water and sewer systems to ensure sufficient service to the developments. As part of the agreements, the City received \$10 million to fund the estimated cost of improvements outlined within the agreements, and/or other necessary improvements. The City has recorded \$10 million in unearned revenue that will be recognized as improvements are completed.

The City received \$1.7 m in ARPA funds and the City has recorded it as unearned revenue at September 30, 2022.

**G. 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.

	Balance September 30, 2021	Increases	Decreases	Balance September 30, 2022	Due Within One Year
<b>Governmental activities:</b>					
Certificates of Obligation-Series 2012	\$ 505,000	\$ -	\$ (505,000)	\$ -	\$ -
Certificates of Obligation-Series 2014	1,525,000	-	(165,000)	1,360,000	170,000
Total bonded indebtedness	<u>2,030,000</u>	<u>-</u>	<u>(670,000)</u>	<u>1,360,000</u>	<u>170,000</u>
Compensated absences	153,539	153,470	(153,539)	153,470	
Leases payable	-	9,181	(3,207)	5,974	3,358
<b>Total Governmental Obligations</b>	<b><u>2,183,539</u></b>	<b><u>162,651</u></b>	<b><u>(826,746)</u></b>	<b><u>1,519,444</u></b>	<b><u>173,358</u></b>
<b>Business-type activities:</b>					
Certificates of Obligation-Series 2005	170,000	-	(40,000)	130,000	40,000
Certificates of Obligation-Series 2010	1,305,000	-	(5,000)	1,300,000	5,000
Revenue Bonds-Series 2012	2,580,000	-	(80,000)	2,500,000	85,000
Certificates of Obligation-Series 2012-A	420,000	-	(415,737)	4,263	4,263
Certificates of Obligation-Series 2013	5,800,000	-	(5,800,000)	-	-
General Obligation-Series 2013 - refunding	1,190,000	-	(1,190,000)	-	-
Certificates of Obligation - Series 2016	910,000	-	(910,000)	-	-
Certificates of Obligation - Series 2017	8,565,000	-	(265,000)	8,300,000	270,000
General Obligation-Series 2021 - refunding	-	9,022,000	(779,000)	8,243,000	706,000
Unamortized bond premium	66,705	-	(66,705)	-	-
Total bonded indebtedness	<u>21,006,705</u>	<u>9,022,000</u>	<u>(9,551,442)</u>	<u>20,477,263</u>	<u>1,110,263</u>
Compensated absences	20,696	43,511	(20,696)	43,511	
Leases payable	-	36,723	(12,829)	23,894	13,432
<b>Total Business-type Obligations</b>	<b><u>\$ 21,027,401</u></b>	<b><u>\$ 9,102,234</u></b>	<b><u>\$ (9,584,967)</u></b>	<b><u>\$ 20,544,668</u></b>	<b><u>\$ 1,123,695</u></b>

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**G. Long-term Debt (continued)**

The principal and interest requirements related to these governmental contractual obligations at September 30, 2022, are as follows:

**Governmental activities:**

	Principal	Interest	Total
2023	\$ 170,000	\$ 37,808	\$ 207,808
2024	180,000	33,082	213,082
2025	185,000	28,078	213,078
2026	195,000	22,935	217,935
2027	200,000	17,514	217,514
2028 - 2032	430,000	18,070	448,070
	<u>\$ 1,360,000</u>	<u>\$ 157,487</u>	<u>\$ 1,517,487</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. This Certificates of Obligation was refunded on November 10, 2021 (GO Refunding 2021).

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

The following is a summary of the City’s Proprietary Fund long-term future debt service for the fiscal year ended September 30, 2022:

**Business-type activities:**

	Principal	Interest	Total
2023	\$ 1,110,263	\$ 550,151	\$ 1,660,414
2024	1,002,000	526,106	1,528,106
2025	1,030,000	505,166	1,535,166
2026	1,067,000	482,869	1,549,869
2027	943,000	460,851	1,403,851
2028 - 2032	5,089,000	1,983,567	7,072,567
2033 - 2037	5,874,000	1,274,422	7,148,422
2038 - 2042	4,202,000	445,106	4,647,106
2043	160,000	5,446	165,446
	<u>\$ 20,477,263</u>	<u>\$ 6,233,684</u>	<u>\$ 26,710,947</u>

In general, the City uses the general fund and proprietary fund to liquidate compensated absences. The accrual of compensated absences for governmental activities at September 30, 2022 was \$153,470.

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

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**G. Long-term Debt (continued)**

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

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

Certificates of Obligation – Series 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. This Certificates of Obligation was refunded on November 10, 2021 (GO Refunding 2021).

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. This Certificates of Obligation was refunded on November 10, 2021 (GO Refunding 2021).

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. This Certificates of Obligation was refunded on November 10, 2021 (GO Refunding 2021).

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

General Obligation – Series 2021 refunding issued November 10, 2021, due in annual installments from August 1, 2022, through August 2038, bearing interest of 1.99% payable February 1 and August 1.

**H. Texas Water Development Board Compliance**

Revenue Bonds

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

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**H. Texas Water Development Board Compliance (continued)**

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, 2022, the amount required to be deposited in the interest and sinking fund equaled \$27,355. The City's actual deposit of \$83,780 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, 2022, the market values of pledged securities and FDIC exceeded bank balances. In addition, the City is required to adopt certain standards as it relates to the investment and maintenance of public funds. The City was in compliance with the requirement Public Funds Investment Act and the Public Funds Collateral Act.

**I. 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 \$0. Current year amortization expense for business-type activities totaled \$29,556.

**J. Customer Deposits**

The City had customer deposits of \$141,752 in the water and sewer fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued, and all outstanding utility expenses are paid.

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

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

**K. Interfund Transactions**

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

	Transfers In			Total
	General Fund	Debt Service	Water Sewer	
Transfers Out:				
Debt Service	\$ -	\$ -	\$ 196,807	\$ 196,807
Water & Sewer	(464,774)	(515,410)	-	(980,184)
Special Revenue	-	-	58,060	58,060
General Fund	-	-	88,859	88,859
Total	<u>\$ (464,774)</u>	<u>\$ (515,410)</u>	<u>\$ 343,726</u>	<u>\$ (636,458)</u>

Transfers between the enterprise funds and discretely presented component units during the 2022 year were as follows:

	Transfers In		Total
	Community Development Corporation	Water & Sewer	
Transfers Out:			
CDC	\$ -	\$ 99,148	\$ 99,148
Water & Sewer	(12,147)	-	(12,147)
Total	<u>\$ (12,147)</u>	<u>\$ 99,148</u>	<u>\$ 87,001</u>

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

**NOTE 4 OTHER INFORMATION**

**A. Risk Management**

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

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

**A. Risk Management (continued)**

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

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

**B. Contingent Liabilities**

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

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

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

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

**C. Arbitrage**

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

**D. Defined Benefit Pension Plans**

**Texas Municipal Retirement System**

**1. Plan Description**

The City of Willis, Texas participates as one of 928 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple- employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax- qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (ACFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

**2. Benefits Provided**

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

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

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

Plan provisions for the City were as follows:

	<u>Plan Year 2021</u>	<u>Plan Year 2020</u>
Employee deposit rate	7%	7%
Matching ratio (City to Employee)	2 to 1	2 to 1
Years required for vesting	5	5
Retirement Eligibility (Age/Service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating Transfers	100% Repeating Transfers
Annuity to Increase (to retirees)	0% of CPI	0% of CPI
Supplemental Death Benefit to Active Employees	Yes	Yes
Supplemental Death Benefit to Retirees	Yes	Yes

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

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

**Employees covered by benefit terms**

At the December 31, 2021, valuation and measurement date, the following employees were covered by the benefit terms:

	2021
Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to but not yet receiving benefits	11
Active employees	40
Total	72

**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 9.69% and 9.74% in calendar years 2022 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2022, were \$241,505, and were equal to the required contributions.

**4. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2021, 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, 2021, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

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

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

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

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

**Discount Rate**

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
	1% Decrease 5.75%	Current Single Discount Rate Assumption 6.75%	1% Increase 7.75%
City's net pension liability	\$ 737,133	\$ (401,561)	\$ (1,330,834)

**Changes in the Net Pension Liability**

	Changes in the Net Pension Liability		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2020	\$ 7,097,795	\$ 6,809,153	\$ 288,642
Changes for the year:			
Service cost	372,187	-	372,187
Interest	484,637	-	484,637
Difference between expected and actual experience	(247,790)	-	(247,790)
Contributions - employer	-	241,505	(241,505)
Contributions - employee	-	173,572	(173,572)
Net investment income	-	888,240	(888,240)
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(208,163)	(208,163)	-
Administrative expense	-	(4,107)	4,107
Other changes	-	28	(28)
Net changes	400,871	1,091,075	(690,204)
Balance at 12/31/2021	\$ 7,498,666	\$ 7,900,228	\$ (401,564)

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

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

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

**Pension Plan Fiduciary Net Position**

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

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

For the year ended September 30, 2022, the city recognized pension expense of \$25,432.

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

	Schedule of Deferred Outflows and Inflows of Resources	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ -	\$ 453,489
Differences between expected and actual economic experience	-	197,978
Differences in assumptions changes	1,359	-
Contributions subsequent to the measurement date	168,975	-
Total	\$ 170,334	\$ 651,467

The City reported \$168,975 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Amount
2022	\$ (163,584)
2023	(247,484)
2024	(153,318)
2025	(85,722)
2026	-
Thereafter	-
Total	\$ (650,108)

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

**E. Postemployment Benefits Other Than Pensions**

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

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

**Employees covered by benefit terms**

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

	2021
Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	9
Active employees	45
Total	74

The City’s contributions to the TMRS SDBF for the fiscal years ended 2022, 2021 and 2020 were \$3,157, \$2,897, and \$1,028, 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)
2019	0.04%	0.04%
2020	0.05%	0.05%
2021	0.14%	0.14%
2022	0.13%	0.13%

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

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

**Total OPEB Liability**

The City’s Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2021, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

**Actuarial assumptions:**

The Total OPEB Liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5%, including inflation per year
Discount rate	1.84%
Retirees’ share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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

**Discount Rate:**

The discount rate used to measure the Total OPEB Liability was 1.84%. The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2021.

**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 1.84%, 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 (1.00%) or 1-percentage-point higher (2.84%) than the current rate:

1%	
Decrease	Current Discount Rate
0.84%	1.84%
<u>\$231,580</u>	<u>\$ 186,721</u>

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

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

**Changes in the Total OPEB Liability:**

	<u>Total OPEB Liability</u>
Balance at 12/31/2020	\$ 171,520
Changes for the year:	
Service cost	8,927
Interest	3,485
Difference between expected and actual experience	186
Changes in assumptions	6,074
Benefit payments	<u>(3,471)</u>
Net changes	15,201
Balance at 12/31/2021	<u>\$ 186,721</u>

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$21,011.

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

	Schedule of Deferred Outflows and Inflows of Resources	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ -	\$ -
Differences between expected and actual economic experience	-	2,072
Differences in assumptions changes	29,127	-
Contributions subsequent to the measurement date	2,267	-
Total	\$ 31,394	\$ 2,072

**City of Willis, Texas**  
**Notes to the Basic Financial Statements**  
**September 30, 2022**

**NOTE 4 OTHER INFORMATION (continued)**

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

The City reported \$2,267 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, 2022. Other amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

<u>Year ended December 31</u>	<u>Amount</u>
2022	\$ 8,352
2023	7,478
2024	8,722
2025	2,128
2026	375
Thereafter	-
Total	<u>\$ 27,055</u>

**F. PRIOR PERIOD ADJUSTMENTS**

During the fiscal year ended September 30, 2022, the City Management discovered the following prior period adjustments:

<u>Governmental Activities Description</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Amount</u>
Fund Balance, as Originally Reported	6,751,437	87,922	727,624	7,566,983
Increase in unearned revenue activities	(870,720)	-	-	(870,720)
Increase in franchise tax receivable activities	27,456	-	-	27,456
Fund Balance, as Restated	<u>5,908,173</u>	<u>87,922</u>	<u>727,624</u>	<u>6,723,719</u>

<u>Governmental Activities- Government-wide</u>	<u>Amount</u>
Net Position, as Originally Reported	12,618,086
Increase in unearned revenue activities	(870,720)
Increase in franchise tax receivable activities	27,456
Net Position, as Restated	<u>11,774,822</u>

**G. Subsequent Events**

There were no other material subsequent events through June 5, 2023, the date the financial statements were issued.



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## **Required Supplementary Information**

For the fiscal year ended  
September 30, 2022



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**City of Willis, Texas**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**September 30, 2022**

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

**City of Willis, Texas**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**September 30, 2022**

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

**Notes to Schedule of Contributions**

**Valuation date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:**

Notes There were no benefit changes during the year.

City of Willis, Texas  
Required Supplementary Information  
Schedule of Changes in Postemployment Benefits Other Than Pension (OPEB) Liability and Related Ratios  
September 30, 2022

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

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 Nonmajor Fund Financial Statements**

For the fiscal year ended  
September 30, 2022



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**City of Willis, Texas  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2022**

	<b>Special Revenue Funds</b>		<b>Total</b>
	<b>Hotel Tourism Tax</b>	<b>Tax Increment Reinvestment Zone (TIRZ)</b>	<b>Nonmajor Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 349,798	\$ 705,919	\$ 1,055,717
Total assets	<u>349,798</u>	<u>705,919</u>	<u>1,055,717</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted:			
Tourism	349,798	-	349,798
TIRZ	-	705,919	705,919
Total fund balances	<u>349,798</u>	<u>705,919</u>	<u>1,055,717</u>
Total liabilities and fund balances	<u>\$ 349,798</u>	<u>\$ 705,919</u>	<u>\$ 1,055,717</u>

**City of Willis, Texas**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended September 30, 2022**

	<b>Special Revenues Funds</b>		<b>Total</b>
	<b>Hotel Tourism Tax</b>	<b>Tax Increment Reinvestment Zone (TIRZ)</b>	<b>Nonmajor Governmental Funds</b>
<b>REVENUES</b>			
Property tax	\$ -	\$ 55,827	\$ 55,827
Hotel Tax	29,962	-	29,962
Interest	166	278	444
	<u>30,128</u>	<u>56,105</u>	<u>86,233</u>
<b>EXPENDITURES</b>			
Current:			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>30,128</u>	<u>56,105</u>	<u>86,233</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,530	298,390	299,920
Transfers out	-	(58,060)	(58,060)
Total other financing sources and uses	<u>1,530</u>	<u>240,330</u>	<u>241,860</u>
Net change in fund balances	31,658	296,435	328,093
Fund balances - beginning	318,140	409,484	727,624
Fund balances - ending	<u>\$ 349,798</u>	<u>\$ 705,919</u>	<u>\$ 1,055,717</u>



## **Budgetary Comparison Information**

For the fiscal year ended  
September 30, 2022



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**City of Willis, Texas**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual**  
**For the Year Ended September 30, 2022**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,789,895	\$ 1,789,895	\$ 1,984,111	\$ 194,216
Sales and beverage	3,191,996	3,191,996	3,504,634	312,638
Franchise	320,000	320,000	449,421	129,421
Garbage Collections	312,000	312,000	417,248	105,248
Municipal court fines	103,800	103,800	73,293	(30,507)
Building permits and fees	101,680	101,680	470,745	369,065
Grants and Contributions	-	-	744,061	744,061
Project development	-	-	125,000	125,000
Interest	-	-	13,266	13,266
Miscellaneous	15,600	15,600	97,981	82,381
Total revenues	<u>5,834,970</u>	<u>5,834,970</u>	<u>7,879,760</u>	<u>2,044,790</u>
<b>EXPENDITURES</b>				
Current:				
Administrartion	1,540,332	1,540,332	1,119,336	420,996
Police Department	2,314,038	2,314,038	1,728,830	585,208
Strrets, Drainage and Parks	536,688	536,688	886,286	(349,598)
Municipal Court	118,994	118,994	113,324	5,670
Sanitation	-	-	441,008	(441,008)
Debt Service:				
Principal	-	-	3,207	(3,207)
Capital outlay:				
General government	-	-	1,389,242	(1,389,242)
Total expenditures	<u>4,510,051</u>	<u>4,510,051</u>	<u>5,681,232</u>	<u>(1,171,181)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,324,919</u>	<u>1,324,919</u>	<u>2,198,528</u>	<u>873,608</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Lease proceed	-	-	9,181	9,181
Transfers in	276,115	276,115	375,681	99,566
Transfers out	-	-	(299,685)	(299,685)
Total other financing sources and uses	<u>276,115</u>	<u>276,115</u>	<u>85,177</u>	<u>(190,938)</u>
Net change in fund balances	1,601,034	1,601,034	2,283,705	682,670
Fund balances - beginning	6,751,437	6,751,437	6,751,437	-
Prior period adjustments	(843,264)	(843,264)	(843,264)	-
Fund balances - ending	<u>\$ 7,509,207</u>	<u>\$ 7,509,207</u>	<u>\$ 8,191,878</u>	<u>\$ 682,670</u>

City of Willis, Texas  
Debt Serive  
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual  
For the Year Ended September 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property Tax	\$ 481,587	\$ 481,587	\$ 393,754	\$ (87,833)
Other Revenue	66	66	-	(66)
Interest	-	-	44	44
Total revenues	<u>481,653</u>	<u>481,653</u>	<u>393,798</u>	<u>(87,855)</u>
<b>EXPENDITURES</b>				
Current:				
Principal	273,550	273,550	670,000	396,450
Interest	151,506	151,506	42,357	(109,149)
Bond Agent Fees	250	250	-	250
Total expenditures	<u>425,306</u>	<u>250</u>	<u>712,357</u>	<u>250</u>
Excess (deficiency) of revenues over (under) expenditures	<u>56,347</u>	<u>481,403</u>	<u>(318,559)</u>	<u>(87,605)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	515,410	515,410	515,410	-
Transfers out	<u>(196,808)</u>	<u>(196,808)</u>	<u>(196,808)</u>	<u>-</u>
Total other financing sources and uses	<u>318,602</u>	<u>318,602</u>	<u>318,602</u>	<u>-</u>
Net change in fund balances	374,949	800,005	43	(87,605)
Fund balances - beginning	87,922	87,922	87,922	-
Fund balances - ending	<u>\$ 462,871</u>	<u>\$ 887,927</u>	<u>\$ 87,965</u>	<u>\$ (87,605)</u>

City of Willis, Texas  
**COMMUNITY DEVELOPMENT CORPORATION**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budgetary and Actual**  
**For the Year Ended September 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Sales	\$ 870,462	\$ 870,462	\$ 797,643	\$ (72,819)
Other Revenues	887	887	3,300	2,413
Interest	-	-	8,313	8,313
Total revenues	<u>871,349</u>	<u>871,349</u>	<u>809,256</u>	<u>(62,093)</u>
<b>EXPENDITURES</b>				
Current:				
Principal	64,601	64,601	-	64,601
Interest	36,698	36,698	-	36,698
Bond Agent Fees	1,500	1,500	-	1,500
Community Development Corp.	-	-	813,658	(813,658)
Total expenditures	<u>102,799</u>	<u>102,799</u>	<u>813,658</u>	<u>(710,859)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>768,550</u>	<u>768,550</u>	<u>(4,402)</u>	<u>(772,952)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in/(out)	(87,001)	(87,001)	(87,001)	-
Total other financing sources and uses	<u>(87,001)</u>	<u>(87,001)</u>	<u>(87,001)</u>	<u>-</u>
Net change in fund balances	681,549	681,549	(91,403)	(772,952)
Fund balances - beginning	2,239,515	2,239,515	2,239,515	-
Fund balances - ending	<u>\$ 2,921,064</u>	<u>\$ 2,921,064</u>	<u>\$ 2,148,112</u>	<u>\$ (772,952)</u>



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## **Compliance and Internal Control Section**

For the fiscal year ended  
September 30, 2022



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## **Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 5, 2023.

### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-1, 2022-2, and 2022-3, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

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

**Purpose of this Report**

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

Vail + Park, P.C.

Richardson, Texas  
June 5, 2023



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

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

Type of Finding: Significant deficiency

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

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

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

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

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

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

Type of Finding: Significant deficiency

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

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

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

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

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

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

Type of Finding: Significant deficiency

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

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

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

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